

FITCH UPGRADES ISA CAPITAL DO BRASIL'S IDR TO 'BB+'; OUTLOOK STABLE

Fitch Ratings-New York-02 July 2010: Fitch Ratings has upgraded ISA Capital do Brasil S.A.'s (ISA Capital) foreign and local currency Issuer Default Ratings (IDRs) to 'BB+' from 'BB'. Concurrently, Fitch has upgraded Isa Capital's USD31.6 million of notes outstanding due 2017 to 'BBB-' from 'BB'. The Rating Outlook is Stable. Fitch has also upgraded Companhia de Transmissao de Energia Eletrica Paulista (CTEEP)'s national scale rating and its first debenture issuance to 'AA+(bra)' from 'AA(bra)'.

The rating actions reflect the strengthening of the Brazilian electric power sector as well as its resilience during the recent global economic crisis, especially the transmission segment. The Brazilian electricity regulatory framework is now considered mature and stable, which lowers participants' exposure to regulatory risk. The current regulatory framework, which has been in place for six years, has proven to be balanced and efficient in attracting much needed investment to increase generation capacity and strengthen transmission and distribution infrastructure.

The one notch rating uplift for ISA Capital outstanding bonds' reflects its enhanced recovery prospects due to the refinancing of the majority of its debt with (subordinated, debt like) preferred equity. The 2017 bonds are currently over-collateralized. The USD31.6 million (BRL57 million) of outstanding debt is secured by ISA Capital's shares on CTEEP, which are currently value at approximately BRL2.7 billion based on CTEEP's current market capitalization value of BRL7.1 billion.

ISA Capital do Brasil's ratings reflect the strong credit quality of CTEEP, its sole revenue source and only operating asset. CTEEP's strong credit quality is attributable to the company's monopoly position, its stable and predictable operating cash flow and its financially sound credit profile. The ratings also reflect the noteholders' structural subordination to CTEEP's obligations, as well as the company's concession renewal and refinancing risks.

STRUCTURAL SUBORDINATION:

ISA Capital's credit quality reflects the company's structural subordination to CTEEP's obligations given that ISA only owns 37.6% of its total capital and does not receive the full benefits of operating cash flow. CTEEP's leverage is considered adequate for the rating category, and ISA Capital's capital structure has marginally improved after the company repurchased the bulk of its debt outstanding and refinanced it with preferred equity. As of March 31, 2010, ISA Capital consolidated debt amounted to approximately BRL2.8 billion. This debt consisted of approximately BRL1.5 billion at CTEEP and BRL1.26 billion at ISA Capital (including its preferred shares). This translates into a leverage ratio of 2.2 times (x) on a consolidated basis.

STRONG CREDIT METRICS:

CTEEP's cash flow generation and cash flow distributions (dividends) to ISA Capital are stable and predictable. ISA Capital's consolidated FFO interest coverage ratio of approximately 5.7x as of March 31, 2010 was considered strong for the rating category. During the LTM ended March 31, 2010, ISA Capital received approximately BRL255 million of dividends from CTEEP, which compares favorably with interest expenses of approximately BRL100 million. Going forward, distributions from CTEEP's are expected to range between BRL250 million and BRL300 million per year, which ISA Capital will use to pay dividends on preferred equity and service the remaining portion of the 2017 bonds not tendered during 2010.

LOW BUSINESS RISK AND STABLE CASH FLOW GENERATION:

CTEEP's monopoly position stems from its exclusive right to provide electricity transmission services through its two concessions, which expire in 2015 and 2031. Furthermore, two CTEEP's concessions are located in the state of Sao Paulo, which accounts for one-third of Brazil's overall

GDP, making it one of the largest electricity consumers in the country. CTEEP's strong market position should further benefit the company when it participates in future bids for new transmission lines. Whether or not the regulator renews the company's concession in 2015 is uncertain.

CTEEP cash flow generation is very stable and predictable, exhibiting the low business risk profile of an electric transmission utility company. CTEEP's tariff-setting mechanism is straightforward, receiving minor intervention from its regulator. The company's tariffs are fixed and adjusted by inflation every year, and 77.3% of its revenues will not be revised by the regulator until 2015. The balance is revised every four years. Furthermore, CTEEP's revenues are exempt from volumetric risk as its maximum permitted annual revenue (PAR) is based on the electricity transmission assets available to users, instead of the transmitted electricity.

CONCESSION RENEWAL RISK:

CTEEP generates the majority of its revenue through a concession that expires in 2015, which is automatically adjusted annually by inflation and regulator-approved investments. Whether or not the government renews the company's concession in 2015 is uncertain, and this risk has been incorporated in the rating. This concession can be renewed for a period of 20 years at the government's discretion. Should the government not renew CTEEP's concession in 2015, the company is entitled to received compensation for the value of its assets net of depreciation. If this were to happen, the expected compensation plus CTEEP's retained earnings are expected to generate enough distributions for the holding company to service its financial obligations.

ISA Capital is a holding company created to participate in the privatization of CTEEP. The company was incorporated with a USD380 million equity contribution by Interconexión Eléctrica S.A. E.S.P. (ISA) and a US\$554 million bonds issuance. CTEEP, ISA Capital's sole source of revenue and only operating asset is CTEEP, an electricity transmission company located in the state of Sao Paulo. CTEEP's bulk revenue is generated by a concession with expiration date in 2015, which can be renewed for an additional 20 years at the regulator's discretion.

KEY RATING DRIVERS:

ISA Capital rating changes will reflect changes on CTEEP's credit quality, which in turn can be negatively impacted by a significant increase in leverage and above expectations; regulatory intervention in the tariff adjustment process; heightened uncertainty regarding concession renegotiation process; and if relevant off-balance-sheet contingencies become mandatory. Improving macroeconomic conditions in Brazil coupled with a sovereign rating upgrade and a continuously strong corporate financial profile could lead to a positive impact.

The applicable rating criteria are available at 'www.fitchratings.com' and specifically include the following report:

--'Corporate Rating Methodology', dated Nov. 24, 2009.

Contact: Lucas Aristizabal +1-312-368-3260, Chicago, or Mauro Storino +55 21 4503 2625 Rio de Janeiro.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

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