Fitch Affirms Taesa's Ratings at 'BBB' and 'AAA(bra)'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-Rio de Janeiro-17 September 2013: Fitch Ratings has affirmed Transmissora Alianca de Energia Eletrica S.A.'s (Taesa) Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB' and Long-Term National Scale Rating at 'AAA(bra)'. Fitch has also affirmed the National Scale Rating of the BRL2,160 million third debenture issuance at 'AAA(bra)'. The Rating Outlook is Stable.

Key Rating Drivers
Taesa's investment grade ratings reflect the maintenance of a solid financial profile, even after the relevant acquisitions made in the last couple of years, in the total amount of BRL3.8 billion. In July 2012, Taesa concluded its capital issuance in the amount of BRL1.755 billion, which, in Fitch's view, allowed the company to keep its financial leverage in line with the assigned ratings.

The ratings also consider Taesa's strong and diversified portfolio of power transmission assets, with predictable cash flow generation and high operating margins. The ratings incorporate the company's low business risk given that most of its concessions are not subject to periodical tariff reviews and expire from 2030 on. The regulatory risk of the Brazilian power sector is considered moderate. Taesa's ratings are not constrained by the credit quality of one of its main shareholders, Companhia Energetica de Minas Gerais (Cemig), since Cemig shares the company's control with an investment fund and its access to Taesa's cash is limited to dividends.

Expectation of Reduced Leverage
On a pro-forma basis, Fitch expects Taesa to be able to maintain its consolidated net financial leverage close to 3.0x in 2013 and below in the following years, absent new acquisitions. The company's historically low consolidated leverage, even with substantial dividend payments in recent years, was pressured by the full acquisition of five transmission assets from Abengoa and participations in 10 assets from Cemig. During the last 12 months (LTM) ended June 30, 2013, the company reported, under the Brazilian accounting rules (BR GAAP), a total debt/EBITDA ratio of 4.2x and net debt/EBITDA of 3.6x, which compare, respectively, with 4.4x and 2.0x reported in 2012 and 4.5x and 3.7x in 2011. As per Fitch calculations, on a pro forma basis, if the one-month EBITDA of the assets acquired from Cemig is annualized, as well as the second quarter of the remaining consolidated companies, net leverage would be 2.9x.

Low Business-Risk Assets
Taesa's ratings are based on the low business risk of its asset portfolio and minimal exposure to concession renewals over the short- to medium-term. Taesa is one of the largest power transmission companies in Brazil, with 7,586 km of transmission lines spread across the country. The company has 24 concessions, including 12 fully-owned, which dilutes potential operating risks. Taesa benefits from a diversified client base and guaranteed payment structure. The expiration of its concessions will not begin until 2030, taking place on a staggered basis over the following years.

The company's exposure to periodical tariff reviews is low, since only four of its 24 concessions were obtained after November 2006 and are subject to this procedure. Exposure to tariff reviews may increase as the company participates in bids for new transmission concession projects. Pursuant to Taesa's other concession contracts, prior to November 2006, the annual permitted revenues (RAPs) of these concessions should decrease by 50% after the 15th year from when they commenced operations, with the first such decrease in revenue occurring in 2016. Fitch expects Taesa to manage its debt level in order to mitigate the impact of this cash flow generation reduction on its credit metrics.

Predictable Cash Flow and High EBITDA Margins
Taesa's highly predictable power transmission revenues are based on the lines availability, rather than on the volume transported. The company's consolidated revenue has been driven by the inflation-based annual RAP readjustments and on the incorporation of the new assets acquired. During the LTM ended June 30, 2013, the company reported consolidated net revenue and EBITDA of BRL1,368 million and BRL1,197 million, respectively, pursuant to Fitch's criteria and under BRGAAP, compared with BRL1,231 million and BRL1.078 million in 2012, and BRL828 million and BRL745 million in 2011. EBITDA margin has been high, from 85% to 90%, characteristic of a transmission company, at 87.5% during the LTM ended June 30, 2013. When annualizing the one-month net revenue and EBITDA of the

assets acquired from Cemig, as well as the second quarter of the remaining consolidated companies, net revenue of BRL1,693 million and EBITDA of BRL1,479 million generate a margin of 87.4%.

Fitch expects Taesa's free cash flow (FCF) to be linked to the level of dividend payments, as long as it does not obtain projects to be developed. The cash flow from operations (CFFO) should remain robust, reflecting the high business margins. In accordance with IFRS accounting rules, CFFO and FCF were BRL1,161 million and BRL421 million, respectively, for the LTM ended June 30, 2013. The FCF should continue to be pressured by strong dividend payments, which reached BRL734 million during that same period.

Manageable Debt Profile
Taesa's consolidated debt is characterized by an extended maturity profile and reduced foreign exchange risk. The growth recorded in recent years reflects the debt contracted to finance the recent acquisitions, which amounted to BRL3.8 billion, added to the financial obligations which came with the concessions acquired. As of June 30, 2013, Taesa's debt was BRL5.1 billion (BRL4.6 billion by the new IFRS consolidation rule), mainly composed of BRL4.1 billion of debentures, BRL404 million of commercial paper (CP) and BRL342 million of IDB loans. The CP was issued by Taesa in May 2013 to prepay debt with BNDES and debt linked to foreign exchange variation with IDB. This reduced the group's exposure to currency mismatch risk. By the end of June 2013, foreign currency debt was BRL214 million, representing only 4% of the total debt.

Taesa's liquidity position has weakened during the second quarter of 2013, after the payment of BRL1.7 billion for the participation in assets acquired from Cemig. By the end of June 2013, cash and marketable securities amounted to BRL772 million, covering 86% of the short-term debt of BRL897 million, which includes the outstanding balance of the BRL404 million in CP. Taesa intends to refinance the CP with a new debenture issuance. On a pro forma basis, considering the payment of the CP, coverage of the BRL493 million short-term debt balance by cash and marketable securities would be 1.6x.

Rating Sensitivities
Negative rating actions could be triggered by deterioration in Taesa's consolidated financial profile, with net leverage going above 3.5x. Acquisitions at significant volumes financed with debt and relevant investments in new projects with risks associated with the construction phase and low profitability could also pressure company's ratings.

A positive rating action could be triggered by the strengthening of Taesa's financial profile, with net leverage going below 2.0x and a sustainable increase in its liquidity position.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (August 2013);
--'National Ratings Criteria' (Jan. 19, 2011).

Applicable Criteria and Related Research:
National Ratings Criteria
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

Additional Disclosure
Solicitation Status