

CREDIT OPINION

27 March 2017

Update

Rate this Research >>

RATINGS

Eletropaulo Met. Elet. de Sao Paulo

| | |
|------------------|-----------------------------|
| Domicile | Brazil |
| Long Term Rating | Ba3 |
| Type | LT Corporate Family Ratings |
| Outlook | Stable |

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Aneliza Crnugelj 55-11-3043-6063
 Analyst
 aneliza.crnugelj@moodys.com

Alejandro Olivo 52-55-1253-5742
 Associate Managing Director
 alejandro.olivo@moodys.com

Camila Yochikawa 55-11-3043-6079
 Associate Analyst
 camila.yochikawa@moodys.com

Eletropaulo Met. Elet. de Sao Paulo

Update Following Outlook Stabilization

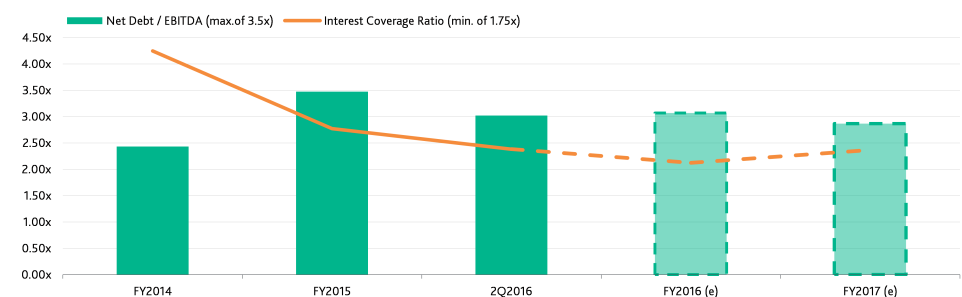
Summary Rating Rationale

The Ba3/A3.br ratings are supported by the relatively stable cash flow of the long-term electricity distribution concession in Brazil's wealthiest metropolitan area which drives the strong credit metrics for the rating category. Eletropaulo's sound access to bank and capital markets which we expect will continue in the projected period combined with generally supportive regulatory environment further support the ratings.

Eletropaulo's ratings are constrained by the lower sales volumes as well as the significant non-funded contingency related to a judicial dispute with Eletrobras, which could significantly affect liquidity.

Exhibit 1

Improving Leverage But Still High Compared to Historical Levels



Source: Moody's Investors Service and Company's Financial

Credit Strengths

- » Cash flow to benefit from the reduction of regulatory assets from 2016
- » Good access to the local capital and banking markets
- » Relatively strong credit metrics for the rating category

Credit Challenges

- » Still relatively high leverage
- » Lower sales volume and risk of over-contracting exposure
- » High level of contingent liabilities that could affect liquidity

Rating Outlook

The stabilization of Eletropaulo's outlook follows the stabilization of Brazil's outlook, given the company's high exposure and close linkages to the local economic/regulatory environment and ultimate credit quality. The stable outlook also reflects our view that Eletropaulo will have relatively stable cash flows in the projected period and maintain adequate liquidity and credit metrics for the rating category.

Factors that Could Lead to an Upgrade

We could see upward pressure on the ratings if Eletropaulo's cash interest coverage ratio remains above 2.4x and the CFO pre WC/ Debt above 15% on a sustainable basis as well as with more clarity on the contingent liabilities outcome.

Factors that Could Lead to a Downgrade

A rating downgrade could be triggered by a deterioration in the company's leverage or liquidity position as well as if there is any change in the perceived level of support from the electricity regulatory framework. Quantitatively, the ratings could be downgraded if the interest coverage remains below 1.8x, and the CFO pre-WC-to-Debt falls below 5%, on a sustainable basis. Further deterioration in the respective sovereign's credit quality could also exert downward pressure on the ratings.

Key Indicators

Exhibit 2

Key Indicators

Eletropaulo Met. Elet. de São Paulo

| | 6/30/2016(L) | 12/31/2015 | 12/31/2014 | 12/31/2013 | 12/31/2012 |
|----------------------------------|--------------|------------|------------|------------|------------|
| CFO pre-WC + Interest / Interest | 2.4x | 2.2x | 1.7x | 2.8x | 3.1x |
| CFO pre-WC / Debt | 17.7% | 16.8% | 7.4% | 18.5% | 13.7% |
| CFO pre-WC – Dividends / Debt | 17.7% | 16.8% | 6.3% | 17.6% | 5.1% |
| Debt / Capitalization | 75.7% | 69.0% | 70.9% | 65.7% | 80.6% |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics™

Detailed Rating Considerations

Better Cash Flow Generation But Still Relatively High Leverage

The company accumulated a significant BRL 1.3 billion net position of regulatory assets in 2015, which resulted in higher working capital needs and indebtedness, one of the main drivers for the financial covenant tightness in the period together with lower sales volumes and higher delinquency rates. Eletropaulo reported an adjusted net debt/Ebitda of 3.47x in the FY2015, compared to the maximum 3.5x embedded in the debentures and above the 2.43x recorded in the FY2014.

In spite of the challenging macroeconomic environment that will continue to weigh on the company's operational performance, we forecast a better cash flow generation in the next 12-18 months due to a net position of regulatory assets below BRL 50 million in 2016. Therefore, company reported an adjusted net debt/Ebitda of 3.22x in FY2016 and our projections indicate it will stay below 3.0x in 2017.

Eletropaulo's CFO Pre-WC over debt ratio increased to 18% in the LTM 062016 from 16.8% in the FY2015 while interest coverage grew to 2.5x up from 2.2x. Our forward looking basis for the next 12-18 months considers average ratios of 18% and 2.2x, respectively.

Unexpected debt increases could come from a time lag between higher energy costs and the required tariff adjustments or also if the company returns its dividend distribution to historical levels of 100%, which are not considered in our projections.

Results Remain Pressured by Lower Sales Volume and Over-Contraction

Brazil's drought affected Eletropaulo's profitability in 2014-15 while the economic recession has dragged electricity consumption since 2015, when company reported a sales volume contraction of 4.7% compared to 3.1% in the 1H2106. Moody's projections incorporate

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

an average volume contraction of 0.7% per year in the next 12-18 months with some recovery afterwards to an average growth of 1.3% per year from 2018-2020.

Another side effect of the recessionary scenario is the high delinquency rate that affects costs at BRL 250-300 million per year. Eletropaulo also had a 111% average electricity level contraction in 2016, which translated into additional costs of around BRL 92 million. In the following years, we consider its exposure will stay below the current 105% regulatory ceiling up to which all costs are passed through tariffs. The company claims its over-contraction exposure is involuntary and should be compensated by Aneel, but we do not consider any reimbursements in our projections.

Sizeable Amount of Contingent Liabilities

Eletropaulo has a BRL 1.9 billion (at prices of June 30, 2016) contingent liability from a judicial dispute with Eletrobras (Ba3 stable) regarding the payment of a loan provided to Eletropaulo in 1986, which is undergoing the legal process for almost 28 years.

The company does not have any legal provisions related to this dispute since its legal advisors consider this "process with probability of loss considered possible", in accordance with Brazilian accounting standards. Eletropaulo is just required to make provisions if their legal advisor understands the company will lose the dispute in the second level court. Nevertheless, in September, 2015, a consultant appointed by the court concluded in a preliminary appraisal report that Eletropaulo is responsible for the full payment of the outstanding debt, which was questioned by the company and remains under analysis by the expert and the judge in the first level court.

We do not incorporate any payment or deposit in our projections, as we consider the process will remain under judicial discussion in the five-year projected period. However, there is a likelihood the company is required to hire a guarantee insurance that would cost around 3% of the total amount or BRL 50-70 million per year, as per Moody's estimates.

Moreover, the company has BRL 3.6 billion of underfunded pension liabilities, which Moody's adds to the total debt amount according to our standard adjustments.

Liquidity Analysis

Eletropaulo's liquidity has improved in 2016 with the company reporting an adequate position considering its BRL 1.3 billion cash versus the short-term maturities of BRL 879 million as of 2Q2016. We expect that the company will maintain a minimum dividend pay-out of 25% in the next 12-18 months as well as limit its Capex to the maintenance of adequate quality services, using a portion of its cash to repay debt. We estimate a BRL 500-600 million decrease in Eletropaulo's financial debt in the period.

Our ratings incorporate Eletropaulo's good access to the capital markets which we deem to continue in the projected period. The company does not have any committed banking facilities, like most Brazilian corporations. Also, we do not incorporate any payments related to the ongoing judicial dispute of BRL 1.9 billion with Eletrobras, that could significantly affect the company's leverage and liquidity.

We consider Eletropaulo will remain in compliance with the financial covenants embedded in the debenture issuances: (i) adjusted net debt/Ebitda < 3.5x and adjusted interest coverage > 1.75x. As of June 30, 2016, the company reported these ratios at 3.02x and 2.38x, respectively. Breach of financial covenants could result in debt acceleration if reported in two consecutive quarters. Debenture holders need a quorum of 75-90% to accelerate the debt in a General Assembly.

Profile

Eletropaulo Metropolitana de Eletricidade de Sao Paulo S.A. ("Eletropaulo" or the "Company") is a regulated electricity distribution utility, listed on the BM&FBOVESPA stock exchange. Eletropaulo is controlled by the AES Corporation (50,52% of the voting capital) and BNDES (22,56% of the voting capital).

Eletropaulo distributes electricity to 24 municipalities in the Sao Paulo metropolitan area, including the city of Sao Paulo, with an estimated 11% market share in Brazil. The Company has a 30-year concession contract that was granted by Aneel, the Brazilian electricity sector regulator ("Regulator") in 1998.

As of June 30, 2016 82% of Eletropaulo's electricity was sold to the regulated market, mainly residential (44%) and commercial (35%) consumers while the remaining 18% was distributed to the freemarket. In the LTM 062016 ended in June 30, 2016, the

company posted net sales (excluding construction revenues) of BRL 12 billion and EBITDA of BRL 1.5 billion, as per Moody's standard adjustments.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors

Eletropaulo Met. Elet. de São Paulo

| Regulated Electric and Gas Utilities Industry Grid [1][2] | Current LTM 6/30/2016 | | Moody's 12-18 Month Forward View As of 8/19/2016 [3] | |
|---|--------------------------|-------|--|-------|
| | Measure | Score | Measure | Score |
| Factor 1 : Regulatory Framework (25%) | | | | |
| a) Legislative and Judicial Underpinnings of the Regulatory Framework | Ba | Ba | Ba | Ba |
| b) Consistency and Predictability of Regulation | Ba | Ba | Ba | Ba |
| Factor 2 : Ability to Recover Costs and Earn Returns (25%) | | | | |
| a) Timeliness of Recovery of Operating and Capital Costs | Ba | Ba | Ba | Ba |
| b) Sufficiency of Rates and Returns | Ba | Ba | Ba | Ba |
| Factor 3 : Diversification (10%) | | | | |
| a) Market Position | Baa | Baa | Baa | Baa |
| Factor 4 : Financial Strength (40%) | | | | |
| a) CFO pre-WC + Interest / Interest (3 Year Avg) | 2.1x | Ba | 2.2x | Ba |
| b) CFO pre-WC / Debt (3 Year Avg) | 13.2% | Baa | 17.6% | Baa |
| c) CFO pre-WC – Dividends / Debt (3 Year Avg) | 12.6% | Baa | 16.9% | Baa |
| d) Debt / Capitalization (3 Year Avg) | 72.1% | B | 66.7% | B |
| Rating: | | | | |
| Grid-Indicated Rating Before Notching Adjustment | | Ba2 | | Ba1 |
| HoldCo Structural Subordination Notching | | | | |
| a) Indicated Rating from Grid | | Ba2 | | Ba1 |
| b) Actual Rating Assigned | | | | Ba3 |

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 6/30/2016(L)

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 4

| Category | Moody's Rating |
|--|----------------|
| ELETROPAULO MET. ELET. DE SAO PAULO | |
| Outlook | Stable |
| Corporate Family Rating | Ba3 |
| Senior Unsecured -Dom Curr | Ba3 |
| NSR Corporate Family Rating | A3.br |
| NSR Senior Unsecured | A3.br |
| ULT PARENT: AES CORPORATION, (THE) | |
| Outlook | Positive |
| Corporate Family Rating | Ba3 |
| Senior Unsecured | Ba3/LGD4 |
| Speculative Grade Liquidity | SGL-2 |

Source: Moody's Investors Service

Recent Developments

On March 17, 2017 Moody's changed Eletropaulo's outlook to stable from negative and affirmed its senior unsecured ratings. At the same time, Moody's assigned Ba3/A3.br corporate family ratings (CFRs) to Eletropaulo and withdrew its Ba3/A3.br issuer ratings.

In December 2016, company concluded its corporate reorganization resulting in BNDES and AES Holdings Brasil Ltda will directly control Eletropaulo with the same proportion Brasileira Participações used to have. The new structure is effective from December, 30, 2016.

On June 28 2016, Aneel granted to Eletropaulo a negative annual tariff adjustment of 1.29% composed of an economic readjustment of -3.48% and financial component of +2.19%, which will be applied as of July 4, 2016.

On May 09 2016, Moody's repositioned the national scale ratings (NSRs) of certain Brazilian infrastructure issuers, including Eletropaulo, as a result of the recalibration of the Brazilian national rating scale. This resulted in a repositioning of Eletropaulo' NSRs as follows: Issuerand Senior Unsecured ratings to A3.br from A2.br.

On February 25, 2016, Moody's downgraded Eletropaulo's issuer ratings to Ba3/A2.br from Ba2/Aa3.br on the global scale and on the National scale rating, respectively. Outlook remained negative. At the same time, the ratings on the BRL 750 million senior unsecured debentures were downgraded to Ba3/A2.br from Ba2/Aa3.br on the global scale and on the National scale rating, respectively. Outlook remained negative.

On February 24, 2016, Moody's downgraded Brazil's issuer and bond ratings to Ba2 from Baa3, with a negative outlook.

On January 06, 2016, company concluded its corporate reorganization resulting in the split of Companhia Brasileira de Energia assets (former controlling company) to Brasileira Participações S.A. the new controlling shareholder of Eletropaulo. The indirect control of AES and BNDES in Eletropaulo will keep the same given their participation in Brasileira Participações. The new structure is effective from December, 31, 2015.

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1064410