MOODY'S INVESTORS SERVICE

Credit Opinion: Transmisssora Aliança de Energia Eletrica S.A

Global Credit Research - 17 Jul 2013

Brazil

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Unsecured -Dom Curr	Baa3
Subordinate -Dom Curr	Ba1
NSR Senior Unsecured -Dom Curr	Aa1.br
NSR LT Issuer Rating -Dom Curr	Aa1.br
NSR Subordinate -Dom Curr	Aa2.br
Ult Parent: Companhia Energetica de Minas Gerais - CEMIG	
Outlook	Negative
Issuer Rating -Dom Curr	Ba1
NSR LT Issuer Rating -Dom Curr	Aa2.br
Parent: Cemig Geracao e Transmissao S.A.	
Outlook	Negative
Issuer Rating -Dom Curr	Baa3
Bkd Senior Unsecured -Dom Curr	Baa3
NSR LT Issuer Rating -Dom Curr	Aa1.br
NSR BACKED Senior Unsecured -Dom Curr	Aa1.br

Contacts

Analyst	**Phone**
Alexandre De Almeida Leite/Sao Paulo	55.11.3043.7300
Jose Soares/Sao Paulo	
William L. Hess/New York City	1.212.553.1653

Key Indicators

[1]**Transmisssora Aliança de Energia Eletrica S.A**

ACTUALS	**LTM 1Q2013**	**2012**	**2011**	**2010**	**2009**	**2008**
FFO + Interest / Interest	**3.5x**	**3.3x**	**3.7x**	**3.8x**	**3.1x**	**3.4x**
Net Debt / RAV	**66.2%**	**66.3%**	**56.2%**	**34.1%**	**43.7%**	**42.1%**
FFO / Net Debt	**23.1%**	**19.5%**	**19.8%**	**37.7%**	**24.1%**	**31.7%**
RCF / Capex	**6.4x**	**8.7x**	**-18.3x**	**20.3x**	**0.4x**	**6.4x**

[1] All ratios calculated in accordance with the Regulated Electric and Gas Networks Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Strong, stable and predictable operating cash flows supported by long-term concession contracts based on fixed capacity and inflation-adjusted tariffs

- Deteriorating credit metrics, a result of recent acquisitions

- Historically high dividend pay-out ratio

Corporate Profile

Transmissão Aliança de Energia Elétrica S.A. ("TAESA" or the "Holding Company") operates and maintains 9,459 km of high voltage (230 to 500kV) transmission lines through 24 (twenty four) 30-year concessions. The Holding Company currently controls directly 10 concessions.

TAESA is controlled by CEMIG GT (Baa3; negative) and the FIP Coliseu equity fund, which own 43% and 30% of TAESA's total capital, respectively. The remaining 27% of shares are free float traded on the local stock market (BM&FBOVESPA). According to Moody's standard adjustments, in the last twelve months ended on March 31, 2013 (LTM 03/31/2013), TAESA had consolidated net sales of BRL1,309 million, EBITDA of BRL1,294 million, and net profit of BRL665 million, an increase of 6.9%, 5.1% and 11.2%, respectively, as compared to 2012.

Recent Developments

On June 28, 2013, TAESA announced that its shareholders approved the merger with its subsidiary ATE II. The transaction has already been approved by the regulator - ANEEL.

On May 31, 2013, it was announced that the transfer to TAESA of its direct interests in the following electricity transmission concessionaires was completed: Empresa Catarinense de Transmissão de Energia S.A. (ECTE), Empresa Regional de Transmissão de Energia S.A. (ERTE), Empresa Norte de Transmissão de Energia S.A. (ENTE), Empresa Paranaense de Transmissão de Energia S.A. (ETEP), Empresa Amazonense de Transmissão de Energia S.A. (EATE), and Empresa Brasileira de Transmissão de Energia S.A.(EBTE). At the same time, TAESA announced the incorporation of its indirect interests in the following electricity transmission concessionaires: Sistema de Transmissão Catarinense S.A.(STC), Lumintrans - Companhia Transmissora de Energia, Empresa Santos Dumont de Energia S.A. (ESDE), and Empresa de Transmissão Serrana (ETSE), all of which were previously held by Companhia Energética de Minas Gerais (CEMIG) and CEMIG-GT. TAESA paid BRL1,691 million for the aforementioned assets (combined).

On May 15, 2013, TAESA's subsidiary ATE II paid off the loans from the Inter-American Development Bank (IDB) as well as from the BNDES through the issuance of BRL400 million promissory notes. By pre-paying these loans TAESA managed to reduce both its cost of debt and foreign currency exposure.

On April 9, 2013, the regulator ANEEL approved the transfer to TAESA of the Company's direct interests in the electricity transmission concessionaires ECTE, ERTE, ENTE, ETEP, EATE, EBTE as well as its indirect interests in STC, Lumitrans, ESDE, and ETSE which are presently all held by CEMIG and CEMIG-GT. At financial closing, TAESA will disburse BRL1,732 million (adjusted by the CDI index as of December 31, 2011, less dividends and/or interest on equity declared, whether paid or not). Once the transaction is concluded, TAESA will add 3,174 km to its current asset base (an increase of approximately 50%).

On March 15,2013, TAESA prepaid the loans from the BNDES to NTE, STE, ATE as well as the financing from a bank syndicate formed by Santander, Citibank and BNP Paribas. The total amount involved was BRL278.1 million.

On January 31, 2013, TAESA announced the full incorporation of its subsidiaries NTE, STE, ATE and UNISA. There was no increase in the Company's share capital, given that these entities were wholly-owned subsidiaries.

Following a new instruction from the Brazilian securities and exchange commission (CVM) issued in December 2012 which determined the adoption of IFRS11, as of January 1, 2013 TAESA started to treat ETAU and Brasnorte as joint-ventures, thus reporting their financial results according to the equity method, as opposed to using the partial consolidation method.

In December 2012, TAESA completed a stock split. Each common or preferred stock, represented or not by stock certificate deposits ("Units"), was split into 3 (three) new shares of same class.

In October 2012, TAESA issued BRL2.160 million of debentures, divided in three series. The funds raised were used to repay the 4th and 5th promissory note issuances.

On July 2, 2012, TAESA announced the completion of the acquisition of the remaining 50% of shares of UNISA from Abengoa Concessões Brasil Holding S.A. ("ABENGOA") for approximately BRL904 million. As a result, TAESA owned 100% of UNISA´s shares and, therefore, automatically owned 99.99% of four other transmission concessionaires owned by UNISA: (i) STE - Sul Transmissora de Energia S.A.; (ii) ATE Transmissora de Energia S.A.; (iii) ATE II Transmissora de Energia S.A.; and (iv) ATE III Transmissora de Energia S.A.

In July 2012, TAESA completed a new equity offering ("Re-IPO"), raising BRL1,755 million. The proceeds were used to pay for (i) the acquisition of concessions from CEMIG and CEMIG GT; and (ii) CAPEX.

Rating Rationale

We rate TAESA in accordance with the Regulated Electric and Gas Networks rating methodology published in August 2009. As the grid below shows, the company's implied rating under this methodology is Baa1 based on three year-average historical credit metrics, and Baa3 on our 12 to 18-month projections.

The Baa3 issuer rating reflects TAESA's strong consolidated credit metrics for the rating category, which are supported by the stable and predictable cash flows as a result of its many long-term electricity transmission concession contracts. The rating also takes into account the evolving regulatory framework for transmission companies in Brazil, which we consider relatively new and not fully tested. The Company´s expansion strategy through acquisitions and associated capital expansion programs, which affects leverage and liquidity in a significant way, constrain the rating.

DETAILED RATING CONSIDERATIONS:

THE IMPACT OF IFRS ON THE REPORTING OF TAESA's FINANCIAL RESULTS

The International Financial Reporting Standards (IFRS) introduced significant changes in the way that transmission companies report their financial results, the most relevant being related to the recognition of revenues and the accounting treatment of the concession assets. The recognition of revenues in a given year will no longer reflect the operating revenues (RAP), which transmission companies are entitled to receive as envisaged in the concession contract; rather, it will consist of three components: (i) construction revenues; (ii) operating and maintenance revenues; and (iii) the remuneration on financial assets.

Pursuant to IFRS transmission infrastructure under the concession is no longer recognized as a fixed asset, rather as a financial asset, since the utility is not the owner of the transmission infrastructure but it has the right to explore the infrastructure asset, which entitles the company to be remunerated as specified in the concession contract.

Notwithstanding the impact from IFRS, we expect that TAESA´s internal cash generation will remain relatively unchanged as the company continues to collect billed receivables regardless of the accounting method. We have made some minor accounting adjustments, mainly in the cash flow statement, to maintain consistency with Moody's rating methodology for transmission companies.

REGULATORY ENVIRONMENT AND ASSET OWNERSHIP MODEL

We consider the regulatory framework for transmission companies in Brazil well developed, but with a limited track record and relatively untested with regard to certain procedures, such as the indemnification of non-depreciated assets upon the non-renewal or termination of an existing concession. The stable and predictable nature of the transmission sector results from the Permitted Annual Revenues (RAP), which are fixed capacity payments (i.e. based on availability of the transmission lines, and not on volume transmitted) throughout the concession period, which also have provisions for automatic annual adjustments for inflation.

On September 11, 2012, the Brazilian Federal Government issued the Provisional Measure 579 (MP579), later converted into Law 12,783 / 2013, which established the terms and conditions according to which generation, transmission and distribution companies could renew their concessions which were awarded prior to Law 8,987/1995 and scheduled to expire between 2015 and 2017, by anticipating their renewal to January 1, 2013. The broader objective of the Government was to reduce tariffs by 20%, on average, to final consumers. However, MP579 established very harsh conditions for generation and transmission companies by drastically reducing their revenue and cash flow generation capacity in exchange for the renewal of their concessions for an additional 30 years (starting on January 1, 2013). Given that the concessions of TAESA as well as its subsidiaries were awarded after the enactment of Law 8,987, Law 12,783 does not apply to said concessions.

With the exception of Brasnorte, ATE III, São Gotardo, STC, EBTE, ESDE, ETSE concessions (which were awarded after 2006), all other seventeen concessions operated by TAESA were awarded between 1999 and 2006. Therefore, according to the current legal framework, these concessions are entitled to annual inflation adjustments, and will not be subjected to periodic tariff reviews defined by the regulator - ANEEL. However, at their 16th year of operation, these concessions will have their RAPs halved, i.e. reduced by 50%. Since Brasnorte, ATE III, São Gotardo, STC, EBTE, ESDE, ETSE's concessions were granted after 2006, they undergo periodic tariff reviews every 5 years. Pursuant to the new accounting rules that were introduced in January 2013, and given TAESA's ownership, Brasnorte's, ETAU's and TBE's results are now reported according to the equity method,

OPERATING EFFICIENCY

TAESA has had a good track record of operating performance, with an average availability of 99.97% in 2012 and in the first quarter 2013. In the event of non-programmed interruptions and unavailability of the transmission grid, the Company is subject to penalties in the form of variable discounts of up to 12.5% of the RAP. The potential risk of RAP discounts is mitigated by the increasing geographical diversification of TAESA's portfolio of concessions, and the fact that its transmission assets are relatively new, with an average age of ten years. Given its relatively new asset base, maintenance CAPEX represents less than 5% of the regulated asset base, which translates into a high rating for this factor in our methodology. Additionally, commercial losses are mitigated by a contractual guarantee mechanism managed by the National System Operator (ONS), which provides protection against potential payment defaults.

BUSINESS MODEL BASED ON THE ACQUISITION OF TRANSMISSION ASSETS

TAESA is exclusively dedicated to the operation of a portfolio of electricity transmission concessions. However, the mapping within this rating factor is constrained by high leverage and significant capital expenditures as a result of new concessions and acquisitions of other transmission companies. We expect TAESA's expansion strategy to continue, driven primarily by CEMIG GT, one of the key shareholders of the Company. We have incorporated into our long-term rating assessment the impact on leverage as TAESA continues to be the vehicle for CEMIG GT and for FIP Coliseu to further expand its transmission business.

KEY CREDIT METRICS AND IMPACT OF ACQUISITIONS

Due to the recent sizeable acquisitions and generous dividend distributions, TAESA's credit metrics have markedly deteriorated as a result of the increase in leverage undertaken to finance these transactions. In 2012, TAESA acquired from the Spanish group Abengoa the remaining (50%) shares of UNISA for BRL903.9 million, which was financed through the issuance of debt. As a result, TAESA has 100% ownership of UNISA's subsidiaries ATE, ATE II, ATE III and STE. The acquisition of the minority stakes held by CEMIG GT and CEMIG in ECTE, ERTE, ENTE, ETEP, EATE and EBTE also contributed to the marked deterioration of TAESA's credit metrics. At the same time, TAESA's dividend pay-out in 2012 was 88%.

Leverage, as measured by the Net Debt-to-Regulatory Asset Value (RAV) ratio, increased to 66.2% in the LTM ending 03/2013 from 34.1% in 2010; the interest coverage ratio ((Funds From Operations + Interest)/Interest) decreased to 3.5x in LTM ending 3/2013 from 3.8x in 2010; Funds From Operations (FFO) to Net Debt decreased to 23.1% in LTM ending 03/2013 from 37.7% in 2010. Notwithstanding the large number of recent acquisitions, the entities that have been incorporated to TAESA are "going concerns", with healthy, stable and predictable, contractually-guaranteed operating cash flows, which is demonstrated by strong regulatory (i.e. non-IFRS) EBITDA and EBITDA margin. In the first fiscal quarter (Q1) 2013, EBITDA and EBITDA margin reached BRL 292 million and 88.4%, respectively, as compared to BRL205 million and 88.7% in Q1 2012. Therefore, provided that TAESA prudently manages dividend payments, we expect that TAESA's credit metrics will steadily improve as new operational cash flows from acquired entities are added to the Company's existing ones. However, further acquisitions with an associated increase in leverage could push the current Baa3 rating into the Ba1 category.

The indentures of TAESA's outstanding debentures require that Net Debt-to-EBITDA be less than or equal to 3.5x. As of March 31, 2013, TAESA complied with this financial covenant. Given that on May 10, 2013, TAESA prepaid loans, which BNDES and IDB had formerly provided to ATE II, there are no other financial covenants that TAESA (or any of the subsidiaries under its control) need to comply with.

FORWARD LOOKING PERSPECTIVE

Quantitatively, we expect a reduction of the Cash Interest Coverage (i.e., FFO + Interest / Interest) from the 3.5x current historical 3-year average to a 2.9x forecasted 3-year average. The financial leverage as measured by FFO / Net Debt is also expected to deteriorate from the current 3-year average of 22.1% to a forecasted 3-year average of 16.3%.

Liquidity Profile

Like most Brazilian companies, TAESA does not have committed banking facilities to help fund any unexpected cash disbursements, if needed. Notwithstanding, TAESA has been able to access the local capital markets (as demonstrated by the debentures and other debt instruments issued in 2012) as well as financing from local private and public banks (BNDES, CEF).

Given the Re-IPO in 2012, TAESA's liquidity position improved sharply, with BRL2.6 billion of cash on hand as of March 31, 2013. This compares favorably to gross outstanding financial debt of BRL4.57 billion, of which only BRL419 million (9.2% of total debt) was, at that time, due in the following 12 months. However, following the acquisition of CEMIG's assets, which occurred on May 31st, TAESA's second quarter financial statements will show a significantly decrease in its cash position by approximately BRL1.7 billion. Notwithstanding, given that the majority of TAESA's debt is still due in the long term we expect that TAESA will continue to exhibit a healthy liquidity position.

Since BNDES' loans contain restrictions regarding changes of control, TAESA's new acquisitions could result in a contractual breach triggering the acceleration of BNDES' outstanding debt. However, since TAESA has prepaid most of the loans from BNDES, the potential impact is relatively small. As of March 31, 2013, TAESA, through ETAU (one of its subsidiaries), had only BRL18 million outstanding in BNDES exposure. This is a significant reduction since March 31, 2012, when the outstanding amount due to BNDES was BRL356 million.

Rating Outlook

TAESA´s stable rating outlook reflects the systematic execution of the Company's business plan. We expect that, despite the recent significant acquisitions, TAESA will prudently manage its capital structure, CAPEX and dividend payments so that its credit metrics continue to be compatible with the Baa3 rating category. We also expect that TAESA will continue to maintain an adequate debt maturity profile and liquidity position.

What Could Change the Rating - Up

The ratings could be upgraded upon the satisfactory management of the recent increase in debt used to finance the recent acquisitions combined with the prudent management of future CAPEX and dividend payments, which would lead to a Net Debt-to-Regulatory Asset Value (RAV) below 60%, and Funds from Operations (FFO) Interest Cover above 3.5x on a sustainable basis.

What Could Change the Rating - Down

The ratings could be downgraded if there is a material deterioration in the Company´s liquidity position, or if the credit metrics deteriorate so that Net Debt-to-RAV surpasses 75%, and the FFO Interest Cover falls below 2.5x for an extended period of time.

Rating Factors

Transmisssora Aliança de Energia Eletrica S.A

Regulated Electric and Gas Networks	[1]**Current 12/31/2012**			[2]**Moody's 12-18 month**	
Factor 1: Regulatory Environment and Asset Ownership Model (40%)	**Measure**	**Score**		**Measure**	**Score**
a) Stability and Predictability of Regulatory Regime (15%)		Ba			Ba
b) Asset Ownership Model (10%)		Baa			Baa
c) Cost and Investment Recovery (10%)		A			A

d) Revenue Risk (5%)		Aa		Aa
Factor 2: Efficiency and Execution Risk (10%)				
a) Cost Efficiency (6%)		Baa		Baa
b) Scale and Complexity of Capital Programme (4%)		Aa		Aa
Factor 3: Stability of Business Model & Financial Structure (10%)				
a) Ability & Willingness to Pursue Opportunistic Corp. Activitiy (3.33%)		Ba		Ba
b) Ability & Willingness to Increase Leverage (3.33%)		Baa		Baa
c) Targeted Proportion of Op. Profit outside Core Reg. Activities (3.33%)		Aa		Aa
Factor 4: Key Credit Metrics (40%) [2]				
a) (FFO + Interest) / Interest (15%)	3.5x	Baa	2.7x - 3.3x	Baa
b) Net Debt / RAV (15%)	52.20%	A	61.5% - 62.7%	Baa
c) FFO / Net Debt (5%)	22.10%	Aa	14.9% - 17.8%	A
d) RCF / Capex (5%)	6.41x	Aaa	-0.33 - 0.65	B
Rating:				
a) Methodology Implied Senior Unsecured Rating		Baa1		Baa3
b) Actual Senior Unsecured Rating				Baa3

[1] 3-year historical average (2010, 2011, 2012) [2] 12 - 18 month Moody's forecast

MOODY'S
INVESTORS SERVICE