

## Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Subordinate -Dom Curr	Ba1
NSR BACKED Subordinate -Dom Curr	Aa2.br
<b>Ult Parent: Energias de Portugal, S.A</b>	
Outlook	Stable
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2
<b>Parent: EDP - Energias do Brasil S.A</b>	
Outlook	Stable
Issuer Rating -Dom Curr	Ba1
NSR LT Issuer Rating -Dom Curr	Aa2.br

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## Key Indicators

### [1]Investco S.A

ACTUALS	1Q10 LTM	2009	2008	2007
EBITA / Interest Expense	5.7x	5.6x	4.2x	2.9x
EBITA / Average Assets	10.8%	10.8%	11.1%	9.6%
FFO / Debt	52.8%	50.5%	38.4%	26.5%
RCF / Net Debt	48.1%	42.4%	35.6%	22.7%
Debt / EBITDA	1.4x	1.4x	1.6x	2.4x
EBITA Margin %	71.9%	72.4%	70.0%	67.8%

[1] All ratios calculated in accordance with the Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

## Opinion

### Rating Drivers

Stable cash flow stream with limited operating risk

Credit strength of the guarantor, EDP- Energias de Portugal

The guarantee's contractual provisions do not ensure timely payment

Debt subordination

### Corporate Profile

Investco S.A. (Investco) is a special-purpose company that was formed to construct and operate the 902.5 MW hydroelectric power plant of Luis Eduardo Magalhaes (UHE Lajeado), located in Brazil's mid-western state of Tocantins. Fully operational since late 2002, the UHE Lajeado plant is leased to subsidiaries of economic groups with substantial electricity distribution activities in Brazil, namely Energias do Brasil (EDB), Companhia Energética de Brasília - CEB and CPFL Energia S.A. All these groups participate in Investco's ownership structure. Accordingly,

Investco's primary sources of revenues and cash flow are the lease payments received from its shareholders, which are tailored to cover the company's operating expenses and debt service.

## RECENT EVENTS

In October 26, 2009, Moody's stated through an issuer comment that there was no impact on Investco's ratings as a result of the withdrawal of the joint and several guarantee previously provided by Empresa de Eletricidade Vale do Paranapanema (EEVP, unrated). The proposed change to eliminate the guarantee provided by EEVP and maintain EDP as the sole guarantor was approved by bondholders in a debenture holder's meeting held on October 29, 2009.

In September, 2008, EDB and Rede Energia S.A concluded an asset exchange agreement, which was signed in June 2008. The terms of this agreement consisted of an asset swap in which EDB received Rede's 53.7% equity share in Rede Lajeado and 2.2% in Investco while Rede received EDB's controlling stake in Enersul. Lajeado Energia holds 73.0% of Investco's voting capital and 62.43% of its total capital.

## SUMMARY RATING RATIONALE

The Ba1 Global Local Currency rating for Investco's 2011 subordinated debentures reflects the ultimate payment risk of EDP Portugal (A3; Stable) as the unconditional guarantor but also incorporates the fact that the indenture that documents the guarantee does not have sufficient provisions to ensure timely payment in a default situation. Moody's notes, however, that the documents provide adequate assurance of the validity and binding nature of the continuing guarantee.

The probability of needing to rely on the EDP Portugal guarantee has decreased over time, as the credit quality of the domestic shareholders/offtakers has improved. The creditworthiness of Investco's shareholders may become more important to the rationale for the global or national scale rating in the future. EDP- Energias do Brasil now directly and indirectly holds 73% of Investco's voting capital and approximately 34.9% of its total capital.

The Aa2.br national scale rating assigned to Investco's debentures reflects the standing of the company's credit quality relative to its domestic peers. Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs in Brazil are designated by the ".br" suffix. Issuers or issues rated Aa2.br demonstrate very strong creditworthiness relative to other domestic issuers. NSRs differ from global scale ratings in that they are not globally comparable to the full universe of Moody's rated entities, but only with other rated entities within the same country.

## DETAILED RATING CONSIDERATIONS

### LIMITED OPERATING RISK

The Lajeado plant operates under a long-term concession expiring in 2032. Investco's shareholders are entitled to 526,6MW (approximately 4,613 GWh) of the UHE Lajeado power generation contracted under a long-term lease/power purchase agreement (PPA). In 2009, total generation was 96.9% of the assured energy. Given the good water flow at the Tocantins River throughout the year, plant availability was above the minimum required by the concession agreement of 89.6%. The operating risk of UHE Lajeado is further mitigated since it is part of the national energy grid - SIN that benefits from the energy reallocation mechanism - MRE for hydrologic risk sharing.

### STABLE CASH FLOW STREAM

Investco owns UHE Lajeado's assets and proportionally leases the assured power to its shareholders/lessees. The monthly lease payments are set to cover 1.8 times the issuer's projected operating and financial expenses. Investco's ability to meet its obligations directly depends on the lease payments from its shareholders. The lease contracts provide that in the event of a lessee's default on regular lease payments to Investco, or the bankruptcy of a lessee, such lessee loses its rights to the energy and its share in the concession which triggers an obligation of the remaining shareholders to cover the defaulted amount. Such an event is unlikely since the PPA is attractively priced.

### CREDIT STRENGTH OF THE GUARANTOR

EDP Portugal (A3; Stable) is a vertically integrated utility company with a well-established position in its core market in Portugal along with significant operations in Spain, Brazil and the United States. It is the largest generator, distributor and supplier of electricity in Portugal and the third largest electricity generation company in the wider Iberian market. EDP Portugal controls the Spanish electricity company, HC Energia and also operates in the gas sector in the Iberian Peninsula. Its subsidiary, EDP Renováveis (EDPR), holds its renewables businesses, a key growth area for the company, with a particular focus in Iberia and the US, following its 2007 acquisition of the US wind farm operator Horizon Wind Energy LLC (Horizon). EDP Portugal has interests in the Brazilian electricity market, through its 64.8% holding of EDP - Energias do Brasil (EDB, Ba1, Stable). EDP Portugal reported consolidated revenues of approximately EUR 12.2 billion in 2009.

### RELATIVELY WEAK CONTRACTUAL PROVISIONS

The indenture that documents the EDP Portugal guarantee does not have sufficient provisions to ensure a timely payment in the event of a payment default by Investco, although documentation provides adequate assurance of the validity and binding nature of the guarantee. A late payment could result in a default event, even if such payment is subsequently made in full. The Ba1 rating reflects the low probability of loss associated with an expected payment by an A3 rated guarantor.

### Structural Considerations

In the event of a default, the repayment of the rated debentures with proceeds from the PPAs would be subordinated to the repayment of loans granted by Banco Nacional de Desenvolvimento Econômico e Social - BNDES and Banco da Amazônia S.A. - BASA, of approximately BRL141 million as of March 31, 2010 which is equal to 67% of Investco's total debt. The ratings for the debentures also incorporate the lack of access of the note holders to the operational assets of UHE Lajeado or to the underlying rights of Investco's shareholders in the concession, in the event of a default.

### Rating Outlook

The stable outlook reflects the reliance of the rating on the guarantee provided by EDP Portugal, which currently has an A3 rating (senior

unsecured) with a stable outlook and the implicit support of its major shareholder EDP - Energias do Brasil (EDB, Ba1 Issuer Rating, Stable).

#### **What Could Change the Rating - Up**

Given the reliance of the rating on the EDP guarantee, which does not have sufficient provisions to ensure timely payment in the event of a payment default, the ratings are unlikely to change unless the credit quality of the domestic shareholders improve. Thus, an upgrade of the rating could result from a higher rating at EDB. The lease payments made by Investco's shareholders to cover operating costs and debt service do not provide much margin for improving the existing credit metrics. Consequently, a positive impact on the rating or outlook from strengthened credit metrics is unlikely.

#### **What Could Change the Rating - Down**

The ratings could come under downward pressure if credit quality deteriorates at EDP, since it is the primary repayment source of the debentures. However, given the significant gap between the Ba1 global local currency rating of the debentures and the guarantor's A3 senior unsecured rating, a downgrade of the debentures due to deterioration in EDP's credit fundamentals is unlikely to occur in the foreseeable future.



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