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Rating Action: Moody's assigns Ba1/Aaa.br ratings to Taesa's BRL 400 million debentures due 2025, outlook stable

30 May 2018

Sao Paulo, May 30, 2018 -- Moody's América Latina Ltda., ("Moody's") today has assigned a Ba1 global scale rating and a Aaa.br national scale rating to the BRL400 million senior unsecured debentures due in 2025, to be issued by Transmissora Alianca de Energia Eletrica ("Taesa" or "the company"). Proceeds from the issuance will be used to fund capital expenditures. Taesa's Ba1/Aaa.br corporate family ratings (CFR) are unaffected. The outlook for the ratings is stable.

The assigned ratings are based on preliminary documentation received by Moody's as of the rating assignment date. Moody's does not expect changes to the documentation reviewed over this period nor does it anticipate changes in the main conditions that the debentures will carry. Should issuance conditions and/or final documentation of the debentures deviate from the original ones submitted and reviewed by the rating agency, Moody's will assess the impact that these differences may have on the ratings and act accordingly.

RATINGS RATIONALE

The Ba1/Aaa.br ratings for the proposed BRL 400 million debentures due 2025 reflect their pari passu position within the company's capital structure which consist exclusively of unsecured debt instruments. The debentures will be issued at the holding company level, but will benefit from the substantial cash flow generated by assets directly integrated at the parent level which together account for over 95% of Taesa's consolidated operating cash flows, mitigating the structural subordination of the debentures.

Proceeds from the BRL 400 million issuance will be used to cover capital needs at the levels of projects that are under construction. The incremental debt resulting from the issuance will not result in a significant deterioration in the company's strong credit metrics, as Funds from Operations (FFO) to Net Debt would drop to 42% on a pro forma basis from 48% as reported at the end of March 2018.

The assigned ratings also take into consideration (i) the company's large scale and high geographic diversification of assets, (ii) robust credit metrics for the rating category evidenced by FFO to net debt of 47.5% and FFO interest coverage of 7.6x for the last twelve months ending March 2018, (iii) good access to debt and capital markets; and (iv) a relatively supportive regulatory framework.

On the other hand, the ratings are constrained by (i) the expected increase in capital expenditures following the company's won auctions which, together with limited track record in implementing large greenfield projects simultaneously, points to risk of cost overruns, (ii) the prospects of a reduction in regulated revenues ("RAP") from 2018 onwards as per the concessions contracts ; (iii) the company's intention to pursue external growth through debt-financed acquisitions of brownfield or greenfield projects which could result in a re-leveraging event; and (iv) a track record of high dividend payouts above 90% which absorbs a material part of cash flow generation.

The stable outlook reflects Moody's expectations that the company's credit metrics will remain robust even considering potential debt-funded acquisitions, driven by Taesa's very stable and predictable cash flow profile inherent to the transmission sector in Brazil.

Moody's considers Taesa's liquidity as adequate. As of March 31, 2018, the company had around BRL 901 million available in cash (including marketable securities) and BRL 432 million of debt maturities over the next twelve months. In October 2017, the company issued two debentures for a total of BRL543 million, the proceeds of which was used to refinance debt maturing in 2017 and to cover capital expenditures needs. We expect that the company's strong cash flow profile and ability to reduce historically high dividend payouts will enable the company to build up its cash position and, in conjunction with good access to capital markets, to cover its upcoming debt maturities on a timely basis

WHAT COULD CHANGE THE RATING UP/DOWN

An upgrade of Brazil's sovereign bond rating of Ba2 could result in an upgrade of Taesa's ratings. Conversely

a rapid deterioration in the company's credit metrics such that FFO to Net Debt falls below 30% and FFO interest coverage remains sustainably below 4.0x could prompt a rating downgrade. Deterioration in the sovereign's credit quality could also exert downward pressure on Taesa's ratings.

Taesa is a power transmission company operating and maintaining around 12,140 km of high voltage (230 to 525kV) transmission lines through 35 concessions with an average life of 30-year. The company directly controls 10 concessions, and operates the remaining 25 concessions through equity participations in the companies TBE (through a 49.9% equity participation -- company holds 15 concessions), Brasnorte (39%), Etau (53%), Ate III (100%) and Sao Gotardo (100%); as well as in 8 other concessions still in construction phase, including the recent acquisition of Lot M (EDTE).

Taesa is controlled by Companhia Energetica de Minas Gerais - CEMIG (B3/B2.br, stable) and Interconexión Eléctrica S.A. E.S.P (Baa2, negative) which own 21.7% and 14.9% of Taesa's total capital, respectively. The remaining 63.4% shares are free float, traded on the local stock market (BM&FBOVESPA).

The principal methodology used in these ratings was Regulated Electric and Gas Networks published in March 2017. Please see the Rating Methodologies page on www.moodys.com.br for a copy of this methodology.

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The date of the last Credit Rating Action was 10/4/2018.

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