

Brazil

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Subordinate -Dom Curr	Ba1
NSR BACKED Subordinate -Dom Curr	Aa2.br
Ult Parent: Energias de Portugal, S.A	
Outlook	Rating(s) Under Review
Issuer Rating	*Baa1
Bkd Sr Unsec MTN -Dom Curr	*(P)Baa1
Commercial Paper -Dom Curr	*P-2
Parent: EDP - Energias do Brasil S.A	
Outlook	Stable
Issuer Rating -Dom Curr	Ba1
NSR LT Issuer Rating -Dom Curr	Aa2.br

* Placed under review for possible downgrade on April 6, 2011

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Key Indicators

[1]Investco S.A

ACTUALS	2010	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	6.5x	4.7x	4.2x	3.3x
(CFO Pre-W/C) / Debt	51.7%	43.2%	38.4%	26.5%
(CFO Pre-W/C - Dividends) / Debt	38.0%	35.4%	34.7%	22.5%
FCF / Debt	36.6%	27.3%	28.8%	20.2%

[1] All ratios calculated in accordance with the Global Unregulated Utilities and Power Companies Methodology using 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

Corporate guarantee from 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 Magalhães (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 de Portugal, S.A (EDP Portugal), Companhia Energética de Brasília - CEB and CPFL Energia S.A. All these groups participate in Investco's ownership structure. Rede left the ownership structure in September 2008. 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

On April 6, 2011 Moody's placed the Baa1/P-2 senior unsecured ratings of Energias de Portugal SA (EDP), Investco's main sponsor, under review for possible downgrade.

On March 17, 2011 Moody's downgraded the senior unsecured ratings of Energias de Portugal SA (EDP) to Baa1 from A3 (on review for downgrade). The outlook was changed to stable.

In June 2009, the UHE Lajeado lease contract was amended aiming to assure Investco enough revenues to cover its financial and operational expenses. The new conditions and clauses of the contract resulted in an implied remuneration of 8.83% over 99% net fixed assets adjusted by the Brazilian Consumer Price Index (IPCA) plus 99% depreciation expenses.

SUMMARY RATING RATIONALE

The Ba1 Global Local Currency rating for Investco's 2011 subordinated debentures reflects the ultimate payment risk of EDP Portugal (Baa1; on review for downgrade 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 39.4% 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 2010, total generation was 98.09% of the assured energy. Given the good water flow at the Tocantins River throughout the year, plant availability was 95%, which is 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.

CORPORATE GUARANTEE FROM SPONSOR

EDP Portugal (Baa1; on review for downgrade) 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 14.2 billion in 2010.

Despite the recent downgrade and current review for possible downgrade, Moody's believes that EDP Portugal will continue to support the activities of Investco by preserving the current strong capital structure of this Brazilian subsidiary; however, Moody's will continue to monitor the evolution of the creditworthiness of EDP Portugal and the potential impact that any further rating deterioration could have on the financial strength of EDB.

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 Baa1 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 BRL99 million as of December 31, 2010 which is equal to 44% of Investco's total debt. The rating for the debentures also incorporates 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 a Baa1 senior unsecured rating but is under review for a possible downgrade, 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 still significant gap between the Ba1 global local currency rating of the debentures and the guarantor's Baa1 senior unsecured rating, a downgrade of the debentures due to a material deterioration in EDP's credit fundamentals is unlikely to occur in the foreseeable future.

Rating Factors

Investco S.A

Global Unregulated Utilities and Power Companies published in August 2009	Current 12/31/2010		Moody's 12 - 18 month Forward View	
Factor 1: Market Assessment, Scale and Competitive Position (20%)	Measure	Score	[1]Measure	Score
a) Market and Competitive Position (15%)		Baa		Baa
b) Geographic Diversity (5%)		Ba		Ba
Factor 2: Ability to Recover Costs and Earn Returns (25%)				
a) Effectiveness of hedging strategy (10%)		A		A
b) Fuel Strategy and mix (5%)		B		B
c) Capital requirements and operating performance (5%)		Ba		Ba
Factor 3: Financial policy (10%)		Ba		Ba
Factor 4: Financial Strength - Key Financial Metrics (50%) [2]				
a) CFO pre-WC + Interest / Interest (15%) (3yr Avg)	4.9x	Baa	5.2x - 6.3x	A
b) CFO pre-WC / Debt (20%) (3yr Avg)	43.7%	A	59.3% - 83.4%	Aa
c) RCF / Debt (7.5%) (3yr Avg)	35.8%	A	50.4% - 72.2%	Aa
d) FCF / Debt (7.5%) (3yr Avg)	30.3%	A	43.9% - 60.6%	Aa
Rating:				
a) Methodology Implied Issuer Rating		Baa2		Baa1
b) Actual Issuer Rating				Ba1

[1] 12 - 18 month Moody's forecast [2] 3-year historical average



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