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Sao Paulo, January 17, 2020 -- Moody's América Latina Ltda., ("Moody's") assigned a Ba1 global scale rating and a Aaa.br national scale rating to Transmissora Aliança de Energia Elétrica (Taesa)'s new issuance of BRL300 million senior secured debentures with final maturity in December 2044 (8th issuance). Proceeds from this issuance will be used to support investments. Taesa's Ba1/Aaa.br corporate family ratings (CFR) are unaffected by this rating action. The outlook remains stable.

RATINGS RATIONALE

The Ba1/Aaa.br ratings assigned to the debentures take into consideration Taesa's: (i) large scale and high asset diversification; (ii) its predictable cash flows supported by long term concessions remunerated with availability-based payments; (iii) the adequate credit metrics for the rating category evidenced by a Funds from Operation (FFO) to Net Debt above 30%, on a pro forma basis for this transaction; and (iv) its robust liquidity position in face of an extended debt maturity profile. Such strengths are tempered by: (i) Taesa's exposure to cost overruns and execution risks related to its portfolio of projects under construction through March 2023, (ii) the expected reduction in regulated revenues on certain existing assets in 2020 and 2021; and (iii) a track record of high dividend payouts above 90% annual net income generation which absorbs a material part of its cash flow generation.

The BRL300 million senior secured debentures (8th issuance) are being issued as infrastructure debentures pursuant to law 12,431. Debenture proceeds will support the capital investment requirements and reimbursement of the initial development costs of Sant'Ana Transmissora de Energia S.A. (Sant'Ana), a Taesa fully-owned subsidiary comprising four transmission lines covering 587 kilometers and two substations in the state of Rio Grande do Sul. The concession awarded in December 2018 requires investments of approximately BRL566 million through May 2022. Once operating, the Sant'Ana assets will add approximately BRL61 million to Taesa's contracted Annual Permitted Revenues (RAP) in updated values for the 2019-2020 cycle.

The debentures are being issued in a single debt tranche with 25-years until the final maturity in December 2044. The amortization schedule has been customized with principal payments planned to occur on a biannual basis starting in December 2022. The interest will also have biannual payment schedule starting in December 2021, with a fixed cost defined at 4.7442% per year. The principal amount will also be adjusted by inflation (IPC-A).

The debentures will benefit from a security package that includes: (i) a fiduciary alienation of Taesa's shares in Sant'Ana; (ii) a fiduciary assignment of the future receivables from the Sant'Ana concession; (iii) the rights over Sant'Ana's concession agreements; and (iv) a fiduciary assignment of the deposits on the centralizing account and the debt service reserve account that will maintain a minimum cash balance to cover the next debt service on the debentures. There are also restrictions for Sant'Ana to issue additional debt and limitations for intercompany loans, among others. Moody's acknowledges the additional credit benefit of the securities assigned to the debentures to enhance the expected recovery for its creditors in an event of default. However, the global scale rating assigned to this issuance is constrained by Taesa's intrinsic credit linkages to Brazil's credit quality given its regulated nature and regional customer base.

On a pro-forma basis of the transaction, Taesa's secured debt will represent about 11% of its total debt outstanding. As such, Taesa's consolidated credit profile will continue to encompass a predominantly senior unsecured capital structure. The debentures will be issued at the holding company level, hence will benefit from the substantial cash flow generated by other operating assets directly integrated at the parent level which together account for over 96% of Taesa's asset base and about 70% of the company's prospective operating cash flow generation.

Early amortization clauses are in line with Taesa's previous issuances and include non-automatic acceleration in case of default of any obligation above BRL100 million and change of control.

RATING OUTLOOK

The stable outlook reflects Moody's expectations that Taesa's credit metrics will remain well positioned to its rating category despite a moderate increase in debt to fund acquisitions and higher than historical investments, which is supported by its very stable and predictable cash flow profile inherent to the transmission sector in Brazil.

WHAT COULD CHANGE THE RATING UP/DOWN

Moody's views Taesa's credit profile linked to that of the Government of Brazil (Ba2 stable) to the extent that the company is exposed to the same economic revenue base and subject to government policies. As a result, an upgrade of Brazil's Ba2 sovereign bond rating could result in an upgrade of Taesa's global scale ratings. Conversely, negative pressure on the sovereign rating or outlook would lead negative pressure on Taesa's ratings.

Deviations from the company's growth strategy, including overruns of capital spending or delays in the completion of greenfield projects would be credit negative. A material deterioration in the company's liquidity could also lead to negative rating action. Quantitatively, a prolonged deterioration in the company's credit metrics, such that FFO to Net Debt falls below 20% and FFO interest coverage remains sustainably below 3.5x could also prompt a downgrade. A significant increase in the proportion of secured debt or a decrease in the amount of unencumbered assets that could be used to pay down unsecured debt could also result in a downgrade of Taesa's unsecured debt ratings.

Taesa is a power transmission company operating and maintaining around 12,725 km of high voltage (230 to 525kV) transmission lines through 36 concessions with a weighted average remaining concession life of 18 years. As of September 2019, the holding

company comprised ten concessions (TSN, Novatrans, ETEO, GTEA, PATESA, Munirah, NTE, STE, ATE e ATE II), fully invested in seven (ATE III, Brasnorte, São Gotardo, Mariana, Miracema, Janaúba, and Sant'Ana) and held equity participations in the other 19 (through ETAU, Aimorés, Paraguaçu, Ivaí, Transmineiras, and TBE), of which 27 are operating and nine are currently under construction. In addition, after the planned acquisitions, Taesa will likely expand its portfolio to 13,981 km of transmission lines through 41 concessions.

Taesa is controlled by Companhia Energetica de Minas Gerais - CEMIG (B1/Baa1.br, positive) and Interconexión Eléctrica S.A. E.S.P. (Baa2, stable) 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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