MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades the unsecured notes ratings of Light SESA and Light Energia to Ba3 from B1, outlook is stable

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New York, September 04, 2018 -- Moody's Investors Service ("Moody's") today upgraded the senior unsecured notes ratings of Light Serviços de Eletricidade S.A. ("Light SESA") and Light Energia S.A ("Light Energia") to Ba3 from B1.

At the same time Moody's America Latina Ltda upgraded the Corporate Family Rating (CFR) of Light S.A ("Light" or "the company") to Ba3 from B1 (global scale) and to A3.br from Baa1.br (national scale) and the issuer ratings of Light's operating subsidiaries Light SESA and Light Energia to Ba3/A3.br from B1/Baa1.br.

The outlook is stable for all ratings.

RATINGS RATIONALE

The upgrade of the ratings reflects Moody's expectations that improvements in the company's operating performance illustrated by growth in EBITDA and Cash Flow from Operations before working capital change (CFO pre WC) over the recent quarters will continue going forward and lead to higher credit metrics over next 12 to 18 months. In the last twelve months ended 30 June 2018 Light reported a CFO pre WC of BRL 1.6 billion, up from BRL 1.3 billion in 2017 and BRL 0.9 billion in 2016. The improved performance resulted primarily from the impact of the March 2017 tariff review, better quality of service indicators and from the company´s own efforts to contain costs. In June 2018, Light reported average annual number of interruptions (FEC) and average duration of interruptions (DEC) per consumer of 4.73x and 7.81 hours respectively, down from 6.09x and 10.97 hours in the same period last year and significantly below regulatory target of 6.01x and 9.8 hours for the year.

The rating action also takes into consideration expectations that the company's liquidity profile will remain adequate over the next 12 to 18 months following significant refinancing transactions. Throughout the first half of 2018, the company raised the equivalent of BRL 4.9 billion in debt, in the domestic and international markets. In June 2018 Light reported a consolidated cash position of over BRL 1.9 billion which compares to BRL 2 billion of debt maturities due within the next 12 months. While high energy costs resulting from adverse hydrology conditions will continue to weigh on the company's working capital needs and free cash flow generation in the second half of this year, Moody's anticipates that Light's annual funding needs will remain within a range of BRL 1.2 -- 1.4 billion in 2019 and 2020, which is broadly in line with company's recent funding transactions in the domestic market.

In Q2 2018 total energy loss rates rose to 22.98%, from 21.75% in Q2 2017, a level still above the regulatory level of 20.62% and the operating margin impact has been exacerbated by high energy costs. While the company remains focused to reduce its energy losses, Moody's considers that material improvements over the next 18 months will be challenging given the weak economic conditions and high unemployment rates within Light's concession area.

Light's Ba3 ratings also recognize (i) the supportive regulatory framework for Brazil electricity distribution companies that consistently compensates operators for high energy costs through tariffs increases based on a transparent methodology, and (ii) the relatively stable cash flow profile of Light´s hydropower generation business (16% of Light´s consolidated EBITDA in 2017). Despite adverse hydrology conditions, the hydropower generation business has contributed positively to Light's cash flow generation by mitigating the higher energy cost through its commercialization strategy.

On the other hand Light's ratings are constrained by : (i) the high non-technical energy loss rates in the distribution segment and little prospects for improvements in the next 12 to 18 months despite the company's efforts; (ii) weak economic conditions and high unemployment rates in Light's concession area, which will continue to challenge consumption levels, bad debt and cash flow conversion; and (iii) expectations that the settlement of suspended costs associated with the company's exposure to the spot market -- which amounted to BRL 464 million as of June 2018 -will weight negatively on free cash flow generation in 2018.

The stable outlook reflects expectations that continuing improvements in operating performance together with a gradual reduction in debt outstanding will lead Light's CFO pre WC to Debt and CFO pre WC interest coverage ratios to remain consistently above 15% and 3.0x respectively over the next 12 to 18 months.

WHAT COULD CHANGE THE RATING UP/DOWN

A rating upgrade could be considered should the company demonstrate sustained improvements in operating performance and reduce its leverage position such that CFO pre WC / Debt exceeds 18% and CFO pre WC Interest coverage reaches 3.5x on a sustainable basis. A rating upgrade would also require a comfortable liquidity profile.

A rating downgrade could result from Light's failure to improve its operating performance and cash flow generation or to reduce its debt outstanding, such that CFO pre WC to Debt falls below 15% and CFO pre WC interest coverage remains sustainably below 3.0x. Perception of a weakening liquidity profile could also exert negative pressures on the ratings.

Headquartered in Rio de Janeiro - Brazil, Light S.A is an integrated utility company with activities in generation, distribution and commercialization of electricity. In the last twelve months ended June 2018 Light S.A reported BRL11.5 billion in net revenues (excluding construction revenues) and BRL 2.2 billion in EBITDA respectively.

Light S.A is ultimately controlled by Companhia Energetica de Minas Gerais ("CEMIG", rated B3/B2.br, stable), the company's major shareholder with a direct and indirect stake of 48.9% in Light S.A.

The principal methodology used in rating Light Energia S.A was Unregulated Utilities and Unregulated Power Companies published in May 2017. The principal methodology used in rating Light Servicos De Eletricidade S.A. was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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