

Credit Opinion: Investco S.A.

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Brazil

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Subordinate -Dom Curr	Ba1
NSR BACKED Subordinate -Dom Curr	Aa2.br

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Key Indicators

Investco S.A.

ACTUALS	2Q08 LTM	2007	2006	2005
EBITA / Interest Expense	2.1x	2.9x	1.8x	1.6x
EBITA / Average Assets	10.0%	9.7%	9.2%	8.7%
FFO / Debt	42.7%	37.0%	29.5%	10.7%
RCF / Net Debt	44.8%	36.4%	29.8%	10.8%
Debt / EBITDA	2.2x	2.4x	3.0x	4.2x
EBITA Margin %	68.1%	67.9%	69.2%	65.9%

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

Opinion

Company 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 Magalhães (UHE Lajeado), located in Brazil's mid-western state of Tocantins. Fully operational since late 2002, the UHE Lajeado plant is leased to Investco's shareholders, which are subsidiaries of economic groups with substantial electricity distribution activities in Brazil, namely EDP - Energias de Portugal S/A ("EDP Portugal"), Rede Empresas de Energia Elétrica S.A ("Rede"), Companhia Energética de Brasília - CEB and CPFL Energia. 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 June 2007, CMS Energy sold its 7% participation in INVESTCO's voting capital to CPFL Energia.

On September 11, 2008, EDP Energias do Brasil ("EDB"; Ba2 Corporate Family Rating; Under review for possible upgrade) and Rede Empresas de Energia Elétrica S.A (B2 Corporate Family Rating; Stable outlook) concluded an asset exchange agreement, which was signed in June 2008. The terms of this agreement consisted of an asset swap in which EDP-Energias do Brasil received Rede's 53.7% equity share in Rede Lajeado and 2.2% in INVESTCO, while Rede received EDB's controlling stake in Enersul (Ba2 Issuer Rating; Under review for possible downgrade) Rede Lajeado holds 45.4% of INVESTCO's voting capital and 38.9% of its total capital.

Rating Rationale

The Ba1 Global Local Currency rating for INVESTCO's 2011 debentures reflects the ultimate payment risk of EDP Portugal (A2 senior unsecured; Negative outlook) as the unconditional guarantor but also incorporate the fact that the indenture that documents the guarantee does not have sufficient provisions to ensure timely payment in a default event. Moody's notes however, that the documents provide adequate assurance of the validity and binding nature of the guarantee.

The probability of needing to rely on the guarantee has decreased over time, as the credit quality of the domestic shareholders 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 75% of INVESTCO's voting capital and approximately 37% 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.

LIMITED OPERATING RISK

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 2007, total generation was only 80% of the assured energy due to the scarce water flow at the Tocantins River, yet the plant availability has been above the minimum required by the concession agreement. The limited operational risk is based on the fact that UHE Lajeado is part of the national energy grid - SIN that benefits from the energy reallocation mechanism - MRE.

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 and the other shareholders are obligated to cover such default. Such an event is unlikely since the PPA is priced attractively at an estimated BRL 50 per MWh.

CREDIT STRENGTH OF THE GUARANTOR

EDP Portugal is a vertically integrated utility company with a well-established position in its core market in Portugal and 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, Hidroantabrico (96.86% stake) and also operates in the gas sector in the Iberian Peninsula, through Naturgas Energía Grupo, S.A. in Spain and Portgás S.A. in Portugal. EDP Portugal entered the U.S market in July 2007, and the company is currently the world's fourth largest generator of renewable energy. In December 2007, EDP Renováveis was incorporated to hold and operate EDP's European and North American renewable energy assets and activities through NEO - Nuevas Energías de Occidente S.A. and Horizon Wind Energy LLC respectively. In June 2008, EDP decreased its stake in EDP Renováveis to 77.5% through an IPO. EDP Portugal has interests in the Brazilian electricity market, through its 62.36% holding of EDP - Energias do Brasil (Ba2 Corporate Family Rating, Under review for possible upgrade). EDP Portugal reported consolidated revenues of approximately EUR 12.1 billion in the last twelve months ending June 30, 2008.

RELATIVELY WEAK CONTRACTUAL PROVISIONS

The indenture that documents the guarantee does not have sufficient provisions to ensure 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. 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 expected payment by an A2 rated guarantor.

DEBT SUBORDINATION

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 BRL 248 million as of June 30, 2008 and equal to 62% of INVESTCO total debt. The ratings for the debentures 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 A2 rating (senior unsecured) with a negative outlook and the implicit support of its major shareholder EDP - Energias do Brasil (Ba2 Corporate Family Rating; Under review for possible upgrade).

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 domestic shareholders improves. Thus, an upgrade of the rating could result from a higher rating at EDB, but would likely require a multi-notch upgrade of EDB's current Ba2 rating. The lease payments made by INVESTCO's shareholders to cover operating costs and debt service do not provide much margin for improving existing credit metrics, and therefore 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 ultimate repayment source of the debentures. However, given the significant gap between the Ba1 global local currency rating of the debentures and the guarantor's A2 senior unsecured rating, a downgrade of the debentures due to deterioration in EDP - Energias de Portugal credit fundamentals is unlikely to occur in the foreseeable future.

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