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Rating Action: Moody's confirms the B1 global scale ratings, upgrades the national scale ratings of Light S.A and its subsidiaries to Baa1.br from Baa2.br/Baa3.br, outlook is positive

Global Credit Research - 05 May 2017

Sao Paulo, May 05, 2017 -- Moody's America Latina Ltda. ("Moody's") today confirmed the B1 global scale Corporate Family Rating (CFR) of Light S.A. ("Light" or "the company") and the B1 global scale issuer ratings of its operating subsidiaries Light Serviços de Eletricidade S.A. ("Light SESA") and Light Energia S.A ("Light Energia"). At the same time, Moody´s upgraded the national scale ratings of Light and Light SESA to Baa1.br from Baa3.br, and of Light Energia to Baa1.br from Baa2.br. The outlook is positive for all ratings.

RATINGS RATIONALE

The upgrade of the national scale ratings for Light and its wholly-owned subsidiaries Light SESA and Light Energia to Baa1.br, and the positive outlook reflects Moody's expectation that Light SESA's fourth tariff review and concession contract amendments will result in an improved liquidity profile for the company leading to a sustainable headroom under financial covenants in the coming quarters. The rating action also reflects the agency's expectation that Light's credit metrics will progressively strengthen as a result of the stronger Cash Flow from Operations before working capital change (CFO pre WC) that will result from the tariff review and improved consumption trends.

The B1/Baa1.br also reflects : (i) the positive trends that the company has shown in reducing non-technical losses as illustrated by an additional 937 GWh energy recovered in the five quarters to Q1 2017 compared to only 288 GWh in the previous five quarters; and (ii) the relatively stable cash flow profile in Light´s hydropower generation business, which in 2016 accounted for 31% of the company's consolidated EBITDA.

On the other hand the B1/Baa1.br incorporates : (i) the still high energy loss rates in the distribution segment which at 40% for low voltage non-technical losses compares poorly to rated peers; (ii) more stringent regulatory requirements of the amended distribution concession contract which will absorb a significant portion of Light's operating and capital expenditures in the coming years; (iii) the company´s relatively high leverage evidenced by a consolidated Net Debt/EBITDA ratio of 3.7x as of December 2016; and (iv) debt maturity profile relatively concentrated on the short term.

While Light's operating performance in the distribution segment (under Light SESA) weakened further in 2016, driven by a 2.3% year on year decline in energy consumption and leading to a reduction in CFO pre WC to Debt to 8.2% in 2016, from 8.9% in 2015, and in CFO pre WC interest coverage to 1.8x in 2016 compared to 1.9x in 2015, Moody's anticipates a progressive improvement in Light's credit metrics on the back of the new tariff structure and early progress in loss reduction strategy in the context of a more supportive macroeconomic environment.

Moody's regards Light's liquidity profile as modest but manageable. As of 31 December 2016 the company had a consolidated cash position of BRL 682 million (including BRL 13 million of marketable securities), and around BRL 1.9 billion of financial debt maturing in the next 12 months. While in the four months to 30 April Light was able to roll-over a significant portion of its 2017 debt maturities, the company's debt maturity profile remains relatively concentrated in the short term, with 47% of outstanding debt due in 2019.

In anticipation that Light's free cash flow generation will remain moderate in 2017 Moody's expects that the company will continue to partly rely on debt refinancing to cover its upcoming debt maturities, in line with the track record of successful debt refinancing that Light and its subsidiaries have completed over the recent years. The maintenance of debt at the level of Light's subsidiaries is subject to the company's ability to comply with a net debt/EBITDA ratio of 3.75x tested on a quarterly basis. In December 2016 the company reported a ratio of 3.72x, very close to the required covenant levels. However Moody's anticipates that the EBITDA impact of the tariff review will create a more comfortable headroom under financial covenants in the coming quarters.

WHAT COULD CHANGE THE RATING UP/DOWN

A rating upgrade could be considered should the company successfully extend the average tenor of its debt maturity profile while demonstrating its ability to meet the qualitative indicators and loss rates target requirements imposed by the new concession contract and tariff cycle. Sustained improvements in operating performance and reduction in leverage resulting in visible improvements in credit metrics such that CFO pre WC / Debt exceeds 15% and CFO pre WC Interest coverage reaches 3.0x would also exert upward rating pressure.

In light of the positive outlook a rating downgrade is unlikely in the near term. A rating stabilization could result from a weakening of the company's metrics such that CFO pre WC interest coverage remains sustainably below 2.5x and/or CFO pre-WC to Debt remains below 14% on a sustainable basis.

Headquartered in Rio de Janeiro - Brazil, Light S.A is an integrated utility company with activities in generation, distribution and commercialization of electricity. In 2016 Light SA reported BRL8.8 billion in net revenues (excluding construction revenues) and close to BRL 1.4 billion in EBITDA respectively.

Light S.A is ultimately controlled by Companhia Energetica de Minas Gerais ("CEMIG", rated B1/Baa1.br, negative), the company's major shareholder with a direct and indirect stake of 43.4% in Light S.A.

The principal methodology used in rating Light S.A., and Light Servicos De Eletricidade S.A. was Regulated Electric and Gas Utilities published in December 2013. The principal methodology used in rating Light Energia S.A was Unregulated Utilities and Unregulated Power Companies published in October 2014. Please see the Rating Methodologies page on www.moodys.com.br for a copy of this methodology.

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The date of the last Credit Rating Action for Light S.A. was 17/3/2017

The date of the last Credit Rating Action for Light Servicos De Eletricidade S.A was 17/3/2017

The date of the last Credit Rating Action for Light Energia S.A. was 17/3/2017

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Paco Debonnaire
Analyst
Infrastructure Finance Group
Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903

Brazil
JOURNALISTS: 800 891 2518
Client Service: 1 212 553 1653

Michael J. Mulvaney
MD - Project Finance
Project Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's America Latina Ltda.
Avenida Nacoes Unidas, 12.551
16th Floor, Room 1601
Sao Paulo, SP 04578-903
Brazil
JOURNALISTS: 800 891 2518
Client Service: 1 212 553 1653

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