**Fitch Affirms Taesa at 'BB+'/'AAA(bra)'**

Fitch Ratings-Sao Paulo-28 August 2017: Fitch Ratings has affirmed Transmissora Alianca de Energia Eletrica S.A.'s (Taesa) Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) at 'BB+' and 'BBB', respectively. Fitch has also affirmed Taesa's Long-term National Scale Rating at 'AAA(bra)' and its BRL2.16 billion third senior unsecured debenture issuance.

In addition, Fitch has assigned a Long-term National Scale Rating 'AAA(bra)(EXP)' to Taesa's proposed BRL435 million fourth senior unsecured debenture issuance. The issuance will be divided into two series. The first series for BRL255 million due in 2024 and the second for BRL180 million due in 2020. Proceeds from the first series will be used to complement the financing of the Mariana and Miracema projects, while the proceeds from the second series will be used for debt refinancing.

The Rating Outlook is Negative for the Foreign and Local Currency IDRs and Stable for the National Scale Rating. A full list of rating actions 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 an adequate liquidity profile. Fitch also views as manageable the risks associated with the construction phase of seven projects under development.

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 and high operating margins. In addition, none of the 34 concessions that it participates expire before 2030. The moderate regulatory risk of the Brazilian power sector was also considered. Taesa's ratings are not constrained by the credit quality of one of its shareholders, Companhia Energetica de Minas Gerais (Cemig) (LC and FC IDRs B+/ Negative), since Cemig shares the company's control with Interconexion Electrica S/A E.S.P. (ISA) (LC and FC IDRs BBB+/ Stable), and its access to Taesa's cash is limited to dividends.

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

Leverage to Remain Low: Fitch expects Taesa to maintain its consolidated net financial leverage below 3.5x in the following years, absent new relevant acquisitions or greenfield projects. The company was able to manage its historical low consolidated leverage despite substantial dividend payments and significant acquisitions in recent years. For the latest 12 months (LTM) ended June 30, 2017, Taesa reported total debt/EBITDA ratio of 2.0x and net debt/EBITDA of 1.6x (using regulatory accounting rules, which proportionally consolidate all the transmission assets that the company participates in directly or indirectly). Considering IFRS accounting rules and Fitch's criteria, those ratios would be 3.0x and 2.4x, respectively.

Low Business Risk: Taesa's ratings are based on the low business risk of its asset portfolio and no exposure to concession renewals over the short to medium term. Taesa is one of the largest power transmission companies in Brazil, with 9.1 thousand km of transmission lines spread across the country, being 1.4 thousand km under construction, considering its proportional participation in the concessions.

The company participates in 34 concessions, including 15 fully-owned, which dilutes potential operational 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 expects 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 80% of its permitted annual revenue (PAR) from July 2017 to June 2018 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 PAR reduction occurred in 2016, and more material impacts are expected from 2018 onward.

Predictable Cash Flow: 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 PAR readjustments, remuneration of investments in existing assets, and the acquisition of new concessions. During the LTM ended June 30, 2017, the company reported consolidated net revenue and EBITDA of BRL2.223 billion and BRL1.997 billion, respectively, pursuant to Fitch's criteria and under regulatory accounting rules, considering proportional company participation by subsidiaries. These figures favorably compare with BRL2.124 billion and BRL1.901 billion in 2016.

High EBITDA Margin: EBITDA margin has been high, from 87% to 90%, which is a characteristic of transmission companies in Brazil. Revenues and margins tend to fall with the beginning of the PAR reduction in part of the portfolio, being somewhat compensated by new start-up projects. During the LTM ended June 30, 2017, EBITDA margin was 89.8%, with 89.5% in 2016 and 89.7% in 2015.

Free Cash Flow Still Positive: Fitch believes Taesa can manage its FCF at positive levels even considering the impact of the PAR reduction and the investments in the new projects. Nevertheless, the FCF will not be enough to cover recent acquisitions and the capital injections in projects not consolidated in its financial statements. Since 2016 the company has directly or indirectly acquired six new concessions through auctions promoted by the regulatory agency. Fitch considers that on a consolidated basis Taesa will have a cash need close to BRL700 million in capex and to BRL1.2 billion adding-up capital injections, from 2017 to 2021, for all its projects under development.

Fitch's base case scenario forecasts that strong dividend payments will continue to pressure FCF, corresponding to 91% of net income. As a mitigating factor, cash flow from operations (CFFO) should remain robust, reflecting high business margins. In accordance with IFRS accounting rules, CFFO and FCF were BRL1.358 billion and BRL611 million, respectively, for the LTM ended June 30, 2017, after BRL740 million in dividends paid.

DERIVATION SUMMARY

Taesa has a stronger financial profile compared to its peers in Latin America, such as Interconexion Electrica S.A. E.S.P. (ISA, LC and FC IDR BBB+/Outlook Stable; Transelec S.A. LC and FC IDR BBB/Outlook Stable and Consorcio Transmantaro S.A. (CTM) LC and FC IDR BBB-/Outlook Stable). All of the companies have low business risk profiles and predictable cash flow generation, which is a characteristic of transmission electricity companies operating in a regulated industry. The main differentiation in the ratings of these companies is the country where their main revenues are generated and the location of their assets. While its peers are located in investment grade countries, Taesa's ratings are negatively impacted by the country ceiling of Brazil (BB+).

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

--PARs adjusted considering inflation and, in some cases, 50% reduction when the 15th operational year is completed;
--Operational expenses adjusted by inflation;
--Minimum cash of BRL200 million;
--Dividends corresponding to 91% of net income calculated through IFRS accounting rules;
--No new acquisitions.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

A positive rating action for the company is unlikely in the short to medium term.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

--Deterioration in Taesa's consolidated financial profile, with net leverage going above 4.0x on a sustainable basis;
--A more challenging scenario for the power sector in Brazil;
Negative rating actions on Brazil's sovereign rating may also pressure Taesa's IDRs.

LIQUIDITY

Fitch expects Taesa to keep a moderate liquidity position compared with short-term debt, which is mitigated by the company's robust operational cash flow generation and ample access to bank credit lines and capital market. By the end of June 2017, the cash and marketable securities, not considering the non-consolidated companies under IFRS, amounted to BRL695 million as per Fitch's calculations, covering 0.7x of the short-term debt of BRL1.001 billion.

Taesa's consolidated debt is characterized by a manageable maturity profile and no foreign exchange risk. As of June 30, 2017, the company's pro forma debt was BRL3,967 million, considering its proportional stake in all subsidiaries, or BRL3.458 billion by the IFRS consolidation rule and Fitch's adjustments. The BRL3.458 billion debt was mainly composed of debentures (BRL3.038 billion). According to Fitch's methodology the debt on the IFRS accounting rule also includes off-balance sheet debt of BRL7 million related to guarantees provided to non-consolidated companies.

FULL LIST OF RATING ACTIONS

Fitch has taken the following ratings actions:

Transmissora Alianca de Energia Eletrica S.A.
--Foreign Currency IDR affirmed at 'BB+', Outlook Negative;
--Local Currency IDR affirmed at 'BBB', Outlook Negative;
--Long-term National Scale Rating affirmed at 'AAA(bra)', Outlook Stable;
--BRL2,160 million third senior unsecured debenture issuance affirmed at 'AAA(bra)';
--BRL435 million fourth senior unsecured debenture issuance assigned 'AAA(bra)(EXP)'.

Fitch Ratings

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Fitch adjusts Taesa's financial statement not considering the construction revenues and costs in its income statement.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017)
National Scale Ratings Criteria (pub. 07 Mar 2017)

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