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CREDIT OPINION
23 March 2017

Update

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RATINGS

EDP - Energias do Brasil S.A.

Domicile	Sao Paulo, Sao Paulo, Brazil
Long Term Rating	Ba2
Type	LT Corporate Family Ratings - 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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EDP - Energias do Brasil S.A.

Update Following Upgrade and Outlook Stabilization

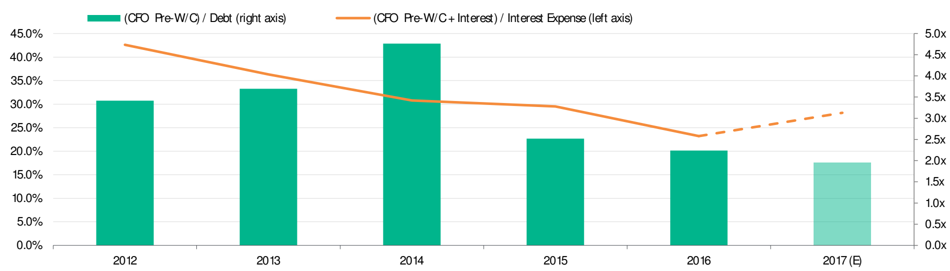
Summary Rating Rationale

EDP- Energias do Brasil (EDB)'s corporate family ratings of Ba2/Aa2.br reflect the company's consolidated credit profile and its adequate liquidity position, supported by a diversified business portfolio with activities in generation, distribution and commercialization of electricity. The rating also incorporates the long track record of operations in Brazil, its experienced management team and the implicit support of its parent company EDP - Energias de Portugal (EDP; Baa3 stable).

Constraining EDB's credit rating are: (i) the still challenging operating environment ahead of the company driven by Brazil's recent economic recession and modest recovery expected for 2017, (ii) the sizeable capital expenditures planned for 2017-2019 to upgrade the distribution network, complete the Sao Manoel hydro generation project and diversification into transmission business, (iii) relatively high leverage metrics and large off-balance sheet debt related to unconsolidated generation projects. The rating is further constrained by Brazil's sovereign rating (Ba2, stable).

Exhibit 1

Adequate Credit Metrics to Continue



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

Credit Strengths

» Diversified business mix helps moderate earnings volatility

» Implicit support from stronger shareholders

» Good track record in accessing local bank financing and the domestic capital markets.

Credit Challenges

» Relatively large capital expenditures

» Evolving capital structure and high leverage

Rating Outlook

The stable outlook for EDB reflects Moody's expectation that the company's credit metrics will remain adequately positioned for its rating category, despite higher capital expenditures planned for the next 12 to 18 months.

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 EDB operates.

Factors that Could Lead to a Downgrade

Downward rating pressure could come with a deterioration in EDB's liquidity position, resulting from weaker than anticipated growth of its electricity business or if there is a perception of reduced support from to regulatory framework to electricity companies. 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 EDB's rating.

Key Indicators

Exhibit 2

[1] EDP - Energias do Brasil S.A.

	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	2.6x	3.3x	3.4x	4.0x	4.7x
CFO pre-WC / Debt	20.2%	22.7%	42.8%	33.3%	30.8%
CFO pre-WC – Dividends / Debt	10.9%	17.9%	30.2%	18.6%	16.5%
Debt / Capitalization	39.3%	45.8%	32.3%	37.0%	35.6%

[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
Source: Moody's Financial Metrics

Detailed Rating Considerations

DIVERSIFIED BUSINESS MIX HELPS MODERATE EARNINGS VOLATILITY

EDB's rating reflects its solid market position within in Brazil, long track record of operation with more than 20 years history in the country, as well as its diversified asset portfolio, which helps moderate aggregate earnings volatility.

EDB is currently the 5th largest generation company in the country with footprint in seven states and 2.8 GW of installed capacity; the 6th largest distribution company with footprint in two states, through Bandeirante Energia (Ba2/Aa2.br, stable) and ESCELSA (Ba2/Aa1.br, stable), serving a total of 3.3 million customers and the 4th largest electricity trading company through EDP Comercializadora (unrated).

In 2016, the generation business represented 25% of the consolidated net revenues and 65% of the EBITDA, comprising both hydro and thermal generation sources, while the distribution business represent 56% of the consolidated net revenues and 34% of the consolidated EBITDA. The company also engages in opportunistic trading activities, primarily within the group, which helps smooth earnings volatility in periods of unfavorable hydrological conditions. Moreover, EDB is committed to further improve its business diversification through investments in transmission lines. In 2016 the company successfully won the auction for a 113 kilometer project in the State of Espirito Santo.

CHALLENGING OPERATING ENVIRONMENT DUE TO LOW CONSUMPTION VOLUMES

Over the last two years, EDB faced a challenging operating environment for its electricity distribution businesses, 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 the migration of large customers to the free market left the company's distribution business with significant over-contracted energy volumes. The over-contracted energy volume has impacted the expected operating results because the distribution companies sell the excess energy at a variable spot market prices, which compared to the contracted power purchase agreements in the regulated market lead to higher volatility on their results. In 2016, this impact was negative because the average spot price was lower than their contracted PPAs.

Recent regulatory decisions aimed to mitigate the impact of high energy costs and of the economic recession 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.

Despite some positive regulatory decisions, we expect EDB's operating performance in the distribution business will remain challenged by Brazil's evolving macroeconomic environment, which will only modestly improve in 2017, thus continuing to pressure electricity sales volumes and providing little relief to most distributors over-contracted positioning.

IMPROVED HYDROLOGICAL CONDITIONS AND MANAGEABLE EXPOSURE TO SPOT MARKET

The severe drought faced over the past years also resulted in higher costs to hydro generators related to energy purchase on the spot market. However, the hydrological risk significantly receded from the combination of a more favorable rainy season in 2016, additional installed power capacity and lower electricity consumption, supporting reduction of spot prices to an average of BRL120 per MWh in 2016 from BRL290 per MWh in 2015.

Despite improved conditions, we still see hydro water reservoir levels below historical levels, as such we expect average spot prices of about BRL200 per MWh range in 2017. Neverthless, we expect EDB's cash flow generation to remain strong given the company's manageable exposure to the spot market.

Since the expiration of power purchase agreements of Enerpeixe and Energest in early 2016, EDB has maintained a 6.8% uncontracted position in 2016 for hedging purposes, which work as a cushion to reduce the company's exposure to the spot market. Additionally, EDB adhered to the law #13,203 which established the terms on the renegotiation of the hydrological risk on the regulated and unregulated markets, 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 the different levels of protection available on the regulated market, EDB has opted to the SP92 and SP94 products for its hydro power plants, effectively protecting its hydrological risk in the future in cases where the system Generating Scaling Factor (GSF) falls below 92%. The GSF (Generation Scaling Factor), which basically indicates the level of exposure of hydro generation companies to the spot market, averaged 87% in 2016.

STABLE CREDIT METRICS AND ADEQUATE LIQUIDITY

The company's credit metrics deteriorated over the last two years, as indicated by a cash from operations before changes in working capital (CFO pre-WC) to total debt ratio of 20% and an interest coverage ratio of 2.6x for 2016; down from 43% and 3.3x, respectively, for 2014. On the other hand, EDB posted a record high operating cash generation in 2016, as measured by Moody's adjusted Cash Flow from Operation of BRL1.7 billion vs. BRL984 million in 2015, mostly driven by favorable regulatory decisions embedded in company's distribution tariffs.

Going forward, we forecast CFO pre-W/C to Debt to remain around 20% and interest coverage to reach up to 3.2x due to a combination of gradual economic recovery, favorable regulatory tariff adjustments and manageable exposure to hydrological risks. Further improvement will be limited by Pecem I - thermal power plant operational issues, which include higher costs with water charge and increased coal transportation fees, large capital expenditures to upgrade the distribution network, complete the Sao Manoel hydro generation project and to diversify into the transmission business.

EVOLVING CAPITAL STRUCTURE

In 2016, the company received an equity injection of BRL1.5 billion from its shareholders, which allowed the company to retire more expensive debt at the holding company, as well as on Pecem I - TTP. As a result, the company's debt to capitalization ratio improved to 39.3% in 2016 from 45.8% in 2015.

The company participates in the equity capital of certain hydro power generation projects comprising BRL3.1 billion debt, mainly long term BNDES loans, that are not fully consolidated in its balance sheet. Those investments include two operating hydro power plant (Santo Antonio Jari - 373.4 MW and Cahoeira Caldeirao - 219 MW), and one that is still under construction (Sao Manoel 700 MW). Including these investments in the proportion of its ownership stake, EDB's adjusted debt to capitalization ratio was 44.2% for the fiscal year end 2016 and it should remain in the 40% to 44% range over the next three years.

LEVEL OF SUPPORT OF EDP PORTUGAL

The ratings assigned for the EDB group also factor in the ownership by its ultimate parent company, EDP Portugal (Baa3; stable). While EDP does not guarantee EDB's debt, the Portuguese parent expects that its subsidiaries will remain financially self-sustainable, as stated in its published policies. We believe that the Brazilian operations of EDP continue to play an important role in the group's growth strategy, transfer of industry knowledge and expertise. The Brazilian operation represents around 16% of the EDP Portugal group's consolidated EBITDA.

Liquidity Analysis

The liquidity position of EDB is adequate given its BRL2.0 billion in consolidated cash and cash equivalent position as of December 31, 2016 vis-a-vis BRL1.1 billion of short-term debts due through December 31, 2017. Like other Brazilian companies, EDB 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.

We also view the current liquidity standing of the parent holding company EDB as adequate, given BRL902 million cash and cash equivalent position as of December 31, 2016 vis-a-vis BRL373 million of short-term debts due through December 31, 2017. However, EDB's high level of dividend distributions along with its relatively large capital expenditure program could lead to some refinancing pressures over the next 12 to 18 months.

EDB's senior unsecured debentures have a maintenance financial covenant of gross debt to EBITDA below 3.5x embedded in the indentures, which reached 1.5x on December 31, 2016.

Structural Considerations

EDB's senior unsecured ratings of Ba3/A1.br are one notch lower than the corporate family rating on the global scale and two notches on the Brazilian national scale, to reflect the structural subordination of debt at the holding company level to that of the operating companies. Lenders to operating subsidiaries generally have claims on cash flow that are superior to those of the holding company creditors, which restricts the financial flexibility of the holding company.

Corporate Governance

EDB has corporate governance practices that are above the average of Latin American issuers. EDB is a publicly listed company with shares traded on the Novo Mercado of Bovespa. While its shares are only traded on the Sao Paulo stock exchange, the company undertook several steps beyond what is legally required to adapt the US Sarbanes-Oxley Act as part of its commitment of practicing superior standards of corporate governance.

EDB's Board of Directors is made up of eight members, of which four are considered independent. The board relies on four support committees: Audit, Sustainability, Corporate Governance and Related Parties, and Compensation. The Audit. Sustainability and Corporate Governance and Related Parties Committees are permanent in nature and are comprised of three members where at least one is independent. There is also a Fiscal Council composed of three members and three alternates elected for a maximum term of one year; however, it is non-permanent and is convened only when requested by shareholders.

Profile

Headquartered in São Paulo, Brazil, EDP - Energias do Brasil S.A. (EDB) is a holding company controlled by EDP - Energias de Portugal (EDP, Baa3; stable) with activities in generation, distribution and commercialization of electricity. In 2016, EDB's power distribution business represented 34% of the consolidated EBITDA and the power generation business represented 65%, the commercialization of energy and other operating and management services represented the remaining 1%. In 2016, EDB reported consolidated net revenues of BRL8.9 billion, excluding BRL481 million of construction revenues, and a net profit of BRL667 million.

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 EDB's current rating.

Exhibit 3

EDP - Energias do Brasil 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 3/14/2017 [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Ba	Ba	Ba	Ba
b) Consistency and Predictability of Regulation	Ba	Ba	Ba	Ba
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Ba	Ba	Ba	Ba
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.0x	Baa	3x - 3.6x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	25.8%	A	17% - 25%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	17.7%	A	13% - 16%	Baa
d) Debt / Capitalization (3 Year Avg)	39.9%	A	40% - 44%	A
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa3		Ba1
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		Baa3		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(L); Source: Moody's Financial Metrics [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 4

Category	Moody's Rating
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
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
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
ESPIRITO SANTO CENTRAIS ELETRICAS - ESCELSA	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Unsecured -Dom Curr	Ba2
NSR Corporate Family Rating	Aa1.br
NSR Senior Unsecured	Aa1.br
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

Source: Moody's Investors Service

Recent Developments

On March 17, 2017 Moody's upgraded EDB's CFR to Ba2/Aa2.br from Ba3/A1.br and changed the outlook of to stable from negative. The upgrade reflects the resilient operating performance of EDB and its strong credit metrics. The outlook changed to stable from negative following the stabilization of Brazil's (Ba2, stable) outlook, given the high exposure and close linkages between EDB and Brazil's macroeconomic environment and credit quality.

On March 15, 2017, Moody's affirmed Brazil's issuer and bond ratings at Ba2 and changed the outlook to stable from negative.

REPORT NUMBER 1065072

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