

Rating Action: Moody's upgrades Rede's bond rating to Caa3; Outlook remains negative

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Approximately USD 497 million of debt instruments affected

Sao Paulo, July 23, 2010 -- Moody's upgraded Rede Energia S.A.'s (Rede) USD 497 million perpetual bonds to Caa3 from Ca at the same time that it affirmed Rede's corporate family rating at Caa1. Moody's also affirmed the B3 issuer ratings on Rede's operating subsidiaries and maintained the negative outlook for all ratings within the Rede group.

The rating upgrade to Caa3 from Ca on the perpetual bonds follows the recent announcement by Rede's management that Empresa de Energia Vale do Paranapanema (EEVP), a major shareholder, will capitalize Rede by BRL 600 million expected to occur within the next two months. This partial recapitalization follows the successful issuance of 5-year BRL 370 million debentures in December whose proceeds were used to refinance the BRL 320 million of short-term borrowed in mid-2009 to support the company's tender offer for its USD 575 million perpetual bonds and the redemption of more expensive short-term debt which provide some additional financial flexibility.

FI-FGTS, an investment fund managed by the Brazilian Federal Bank Caixa Econômica Federal (Caixa), signed an agreement to acquire around 35% of EEVP's total capital for BRL 600 million. These resources will not be used to reduce Rede's debt but will rather be transferred to two of Rede's major operating subsidiaries, Centrais Elétricas do Para S.A. (Celpa) and Empresa Energetica do Mato Grosso do Sul (Enersul).

CELPA is expected to receive around BRL 530 million to help the company meet its aggressive capital expenditures program estimated to cost over BRL 1 billion over the next few years. The goals of the investment program are to reduce energy losses from the current 29% to around 24%, meet the regulator's parameters for service quality, and also to expand the distribution infrastructure in the face of growing demand in the state of Para. The remaining BRL 70 million will be used to capitalize Enersul.

While the BRL 600 million capitalization will not have an immediate impact on Rede's liquidity position, Moody's believes this move could be an important step toward Rede's financial turnaround insofar as it provides its operating subsidiaries with a better debt profile and stronger capital structure. Should Rede's management successfully streamline CELPA's cost structure and increase productivity as planned, CELPA will undoubtedly post higher cash generation and, as result, resume the distribution of dividends in the medium-term horizon.

The negative outlook derives from Moody's view that up-streamed dividends from the operating subsidiaries will not suffice for Rede to completely fulfill its debt service obligations, which will lead to further refinancing and eventually more debt at the holding company level.

Most of Rede's operating subsidiaries face cash flow constraints either because of sizeable debt or high capital expenditures, which prevents these companies from increasing the distribution of dividends to a level more compatible with the cash needs of their holding company parent. As stated in previous reports, Moody's deems the level of debt at the holding company unsustainable and believes that some kind of additional equity arrangement will be necessary in the short-term. Management appears to be aware of this. Moody's will review any new corporate structure stemming from management's possible revised financial strategy and will evaluate its impact on the company's financial condition.

Ratings with negative outlook include:

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

Caa3 Senior Unsecured rating for Rede's USD 497 million perpetual bonds

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

B3 / B1.br Issuer Ratings for Centrais Elétricas 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 July 1, 2009 when Moody's downgraded to Ca from Caa3 the senior unsecured USD 575 million perpetual bonds. 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 their outlooks to negative as well.

The principal methodology used in rating Rede was the Regulated Electric and Gas Utilities Rating Methodology (August 2009), which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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 Eletrica do Estado do Tocantins - Celtins (Celtins), Centrais Elétricas Matogrossenses S.A. - Cemat (Cemat), Centrais Elétricas do Para 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, Para 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 the last twelve months ended March 31, 2010, Rede reported consolidated net revenues of BRL 5.2 billion (USD 2.8 billion) and distributed 18.4 TWh of electricity, which is equivalent to approximately 4.6% of the electricity consumed in the country's national integrated system during this period.

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