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CREDIT OPINION
4 May 2018

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.

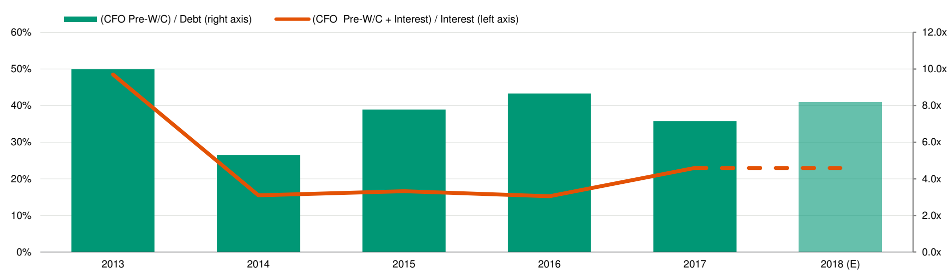
Update Following Outlook Change to Stable

Summary Rating Rationale

Lajeado Energia S.A (Lajeado)'s Ba2/Aa2.br issuer ratings reflect its adequate credit metrics for the rating category underpinned by its 72.3% ownership in the UHE Lajeado hydro plant concession through 2033. The long-term purchase power agreements (PPAs) for the electricity output of this concession are mostly signed with Brazilian regulated distribution companies, which support Lajeado's relatively stable and predictable cash flow stream. The ratings also consider strong parental support, evidenced by EDP Energias do Brasil S.A. (EDB; Ba2, stable) corporate guarantee to the debentures of the first issuance, due in 2019.

Constraining Lajeado's ratings are: (i) the limited asset diversification, (ii) a track record of high dividend distributions and (iii) the exposure to spot price volatility under unfavorable hydrologic conditions. The global scale rating remains somewhat constrained by Brazil's Government rating (Ba2, stable), given the intrinsic links between the company and the credit quality of sovereign due to its regional customer base.

Exhibit 1
Credit metrics expected to remain strong for rating category



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

Credit Strengths

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

» Low capital expenditure requirements

» Manageable refinancing risk

Credit Challenges

» Small scale and limited asset diversification

» High dividend payout

» Exposure to hydrological risk, partially mitigated by hedges

Rating Outlook

The stable outlook for Lajeado reflects the stable outlook on Brazil's sovereign bond rating, since they are exposed to the same economic revenue base and subject to government policies. The stable outlook also considers Moody's expectation that Lajeado's credit metrics will remain well positioned for the rating category.

Factors that Could Lead to an Upgrade

A rating upgrade would be considered if EDB's rating or Brazil's government bond rating is upgraded. A rating upgrade would also depend on material improvement in the business environment under which Lajeado operates, along with sustainably strong credit metrics and adequate the liquidity profile. Quantitatively, the ratings could be upgraded if we see a continued improvement in the company's credit metrics, so that:

» The CFO pre-WC-to-Debt stays sustainably above 50%, and

» The interest coverage remains above 5.0x on a sustainable basis.

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 a rapid or significant deterioration of leverage and liquidity levels. A downgrade of EDB's rating or Brazil's sovereign rating could also exert downward pressure on Lajeado's ratings. Quantitatively, the ratings could be downgraded if:

» The CFO pre-WC-to-Debt falls below 20%, or

» The interest coverage stays below 3.0x for a prolonged period.

Key Indicators

Exhibit 2
Lajeado Energia S.A. [1]

	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
(CFO Pre-W/C + Interest) / Interest	4.6x	3.0x	3.3x	3.1x	9.7x
(CFO Pre-W/C) / Debt	36%	43%	39%	27%	50%
RCF / Debt	13%	-1%	21%	25%	13%

[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™

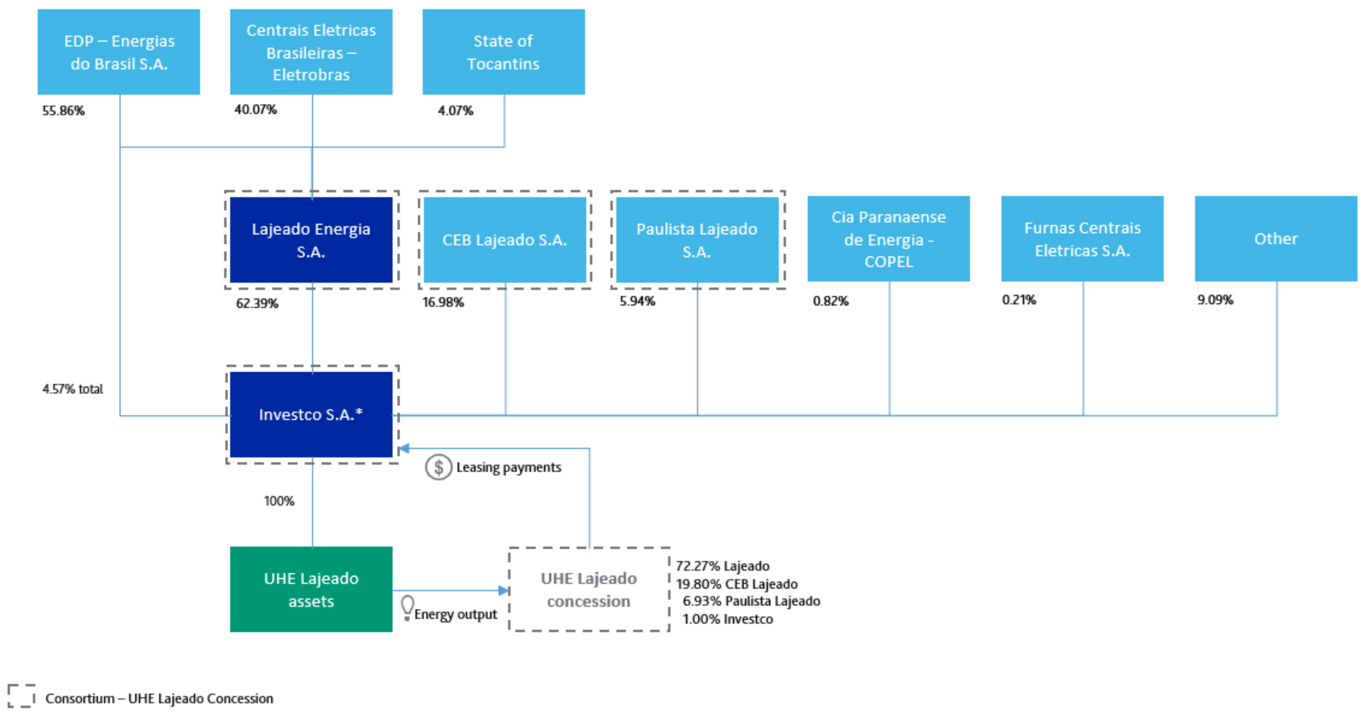
Corporate Profile

Lajeado is controlled by EDB, which owns 55.86% of its shares. The other two shareholders of Lajeado are Centrais Eletricas Brasileiras SA-Eletrobras (Eletrobras; Ba3, stable) with 40.07% and the state government of Tocantins, which holds the remaining 4.07%.

Lajeado controls Investco S/A (Investco; not rated) with a 62.39% interest in its total capital. Investco has the full ownership of the hydroelectric power plant Luis Eduardo Magalhães (UHE Lajeado) located in the State of Tocantins, comprising five turbines with a total installed capacity of 902.5 MW and assured energy of 526 MW average, operating under a long term concession that expires in January 2033.

Investco is a SPV created to finance and operate the UHE Lajeado facility. Although it owns the assets, it has leased the concession to a consortium of its main shareholders in which, Lajeado has a 72.27% interest, CEB Lajeado S.A. (unrated) has 19.80%, Paulista Lajeado Energia S.A. (unrated) has 6.93% and the remaining 1% remains with Investco. This consortium makes regular tailor-made operating lease payments to Investco, so that the latter can meet its cash needs, which includes all operating and financial expenses. As a result, Lajeado has an approximately 73.3% economic interest in the UHE Lajeado concession reflected in its consolidated financials.

Exhibit 3
Organizational Chart



Source: Moody's Investors Service

Detailed Rating Considerations

LONG TERM SUPPLY CONTRACTS SUPPORT CREDIT METRICS

Lajeado has historically posted strong credit metrics, as evidenced by an average consolidated CFO Pre-W/C to Debt ratio of 39% interest coverage of 3.5 times, from 2015 through 2017 that, that bode well for a Ba rated unregulated power company. Such strong performance reflects Lajeado's long-term power purchase agreements (PPAs) with the regulated market, with an average tenor of about 14 years. The PPAs are annually adjusted by inflation corroborating with a more predictable cash flow generation. The average price of those PPAs was at BRL176.5 per MWh in 2017.

In 2017, Lajeado reported a relatively weaker operating performance driven by unfavorable hydrologic conditions and increased costs of energy purchase in the spot market. Spot prices reached average levels of BRL385 MWh in 2017, against BRL122 MWh in 2016. As a result, Moody's calculated EBITDA margin fell to 62.7% in 2017, from 78.4% in 2016.

Nevertheless, the company posted an improvement in the operating cash generation (CFO), which reached BRL255 million in 2017, up from BRL189 million in 2016, as a result of lower working capital requirements. In 2016, the company's operating cash generation was negatively affected by the payment of the insurance premium on the hydrological risk protection of approximately BRL24.6 million and the settlement of overdue amounts related to short term energy transactions of BRL23.9 million.

Going forward we anticipate a resilient cash flow generation as measured by CFO Pre-WC in the range of BRL250 and BRL350 million per year through 2020, which will result in stable leverage levels around 35% to 45% CFO Pre-W/C to Debt during the same period.

HYDROLOGICAL RISK ISSUE MITIGATED

Brazilian hydro generation companies have been experiencing a challenging operating environment over the past years as a combined result of prolonged drought seasons and ineffective government policies toward operation and expansion of the energy matrix. With this scenario, hydro power generators experienced significant increase in energy costs related to the purchase on the spot market to make up for generation shortfalls.

In 2017, the Generation Scaling Factor (GSF), which basically indicates the level of stored energy of hydropower reservoirs in Brazil fell to an average 81%, as compared to 87% in 2016. To mitigate the exposure to hydrologic risks, Lajeado adhered to the law #13,203, which has established the terms on the renegotiation of the hydrological risk on the regulated and unregulated markets, which allows the transfer of part of the hydrological risk to final consumers in exchange for a premium payment that varies according to the level of protection chosen. Among the different levels of protection available on the regulated market, Lajeado has opted to the SP92 product until 2032, that limits its exposure up to 8% of its assured energy on the regulated market (equivalent to 386 MW average annual production), effectively protecting its hydrological risk in the future in cases where the system Generating Scaling Factor (GSF) falls below 92%.

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 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 of BRL78 million 2017, while operating margins averaged 46,2% in the same period. Nevertheless, dividend distribution dropped to BRL169 million in 2017 from BRL279 million in 2016.

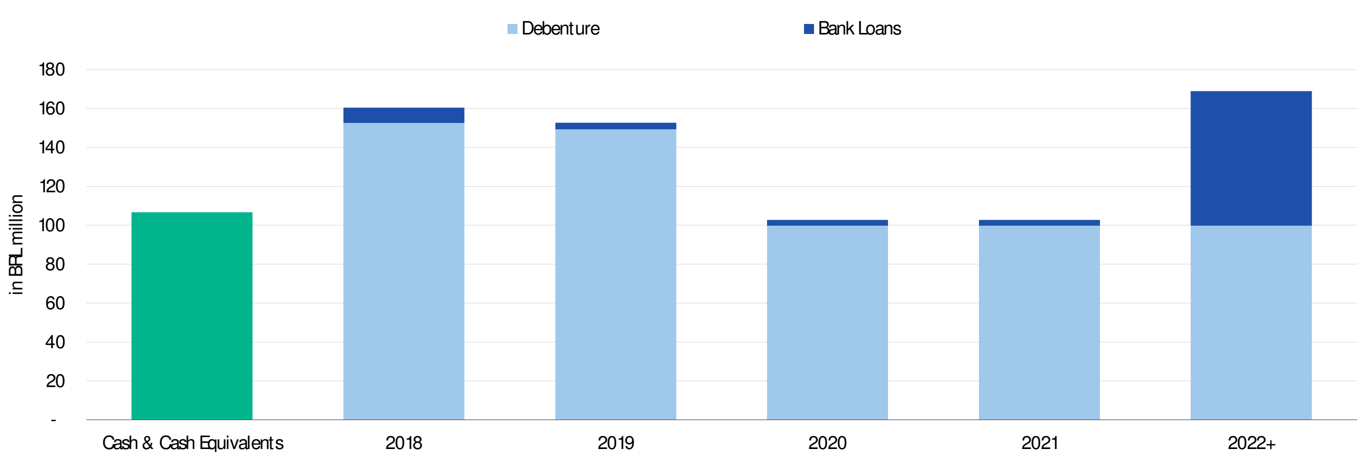
Liquidity Analysis

Lajeado's liquidity position is adequate based on the company's solid cash flow generation. The company reported BRL107 million in cash and cash equivalents as of December, 31 2017. The cash balance, combined with an anticipated free cash flow generation in the range of BRL110 million to BRL140 million over the next 12 months, will conformably cover Lajeado's BRL165 million short-term debt maturities through December 31, 2018.

Like other Brazilian companies, Lajeado does not have committed banking facilities to face any unexpected cash disbursements, however deem the company's liquidity needs as manageable given its proven access to capital markets, intrinsically benefiting from being part of the EDB group.

Lajeado's debentures have a financial covenant of gross debt to EBITDA below 3.5x embedded in its indenture, which was at 1.9x in December 31, 2017 (as per Moody's adjustments). We expect Lajeado to remain in compliance with this covenant over the next 12 to 18 months.

Exhibit 4
Lajeado's debt amortization schedule, as of December 31, 2017



Source: Moody's Investors Service

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's current rating.

Exhibit 5

Rating Factors

Lajeado Energia S.A.

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	Current FY 12/31/2017		Moody's 12-18 Month Forward View As of 4/27/2018 [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)	3.5x	Ba	3.5x - 4.5x	Ba
b) (CFO Pre-W/C) / Debt (3 Year Avg)	39%	A	35% - 45%	A
c) RCF / Debt (3 Year Avg)	11%	Ba	10% - 17%	Ba
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 12/31/2017.
[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™

Ratings

Exhibit 6

Category	Moody's Rating
LAJEADO ENERGIA S.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Ba2
NSR Issuer Rating	Aa2.br
Senior Unsecured -Dom Curr	Ba2
NSR Senior Unsecured	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

NSR Corporate Family Rating	Aa2.br
Senior Unsecured -Dom Curr	Ba3
NSR Senior Unsecured	A1.br

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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