MOODY'S
INVESTORS SERVICE

CREDIT OPINION
28 March 2017

Update

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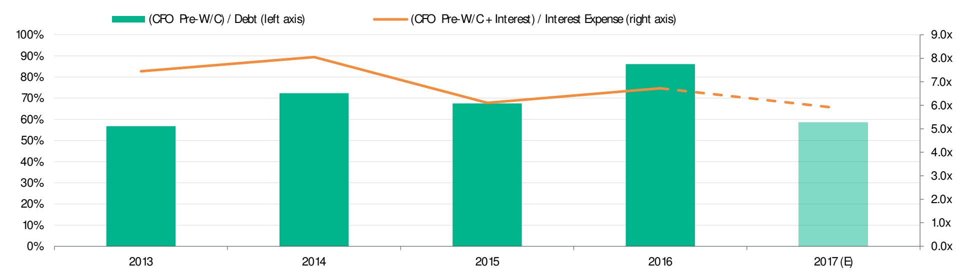
Energest S.A.

Update Following Outlook Stabilization

Summary Rating Rationale

Energest's Ba2 issuer ratings reflect the company's strong credit metrics, its expertise in operating hydro plants, and the implicit support of its parent holding company, EDP Energias do Brasil S.A. (EDB; Ba2 stable). Constraining Energest's ratings is the high concentration of sales in one single client, EDP Comercialização e Serviços de Energia Ltda (not rated), that represents around 70% of the company´s energy supply contracts. Energest's track record of high dividend payments and capital splits also constraints the rating. The rating is further constrained by Brazil's sovereign rating (Ba2, stable).

Exhibit 1
Credit Metrics Expected to Remain Strong for its Rating Category



Source: Moody's Financial Metrics™, Moody's estimates

Credit Strengths

» Relatively stable and predictable cash flows supported by medium-term supply contracts

» Adherence to the new legislation on the renegotiation of hydrological risk

» Low capital expenditure requirements

» Manageable refinancing risk

Credit Challenges

» Small scale and limited asset diversification

» High concentration in one single client (EDB's affiliate EDP Comercializadora)

» High dividend payout ratio

RATINGS

Energest S.A.

Domicile	Brazil
Long Term Rating	Ba2
Type	LT Issuer Rating - Dom Curr
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.

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Rating Outlook

The stable outlook for Energest reflects Moody's expectation that the company's credit metrics will remain well positioned for its rating category, supported by its medium-term supply contracts and low capital expenditures requirements.

Factors that Could Lead to an Upgrade

The company's ratings are currently constrained by Brazil's sovereign rating, therefore a rating upgrade would be considered if the sovereign rating is upgraded. A rating upgrade would also require a material improvement in the business environment under which Energest operates, along with sustainably strong credit metrics and adequate the liquidity profile.

Factors that Could Lead to a Downgrade

Sales volumes below our expectations or a significant mismatch on spot market exposure could prompt a downward action, as well as a rapid or significant deterioration of leverage and liquidity levels. Quantitatively, the ratings could be downgraded if the company's retained cash flow to total debt becomes negative or its interest coverage drops below 5.0x on a sustainable basis. Deterioration in the sovereign's credit quality or Moody's perception of increased risk in the business environment that Energest operates, could also prompt a downward action on the company's rating.

Key Indicators

Exhibit 2

Energest S.A.

	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
(CFO Pre-W/C + Interest) / Interest	6.7x	6.1x	8.1x	7.4x	8.7x
(CFO Pre-W/C) / Debt	86.1%	67.5%	72.4%	56.8%	57.1%
RCF / Debt	5.8%	-6.1%	29.5%	21.2%	-5.2%

[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

STRONG CREDIT METRICS

Energest has historically posted strong credit metrics characterized by low leverage and high interest coverage ratios, as evidenced by an average consolidated CFO Pre-W/C to Debt ratio of 75.8%, a RCF/Debt of 10.5% and an Interest coverage of 6.9x from 2014 through 2016 that compares favorably with other Ba rated unregulated power companies. Such strong performance reflects Energest's medium and long-term power purchase agreements (PPAs) annually adjusted by inflation, as well as its low cost structure. Energest's EBITDA margin reached 74.2% in 2016, up from 49.8% in 2015, as per Moody's standard adjustments.

During 2016, a corporate restructure of the EDB group that resulted in a capital split of Energest and the transfer of its small hydro power concessions to the parent company. Those units represented one third of Energest installed capacity and about 15% of its consolidated gross revenues. Despite this reduction, we foresee continued strong cash flow generation for Energest, which will result in lower leverage levels at 60% CFO Pre-W/C to Debt strong interest coverage ratios of about 6.0x during the same period.

MEDIUM-TERM SUPPLY CONTRACTS SUPPORT CASH FLOWS BUT CONCENTRATED IN ONE SINGLE OFFTAKER

Energest has gradually moved away from the safer regulated market, consisting of long-term energy supply contracts to the regulated distribution companies, to the unregulated market largely composed of large industrial free consumers with tenors typically between two and five years. The company currently has 20% of its contract energy in the regulated market and 71% power purchase agreements (PPAs) in the free market with average tenor of 3.7 years. All of those contracts are annually adjusted by inflation, corroborating with predictable cash flow generation. Since the expiration of certain supply contracts in early 2016, Energest strategically decided to keep around 9% of un-contracted energy, serving as a hedge to the spot market.

EDP Comercializadora represents around 70% of Energest's total volume sales. EDP Comercializadora is also a wholly owned subsidiary of EDB and it is a pure electricity trading company that plays a strategic role within the EDB group. Most of the large industrial consumers that migrated from the regulated markets served by affiliates Bandeirante and Escelsa to the free market over the past several years have signed bilateral supply contracts with EDP Comercializadora.

HYDROLOGICAL RISK ISSUE MITIGATED

The severe drought faced over the past years resulted in higher costs to hydro generators related to energy purchase on the spot market, which led several companies to fill legal injunctions against the Federal Government to prevent them from paying those costs. In order to address this issue. In December 2015 the Government published the law #13,203 which established the terms on the renegotiation of the hydrological risk on the regulated and unregulated markets. As a condition to the adherence of this law, hydro generators had to withdraw their legal injunctions against the government.

Energest has adhered to the new law on the regulated market until 2024, which allows the company to transfer part of the hydrological risk to final consumers in exchange for a premium payment that varies according to the level of protection chosen. Among those different levels, Energest has opted to the SP94 product that limits its exposure up to 6% of its physical energy on the regulated market (equivalent to 133 MW average in annual production), effectively protecting its hydrological risk in the future in cases where the system Generating Scaling Factor (GSF) falls below 94%. Energest also strategically maintains a significant portion of un-contracted energy for hedging and opportunistic sales.

Since the beginning of 2016 the hydrology conditions has started to improve combined with a reduced levels of electricity consumption because of the country's recession, which has had a favorable impact on reservoir levels. Therefore, the spot price returned to an average of BRL120 per megawatt hour (MWh) in 2016, down from BRL290 per MWh in 2015 and BRL685 per MWh in 2014. We expect that the segment's exposure to the spot market will be lower in 2017, given increased rainfall over the past 12 months in the southeastern region of Brazil (which accounts for about 60% of the country's hydropower generation) supporting spot prices around BRL200 per MWh in 2017.

LOW CAPITAL EXPENDITURES AND MAINTENANCE REQUIREMENTS ENTAIL HIGH DIVIDEND DISTRIBUTION

Energest has a track record of high dividend distribution which is supported by its resilient cash flow generation, low capital expenditure requirements and high operating margins. We expect that Energest will continue to distribute significant dividends while its cash flow generation remains robust, but we do believe that during critical periods, the company will preserve its liquidity in detriment of high dividends distribution.

The high level of dividend distribution from 2013 to 2015 was supported by the dividends received from its subsidiaries operating small hydro power plants (i.e. PCH Viçosa, PCH Sao Joao, PCH Alegre, PCH Fruteiras, PCH Jucu e Rio Bonito) and one large hydro power plant (UHE Suiça). However, in February 2016, Energest faced a capital split in which those subsidiaries were directly transferred to its ultimate shareholder, EDB, and therefore currently they are no longer consolidated in company's financial statements. Together, those divested concessions have an installed capacity of 102 MW (53 MW of physical energy) and generate about BRL39 million in gross annual revenues.

Liquidity Analysis

Energest has adequate liquidity despite a relatively low availability in cash and cash equivalent position of BRL 10 million as of December, 31 2016 vis-à-vis BRL64 million of short-term debts due through December 31, 2017. The low cash availability is compensated by its resilient cash flow generation as measured by CFO Pre-WC average of BRL95 million between 2017 to 2018.

Like other Brazilian companies, Energest does not have committed banking facilities to face any unexpected cash disbursements, however we have deemed the company's liquidity as adequate given the fact that its debt is solely concentrated in the long term and also its proven access to capital markets, intrinsically benefiting from being part of the EDB group.

Energest's BRL154 million debentures have a financial covenant of net debt to EBITDA below 2.5x embedded in its indenture, which was at 1.0x on December 31, 2016. Our forward looking view expects that Energest will maintain its conservative financial policy, rapidly addressing additional issues, as well as we do not anticipate a financial covenant breach.

Profile

Energest, a wholly owned subsidiary of EDB, is a hydro generation company with an installed capacity of 198 MW (138.5 MW of physical energy) consisting of one single hydro power plant, UHE Mascarenhas, located in the states of Espírito Santo (not rated) and Minas Geras (B1 negative). The concession was granted in July, 1995 for 30 years, expiring in July, 2025. In 2016, Energest posted consolidated net sales of BRL203 million and net profit of BRL111 million.

Rating Methodology and Scorecard Factors

The grid implied rating from Moody's 12-18 month forward view of the Unregulated Utilities and Power Companies Industry methodology is Ba1, which is one notch above Energest' current rating.

Exhibit 3

Energest S.A.

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	Current FY 12/31/2016		Moody's 12-18 Month Forward View As of 3/14/2017 [3]	
Factor 1 : Scale (10%)	Measure	Score	Measure	Score
a) Scale (USD Billion)	Caa	Caa	Caa	Caa
Factor 2 : Business Profile (40%)				
a) Market Diversification	Ba	Ba	Ba	Ba
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	Ba	Ba	Ba	Ba
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	6.9x	Baa	5.5x - 6x	Baa
b) (CFO Pre-W/C) / Debt (3 Year Avg)	75.8%	Aa	55% - 60%	A
c) RCF / Debt (3 Year Avg)	10.5%	Ba	0% - 9%	B
Rating:				
a) Indicated Rating from Grid		Baa3		Ba1
b) Actual Rating Assigned				Ba2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2016
[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
ENERGEST S.A.	
Outlook	Stable
Issuer Rating -Dom Curr	Ba2
Senior Unsecured -Dom Curr	Ba2
NSR Senior Unsecured	Aa2.br
NSR LT Issuer Rating	Aa2.br

Source: Moody's Investors Service

Recent Developments

On March 17, 2017, Moody's changed the outlook of Energest S.A to stable from negative. The stabilization of Energest's outlook follows the stabilization of Brazil's (Ba2, stable) outlook, given the high exposure and close linkages between Energest and Brazil's macroeconomic environment and credit quality. Issuer and Senior unsecured ratings affirmed at Ba2/Aa2.br.

On March 15, 2017, Moody's changed outlook on Brazil's Ba2 issuer rating to stable from negative.

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