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CREDIT OPINION

27 April 2018

Update

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RATINGS

Energest S.A.

Domicile	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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Energest S.A.

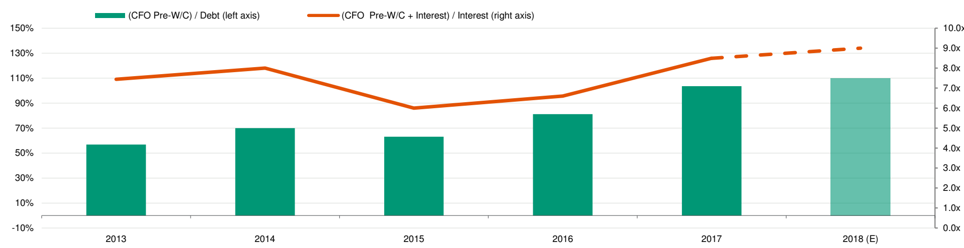
Update Following Outlook Change to Stable

Summary Rating Rationale

Energest S.A. (Energest)'s Ba2/Aa2.br issuer ratings reflect the company's strong credit metrics despite large dividend distributions, its expertise in operating hydro plants, and the implicit support of its parent holding company, EDP Energias do Brasil S.A. (EDB; Ba2 stable). Constraining Energest's ratings is the high concentration of sales in one single client, EDP Comercialização e Serviços de Energia Ltda., that represents around 70% of the company's energy supply contracts. The rating remains somewhat constrained by Brazil's Goverment 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 its Rating Category



Source: Moody's Financial Metrics™, Moody's estimates for 2018

Credit Strengths

- » Relatively stable and predictable cash flows 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
- » High concentration in one single client (EDB's affiliate EDP Comercializadora)
- » High dividend payout ratio

Rating Outlook

The stable outlook for Energest reflects the stabilization of Brazil's sovereign rating outlook, as well as Moody's expectation that metrics will remain well positioned for the rating category.

Factors that Could Lead to an Upgrade

A rating upgrade would depend on material improvement in the business environment under which Energest operates, along with sustainably strong credit metrics and adequate the liquidity profile. A rating upgrade would also be considered if EDB's rating or Brazil's government bond rating is upgraded. 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 total debt ratio stays sustainably above 60%, and

» The interest coverage remains above 8.0x 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 exert downward pressure on Energest's ratings. Quantitatively, the ratings could be downgraded if:

» The CFO pre-WC-to-Debt falls below 50%, or,

» The interest coverage stays below 5.0x for a prolonged period.

Key Indicators

Exhibit 2

Energest S.A.

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
(CFO Pre-W/C + Interest) / Interest	7.4x	8.0x	6.0x	6.6x	8.5x
(CFO Pre-W/C) / Debt	56.8%	69.9%	63.1%	81.1%	103.5%
RCF / Debt	21.2%	28.5%	-5.7%	6.1%	62.7%

[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

Energest, a wholly owned subsidiary of EDB, is a hydro generation company with an installed capacity of 198 MW (134.8 MW of assured energy) consisting of one single hydro power plant, UHE Mascarenhas, located in the states of Espírito Santo and Minas Gerais (B2 stable). The concession was granted in July, 1995 for 30 years, expiring in July, 2025. In 2017, Energest posted consolidated net sales of BRL194 million and net income of BRL87 million.

Detailed Rating Considerations

STRONG CREDIT METRICS

Energest 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 80.3%, a RCF/Debt of 15.6% and an Interest coverage of 6.9x from 2015 through 2017 that compares favorably with other Ba rated unregulated power companies. Such strong performance reflects Energest's medium and long-term power purchase agreements (PPAs) annually adjusted by inflation, as well as its low cost structure. Energest's EBITDA margin reached 65.9% in 2017, down from 74.2% in 2016, as per Moody's standard adjustments.

In 2016, a corporate restructuring of the EDB group resulted in a capital split of Energest and the transfer of its small hydro power concessions to the parent company. Those units represented one third of Energest installed capacity and about 15% of its consolidated gross revenues. Despite this reduction, we foresee continued strong cash flow generation for Energest, which will result in lower leverage levels at 100% CFO Pre-W/C to Debt and strong interest coverage ratios of about 10.0x for the next 12 months.

LONG-TERM SUPPLY CONTRACTS SUPPORT CASH FLOWS BUT CONCENTRATED IN ONE SINGLE OFFTAKER

Energest has gradually moved away from the regulated market, consisting of long-term energy supply contracts with distribution companies, to the unregulated market largely composed of free consumers with tenors typically between two and five years. The company currently has 20.7% of its contracted energy in the regulated market and 72.5% of power purchase agreements (PPAs) in the free market with average tenor of 7.9 years in 2018, up from 3.7 years in 2017. The average prices of those PPAs was at BRL194 per MWh in 2017, and they adjust annually by inflation, corroborating with predictable cash flow generation. Since the expiration of certain supply contracts in early 2016, Energest strategically decided to keep around 7-9% of uncontracted energy, serving as an additional hedge to the hydrologic risk.

EDP Comercializadora represented 65.7% of Energest's energy volume sales in 2017. EDP Comercializadora is also a wholly owned subsidiary of EDB and it is a pure electricity trading company that plays a strategic role within the EDB group. Most of the large industrial consumers that migrated from the regulated markets served by affiliates EDP - Sao Paulo and EDP - Espirito Santo to the free market over the past several years have signed bilateral supply contracts with EDP Comercializadora.

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. Meanwhile, the average spot prices increased to BRL318 per MWh from BRL122 per MWh in 2016.

To mitigate the exposure to hydrologic risks, Energest 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, Energest has opted to the SP94 product, that limits its exposure up to 6% of its assured energy on the regulated market (equivalent to 133 MW average annual production), effectively protecting its hydrological risk in the future in cases where the system Generating Scaling Factor (GSF) falls below 94%.

LOW CAPITAL EXPENDITURES AND MAINTENANCE REQUIREMENTS ENTAIL HIGH DIVIDEND DISTRIBUTION

Energest 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 Energest will continue to distribute significant dividends while its cash flow generation remains robust. Nevertheless, we believe that during critical periods, the company will preserve its liquidity in detriment of high dividends distribution.

Historically, dividend distributions were also supported by the dividends received from Energest's subsidiaries operating small hydro power plants (i.e. PCH Viçosa, PCH Sao Joao, PCH Alegre, PCH Fruteiras, PCH Jucu e Rio Bonito) and one large hydro power plant (UHE Suiça), with a total installed capacity of 102 MW. However, in February 2016, a corporated restructure resulted in the transfer of those subsidiaries to Energest's ultimate shareholder, EDB, and therefore those assets are no longer consolidated in company's financial statements.

Liquidity Analysis

Energest has liquidity position is adequate, despite a relatively low cash position of BRL20 million as of December 31,2017 vis-à-vis BRL59 million of short term debt maturities through December 31, 2018. The low cash balance is compensated by the company's resilient cash flow generation. We anticipate a positive free cash flow generation in the range of BRL50 million to BRL70 million over the next 12 months.

Like other Brazilian companies, Energest does not have committed banking facilities to face any unexpected cash disbursements; however, we deem the company's liquidity as manageable given the track record of resilient access to capital markets and intrinsic benefits derived from being part of EDB group.

Energest's debentures have a financial covenant of net debt to EBITDA below 2.5x embedded in its indenture, which was at 0.6x on December 31, 2017. Our forward looking view expects that Energest will maintain its conservative financial policy, rapidly addressing additional issues, as well as we do not anticipate a financial covenant breach

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 Baa3, which is two notches above Energest' current rating.

Exhibit 3

Energest 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 4/24/2018 [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	Ba	Ba	Ba	Ba
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	Ba	Ba	Ba	Ba
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
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)	6.9x	Baa	6x - 9x	Baa
b) (CFO Pre-W/C) / Debt (3 Year Avg)	80.3%	Aa	70% - 80%	Aa
c) RCF / Debt (3 Year Avg)	15.6%	Baa	10% - 15%	Ba
Rating:				
a) Indicated Rating from Grid		Baa2		Baa3
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 Investor Service

Ratings

Exhibit 4

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

Source: Moody's Investors Service

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EMEA	44-20-7772-5454

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