

Rating Action: Rede Energia S.A.

Moody's downgrades Rede's perpetual bonds to Ca

Approximately USD 575 million of debt securities affected

Sao Paulo, July 01, 2009 -- Moody's Investors Service downgraded to Ca from Caa3 the senior unsecured USD 575 million perpetual bonds issued by Rede Energia S.A. ("Rede"). At the same time, Moody's confirmed Rede's Caa1 local currency corporate family rating and assigned a negative outlook. In addition, Moody's confirmed the issuer ratings for Rede's operating companies, and changed the outlook to negative. This concludes the review for downgrade initiated on April 23 2009.

The downgrade of Rede's perpetual bonds was prompted by the conclusion of the tender offer for the existing USD 575 million perpetual bonds initiated this June, which is deemed as a distressed exchange and thus classified as a default under Moody's standard definition. According to management, USD 78.4 million or approximately 14% of the outstanding amount has been tendered.

This tender offer is being treated as a distressed exchange since it imposed a large economic loss versus the price at which the bonds were issued in 2007. It is also important to note that, historically, most exchange offers made by corporate issuers rated Caa1 and below have been determined to be distressed exchanges by Moody's. In Rede's case, the relatively small size of the tender offer is expected to be followed by additional debt restructuring so that Rede can attain a more manageable debt level that can be adequately served by expected upstream dividends from its subsidiaries. For more details on distressed exchanges, see Moody's Approach to Evaluating Distressed Exchanges, March 2009, available on www.moody.com.

The negative outlook reflects the uncertainties regarding the company's ability to accomplish a more adequate level of debt compatible with its cash generation capabilities along with an appropriate lengthening of its debt profile. Moody's recognizes that the balance remaining from the one-year BRL 320 million promissory notes utilized in the tender offer will reduce immediate liquidity pressure as the bulk of these financial resources of around BRL 240 million will most likely be used to pay down more expensive existing short-term debt. However, the impact of the recent tender offer on the overall level of indebtedness is very limited.

Management has signaled that the BRL 320 million promissory notes will be taken out by the issuance of long-term debt. The sale of some generation assets is being considered to reduce the overall debt burden but the amount that could be raised is not clear. These measures could potentially pave the way for an improved capital structure depending upon the amount and the timeliness of new financial resources stemming either from a sale of assets or a new equity investor. While the extension of debt maturities may temporarily relieve liquidity pressure, those measures do not address the holding company's current unsustainable level of debt.

Going forward, Moody's will review any new capital structure in conjunction with other risk factors with a particular focus on measures to reduce the level of debt mainly at the holding company level and evaluate the effectiveness of management's current business and financial strategy to accomplish stronger cash generation at the level of its subsidiaries.

Ratings with negative outlook include:

Caa1 / Caa1.br Corporate Family Ratings for Rede Energia S.A. (Rede)

Ca Senior Unsecured rating for Rede's USD 575 million perpetual bonds

B3 / B1.br Issuer Ratings for Centrais Elébricas do Para S.A. (CELPA)

B3 / B1.br Issuer Ratings for Centrais Elébricas Mato-grossenses S.A. (CEMAT)

B3 / B1.br Issuer Ratings for Comp. de Ener. Eletr. do Est. do Tocantins (CELTINS)

The last rating action for Rede was on June 03, 2009, when Moody's announced that it would continue its review for downgrade of its ratings for Rede Energia S.A. (Rede) and Rede's operating subsidiaries following

the company's BRL 300 million repurchase offer to holders of Rede's USD 575 million in unsecured perpetual bonds.

The principal methodology used in rating Rede was Global Regulated Electric Utilities Rating Methodology (March 2005), which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Rede Energia S.A. (Rede), headquartered in São Paulo, Brazil, is a holding company with interests in electricity distribution and generation. Through majority-owned subsidiaries Companhia de Energia Elétrica do Estado do Tocantins - Celtins (Celtins), Centrais Elétricas Matogrossenses S.A. - Cemat (Cemat), Centrais Elétricas do Pará S.A. - Celpa (Celpa) and Empresa Energ. do Mato Grosso Sul - Enersul (Enersul), the group operates concessions to distribute electricity in the states of Tocantins, Mato Grosso, Pará and Mato Grosso do Sul, respectively. In addition, Rede operates small power distribution concessions in a number of municipalities in the states of São Paulo, Minas Gerais and Paraná. Overall, the group serves approximately 4.2 million clients. In 2008, Rede reported consolidated net revenues of BRL 4.0 billion (USD 2.2 billion) and distributed 16TWh of electricity, which is equivalent to approximately 4.5% of the electricity consumed in the country's national integrated system during this period.

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