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CREDIT OPINION
23 March 2017

Update

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RATINGS

Lajeado Energia S.A.

Domicile	Sao Paulo, Sao Paulo, Brazil
Long Term Rating	Ba2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Lajeado Energia S.A.

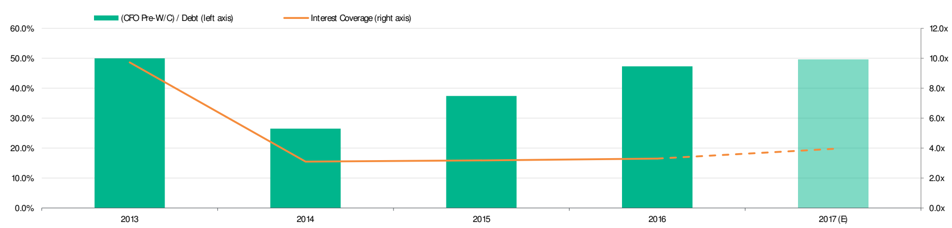
Update following outlook change to stable

Summary Rating Rationale

The Ba2 rating reflects Lajeado Energia S.A. (Lajeado)'s adequate credit metrics for its rating category underpinned by long-term purchase power agreements (PPAs) mostly signed with Brazilian distribution companies. The rating also incorporates better hydrology conditions and relatively lower spot prices in 2016-17, which consequently reflect in more predictable cash flow generation for the company. The fact that Lajeado holds 73% of a concession to operate the UHE Lajeado hydro plant that expires only in 2033, further supports the ratings. Conversely, Lajeado has a track record of high dividend distributions and exposure to the spot market that has negatively impacted the credit metrics in 2014-15. The rating is currently constrained by Brazil's Ba2 sovereign bond rating.

The Aa2.br national scale rating represents the standing of the company's credit quality relative to its domestic peers.

Exhibit 1
Credit Metrics Expected to Improve in 2017



Source: Moody's Financial Metrics, Moody's estimates

Credit Strengths

» Relatively stable cash flow supported by long-term supply contracts

» Adherence to the new legislation on the renegotiation of hydrological risk

» Low capital expenditure requirements

» Manageable refinancing risk

Credit Challenges

» Small scale and limited asset diversification

» Weak financial performance in 2014-2015 resulting from high exposure to the spot market

» High dividend payout

» Potential reduction on its physical energy

Rating Outlook

The stable outlook for Lajeado reflects Moody's expectation that the company's credit metrics will remain well positioned for its rating category, supported by its long-term supply contracts and low capital expenditures requirements.

Factors that Could Lead to an Upgrade

The company's ratings are currently constrained by Brazil's sovereign rating, therefore a rating upgrade would be considered if the sovereign rating is upgraded.

Factors that Could Lead to a Downgrade

Sales volumes below our expectations or a significant mismatch on spot market exposure could prompt a downward action as well as rapid or significant deterioration of leverage and liquidity levels. Quantitatively, the ratings could be downgraded if we see a downturn in the company's overall credit quality and metrics so CFO (pre-WC) to total debt falls below 20% and interest coverage drops below 3.0x on a sustainable basis. A weakened support of the regulatory framework could also prompt a downward action as well as further deterioration in the sovereign's credit quality.

Key Indicators

Exhibit 2

[1]Lajeado Energia S.A.

	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
(CFO Pre-W/C + Interest) / Interest	3.3x	3.3x	3.1x	9.7x	16.3x
(CFO Pre-W/C) / Debt	47.2%	39.0%	26.5%	50.0%	127.7%
RCF / Debt	2.9%	20.6%	25.0%	12.9%	57.6%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Detailed Rating Considerations

LONG-TERM SUPPLY CONTRACTS SUPPORT CREDIT METRICS

Lajeado has historically posted strong credit metrics characterized by low leverage and high interest coverage ratios, as evidenced by an average consolidated CFO Pre-W/C to Debt ratio of 37.6%, a RCF/Debt of 16.1% and an Interest coverage of 3.3x from 2014 through 2016 that compares favorably with other Ba rated unregulated power companies. Such strong performance reflects Lajeado's long-term power purchase agreements (PPAs) annually adjusted by inflation and its high contracted level in the regulated market. The main portion of company's PPAs expires only in 2032, corroborating with a more predictable cash flow generation.

Notwithstanding, Lajeado reported weaker financial performance in 2014 and 2015, which was mainly led by increased costs with energy acquisition on the spot market that reached average levels at BRL 685 and BRL 290 per megawatt hour (MWh), respectively. However, since the beginning of 2016 the hydrology conditions has started to improve combined with a reduced levels of electricity consumption because of the country's recession, which has had a favorable impact on reservoir levels. Therefore, the spot price returned to lower levels. We expect that the segment´s exposure to the spot market will be lower in 2017, given increased rainfall over the past 12 months in the southeastern region of Brazil (which accounts for about 60% of the country's hydropower generation) supporting spot prices around BRL200 per MWh in 2017.

The combination of improved hydrological condition and lower exposure to the spot prices will contribute to the recovery of Lajeado's credit metrics over the next 12-18 months. Lajeado's EBITDA margin reached 78.4% in 2016, up from 61.9% in 2015 and 48.6% in 2014.

Going forward we foresee a resilient cash flow generation as measured by CFO Pre-WC average of BRL270 million between 2017 to 2018, which will result in lower leverage levels at 45% to 65% CFO Pre-W/C to Debt during the same period. Consequently, we expect better interest coverage ratio in which this outcome is also combined with the beginning of its BRL450 million debentures amortization.

HYDROLOGICAL RISK ISSUE MITIGATED BUT LEGAL AND REGULATORY UNCERTAINTIES REMAIN

The severe drought faced over the past years resulted in higher costs to hydro generators related to energy purchase on the spot market, which led several companies to fill legal injunctions against the Federal Government to prevent them from paying those costs. In order to address this issue. in December 2015 the Government published the law #13,203 which established the terms on the renegotiation of the hydrological risk on the regulated and unregulated markets. As a condition to the adherence of this law, hydro generators had to withdraw their legal injunctions against the government.

Lajeado has adhered to the new law on the regulated market until 2032, which allows the company to transfer part of the hydrological risk to final consumers in exchange for a premium payment that varies according to the level of protection chosen. Among those different levels, Lajeado has opted to the SP92 product that limits its exposure up to 8% of its physical energy on the regulated market (equivalent to 368 MW average in annual production), effectively protecting its hydrological risk in the future in cases where the system Generating Scaling Factor (GSF) falls below 92%.

On the other hand, ANEEL is looking at ways to improve the cost-sharing mechanisms among utilities and the most efficient dispatch of costlier thermal power versus hydropower. The regulator is also reviewing a potential reduction in the amount of energy that generators are under contract to deliver, known as physical energy. However, the maximum reduction to the amount of physical energy would be capped at 5% per year, and at 10% during the life of the concession, as determined by the concession regulations. In the case of Lajeado such review would be negative, if it is accompanied by a contractual similar reduction in its PPA delivery volumes, or it requires that Lajeado buys energy on the spot market to honor its current PPAs at a time where the hydrological conditions are not favorable.

LOW CAPITAL EXPENDITURES AND MAINTENANCE REQUIREMENTS ENTAIL HIGH DIVIDEND DISTRIBUTION

Lajeado has a track record of high dividend distribution which is supported by its resilient cash flow generation, low capital expenditure requirements and high operating margins. We expect that Lajeado will continue to distribute significant dividends while its cash flow generation remains robust, but we do believe that during critical periods, as in 2014, the company will preserve its liquidity in detriment of high dividends distribution.

Despite its large distributions to the shareholders, the company posted positive free cash flow generation ranging from BRL30 to BRL134 million from 2010-2015, while operating margins averaged 52.4% in the same period. Dividend distribution dropped to just BRL17 million in 2014 from BRL228 million in 2013, as a consequence of weaker operational margins and FFO's deterioration on the back of higher costs associated with the hydrological exposure. Since 2015, Lajeado started to show significant recovery on its metrics, thus the payout ratio returned at historical levels. In 2016, Dividend distributions reached BRL279 million.

Liquidity Analysis

The liquidity position of the company is adequate given its BRL185 million cash and cash equivalent position as of December, 31 2016 vis-a-vis BRL168 million of short-term debts due through December 31, 2017. Like other Brazilian companies, Lajeado does not have committed banking facilities to face any unexpected cash disbursements, however we have deemed the company's liquidity as adequate given the fact that its debt is solely concentrated in the long term and also its proven access to capital markets, intrinsically benefiting from being part of the EDB group.

Lajeado's BRL450 million debentures have a financial covenant of gross debt to EBITDA below 3.5x embedded in its indenture, which was at 1.2x on December 31, 2016. In December 2014, the company obtained a waiver from its bondholders to breach this covenant at that year-end in exchange of 0.9% payment fee of the debentures' outstanding amount. Our forward looking view expects that Lajeado will maintain its conservative financial policy, rapidly addressing additional issues, as well as we do not anticipate a financial covenant breach.

Profile

Lajeado Energia S.A is controlled by EDP Energias do Brasil (EDB, Ba2, stable) which owns 55.9% of its shares. The other two shareholders are ELETROBRAS (Ba3, stable) with 40.1% of its capital and the state government of Tocantins (not rated) which holds the remaining 4.1%. Lajeado holds 72.27% of the concession to operate the hydroelectric power plant Luis Eduardo Magalhães (UHE Lajeado) located in the State of Tocantins, which expires in January 2033. UHE Lajeado operates five turbines with a total installed capacity of 902.5 MW and assured energy of 526 MW. The other owners of the UHE Lajeado facility, which Moody's does not rate, are CEB Lajeado S.A. (19.80%), Paulista Lajeado Energia S.A. (6.93%) and Investco (1.00%).

These companies along with Lajeado are the shareholders of Investco S/A (Investco; not rated), which is a SPV created to finance and operate UHE Lajeado facility. Lajeado holds 73% of Investco's voting capital and 62.4% of its total capital.

Investco has signed long-term leasing contracts, represented by the UHE Lajeado assets with its shareholders in proportion to their participation in the concession. As a result, Investco's shareholders have made regular tailor-made lease payments to Investco so that the latter can meet its cash needs, which includes all operating, and financial expenses.

Investco has two sources of revenues: (i) lease payments from its shareholders for use of the power produced by UHE Lajeado plant; and, (ii) the equivalent of 1% of the energy sales generated from its participation in the UHE Lajeado.

Rating Methodology and Scorecard Factors

The grid implied rating from Moody's 12-18 month forward view of the Unregulated Utilities and Power Companies Industry methodology is Ba1, which is one notch above Lajeado' current rating.

Exhibit 3
Rating Factors
Lajeado Energia S.A.

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	Current FY 12/31/2016		Moody's 12-18 Month Forward View As of 3/14/2017 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	Caa	Caa	Caa	Caa
Factor 2 : Business Profile (40%)				
a) Market Diversification	B	B	B	B
b) Hedging and Integration Impact on Cash Flow Predictability	Ba	Ba	Ba	Ba
c) Market Framework & Positioning	Ba	Ba	Ba	Ba
d) Capital Requirements and Operational Performance	A	A	A	A
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	3.3x	Ba	3x - 4.5x	Ba
b) (CFO Pre-W/C) / Debt (3 Year Avg)	37.6%	A	45% - 65%	A
c) RCF / Debt (3 Year Avg)	16.1%	Baa	15% - 22%	Baa
Rating:				
a) Indicated Rating from Grid		Ba1		Ba1
b) Actual Rating Assigned				Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2016; [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Financial Metrics™

Recent developments

On March 17, 2017 Moody's changed the outlook of Lajeado to stable from negative. The stabilization of Lajeado's outlook follows the stabilization of Brazil's (Ba2, stable) outlook, given the high exposure and close linkages between Lajeado and Brazil's macroeconomic environment and credit quality.

Ratings

Exhibit 4

Category	Moody's Rating
LAJEADO ENERGIA S.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Ba2
Senior Unsecured -Dom Curr	Ba2
NSR Senior Unsecured	Aa2.br
NSR LT Issuer Rating	Aa2.br
ULT PARENT: EDP - ENERGIAS DE PORTUGAL, S.A.	
Outlook	Stable
Issuer Rating	Baa3
Bkd Sr Unsec MTN -Dom Curr	(P)Baa3
Jr Subordinate -Dom Curr	Ba2
Commercial Paper -Dom Curr	P-3
PARENT: EDP - ENERGIAS DO BRASIL S.A.	
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba2
Senior Unsecured -Dom Curr	Ba3
NSR Corporate Family Rating	Aa2.br
NSR Senior Unsecured	A1.br

Source: Moody's Investors Service

REPORT NUMBER 1064433

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