Inversiones Alsacia, S.A.

Senior Secured Notes

Full Rating Report

Rating
Sr. Secured Notes USD464 Mil. ....BB

Rating Outlook
Stable

Key Rating Drivers

Cash Flow Stability: The project has an availability-based payment structure that allows for greater cash flow predictability and largely mitigates demand risk.

Strategic Infrastructure Project: The project is part of Santiago's transportation system, which includes bus lines and a subway network with an integrated fare system.

Competitive Position: Inversiones Alsacia, S.A. (Alsacia) and Express de Santiago Uno, S.A. (Express) (the merging concessionaires) have a combined market share of 42% of Transantiago's main line bus operations.

Adequate Performance: Transantiago has had sufficient levels of service performance since inception.

Legal Framework: The project is located in Chile, a country with long track record in concessions of public services. Investor interests and rights are adequately protected by a reliable legal framework and a healthy business environment.

Limited Government Support: A portion of current government subsidies will expire in 2014.

Operational Risk: Synergy levels may take longer to materialize. The acquirer is smaller and may struggle to achieve economies of scale from the operation of the combined concessions.

Structural Enhancements: Debt structure has tight covenants for equity distributions and additional debt, a fixed interest rate, a cross-currency swap with highly rated institutions, and a liquidity fund created from the use of proceeds to strengthen initial cash flows.

What Could Trigger a Rating Action

Operation Level: Alsacia's ability to maintain its current operating efficiency levels and transform Express into a concessionaire with similar efficiency.

Costs Level: O&M cost control and accomplishment of expected synergies.

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Transaction Summary

Alsacia and Express are two of the top bus concessionaires of the Transantiago System, which provides mass urban bus/metro transportation services to the city of Santiago, Chile. The system is regulated and financially supported by the Ministry of Transportation and Telecommunications (MTT).

The purpose of the transaction was to finance the acquisition of Express by Alsacia, who previously owned 47% of Express shares.

The acquisition positioned Alsacia as the largest operating conglomerate of the system, and allowed it to obtain synergies leading to important cost savings. The acquisition was completed simultaneously with the bond's issuance, and both concessionaires became affiliates under common control of Grupo Rios, with a single executive management team.

Project Sources and Uses

Bond proceeds were used to acquire Express' shares, for early amortization of debt for both companies, to create reserve accounts, and for transaction settlement costs.

Transantiago Background

Inspired by the Colombian TransMilenio, Transantiago is the city of Santiago's mass transportation system. The system was introduced in October 2005 but began full operations in February 2007. It standardized bus routes and eliminated many of the old system's redundancies, which was operated by thousands of independent bus operators.

The system combines local and main bus lines and the subway network. It also includes an integrated fare system, which allows passengers to make bus-to-bus or bus-to-subway transfers using a single smart card called "Bip!".

Santiago's metropolitan area was geographically divided into 10 areas, each corresponding to one or more municipalities and identified with letters and different colors. Due to its complexity and magnitude, the Transantiago bus system is in the hands of several concessionaires.

Transantiago's Areas of Service

Area	Color	Municipalities
A	White	Santiago
B	Red	Conchali, Huechuraba, Renca, etc.
C	Orange	Las Condes, Lo Barnechea, etc.
D	Yellow	La Reina, Macul, Peñalolén, etc.
E	Aqua	La Florida and La Granja
F	Violet	Puente Alto
G	Blue	El Bosque, La Cisterna, etc.
H	Pink	Lo Espejo, San Joaquin, etc.
I	Green	Cerrillos, Estación Central, etc.
J	Light Blue	Lo Prado, Cerro Nacia, Pudahuel, etc.

Source: Transantiago.

Related Criteria

Rating Criteria for Infrastructure and Project Finance, Aug. 16, 2011

Rating Criteria for Availability-Based Infrastructure Projects, June 20, 2011

Annual Shortfall and Governmental Subsidy by Law 20378

Since its creation, Transantiago has operated under a constant deficit for the Chilean government, which has financed it by means of credits and subsidies.

In August 2009, Law 20378 "National Subsidy for Public Passengers Transport" was enacted, granting two annual subsidies to Transantiago. The subsidies are designated as permanent and transitory; the latter expires in 2014. Presently, the permanent subsidy is not enough to fully cover the system's annual shortfalls. As such, the renewal of the transitory subsidy is vital to minimize fares hikes. The table below highlights the approved amounts for both subsidies in CLP millions, adjusted by inflation at 1.5% in 2010 and 3.0% from 2011 to 2014.

Transantiago Subsidy Distributions

	Permanent		Transitory		Total	
Year	CLP Mil.	%	CLP Mil.	%	CLP Mil.	%
2010	117	35	220	65	337	100
2011	119	46	138	54	257	100
2012	123	80	32	20	154	100
2013	126	93	10	7	137	100
2014	130	97	4	3	134	100

Source: Ministry of Transportation and Telecommunications (MTT).

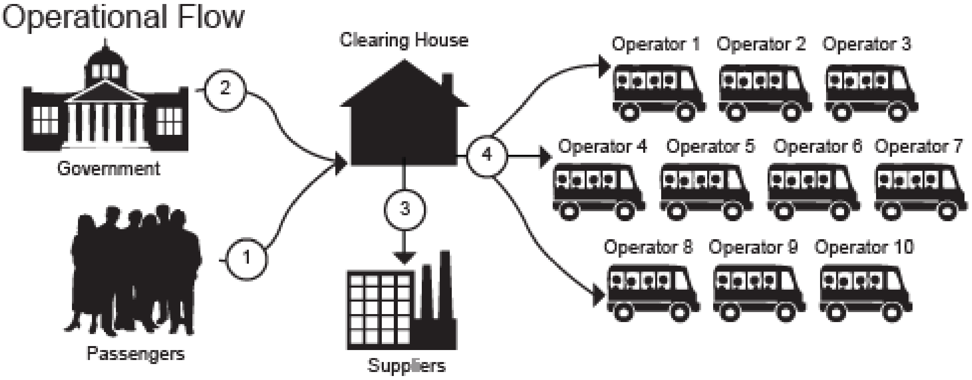
Subsidy payments from the government have historically represented about 50% of the overall cost of the system. While early termination of the subsidy is a potential risk, Transantiago is an essential transportation service for the city of Santiago, so that reductions or elimination of the transitory subsidy is a highly political issue.

Fitch believes that further reductions, or eventual elimination of the transitory subsidy, would likely result in higher passenger fares. But according to the concession's revenue formula, this would not have a direct impact on the concessionaire's income (the source of payment for debt). Historically, demand levels have been stable despite fare increases.

Transantiago Financial Management

Transantiago is managed by the AFT (Financial Transantiago Administrator), an entity that acts as the collector and independent administrator of the total revenues of the system.

Operational Flow



1) Bip! Cards get refilled by passengers, and cash is deposited to AFT. 2) Historically, revenue has not been enough to fully cover costs (concessionaire's payments) so there is a governmental subsidy to ensure the complete payment. Monthly, AFT calculates the total payments to the operators, the resources available from fare collections, and the amount needed via subsidy. 3) AFT pays services and materials to several suppliers, including its own operational expenses. 4) Finally, AFT pays each operator according to what is stated in its concession agreement. Payments are disbursed to concessionaires on the 10th and 25th day of each month.
Source: Fitch Ratings.

AFT is owned by Banco Estado (21%), Banco de Chile (20%), BCI (20%), Banco Santander Santiago (20%), Promotora CMR Falabella (9.5%), and Sonda (9.5%). Sonda is a private information technology (IT) company that provides a payment platform and validates transactions made through Bip! Cards.

Fares are adjusted monthly, tracking the changes in the operators' main input prices. Neither the operators nor the authorities may change them at will. Concessionaires do not participate in the setting of fare prices or the collection of fares from passengers. AFT operates as follows:

Project Summary Table

Project Summary Data		Financial Summary Data	
Project Type:	Urban transportation system that combines subway and bus lines.	Rated Debt Terms:	USD464 million at 8.0% interest rate plus a variable swap premium.
Project Location:	Santiago, Chile	Maturity Date:	August 2018
Status:	Fully operational since February 2007	Amortization Profile:	Amortizing (Semiannually)
Revenue Basis:	Availability	Hedging/Counterparty :	There is a USD/CLP participating swap contracted with Bank of America Merril Lynch and Credit Suisse.
Concession Grating Authority:	Chilean Ministry of Transportation and Telecommunications (MTT)	Concession Tail:	4 months
		Reserves:	6 months of principal and interests, 6 months of capex, and an USD8 million Fund to support liquidity in the first year.
Applicable Regulation:	Chilean Law		
Operator:	Inversiones Alsacia, S.A. and Express de Santiago Uno, S.A.		
Equity Sponsors:	Grupo Ríos	Transaction Triggers:	Distribution test minimum backwards looking DSCR ≥ 1.35x for the last 12 months, and a forward looking DSCR ≥ 1.35x for each of the remaining periods until maturity.
Concession Maturity:	October 2018		
Facilities Management Provider:	Inversiones Alsacia, S.A.		
Technical Advisors:	Booz & Company, operative synergies		

DS – Debt service. MMRA – Major maintenance reserve account.
Source: Fitch.

Project Profile and Analysis

Ownership and Sponsor

Both Alsacia and Express are ultimately held by the Colombian group Grupo Rios, a collection of companies in Latin America with activities in urban transportation business, process outsourcing, environmental solutions, and real estate. Alsacia and Express represent the most important companies in Grupo Rios' portfolio.

Operation Risk

Alsacia

Alsacia is one of the highest performing bus concessionaires within the entire Transantiago system. The concession transports an average of 11 million passengers monthly and has approximately 2,500 employees. Alsacia captures 10.8% of total demand and 17.1% of trunk line services demand.

Express

The company is one of the system's largest bus operators in terms of passengers and number of buses. One of the main objectives upon completion of the acquisition is to improve Express' performance by applying Alsacia's operating and management techniques.

Synergies and Challenges upon Consolidation

Together, Alsacia and Express are the largest Transantiago operator, measured by available bus capacity and scheduled route distance. They service 44% of trunk demand, and 28% of total demand.

Synergies are still expected to come from economies of scale, best practices, logistics, and operations optimization. Synergies are planned to be achieved by eliminating duplicated personnel and adopting Alsacia's purchasing strategies. Other cost savings include sharing bus depots and servicing facilities. Although Fitch believes synergies are achievable, our financial calculations assume only partial efficiency gains.

The main challenges going forward will be the risk inherent in managing a larger operation with different practices, strategies, and schemes that require to be homologized.

Main Termination Events for the Concessions

- Reduction of the paid-in capital of the concessionaire without approval of the MTT.
- Accumulation of paid fines exceeding an amount of UF20,000 within a 12-month period after the termination of the corresponding administrative proceeding.
- Failure to renew, replace, or reinstate the Performance Guaranty Assignment of the concession without the express authorization of the MTT.
- Abandonment of required transportation services at any time during the term of the concession (e.g. failure to provide transportation during "rush hour" for two consecutive days).
- Submission of inaccurate information.

Revenue Risk

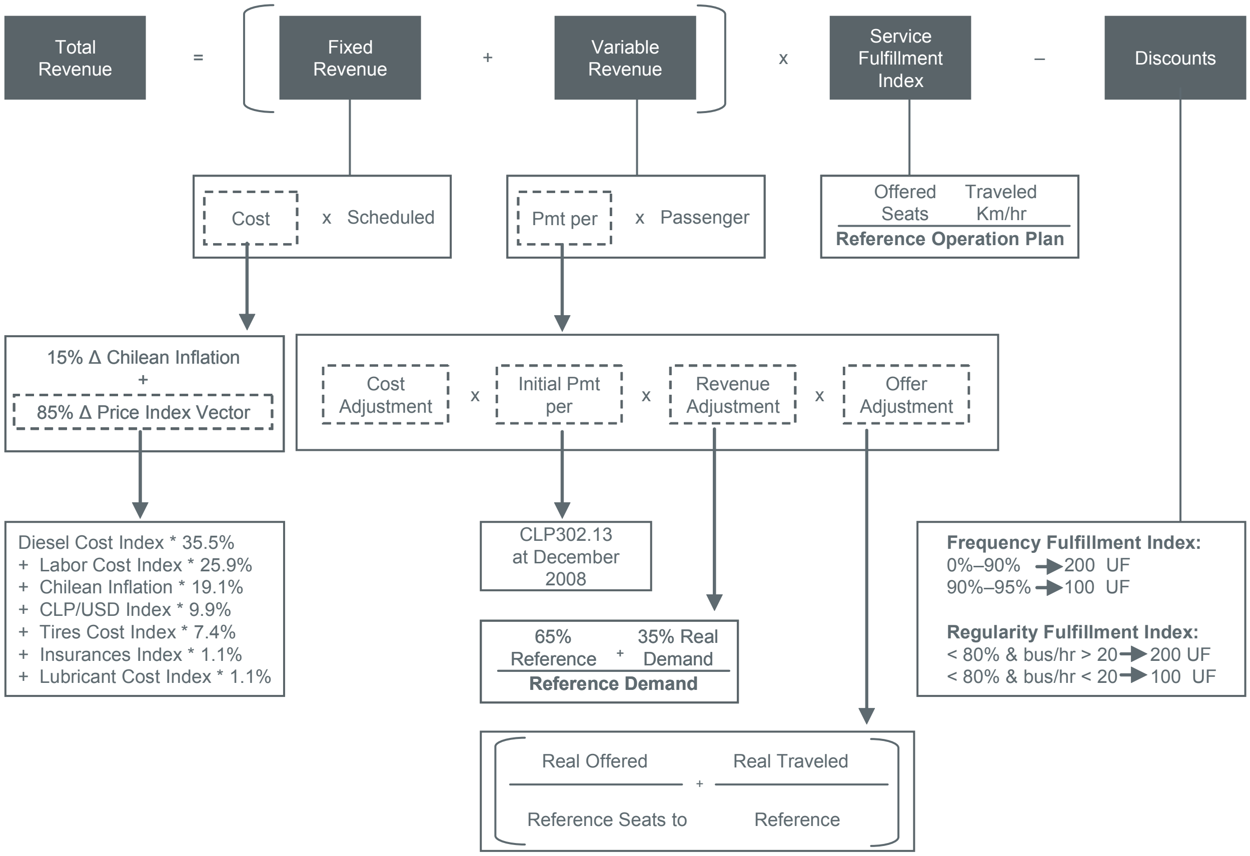
Alsacia and Express are compensated based on the proportion of services actually offered in relation to a contractual operational plan agreed on by the government. Revenues are based on: 1) the number of kilometers agreed in the operational plan, 2) the passenger demand variation, 3) the key drivers of the operational costs (mainly fuel, inflation, and labor cost), and 4) the variation in the total passenger capacity of the companies bus fleet.

Revenues are directly related to the level of service offered and according to contractual benchmarks rather than to passenger fares. The MTT does not pay or guarantee any part of the revenue. All revenue generated in Transantiago is deposited into the AFT accounts and then distributed in the following order: 1) metro, 2) bus concessionaires, and 3) other servicers.

The revenue formula under the concessions significantly mitigates the effects in inflation of the Chilean peso, the CLP/USD exchange rate, the cost of fuel and labor, and the number of passengers. This formula has a base income and a variable income (40%–60% approximately), and captures the price volatility of key cost drivers, therefore protecting the operators' financial margins and reducing the fluctuation on profitability.

The chart on the next page depicts the formula. Please note that percentages of the price index vector are only indicative since they vary from one concessionaire to the other.

Concessions Revenue Formula



Source: Fitch Ratings.

Economic Equilibrium

In the event of a 3% decrease in annual revenues due to an increase in metro subway passenger usage, one or more of the following alternatives may be applied to maintain the economic equilibrium: a) an increase in the payment per passenger (PPT) up to 15%, b) an extension of the concession term, c) granting of equivalent transportation services, and d) other mutually acceptable agreements between the MTT and the concessionaire.

Macro Risks

Chile is rated as follows: county ceiling ‘AA+,’ local currency ‘AA–’, and Long Term IDR ‘A+’. The country has a well-developed legal framework suitable to availability project structures and investor interest. The government, as observed in this and other projects, has honored its commitments. Politically, the country has reached a relative stability and is expected to continue enforcing its legal framework to support public works. Fitch projects a 6.0% and 4.0% economic expansion in Chile for 2011 and 2012, respectively.

Amortization Schedule

(%)	
2011	3.4
2012	9.3
2013	12.4
2014	13.3
2015	14.5
2016	16.6
2017	20.3
2018	10.1

Source: Alsacia legal documents.

Financial Profile and Analysis

Debt Characteristics and Terms

Alsacia issued the debt in February 2011 for USD464 million at a 7.5-year term with an August 2018 maturity date. Principal payments are semiannual (*see the Amortization Schedule*). Interest payments are also semiannual at an 8.0% fixed rate.

Waterfall

(1) Tax payments, (2) O&M expenses, (3) fleet overhaul expenses, (4) transaction expenses, (5) hedge counterparty, (6) bank loan interests, (7) bond's debt service, (8) debt service reserve account (DSRA), (9) bank loan amortizations, (10) additional capex if needed, and (11) distributions.

Ranking

The notes will be senior but subordinated to the payment of the bank loan interests for the first 4.5 years (*see the Reserves section for further details*).

Swap

Since revenues are denominated in Chilean pesos, a cross currency CLP/USD swap mitigates exchange-rate risk. Bank of America Merrill Lynch ('A+', Negative Watch) and Credit Suisse ('AA–', Stable Outlook) are the swap counterparty during the life of the bond, according to the following:

Swap Terms

Payments	From	To	CLP/USD (Fixed)	Protection	Premium (%)
1–2	August 2011	February 2012	570/750	200	1.25
3-4	August 2012	February 2013	575/750	175	1.95
5-6	August 2013	February 2014	580/750	170	1.95
7-14	August 2014	February 2018	585/750	165	1.95
15	August 2018	—	580/685	100	1.95

Source: Alsacia legal documents.

Optional Prepayments

Notes are redeemable at the option of the issuer. A prepayment premium will be applicable.

Mandatory Prepayments

Subject to the provisions of the indenture, the notes will be redeemed prior to maturity, in whole or in part, upon the occurrence of a termination event or occurrence of any expropriatory action. Termination events occur if any of the operating agreements are cancelled by any governmental authority in Chile.

Reserves

- USD8 million for initial liquidity.
- Six months of capital expenditures.
- Six months of principal and interest in the DSRA.

The DSRA will be funded with USD22 million. The resources to create this fund are composed of two sources: 1) USD10 million in upfront cash from bond's proceeds, and 2) USD12 million in upfront cash from a bank loan with Banco Internacional (a Chilean bank). The terms of this loan:

- Denominated in Unidades de Fomento (inflation-indexed units).
- Biannual interest payments at 8% real fixed annual rate.
- Bullet amortization with an expected payment curve.
- 4.5 years, matures in the first half of 2015.
- Interest payments are senior to the bond, while principal is subordinated to it.
- Guaranteed with one of the bus terminals of Alsacia.

Distributions

Allowed if 1) a backwards looking DSCR is less than 1.35x for the last 12 months, and 2) a forward looking DSCR is less than 1.35x for each of the remaining periods until the final maturity of the notes.

Distributions up to the excess of the revenue account balance over USD30 million are allowed if 1) a backwards looking DSCR greater than 1.25x for the last 12 months, 2) a forward looking DSCR greater than 1.25x for each of the remaining periods until maturity, 3) a rating confirmation by each rating agency, and 4) a debt-to-equity ratio of at least 75 to 25.

Additional Leverage

Alsacia may incur additional senior debt if: 1) DSCR for the preceding 12-month period is at least 1.5x, 2) the projected DSCR (including the new debt) averages 1.5x and is not less than 1.35x at any projected period, and 3) rating agencies affirm applicable ratings.

Security Package and Creditors' Rights

First priority security in: 1) all the economic rights of the concessionaire companies under each of the concession agreements and the AFT agreement, and 2) all the shares, buses, terminals/deposits, and bank accounts of Alsacia and Express, except for the Huechuraba Bus Terminal, which will guarantee the loan to the DSRA fund.

Refinance and Recapitalization

The notes are fully amortizing, and no refinancing or recapitalization needs are expected.

Financial Analysis

In order to project the possible behavior of cash flows and coverage levels, the following key variables were sensitized: inflation, diesel price, O&M budget deviation, the effect of new metro competition, varying levels of synergies, CLP/USD exchange rate, and service fulfillment index.

Individual stresses for each of the abovementioned were run to identify which variables had a major effect on cash flow. The finding was that demand decline (due to new metro openings), inflation, diesel price, and the exchange rate were irrelevant in financial behavior since they are already included in the compensation mechanism of the revenue formula, while the first is partially isolated.

The variables with a real repercussion in cash flows were the level of synergies that might be reached, the control of O&M in comparison to what has been originally budgeted, and the level of service provided by both operators. What these three variables have in common is their direct relationship to the skills and professionalism of the management team now controlling both companies' operations.

Our base case included a fixed CPI of 3% for Chile and 2% for the U.S.; diesel prices according to Bloomberg's projection (updated as of Feb 3, 2011); O&M according to a budget updated by inflation plus a 3% real increase; synergies reached at 66% of expectations (Booz & Co. synergies report); decline in demand of 5% and 10.5% for Alsacia and Express, respectively; and a service fulfillment index of 97% for Alsacia and 95% for Express in 2011 and 96% afterwards.

The projection resulted in long-term coverage (loan life coverage ratio) of 1.26x and an average DSCR of 1.19x. When considering the cash trapped in the accounts resulting from distribution triggers, this ratio increases to 1.54x. Fitch's rating case assumptions included a fixed CPI of 3% for Chile and 2% for the U.S.; diesel prices according to Bloomberg's projection minus 5% in every year (updated as of Feb. 3, 2011); O&M according to a budget updated by inflation plus a 5% real increase; synergies reached at 33% of expectations (Booz & Co. synergies report); a decline in demand of 6% and 12% for Alsacia and Express, respectively; and a service fulfillment index of 97% for Alsacia and 95% for Express in 2011–2013 and 96% afterwards.

This case resulted in long-term coverage of 1.08x and an average natural DSCR of 1.03x. Since availability-based projects are not exposed to demand risk and typically have a series of enhancements, expected coverage levels tend to be lower than those projects of other sectors.

Fitch also projected individual stress scenarios that are identical to the base case but change a specific variable for sensitivity, such as: 1) the synergies achievement stress case to 0% of achievement, 2) the service fulfillment index stress case to 95% for Alsacia and 93% for Express fixed for all years, and 3) O&M costs stress case budget updated by inflation plus a 10% real increase in all years.

These individual stresses for main drivers resulted in the following: 1) no synergies were achieved for the stress case and resulted in 1.16x LLCR; 2) the service fulfillment index stress case assumed that Express is unable to improve operational efficiency, and current operating statistics remain constant, resulting in a 1.17x LLCR; and 3) O&M costs stress case considered a cost increase of 10% in real terms at every year without revenue compensation, resulting in a 1.07x LLCR.

All cost increases are conservative since they refer to an arbitrary growth of expenditures that is not being compensated by an adjustment in the revenue as it actually occurs. In other words, if these cost increases happen without having an increase in revenue, it would imply a loss of efficiency from the business.

Fitch believes natural DSCR will be tight during the first two years of the bond's tenor hovering around 1.0x and 1.2x. For this reason, an initial USD8.0 million liquidity fund has been created from the bond's proceeds and is expected to be used within the first 24 months if actual performance of the transaction deviates from our base case.

Actual Performance

With official information as of the first half of September 2011, Alsacia's operational ratio has been maintained, while Express has improved compared to its previous levels.

The next figure shows the quarterly average of the service fulfillment index. For Express, please note the improvement resulting from acquisition in the second quarter of 2011, as well as the decline in the third quarter of 2011, which is when student-led protests paralyzed some areas of Santiago and affected operations. However, in many cases both operators' performance has been over system's average.

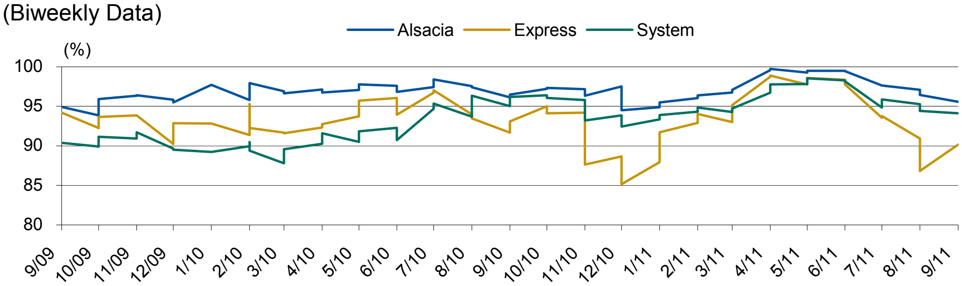
Service Fulfillment Index

(%, Quarterly Average)

	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11[a]
Alsacia	95.5	96.9	97.2	97.2	96.7	96.1	99.5	96.9
Express	93.0	92.5	94.1	94.3	90.8	92.4	98.4	91.1
System Average	90.5	89.4	91.2	95.2	94.6	94.2	97.9	94.9

[a]3Q11 data as of Sept. 15, 2011.
Source: Transantiago.

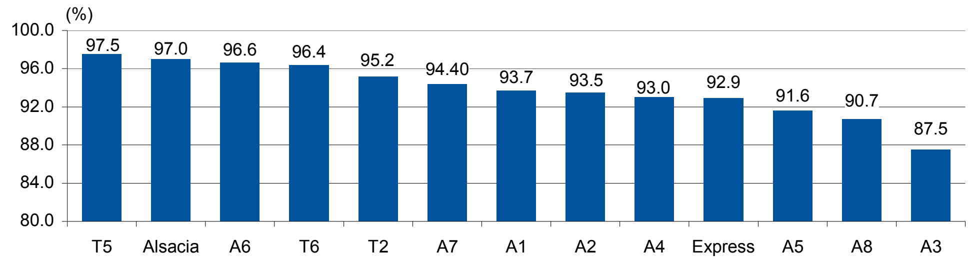
Service Fulfillment Index
(Biweekly Data)



Source: Transantiago.

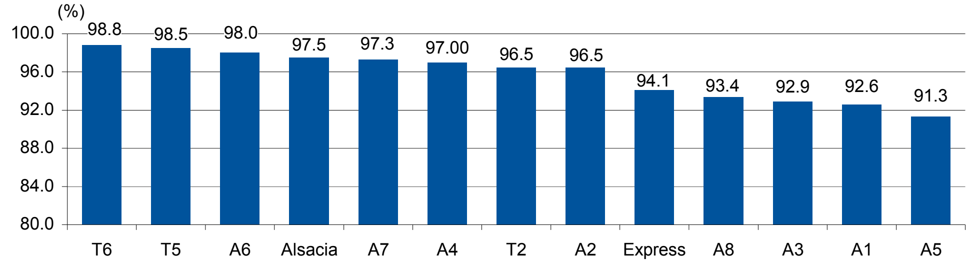
When compared with the rest of the system's operators, Alsacia is in the high end of the average, while Express is improving its efficiency.

Service Fulfillment Index
(2011 Average per Operator)



Source: Transantiago.

Service Fulfillment Index
(2011 Average per Operator, As of September 15)



Source: Transantiago.

First Debt Payment

(CLP Mil., August 2011)

Revenue	16,806
O&M Expense	(5,581)
Exchange Rate Hedge	(1,349)
Banco Internacional Payment	(192)
Cash Available for Debt Service	9,684
Debt Service	8,700
Debt Service Coverage Ratio	1.11

Source: Alsacia.

As of this report's date, the first payment has been done, showing a 1.11x that favorably compares with our base case at 1.15x, and stress case at 1.00x.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.