MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades EEB's senior unsecured rating to Baa2; stable outlook

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Approximately US$749 million of debt securities affected

New York, September 04, 2015 -- Moody's Investors Service today upgraded the senior unsecured rating of Empresa de Energia de Bogota S.A. E.S.P. (EEB) to Baa2 from Baa3. Concurrently, Moody's raised EEB's baseline credit assessment (BCA) to baa3 from ba1. The rating outlook is stable.

RATINGS RATIONALE

Because the District of Bogota is EEB's majority shareholder, EEB falls under the scope of Moody's rating methodology for Government-Related Issuers (GRIs). The Baa2 senior unsecured rating reflects the application of Moody's joint default analysis (JDA) framework for government related issuers (GRIs). This takes into account the following four input factors: (i) the District of Bogota sub-sovereign Baa2 rating as the support provider along with a (ii) strong probability of extraordinary support from the municipality, and (iii) moderate level of dependence as well as (iv) a Base Credit Assessment (BCA) of baa3 as a measure for EEB's standalone creditworthiness.

The BCA is a representation of EEB's intrinsic creditworthiness before taking into account possible extraordinary support from the municipality. The raising of EEB's BCA to baa3 from ba1 reflects our expectation of the repayment before year-end of a material portion of the US$569 million debt balance still outstanding under the bank loan executed by Inversiones en Energia Latino America Holdings S.L.'s (IELAH). This helped EEB fund the acquisition of the 31.92% voting stock rights in Transportadora de Gas Internacional (TGI; Baa3 stable). TGI will source the funds for this repayment which will also lower the total incremental debt it will assume after its merger with IELAH. Moody's anticipates this will enable TGI to further record key credit metrics commensurate with the Baa-rating category, a credit positive for TGI's and EEB's ratings.

The raising of EEB's BCA to baa3 from ba1 further reflects more prudent expansion initiatives following the review downward of the group's investment plans earlier this year. It acknowledges the geographic benefits of EEB's acquisition earlier this year of the 51% equity interest in four transmission concessions in Brazil. Today's rating action further factors satisfactory progress (55%) in the ongoing major transmission capex program underway in Guatemala with around 25% already in operation and final commission anticipated in September 2017. The rating action also anticipates that Emgesa's 400MW El Quimbo hydro-electric plant will start operations before year-end after its completion was delayed to 2015 due to earlier environmental and social opposition. The rating assumes that Emgesa along with the electric utility Codensa will remain two of EEB's main sources of cash flows; however, the BCA of baa3 already incorporates our expectation that their dividends will moderate going forward particularly compared to the material amounts of cash distributed last year amid the implementation of tax optimization strategies. That said, the BCA and rating assume that the negative impact on EEB's total cash flows will be partially offset by the dividends received from EEB's other controlled and non-controlled subsidiaries and the positive impact of the IELAH's loan repayment.

The BCA and rating anticipate a deterioration in the group's credit metrics primarily due to the expected decline in the total amount of dividends received along with an increase in holding company debt amid the material decline registered since last year in the Colombian Peso devaluation vis-à-vis the US Dollar. That said, today's rating action is largely predicated on the assumption that EEB will be still able to record debt to EBITDA that remains below 4.0x (on a normalized basis) as well as key credit metrics on both a standalone and consolidated basis that are commensurate with the Baa-rating category according to the Standard grid guidelines outlined in Moody's Regulated Electric and Gas Utilities ratings methodology. Specifically, that on a standalone and consolidated basis its 3-year CFO pre W/C to debt and interest coverage will average in the mid to high teens and exceed 3.0x, respectively.

Importantly, the BCA and rating assume that the implementation before year-end of liability management initiatives currently under consideration will also fully eliminate its foreign exchange risk exposure. Currently, almost 100% of EEB's indebtedness is denominated in US dollars. Previously, EEB had mitigated its foreign exchange risk using a combination of financial (derivatives expired in November 2014) as well as natural hedges. The latter result from operational cash flows that are denominated, either directly or by way of indexation, to the US Dollar. EEB calculates that 60% to 65% of its consolidated EBITDA is denominated and/or indexed to US dollars.

EEB's BCA is largely capped by the material structural subordination that results from its strong dependence on its subsidiaries' cash up-streams to service its debt, particularly from the non-controlled subsidiaries despite its own growing profitable transmission operations. The rating is further tempered by the significant amount of holding company indebtedness that represented 30% of the consolidated debt at year-end 2014; however, Moody's acknowledges that a significant portion of those debt proceeds were used to fund intercompany loans to its controlled subsidiaries, including TGI (US$370 million) and Contugas (US$11.5 million at year-end 2014). Last year EEB extended intercompany loans to TGI and EEB Gas S.A.S that aggregated US$490 million albeit only around US$62 million were outstanding at year-end. Moody's anticipates that the parent-only indebtedness will increase during 2015 as EEB incurs new indebtedness to help fund its investments including its new transmission capex in Colombia but also a new material dividend distribution. That said, the BCA of baa3 assumes that the significant cash distribution is a pre-payment such that next year anticipated dividend distributions will be very modest. The rating is also capped by EEB's dependence on the capital markets to help fund its capital requirements in the absence of committed bank credit facilities.

EEB's stable outlook captures the regulated nature of the operations of most of the group's subsidiaries such that its exposure to cash flows from unregulated companies will be limited to the dividends received from Emgesa S.A. It also factors the visibility of EEB's cash flows that is enhanced by the aggressive dividend policy of its key non-controlled subsidiaries and its transmission operations. It further assumes that the group's investments will further focus on growth opportunities in Colombia and other regional countries with transparent regulatory frameworks. It further anticipates that EEB will fund those investments in a prudent fashion, and maintain a reasonable dividend policy that allows it to report credit metrics that are commensurate with the Baa-rating category.

The ratings of EEB could experience positive momentum if the ratings of Colombia and the District of Bogota would be upgraded in conjunction with a raise of EEB's BCA. The latter could result if EEB's current material structural subordination softens significantly either in terms of a reduction in its cash dependence from the non-controlled subsidiaries and/or a material reduction of the percentage of parent only indebtedness over consolidated debt. The BCA could be also raised if EEB is able to record more robust key credit metrics for the rating category on a standalone and consolidated basis. Specifically, if its 3-year CFO pre W/C to debt and interest coverage exceeded 22% and 5x, respectively, on a sustainable basis.

EEB's rating is likely to be downgraded if the ratings of Colombia and/or the District of Bogota experience negative momentum. The BCA could be lowered if Moody's perceives a deterioration in the Colombian regulatory environment, and/or increase in the structural subordination considerations; for example, if EEB's parent only indebtedness represents more than 40% of the consolidated indebtedness on a sustainable basis. An aggressive dividend policy and/or investment program that results in incremental indebtedness above Moody's current anticipated levels is likely to also result in a lower BCA. Expansion initiatives that increase the group's exposure to unregulated operations and/or less transparent regulatory environments are likely to also have a negative impact on the BCA.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in December 2013. Other methodologies used include the Government-Related Issuers methodology published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Bogota, Colombia (Baa2 stable) , Empresa de Energia de Bogota S.A. E.S.P. (EEB) is a Colombian transmission company subject to the purview of the Comision de Regulacion de Energia y Gas (CREG). It is also a holding company with material equity interests in controlled and non-controlled subsidiaries that conduct their electric and natural gas operations in Colombia, Peru (A3 stable) and Guatemala (Ba1 negative). EEB's controlled subsidiaries include the Colombian natural gas transportation company, Transportadora de Gas Internacional S.A. E.S.P. (TGI; Baa3, stable; direct and indirect 99.97% ownership stake); the holding company Decsa S.A. E.S.P. (51% interest) which holds a 82% equity interest in the electric utility Empresa de Energia de Cundinamarca S.A. E.S.P. (EEC); Peruvian natural gas transportation and distribution subsidiaries: Gas Natural de Lima y Callao S.A. (Calidda Baa3, stable; total in- and direct interest 66.2%) and Contugas S.A.C. (total in- and direct interest 100%; including TGI's 25%); as well as the Guatemalan subsidiaries: EEB Ingenieria y Servicios S.A. (EEBIS; 100%) and Transportadora de Energia de Centroamerica S.A. (Trecsa; 98%) which are pursuing material investment programs.

EEB's non-controlled Colombian subsidiaries include the unregulated generation company Emgesa S.A. E.S.P. (43.6% of voting rights), as well as the electric and natural gas utilities Codensa S.A. E.S.P. (42.85% of voting rights) and Gas Natural S.A. E.S.P. (25%) as well as the natural gas transportation company Promigas (15.6%).

the latter holds majority stakes in natural gas distribution companies and the remaining 40% equity interest in Calidda. EEB also holds a 40% equity interest in the Peruvian electric transmission companies Red de Energia del Peru (REP) and Consorcio TransMantaro (CTM; Baa3, stable).

The District of Bogota remains EEB's majority shareholder with a 76.3% ownership stake. EEB's remaining shareholders consist of Ecopetrol (Baa2, stable; 6.87%), Corficolombiana S.A. (3.6%), local pension funds (6%) and retail investors (7.3%).

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