

CREDIT OPINION

23 March 2017

Update

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RATINGS

Bandeirante Energia S.A.

Domicile	Sao Paulo, Brazil
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
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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Bandeirante Energia S.A.

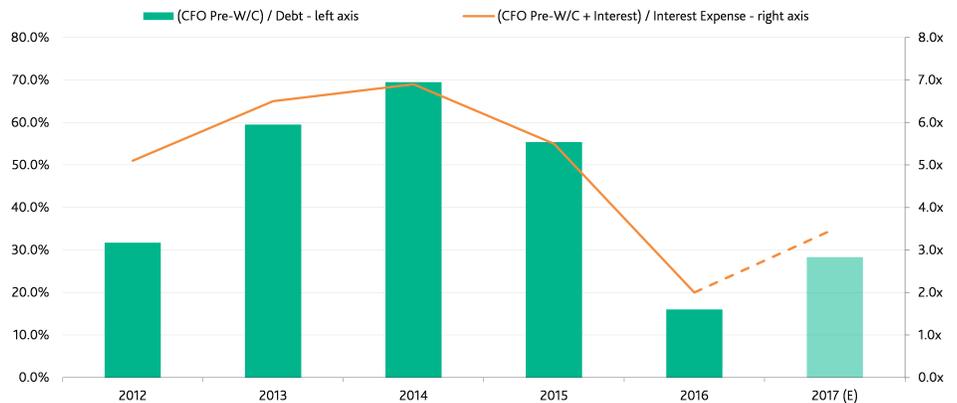
Update following outlook change to stable

Summary Rating Rationale

Bandeirante's Ba2 corporate family rating reflects: (i) the relatively stable and predictable nature of its cash flows derived from a distribution concession that is valid through October 2028, (ii) historically strong credit metrics for the rating category, measured by the three-year average CFO pre-W/C to Debt ratio of 49% and Interest Coverage Ratio of 4.6x as from 2014 through 2016, and (iii) an evolving regulatory environment with recent evidence of supportive aimed to provide timely relief to the financial risk of electricity distribution companies. Continued access to the local capital markets and the implicit support from its parent holding company EDB (Ba2, stable) are also important rating considerations.

Constraining Bandeirante's rating are: (i) the still adverse operating environment ahead of the company driven by Brazil's economic recession and its over-contracted energy volumes (ii) the large working capital needs driven by regulatory liabilities that reached BRL408 million in December 2016, (ii) sizeable capital expenditures planned for 2017-2019 to upgrade the network and prevent losses, and (iv) a track record of high dividend distributions. The rating is further constrained by Brazil's sovereign rating (Ba2, stable).

Exhibit 1
Turnaround to be gradually materialized in the upcoming years



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

Credit Strengths

- » Robust cash flow generation in 2016, supported by favorable regulatory decisions
- » Historically strong credit metrics, despite high dividends

- » Implicit support of EDB

Credit Challenges

- » Cash flow generation to shrink in 2017
- » Higher costs related to lower sales volume and over-contracted energy
- » Higher-than-historical capital expenditures to reduce losses and upgrade grid

Rating Outlook

The stable outlook for Bandeirante reflects Moody's expectation that the company's credit metrics will remain adequately positioned for its rating category, despite a relatively weaker cash flow generation anticipated for 2017.

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. A rating upgrade would also depend on sustained improvement in the relevant credit metrics, the liquidity profile or a material improvement in the regulatory frameworks under which Bandeirante operates.

Factors that Could Lead to a Downgrade

Downward rating pressure could come with a deterioration in Bandeirante's liquidity position, resulting from weaker than anticipated growth in its concession area or if there is any change in the perceived level of support from the electricity regulatory framework. Quantitatively, the ratings could be downgraded if the interest coverage remains below 2.0x, and the CFO pre-WC-to-Debt falls below 15%, on a sustainable basis. A downgrade of Brazil's sovereign rating could exert downward pressure on Bandeirante's rating

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Bandeirante Energia S.A.

	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	2.0x	5.5x	6.9x	6.5x	5.1x
CFO pre-WC / Debt	16.0%	55.4%	73.2%	65.6%	34.3%
CFO pre-WC – Dividends / Debt	-12.0%	38.6%	47.6%	60.0%	27.6%
Debt / Capitalization	46.0%	47.0%	44.8%	36.4%	50.9%

[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

LOW CONSUMPTION AND CUSTOMER MIGRATION TO FREE MARKET EXERTS NEGATIVE PRESSURE

Over the last two years, Bandeirante faced a challenging operating environment, as per Brazil's severe drought season in 2014-15 that caused a significant increase in energy prices and negatively affected the company's profitability. Since mid-2015, the country's economic recession dragged electricity consumption and migration of large customers to the free market left the company with significant over-contracted energy volumes, which reached 111.9% in FYE2016, up from 109% in 2015. These energy surpluses above 105% were sold in the free market at relatively lower spot prices (average of BRL120 in 2016 vs BRL290 in 2015), contributing to further deterioration in operating margin.

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As a result, the company's credit metrics deteriorated rapidly, as indicated by a cash from operations before changes in working capital (CFO pre-WC) to total debt ratio of 16% and an interest coverage ratio of 2.0x for 2016; down from 69.5% and 6.9x, respectively, on December 31, 2014. On the other hand, Bandeirante posted strong Cash Flow from Operations of BRL783 million in 2016 vs. BRL228 million in FY2015, mostly driven by favorable regulatory decisions embedded in company's tariffs prior to its annual adjustment in October/2016.

EVOLVING REGULATORY ENVIRONMENT

Bandeirante has received timely regulatory tariff adjustments that helped mitigate the impact of high energy costs and of the economic recession. In February 2015, ANEEL, Brazil regulator approved an extraordinary tariff adjustment for Bandeirante of 32.18%, which helped reduce the negative effects of higher energy costs due to the severe drought season. In October 2015, the regulator also completed the fourth periodic tariff cycle for Bandeirante, which brought an increase of about 19% to its Regulatory EBITDA, as per the authorization to earn return on a Net Regulatory Asset Base (RAB) of BRL1.7 billion.

Recent regulatory decisions aimed to mitigate the impact of high energy costs and of the economic recession tend to indicate a more supportive regulatory framework for Brazilian distribution companies. For example, in February 2017, ANEEL revised its methodology related to periodic tariff adjustments and to the tariff flag mechanism to allow distribution companies to raise tariffs sooner based on a projection of their future energy costs.

On the other hand, the annual review process concluded with a -23.53% tariff reduction in October 2016, amid still challenging marketing dynamics. As a result, the company reported a BRL408 million in net regulatory liabilities, which will significantly put negative pressure in Bandeirante's free cash flow generation over the next 12 to 18 months.

LARGE CAPITAL EXPENDITURES & DIVIDENDS CONSTRAINT LEVERAGE REDUCTION

The company's capacity to meet the regulatory EBITDA indicated by ANEEL, depends on the company's ability to meet the efficiency levels related to operating costs and energy losses that will likely translate into larger capital expenditures from 2017 through 2019. Bandeirante's energy losses, that reached 9.98% in 2016, are above the 8.67% regulatory target by 2018. In our base case scenario, we consider capital expenditures in the range of BRL250 million to BRL350 million per year through 2019. We assume this will be financed with a combination of internal and external cash generation, so that the company's debt to total capitalization ratio remains in the 50% - 60% range.

Bandeirante also has a track record of high dividend distribution supported by its resilient cash flow generation. Moody's consider that the company will continue to distribute large dividends while its cash flow generation remains robust, but will retain cash to preserve its liquidity in case of need.

Liquidity Analysis

Bandeirante reported a cash position of BRL355 million as of December 31, 2016, which covers BRL153 million of debt maturities in 2017. Despite the excess cash cushion, we anticipate a negative free cash flow generation in the range of BRL450 million to BRL550 million over the next 12 to 18 months, as a result of higher working capital needs along with higher-than-historical capital expenditures to prevent energy losses and upgrade the network.

We expect some improvement in Bandeirante's liquidity profile following the upcoming debt refinancing transaction (7th debenture issuance), as it will further lengthen the company's amortization schedule. The combination of favorable regulatory decisions coupled with a gradual improvement in Brazil's macroeconomic fundamentals will further help the company improve its liquidity cushion and sustain adequate credit metrics through the next review cycle starting in October 2019.

Like other Brazilian companies, Bandeirante 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.

Corporate Profile

Bandeirante Energia S.A. (Bandeirante), headquartered in São Paulo, Brazil, is an electricity distribution utility fully controlled by EDP Energias do Brasil (EDB; Ba2/Aa2.br stable), a diversified utility group that is in turn controlled by EDP - Energias de Portugal, S.A. (Baa3 stable). Bandeirante serves around 1.8 million clients in 28 municipalities between Alto Tietê in the Paraíba valley and the North

coast of the Sao Paulo State, a highly industrialized area. In 2016, Bandeirante reported net revenues of BRL2.9 billion, which does not include construction revenues of BRL249 million, on sales of 15.771 GWh, constituting around 2.8% of the electricity consumed in Brazil's integrated system.

Rating Methodology and Scorecard Factors

The grid implied rating from Moody's 12-18 month forward view of the Regulated Electric and Gas Utilities Industry methodology is Ba1, which is one notch above Bandeirante's current rating.

Exhibit 5

Rating Factors

Bandeirante Energia S.A.

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current FY 12/31/2016	Moody's 12-18 Month Forward View As of 3/6/2017 [3]
Factor 1 : Regulatory Framework (25%)	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Ba	Ba
b) Consistency and Predictability of Regulation	Ba	Ba
Factor 2 : Ability to Recover Costs and Earn Returns (25%)		
a) Timeliness of Recovery of Operating and Capital Costs	Ba	Ba
b) Sufficiency of Rates and Returns	Ba	Ba
Factor 3 : Diversification (10%)		
a) Market Position	Baa	Baa
Factor 4 : Financial Strength (40%)		
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.6x	A
b) CFO pre-WC / Debt (3 Year Avg)	48.9%	Aaa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	25.8%	Aa
d) Debt / Capitalization (3 Year Avg)	46.0%	Baa
Rating:		
Grid-Indicated Rating Before Notching Adjustment		Baa2
HoldCo Structural Subordination Notching	0	0
a) Indicated Rating from Grid		Baa2
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™

Ratings

Exhibit 6

Category	Moody's Rating
BANDEIRANTE ENERGIA S.A.	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Unsecured -Dom Curr	Ba2
NSR Corporate Family Rating	Aa2.br
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
Senior Unsecured -Dom Curr	Ba3
NSR Corporate Family Rating	Aa2.br
NSR Senior Unsecured	A1.br

Source: Moody's Investors Service

Recent developments

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

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