FITCH AFFIRMS TAESA AT 'BB+'/'AAA(BRA)'

Fitch Ratings-Rio de Janeiro-02 September 2016: Fitch Ratings has affirmed Transmissora Alianca de Energia Eletrica S.A.'s (Taesa) Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB+' and 'BBB', respectively, and long-term national scale rating at 'AAA(bra)'. Fitch has also affirmed at 'AAA(bra)' the national scale rating for Taesa's BRL2,160 million third senior unsecured debenture issuance. The Rating Outlook is Negative for the Foreign and Local Currency IDRs and Stable for the national scale rating. A full list of ratings follows at the end of this release.

KEY RATING DRIVERS
Taesa's ratings reflect Fitch's expectation that the company will keep a solid financial profile in the medium term, with credit metrics currently strong for the existing IDRs when compared to its peers in Latin America. On a pro forma consolidated basis, Taesa presents low leverage for a company in the power transmission sector, as well as a manageable debt maturity schedule. The analysis also considers that Taesa has room to advance some potential acquisitions financed by debt without pressuring its credit quality.

The ratings incorporate Taesa's low business risk relative to its strong and diversified portfolio of power transmission assets, with predictable and robust cash flow generation, high operating margins and none of the 29 concessions that it participates expiring before 2030. The moderate regulatory risk of the Brazilian power sector and the average credit quality of power distribution and generation companies in the country limits the company's IDRs. Taesa's ratings are not constrained by the credit quality of one of its main shareholders, Companhia Energetica de Minas Gerais (Cemig) (rated 'A(bra)'/Outlook Negative), since Cemig shares the company's control with an investment fund and its access to Taesa's cash is limited to dividends.

Taesa's foreign currency (FC) IDR is capped by the country ceiling. In addition, the Negative Outlook for the local currency (LC) and FC IDRs is due to the Negative Outlook for Brazil's sovereign IDR ('BB'). Fitch considers as appropriate a three-notch difference between the company's LC IDR and the sovereign IDR ('BB').

Leverage to Remain Low in the Medium Term

Fitch expects Taesa to maintain its consolidated net financial leverage below 2.5x in the following years, absent new acquisitions. The company was able to manage its historical low consolidated leverage despite substantial dividend payments and significant acquisitions in recent years. During the latest 12 months (LTM) ended June 30, 2016, Taesa reported, under regulatory accounting rules, which proportionally consolidate all the transmission assets that the company participates in directly and indirectly, a total debt/EBITDA ratio of 2.3x and net debt/EBITDA ratio of 2.1x, the same as in 2015. Considering IFRS accounting rules and based on Fitch's criteria, those ratios would be 2.5x and 2.3x, respectively.

Low Business-Risk Assets

Taesa's ratings are based on the low business risk of its asset portfolio and zero exposure to concession renewals over the short-to-medium term. Taesa is one of the largest power transmission companies in Brazil, with 7.8 thousand km of transmission lines spread across the country. The company participates in 29 concessions, including 14 fully-owned, which dilutes potential operating risks. Taesa also benefits from a diversified client base and guaranteed payment structure. The expiration of its concessions will not begin until 2030 and will take place on a staggered basis over the following years.

Fitch considers that Taesa will have the ability to manage its debt level in the coming years in order to mitigate the effect of a lower cash flow generation in its credit metrics. Around 97% of its annual permitted revenue (RAP) from July 2015 to June 2016 is expected to be reduced by 50% once the transmission lines complete 15 years of initial operation. This rule is included in the contracts for the concessions acquired prior to November 2006. The first RAP reduction is happening in 2016 and more material impacts will occur from 2018 onward.

Predictable Cash Flow and High EBITDA Margins

Taesa's credit profile benefits from its highly predictable power transmission revenues, which are based on lines availability, rather than volume transported. The company's consolidated revenue growth has been driven by inflation-based annual RAP readjustments and on the acquisition of new assets. During the LTM ended June 30, 2016, the company reported consolidated net revenue and EBITDA of BRL2,040 million and BRL1,822 million, respectively, pursuant to Fitch's criteria and under regulatory accounting rules. These figures favourably compare with BRL1,952 million and BRL1,749 million one year before.

EBITDA margin has been high, from 87% to 90%, which is characteristic of transmission companies in Brazil. Margins tend to fall with the beginning of the RAP reduction cycle, following the revenue decrease. During the LTM ended June 30, 2016, EBITDA margin was 89.3%, with 89.7% in 2015 and 89.4% in 2014.

Fitch expects Taesa's free cash flow (FCF) to be linked to the level of dividend payments, as long as it does not enter into significant projects development. The cash flow from operations (CFFO) should remain robust, reflecting high business margins. In accordance with IFRS accounting rules, CFFO and FCF were BRL1,207 million and BRL153 million, respectively, for the LTM ended June 30, 2016. FCF should continue to be pressured by strong dividend payments, which reached BRL1,046 million during that same period.

KEY ASSUMPTIONS
Fitch's key assumptions within the rating case for Taesa include:
--RAPs annual adjustments considering inflation with a 50% reduction on the RAP when the 15th operational year of the concession is completed;
--Operational expenses adjusted by inflation;
--Dividend distribution of 90% of net income;
--No acquisitions on the projected period.

RATING SENSITIVITIES
Future developments that may, individually or collectively, lead to a negative rating action:

--Deterioration in Taesa's consolidated financial profile, with net leverage going above 4.0x on a sustainable basis;
--A short-term debt coverage ratio, measured by (CFFO + cash and marketable securities)/short-term debt below 1.5x;
--A more challenging scenario for the power sector in Brazil.

Negative rating actions on Brazil's sovereign rating may also pressure Taesa's IDRs. A positive rating action for the company is unlikely in the short to medium term.

LIQUIDITY
Taesa's consolidated debt is characterized by a manageable maturity profile and no foreign exchange risk. As of June 30, 2016, Taesa's pro forma debt was BRL4.2 billion, considering its proportional stake in all subsidiaries, or BRL3.7 billion by the IFRS consolidation rule. The

BRL3.7 billion debt was mainly composed of debentures (BRL3.2 billion) and Lei 4131 loan with Citibank (BRL303 million). According to Fitch's methodology the debt on the IFRS accounting rule also includes off-balance sheet debt of BRL93 million related to guarantees provided to non-consolidated companies.

Taesa's moderate liquidity position compared with short-term debt is mitigated by the company's robust CFFO. By the end of June 2016, the cash and marketable securities, not considering the non-consolidated companies under IFRS, amounted to BRL315 million, covering 91% of the short-term debt of BRL344 million. When considering the CFFO of BRL1,207 million in the LTM, the coverage (CFFO + cash and marketable securities)/short-term debt of Taesa of 4.4x was robust.

FULL LIST OF RATING ACTIONS
Fitch has affirmed Transmissora Alianca de Energia Eletrica S.A.'s rating as follows:

--Foreign currency IDR at 'BB+'; Outlook Negative;
--Local currency IDR at 'BBB'; Outlook Negative;
--Long term national scale rating at 'AAA(bra)'; Outlook Stable;
--BRL2,160 million third senior unsecured debentures issuance at 'AAA(bra)'.

Contact:

Primary Analyst
Mauro Storino
Senior Director
+55 21 4503 2625
Fitch Ratings Brasil Ltda.
Praca XV de Novembro, 20 - Sala 401 B - Centro
Rio de Janeiro - RJ - CEP: 20010-010

Secondary Analyst
Wellington Senter
Associate Director
+55 21 4503 2606

Committee Chairperson
Ricardo Carvalho
Senior Director
+55 21 4503 2627

Media Relations: Alyssa Castelli, New York, Tel: +1 (212) 908 0540, Email: alyssa.castelli@fitchratings.com.

Date of Relevant Rating Committee: Sept. 1, 2016.

SUMMARY OF FINANCIAL STATEMENT ADJUSTMENTS
--Debt: Fitch has adjusted the debt by adding the off-balance debt related to guarantees provided to non-consolidated companies of BRL93 million for June 30, 2016.
--EBITDA: Fitch has added to the EBITDA the dividends received from non-consolidated companies of BRL150 million in the last 12 months ended on June 30, 2016.

Additional information is available on www.fitchratings.com.

Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)
https://www.fitchratings.com/site/re/869362
Rating Non-Financial Corporates Above the Country Ceiling (pub. 21 Jun 2016)
https://www.fitchratings.com/site/re/882817