

**Rating Action: Moody's assigns Aa1.br rating to TAESA Debentures; outlook changed to stable**

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**BRL600 million of debt instruments affected**

Sao Paulo, June 11, 2010 -- Moody's America Latina Ltda. (Moody's) assigned a Baa3 global scale rating and Aa1.br rating on the Brazilian national scale to the 5-year BRL 600 million senior amortizing unsecured debentures to be issued by Transmissora Aliança de Energia Elétrica S.A. (TAESA). At the same time, Moody's affirmed TAESA's Baa3 global scale issuer rating and Aa1.br rating on the Brazilian national scale. The rating outlook is changed to stable from negative.

Proceeds of the BRL 600 million debentures will be used to pay off the existing BRL 550 million promissory notes due this October. This will result in a much better debt profile and a significant improvement of TAESA's liquidity position, which is the primary rationale for changing the outlook to stable from negative.

The Baa3 issuer rating reflects TAESA's strong consolidated credit metrics for the rating category, which are supported by the stable and predictable cash flows that result from its operating subsidiaries' long-term concession contracts for the transmission of electricity. The rating also considers the evolving regulatory framework for transmission companies in Brazil, which is supportive and well developed but also relatively new and not fully tested. The lack of good visibility on the capital expansion program constrains the rating. Specifically, a more ambitious program could be implemented by its new shareholders which might negatively impact leverage and liquidity. The rating already considers the current structural subordination of debt at the holding company level to approximately BRL1.0 billion debt currently outstanding at the level of its operating subsidiaries.

The Aa1.br national scale rating reflects the standing of credit quality relative to domestic peers. Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issuances and issuers within a country, enabling market participants to better differentiate relative risks. NSRs in Brazil are designated by the ".br" suffix. 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.

Moody's views the regulatory framework for transmission companies in Brazil as well developed and highly supportive but the track record is limited and some procedures are still untested, such as the indemnification of non-depreciated assets upon the non-renewal or termination of an existing concession. The secure and stable nature of the transmission segment stems from the Permitted Annual Revenues (RAP), which are based on fixed capacity payments throughout the concession period that have provisions for automatic annual adjustments for inflation. Moody's notes, however, that the regulation for the transmission segment is evolving towards an incentive-based model, similar to the regulation currently in place for distribution companies. TAESA operates eight transmission networks under long-term concessions expiring between 2030 and 2038. The company largely benefits from a portfolio consisting of concessions primarily granted prior to 2006 whose tariffs are not subject to periodic reviews. On the other hand, the RAP for these concessions is scheduled to step down 50% starting in 2016.

TAESA has strong credit metrics for the rating category in light of the very attractive features of most of the concessions contracts of its operating subsidiaries. Leverage as measured by the Net Debt to Regulatory Asset Value (RAV) ratio averaged 54.2% from 2007 through 2009, while the interest coverage ratio (ICR) was 2.6x, and Funds From Operations (FFO) to Net Debt was 27% in the same period. These ratios are partly tempered by low Retained Cash Flow (RCF) to capital expenditures ratio of just 0.37% which results from several business acquisitions completed during the last three years, including the BRL 562 million acquisition for ETEO in 2008, as well as the relatively high dividend payout ratio registered during this period.

Cash generation has been further boosted by fiscal incentives for some of its operating subsidiaries which operate in the north and northeastern region of the country. This results in lower income tax and social contribution rates estimated to be around 21% over the next four years returning thereafter to the regular 34% rate. TAESA is also expected to benefit from around BRL 420 million of fiscal gains, which stems from around BRL 1.2 billion of goodwill derived from the incorporation of Transmissora do Atlantico de Energia Eletrica S.A by TAESA.

Under normal circumstances, Moody's would expect to see gradual and consistent improvement in TAESA's capital structure given its very stable and predictable cash flow, a high dividend pay-out ratio of over 80% and capital expenditures restricted to maintenance capital expenditures only. Moody's believes that the lack of clarity with regard to expansion capital expenditures, new concessions or possible acquisitions represent potential changes to the above-outlined scenario. The stable outlook, however, envisages that TAESA will prudently manage its capital structure in a way that finances capital expenditures dividends in a manner that keeps the company's credit metrics compatible with the Baa3 rating category. Also incorporated into this view is our expectation that TAESA will maintain an adequate debt maturity profile and a solid liquidity position.

While the company's stable rating outlook factors in continued execution of its business plan, the potential merger of TAESA with its operating companies, as recently approved by the Brazilian electricity regulator ANEEL, coupled with a clear understanding of the company's strategic objectives, including its capital investment plans, could lead to a positive rating action.

Following the guidelines of the Brazilian securities exchange (CVM), TAESA is expected to publish its 2010 full-year financial statements in accordance with the accounting procedures of the international financial reporting system (IFRS). Of the new accounting procedures to be adopted to conform to IFRS general guidelines, Moody's understands that the recognition of revenues based on the concept of revenue equalization will have the most impact on the company's financial statements. Apart from the impact of other accounting procedures to be implemented, Moody's forecasts a reduction of revenues from 2010 through 2018 because of this change, which will result in lower net profit and dividends. However, Moody's expects internal cash generation to remain relatively unchanged during this period as the company keeps collecting all accounts receivables regardless of the accounting procedure. It is still unclear whether an adjustment in the previously reported financial statements will be required. Such an adjustment would most likely be accounted as a reduction in net worth which obviously would have a negative impact on the company's capitalization ratio.

The last rating action for TAESA was on November 04, 2009, when Moody's assigned a BR-1 rating to 360-day BRL 550 million promissory

notes. At the same time, Moody's assigned a Baa3 global scale issuer rating and Aa1.br issuer rating on the Brazilian national scale to TAESA. The outlook for all ratings was negative.

The principal methodology used in rating TAESA was Regulated Electric and Gas Networks Rating Methodology (August 2009), which can be found at [www.moody's.com](http://www.moody's.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.

TAESA is a holding company that operates 3,712 km high voltage transmission lines through five subsidiaries: Transmissora Sudeste Nordeste - TSN, Novatrans Energia, Empresa de Transmissão Alto Uruguai - ETAU, Empresa de Transmissão de Energia do Oeste -- ETEO and Brasnorte. These operating companies operate through long-term concessions granted and regulated by ANEEL. In the last twelve months ended March 31, 2010, TAESA posted consolidated net sales of BRL720 million (USD383 million) and net profit of BRL295 million (USD157 million) as reported at CVM.

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