Eletropaulo Metropolitana Eletricidade de São Paulo S.A.

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Foreign Currency IDR	BB	Stable	Affirmed Sept. 22, 2017
Long-Term Local Currency IDR	BB	Stable	Affirmed Sept. 22, 2017
National Long-Term Rating	AA–(bra)	Stable	Affirmed Sept. 22, 2017

Click here for full list of ratings

Financial Summary

(BRL 000)	Dec 2015	Dec 2016	Dec 2017F	Dec 2018F
Net Revenue	13,056,682	10,857,387	10,901,845	11,181,045
Operating EBITDA (Before Income From Associates)	963,554	734,288	993,784	1,090,132
Free Cash Flow	-934,575	814,888	-452,969	-541,477
Total Adjusted Net Debt/Operating EBITDA (x)	3.2	3.1	2.7	3.0
Total Adjusted Debt/Operating EBITDA (x)	3.8	4.5	3.5	3.5

Source: Fitch.

Eletropaulo Metropolitana Eletricidade de São Paulo S.A.'s (Electropaulo) ratings reflect a sound financial profile, underpinned by moderate leverage, a manageable liquidity position and a lengthened debt maturity profile. The company benefits from its business risk profile in view of the exclusive rights to distribute electricity within the concession area in the metropolitan region of greater São Paulo, Brazil.

After a two-year reduction in energy demand in Eletropaulo's concession area, resulting in a cumulative decline of approximately 8%, Fitch Ratings expects consumption to resume in 2017, along with some cost savings, which will positively affect operational cash flow generation.

Key Rating Drivers

Moderate Leverage to Remain: Fitch expects net leverage will remain at moderate levels in a range of 2.5x–3.0x over the next three years. In the LTM ended Sept. 30, 2017, total debt/EBITDA was 3.4x, while net debt/EBITDA was 2.4x, compared with 4.5x and 3.1x, respectively, for 2016. Fitch's calculations do not incorporate BRL1.3 billion of debt related to pension fund obligations, which are included in company financial covenants, excluding pension fund expenses from EBITDA. Considering these pension fund adjustments to the calculation, net adjusted debt/adjusted EBITDA would be 2.7x as of Sept. 30, 2017.

Manageable Negative FCF: Fitch expects negative FCF for Eletropaulo in 2017 and 2018, at around BRL450 million to BRL 550 million, following the base case scenario incorporating an increase in annual average capex in a range of BRL1.0 billion–BRL1.2 billion for 2017 and 2018. Fitch's expectations of negative FCF in the next two years limit the company's ratings. This assumption is based on the need for high capex and returning to customers higher revenue collected from September 2017 to September 2018.

Eletropaulo's operational efficiency, measured by quality indicators based on the duration and frequency of supply disruptions, is currently above regulatory levels. The company will require dedicated investments to bring operational efficiency to acceptable levels. Ratings incorporate moderate regulatory and hydrological risk in the Brazilian electricity sector, which is currently above average. Fitch considers Eletropaulo's strong cash reserves of BRL1.0 billion as of Sept. 30, 2017 as a positive since this cash can be used to manage negative FCF.

In the LTM ended Sept. 30, 2017, cash flow from operations (CFFO) of BRL 1.7 billion covered capex of BRL1.1 billion and reduced dividend payments of BRL42 million, leading to positive FCF of BRL653 million. Fitch does not expect nonrecurring items currently under discussion with Electropaulo's regulator, the Brazilian Electricity Regulatory Agency, in the difference of Electropaulo's asset base adopted on the second tariff review cycle and loan debt involving Centrais Eletricas Brasileiras S.A. (Eletrobras; BB–/Negative) and Companhia de Transmissao de Energia Eletrica Paulista S.A. (CTEEP; AAA[bra]) to negatively affect Eletropaulo's cash flow generation. If these items materialize, Fitch will review the projections.

Energy Consumption to Recover: Fitch estimates a recovery in consumption in Eletropaulo's concession area, which began in 2017. This adds to operational cash generation due to a slight improvement in the local economy. High energy tariffs and the challenging macroeconomic environment negatively affected consumption levels in the last two years with an accumulated decline of around 8%.

In the first-nine months of 2017, consumption in Eletropaulo's concession area declined 0.4% compared to the same period in 2016, with a 3.2% and 4.7% decline in 2016 and 2015, respectively. The weak economy harmed the company in terms of a rise in delinquencies and high energy losses, reaching 9.8% in the LTM ended Sept. 30, 2017, above the regulatory limit of 9.5%.

EBITDA Below Regulatory Target: In the LTM ended Sept. 30, 2017, EBITDA of BRL1.0 billion remained below the regulatory EBITDA estimate of BRL1.2 billion, defined during the last tariff review process in 2015. This is explained by pension fund expenses, along with lower energy consumption in the concession area and penalties related to quality indicators below regulatory targets. The increase in the capex level to improve service quality is a positive signal to meet the regulatory standards and reduce penalties in the future. Fitch's scenario incorporates some productivity gains but we do not expect EBITDA to be at the regulatory level before 2019.

Rating Derivation Relative to Peers

Rating Derivation Versus Peers	
Peer Comparison	Eletropaulo's Issuer Default Rating (IDR) of 'BB' compares favorably to Companhia Energetica de Minas Gerais' (CEMIG; B–/Rating Watch Negative [RWN]) rating, as CEMIG has higher leverage and significant refinancing needs until YE18. Eletropaulo is equal in ratings to Energisa S.A. (BB/Stable), due to the structural debt subordination of Energisa as a holding company. Energisa's consolidated distribution subsidiaries are rated 'BB+' and benefit from a more diversified asset base and improvement in operational results after the acquisition of Group Rede distribution companies. Emgesa S.A. E.S.P. (BBB/Stable) located in Colombia and AES Gener S.A. (BBB–/RWN) located in Chile, both operate in the electric generation segment and benefit from better operating environments as revenue generation and asset location are in investment-grade countries. AES Gener has an aggressive expansion program with some execution risk explaining the RWN.
Parent/Subsidiary Linkage	No Parent/Subsidiary Linkage is applicable.
Country Ceiling	Eletropaulo's Foreign Currency IDR of 'BB' is below Brazil's Country Ceiling of 'BB+'
Operating Environment	The Brazilian distributors operate in a regulated environment so this risk affects the ratings equally for all peers within the country.
Other Factors	There are No Other Factors.

Source: Fitch.

Rating Sensitivities

Future Developments That May, Individually or Collectively, Lead to Positive Rating Actions

- EBITDA more in line with the regulatory level;
- Net leverage consistently below 2.5x;
- Cash and equivalents + CFFO/short-term debt consistently above 2.0x.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Actions

- Net leverage consistently above 3.5x;
- Cash and equivalents + CFFO/short-term debt below 1.0x;
- Unexpected significant cash outflows due to litigation with CTEEP and Eletrobras;
- Unfavorable regulatory decisions;
- Any pressure from the controlling shareholder, The AES Corporation (AES; BB–/Stable), for Eletropaulo to increase dividend upstreaming, pressuring credit metrics in comparison with Fitch's base case scenario.

Liquidity and Debt Structure

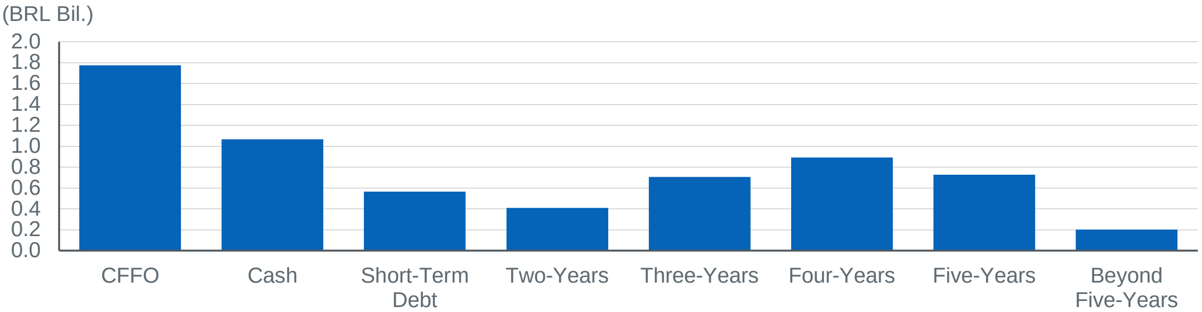
Manageable Liquidity: Eletropaulo presents a manageable liquidity profile. As of Sept. 30, 2017, cash and marketable securities of BRL1.1 billion were high and covered short-term debt of BRL 543 million by 1.96x. Fitch expects high forecast capex should reduce the company's liquidity position in the next two years. As a mitigating factor, Eletropaulo presents proven access to debt from capital markets and banks. The company has around 80% of receivables available for use, which adds to financial flexibility.

Credit metrics returned to more conservative levels following the implementation of tariff adjustments, ordinary and extraordinary tariffs, the tariff flags system, and implementation of the fourth review cycle after July 2015. In September 2017, net leverage of 2.8x was in line with Fitch's expected range of 2.5x–3.5x for 2017–2020. In 2016, total debt/EBITDA was 4.5x and net debt/EBITDA was 3.1x, compared with 3.8x and 3.2x, respectively, for 2015.

Debentures Issuance: The main source of funding is debentures issuance, which represented 77% of total debt as of Sept. 30, 2017. This may change slowly with increasing participation of the Brazilian Development Bank, or Banco Nacional de Desenvolvimento Econômico e Social (BNDES), in Electropaulo's funding structure. Total debt of BRL3.4 billion does not incorporate pension plan liabilities and 45% of total debt was secured, following the BRL700 million secured debentures issuance in May 2017. Based on the expectation new issuances will be secured, the proportion of this class of debt tends to grow gradually.

Lengthened Debt Profile: Eletropaulo has a strong liquid position and a lengthened debt maturity profile with proven access to capital markets and bank financing. The company is in compliance with financial covenants tied to debt and does not work internally with other indicators. Fitch's base case scenario does not incorporate any breach of financial covenants resulting from significant cash outflow related to the recently announced memorandum of understanding (MoU) signed with Eletrobras. The MoU seeks for both counterparties to reach an agreement in the amount to be paid by Eletropaulo to Eletrobras in a 30-year litigation process.

Liquidity and Debt Maturity Schedule
(As of Sept. 30, 2017)



CFFO – Cash flow from operations.
Source: Company's reports, Fitch.

Debt Maturities and Liquidity as of Dec. 31, 2016

Debt Maturities	**(BRL 000)**
Short Term	909,822
2018	946,251
2019	555,120
2020	448,214
2021	340,559
After 2022	138,052
Total Debt	3,338,018
Liquidity Analysis	**(BRL 000)**
Unrestricted Cash	1,067,631
Committed Banking Facilities	—
Available Undrawn Portion	—
Total Liquidity	1,067,631
Fitch Forecast 2017 FCF (Post Dividend)	(452,970)
Short Term Debt	909,822
Liquidity Score [x]	0.67

Source: Fitch.

Key Rating Issues

Energy Consumption to Recover

The Issue	A weak economy challenges energy use.		
Our View	High energy tariffs and the challenging macroeconomic environment negatively affected consumption levels in the last two years, with an accumulated decline of around 8%. In the first nine months of 2017, consumption in Eletropaulo's concession area declined 0.4%, compared to the same period in 2016, with a 3.3% and 4.7% decline in 2016 and 2015, respectively. The weak economy harmed the company in terms of a rise in delinquencies and high energy losses, reaching 9.8% in Sept. 30, 2017, above the regulatory limit of 9.5%. Eletropaulo's ratings benefit from the exclusive rights for energy distribution in its concession area, the metropolitan region of greater São Paulo, with high density and income levels above the Brazilian average. The concession is valid until 2028. Fitch estimates a recovery in consumption in Eletropaulo's concession area occurred beginning in 2017, adding to operational cash generation due to a slight improvement in the local economy.		
Timeline	Ongoing	Rating Impact	Positive

Sales by Class

(GWh)	2010	2011	2012	2013	2014	2015	2016
Residential	15,546	16,408	17,029	16,748	16,882	16,021	15,930
Industrial	6,137	5,996	5,803	5,588	5,281	4,766	4,056
Commercial	11,081	11,614	11,815	12,253	12,738	12,572	11,758
Public and Others	2,671	2,799	2,922	2,885	2,926	2,821	2,720
Captive Market	**35,435**	**36,817**	**37,569**	**37,474**	**37,827**	**36,179**	**34,464**
Free Consumers	7,911	8,284	7,987	8,742	8,589	8,058	8,326
Total Market	**43,346**	**45,101**	**45,556**	**46,216**	**46,416**	**44,237**	**42,826**

Continued below.
Source: Eletropaulo Metropolitana Eletricidade de São Paulo S.A., Fitch.

Sales by Class (Continued)

	Variation (%)								
(GWh)	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	9M16	9M17	Variation (%)
Residential	5.5	3.8	(1.7)	0.8	(5.1)	(0.6)	12,013	12,103	0.7
Industrial	(2.3)	(3.2)	(3.7)	(5.5)	(9.8)	(14.9)	3,152	2,513	(20.3)
Commercial	4.8	1.7	3.7	4.0	(1.3)	(6.5)	9,030	8,036	(11.0)
Public and Others	4.8	4.4	(1.3)	1.4	(3.6)	(3.6)	2,070	2,003	(3.3)
Captive Market	**3.9**	**2.0**	**(0.3)**	**0.9**	**(4.4)**	(4.7)	26,265	24,654	(6.1)
Free Consumers	4.7	(3.6)	9.5	(1.7)	(6.2)	3.8	6,062	7,557	24.7
Total Market	**4.2**	**1.0**	**1.4**	**0.4**	**(4.7)**	**(3.2)**	32,327	32,211	**(0.4)**

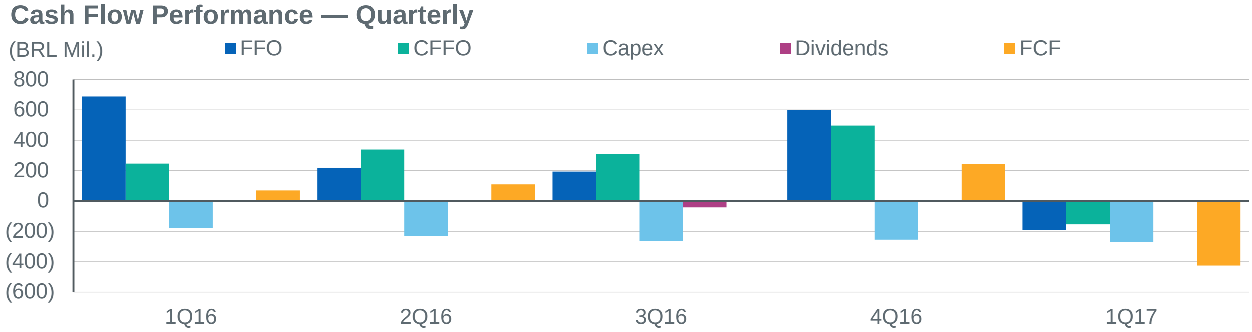
Source: Eletropaulo Metropolitana Eletricidade de São Paulo S.A., Fitch.

EBITDA Below the Regulatory Target

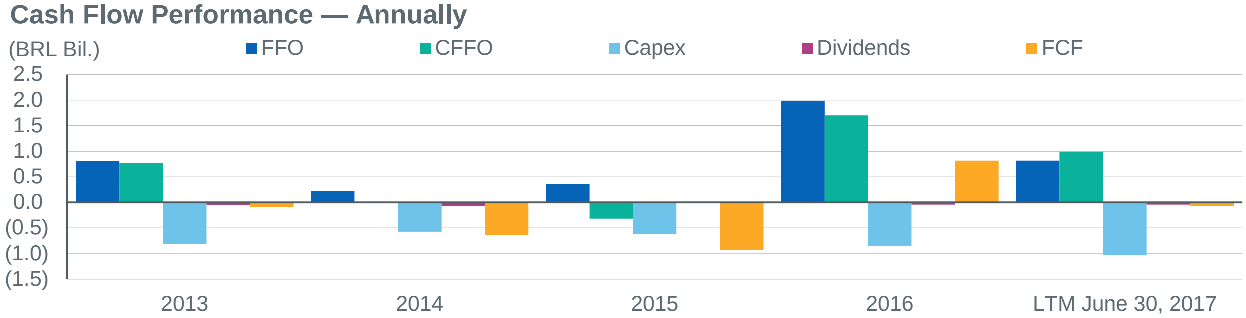
The Issue	EBITDA is strained due to capex.		
Our View	In the LTM ended Sept. 30, 2017, EBITDA of BRL1.0 billion remained below the regulatory EBITDA estimate of BRL1.2 billion, defined during the last tariff review process in 2015. This gap is explained by pension fund expenses, along with lower energy consumption in the concession area and penalties related to quality indicators below regulatory targets. Fitch's scenario incorporates some productivity gains but we do not expect EBITDA to be at the regulatory level before 2019. Eletropaulo already obtained productivity gains of BRL100 million in 3Q17, from an expected amount of BRL200 million at YE17, BRL150 million in 2018 and BRL100 million in 2019.The increase in the capex level to improve service quality is a positive signal to meet the regulatory standards and reduce penalties in the future. In the LTM ended Sept. 30, 2017, Eletropaulo's reported System Average Duration Index (SADI) of 13.40 hours is far from the regulatory target of 7.75 hours and the System Average Interruption Frequency Index (SAIFI) of 6.82x is above the regulatory reference of 5.64x. Total losses of 9.8% in September 2017 were slightly above the 9.5% regulatory level. Fitch expects the company will be able to manage contracted energy under the regulatory range of 100%–105%, which can be passed through in the tariff adjustment.		
Timeline	Medium Term	Rating Impact	Negative

Manageable FCF

The Issue	Negative FCF is workable.
Our View	In the LTM ended Sept. 30, 2017, CFFO of BRL1.7 billion covered capex of BRL1.1 billion and reduced dividend payments of BRL42 million, leading to positive FCF of BRL654 million. Fitch expects manageable negative FCF in 2017 and 2018 as Eletropaulo maintains a strong liquidity position of BRL1.1billion as of Sept. 30, 2017 and has proven access to capital markets and bank loans. Recent access to BNDES financing for capex contributes to mitigating liquidity risk. FCF should be negative in both years based on pressured CFFO due to the return of the Portion A Variation Account (CVA) to customers, higher expenses to improve service quality and an increase in annual average capex. Dividends are not a significant cash outflow and are restricted to the minimum legal level. Any pressure from the controlling shareholder, AES, for Eletropaulo to increase dividend upstreaming may pressure the company's cash flow and credit metrics. Fitch may accordingly revise projections.
Timeline	Medium Term Rating Impact Positive



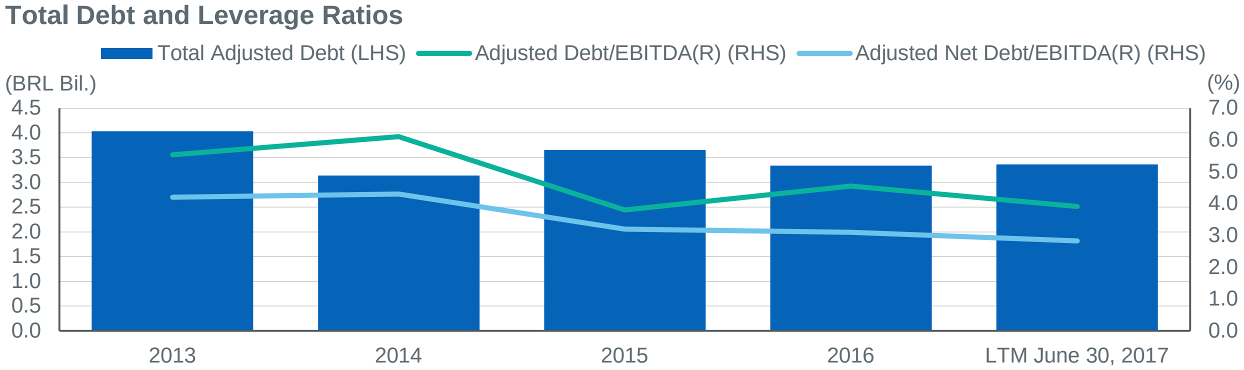
CFFO – Cash flow from operations.
Source: Company's reports, Fitch.



CFFO – Cash flow from operations.
Source: Company's reports, Fitch.

Moderate Leverage to Remain

The Issue	Net leverage is manageable.
Our View	In the LTM ended Sept. 30, 2017, total debt/EBITDA was 3.4x and net debt/EBITDA was 2.4x, compared with 4.5x and 3.1x, respectively, for 2016. Fitch's calculations do not incorporate BRL1.3 billion of debt related to pension fund obligations, which are included in company financial covenants, excluding pension fund expenses from EBITDA. Considering pension fund adjustments to the covenants calculation, net leverage would be 2.7x as of Sept. 30, 2017. Fitch expects net leverage will remain at moderate levels in a range of 2.5x–3.0x for the next three years.
Timeline	Medium Term Rating Impact Neutral

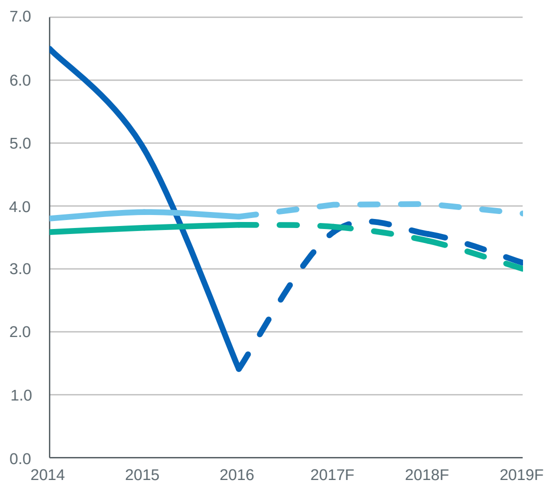


Source: Company's reports, Fitch.

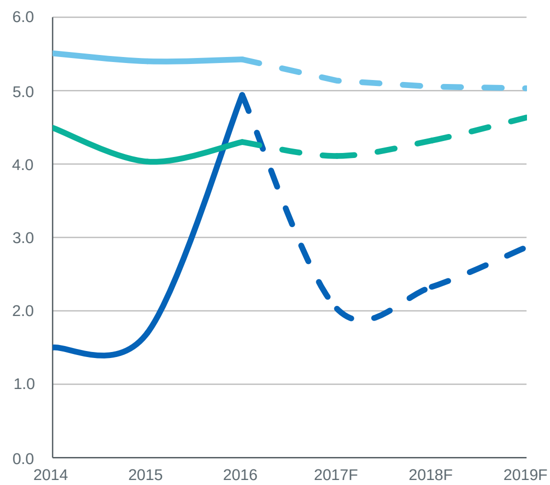
Trends and Forecasts

Eletropaulo Metropolitana Eletricidade de São Paulo S.A. — Emerging BB Category Median — Utilities Median —

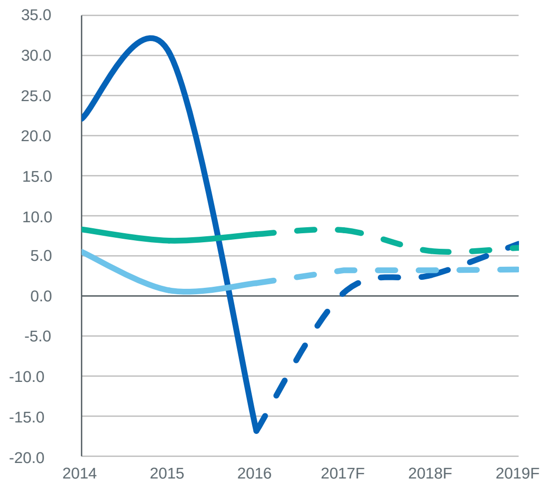
FFO Adjusted Leverage (x)



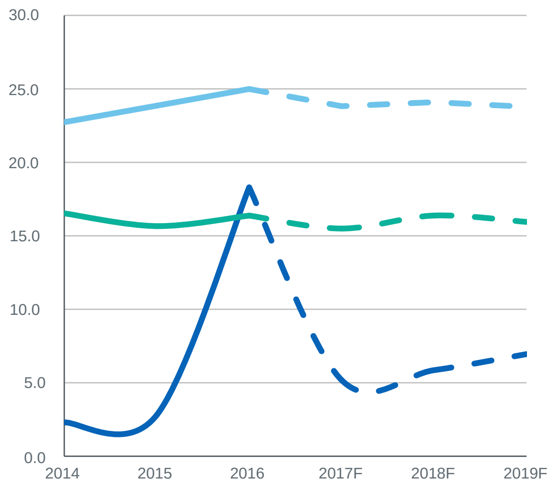
FFO Interest Cover (x)



Revenue Growth (%)



FFO Margin (%)



Note: Including Fitch expectations
Source: Fitch

Definitions

FFO Adjusted Leverage: Total Adjusted Debt with Equity Credit divided by Funds From Operations [FFO] + Gross Interest (Paid) - Interest Received + Preferred Dividends (Paid) + Operating Lease Expense for Capitalised Leased Assets.
FFO Interest Cover: FFO + Gross Interest paid minus interest received + Preferred Dividends paid divided by Gross Interest Paid + Preferred Dividends Paid.
Revenue Growth: Percentage growth in revenues since previous reporting period.
FFO Margin: FFO divided by Revenues.

Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- Consumption in the concession area increasing by 1% in 2017 and 2% during 2018–2019;
- Capex of BRL2.9 billion during 2017–2019; and
- A minimum operational cash level of BRL500 million.

Financial Data

(BRL 000)	Historical			Forecast		
	Dec 2014	Dec 2015	Dec 2016	Dec 2017F	Dec 2018F	Dec 2019F
SUMMARY INCOME STATEMENT						
Gross Revenue (Ex-Construction Revenues)	10,013,621	13,056,682	10,857,387	10,901,845	11,181,045	11,911,590
Revenue Growth (%)	22.1	30.4	-16.8	0.4	2.6	6.5
Operating EBITDA (Before Income From Associates)	513,050	963,554	734,288	993,784	1,090,132	1,274,357
Operating EBITDA Margin (%)	5.1	7.4	6.8	9.1	9.8	10.7
Operating EBITDAR	513,050	963,554	734,288	993,784	1,090,132	1,274,357
Operating EBITDAR Margin (%)	5.1	7.4	6.8	9.1	9.8	10.7
Operating EBIT	42,522	472,878	243,871	485,263	527,774	700,668
Operating EBIT Margin (%)	0.4	3.6	2.2	4.5	4.7	5.9
Gross Interest Expense	-382,029	-511,658	-568,358	-481,029	-455,943	-416,164
Pretax Income (Including Associate Income/Loss)	-196,375	158,973	15,411	74,234	121,831	334,504
SUMMARY BALANCE SHEET						
Readily Available Cash and Equivalents	909,151	531,178	1,067,631	775,839	506,261	501,553
Total Debt With Equity Credit	3,137,178	3,653,610	3,338,018	3,499,196	3,771,095	3,698,975
Total Adjusted Debt with Equity Credit	3,137,178	3,653,610	3,338,018	3,499,196	3,771,095	3,698,975
Net Debt	2,228,027	3,122,432	2,270,387	2,723,357	3,264,834	3,197,422
SUMMARY CASH FLOW STATEMENT						
Operating EBITDA	513,050	963,554	734,288	993,784	1,090,132	1,274,357
Cash Interest Paid	-334,406	-450,887	-479,630	-481,029	-455,943	-416,164
Cash Tax	-70,950	-115,897	-23,173	-17,816	-29,239	-80,281
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0	0
Other Items Before FFO	119,796	-33,817	1,755,152	0	0	0
Funds Flow From Operations	227,490	362,953	1,986,637	564,939	654,949	827,912
Change in Working Capital	-225,552	-679,133	-285,096	91	574	1,501
Cash Flow From Operations (Fitch Defined)	1,938	-316,180	1,701,541	565,030	655,523	829,412
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-571,321	-618,373	-844,801			
Capital Intensity (Capex/Revenue)	5.7	4.7	7.8			
Common Dividends	-68,655	-22	-41,852			
Net Acquisitions and Divestitures	57,772	12,543	70,151			

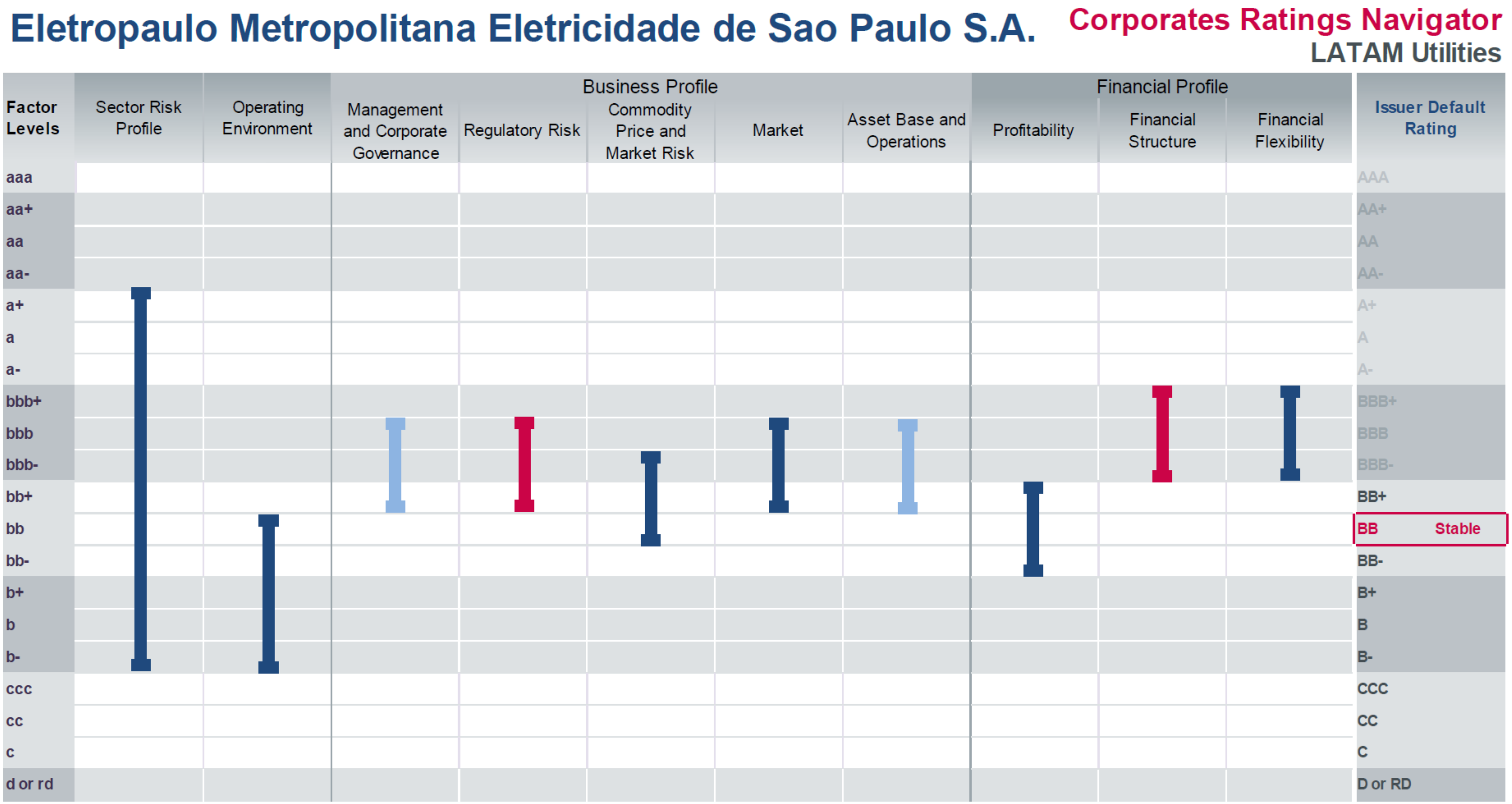
Other Investing and Financing Cash Flow Items	212,695	126,432	61,894	0	0	0
Net Debt Proceeds	285,183	438,112	-408,722	161,178	271,899	-72,120
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	-82,388	-357,488	538,211	-291,792	-269,578	-4,708
DETAIL CASH FLOW STATEMENT						
FFO Margin (%)	2.3	2.8	18.3	5.2	5.9	7.0
CALCULATIONS FOR FORECAST PUBLICATION						
Capex, Dividends, Acquisitions and Other Items Before FCF	-582,204	-605,852	-816,502	-1,018,000	-1,197,000	-762,000
Free Cash Flow After Acquisitions and Divestitures	-580,266	-922,032	885,039	-452,970	-541,477	67,412
Free Cash Flow Margin (After Net Acquisitions) (%)	-5.8	-7.1	8.2	-4.2	-4.8	0.6
COVERAGE RATIOS						
FFO Interest Coverage (x)	1.5	1.7	4.9	2.0	2.3	2.9
FFO Fixed Charge Coverage (x)	1.5	1.7	4.9	2.0	2.3	2.9
Operating EBITDAR/Interest Paid + Rents (x)	1.5	2.1	1.5	2.1	2.4	3.1
Operating EBITDA/Interest Paid (x)	1.5	2.1	1.5	2.1	2.4	3.1
LEVERAGES RATIOS						
Total Adjusted Debt/Operating EBITDAR (x)	6.1	3.8	4.5	3.5	3.5	2.9
Total Adjusted Net Debt/Operating EBITDAR (x)	4.3	3.2	3.1	2.7	3.0	2.5
Total Debt with Equity Credit/Operating EBITDA (x)	6.1	3.8	4.5	3.5	3.5	2.9
FFO Adjusted Leverage (x)	6.5	4.9	1.4	3.6	3.6	3.1
FFO Adjusted Net Leverage (x)	4.6	4.2	1.0	2.8	3.1	2.7

Source: Fitch.

How to Interpret the Forecast Presented

The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.

Rating Navigator



FitchRatings

Eletropaulo Metropolitana Eletricidade de Sao Paulo S.A.

Corporates Ratings Navigator
LATAM Utilities

Operating Environment

bb+	Economic Environment	b	Weak combination of countries where economic value is created and where assets are located.
bb	Financial Access	bbb	Average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bb	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'bb'.
b-			
ccc			

Management and Corporate Governance

bbb+	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bbb	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb-	Group Structure	aa	Transparent group structure.
bb+	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb			

Regulatory Risk

bbb+	Independence	bb	Moderate government Interference in utility regulations.
bbb	Balance	bbb	Regulatory framework is moderately biased toward the needs of end users at the expense of sector participants.
bbb-	Transparency	bbb	The tariff-setting procedure is transparent and includes the participation of industry players.
bb+	Recourse of Law	bbb	Procedures to appeal regulatory rulings are clear but long processing periods. Companies can oppose or comment on regulations.
bb	Timeliness of Cost Recovery	bb	Significant lag to recover capital and operating costs.

Commodity Price and Market Risk

bbb	Price and Volume Risk	bbb	Moderate exposure to price risk. Long-term contracts provide high revenue visibility and most costs variations are passed through.
bbb-	Counterparty Risk	bb	Weighted average credit quality of actual and potential offtakers is in line with 'BB' rating.
bb+			
bb			
bb-			

Market

bbb+	Consumption Growth Trend	bbb	Customer and usage growth in line with industry averages.
bbb	Customer Mix	a	Well diversified customer mix.
bbb-	Geographic Location	bb	High sensitivity to extreme weather or disaster disruptions.
bb+	Supply Demand Dynamics	bb	Uncertain outlook for prices and rates.
bb			

Asset Base and Operations

bbb+	Asset Diversity		n.a.
bbb	Reliability of Operations and Cost Position	bbb	Reliability and cost of operations at par with industry averages with moderate operating losses.
bbb-	Exposure to Environmental	bbb	Limited or manageable exposure to environmental regulations.
bb+	Capital and Technological Intensity	bb	Reinvestment concentrated in capital-intensive or unproven technologies.
bb			

Profitability

bbb-	Volatility of Profitability	bb	Less stability and predictability of profits relative to utility peers.
bb+	Free Cash Flow	bb	Structurally negative FCF across the investment cycle.
bb			
bb-			
b+			

Financial Structure

a-	Lease Adjusted FFO Gross Leverage	bbb	3.5x
bbb+	Lease Adjusted FFO Net Leverage	bbb	3.0x
bbb	Total Adjusted Debt/Operating	bbb	3.5x
bbb-			
bb+			

Financial Flexibility

a-	Financial Discipline	bbb	Less conservative policy but generally applied consistently.
bbb+	Liquidity (Cash+CFO)/S-T Debt	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb	FFO Fixed Charge Cover	b	2.0x
bbb-	FX Exposure	aa	No material FX mismatch.
bb+			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

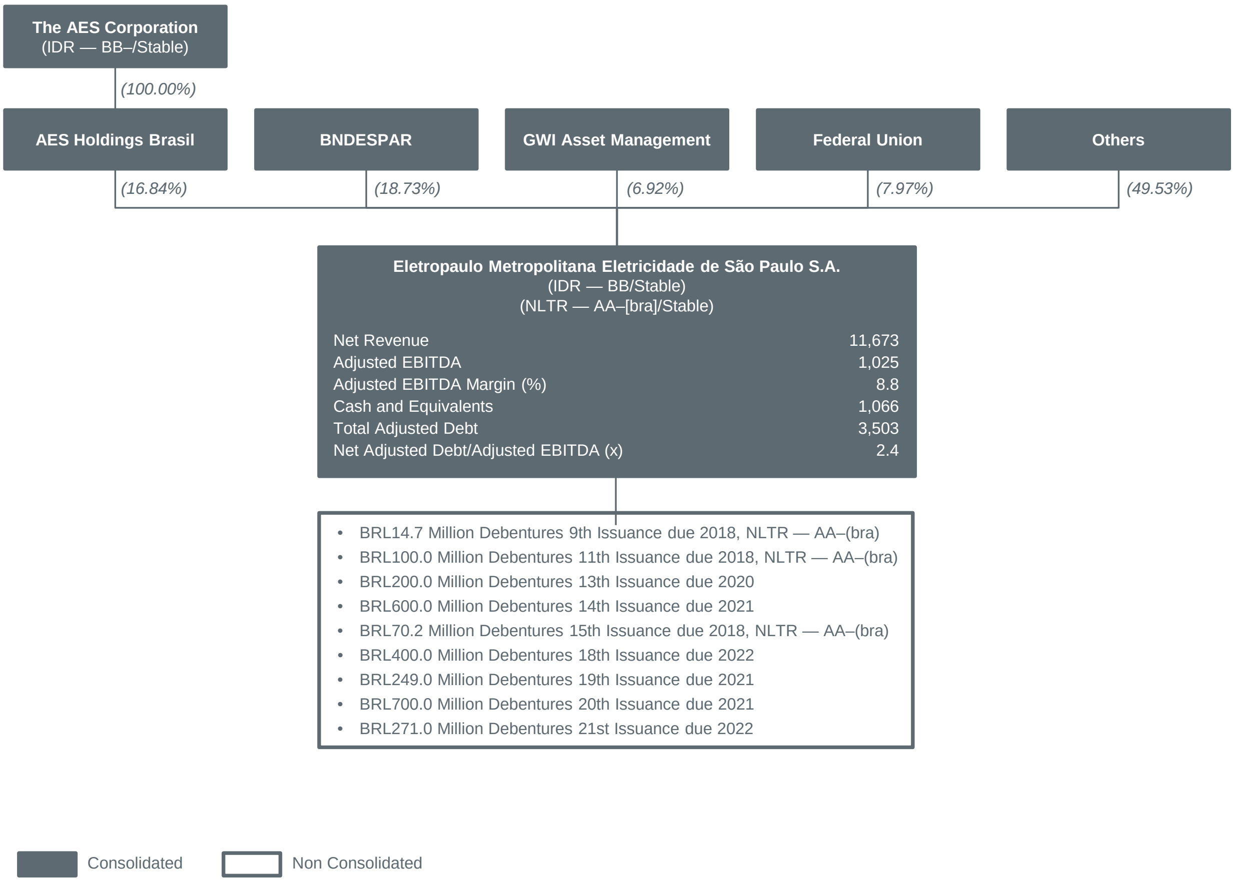
Navigator Version: RN 1.41.8.0

FitchRatings

Corporates Ratings Navigator
LATAM Utilities

Simplified Group Structure Diagram

Organizational Structure — Eletropaulo Metropolitana Eletricidade de São Paulo S.A.
(BRL Mil., As of Sept. 30, 2017)



IDR – Issuer Default Rating. NLTR – National Long-Term Rating. BNDESPAR – Banco Nacional de Desenvolvimento Econômico e Social Participações S.A. GWI – Global Worldway Investment. Note: Amounts of debentures issuances are at the outstanding level as of Sept. 30, 2017.
Source: Company reports, Fitch.

Peer Financial Summary

Company	Date	Rating	Gross Revenue (USDm)	Operating EBITDAR Margin (%)	FFO Margin (%)	FFO Fixed Charge Coverage (x)	FFO Adjusted Leverage (x)
Eletropaulo Metropolitana Eletricidade de São Paulo, S.A.	2016	BB	3,332	6.8	18.3	4.9	1.4
	2015	BB	3,344	7.4	2.8	1.7	4.9
	2014	BB	3,771	5.1	2.3	1.5	6.5
Emgesa S.A. E.S.P	2016	BBB	1,171	53.6	34.9	3.6	2.6
	2015	BBB	1,038	52.8	25.5	3.5	3.6
	2014	BBB	1,093	65.7	50.0	8.0	2.6
Companhia Energetica de Minas Gerais (CEMIG)	2016	B+	5,395	20.1	18.1	2.2	4.0
	2015	B+	5,133	25.0	20.9	4.0	4.1
	2014	B+	7,003	32.7	19.1	3.5	3.7
Energisa, S.A.	2016	BB	3,187	17.5	12.6	2.4	4.7
	2015	BB	2,765	16.7	8.3	2.4	6.4
	2014	BB–	2,797	21.0	5.4	1.8	13.0
AES Gener, S.A.	2016	BBB–	2,286	33.8	16.8	3.1	6.4
	2015	BBB–	2,165	31.6	25.3	4.3	4.8
	2014	BBB–	2,328	28.7	17.9	3.5	4.8

Source: Fitch

Reconciliation of Key Financial Metrics

(BRL Thousand, As reported)	**31 Dec 2016**
Income Statement Summary	
Operating EBITDA	734,288
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**734,288**
+ Operating Lease Expense Treated as Capitalised (h)	**0**
= Operating EBITDAR after Associates and Minorities (j)	**734,288**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**3,338,018**
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**3,338,018**
Readily Available Cash [Fitch-Defined]	1,067,631
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**1,067,631**
Total Adjusted Net Debt (b)	**2,270,387**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	96,627
+ Interest (Paid) (d)	**(479,630)**
= Net Finance Charge (e)	**(383,003)**
Funds From Operations [FFO] (c)	**1,986,637**
+ Change in Working Capital [Fitch-Defined]	(285,096)
= Cash Flow from Operations [CFO] (n)	**1,701,541**
Capital Expenditures (m)	**(844,801)**
Multiple applied to Capitalised Leases	**5.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**4.5**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**1.4**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**4.5**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**3.1**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**1.0**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**2.7**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**1.5**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**1.5**
FFO Fixed Charge Cover [x] ((c-e+h-f)/(-d+h-f))	**4.9**
(FFO - Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c-e-f)/(-d-f))	**4.9**
(FFO - Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities
Source: Fitch based on company reports

Fitch Adjustment Reconciliation

	Reported Values 31 Dec 16	Sum of Fitch Adjustments	Other Adjustment	Adjusted Values
Income Statement Summary				
Revenue	11,659,899	(802,512)	(802,512)	10,857,387
Operating EBITDAR	734,288	0		734,288
Operating EBITDAR after Associates and Minorities	734,288	0		734,288
Operating Lease Expense	0	0		0
Operating EBITDA	734,288	0		734,288
Operating EBITDA after Associates and Minorities	734,288	0		734,288
Operating EBIT	243,871	0		243,871
Debt & Cash Summary				
Total Debt With Equity Credit	3,287,316	50,702	50,702	3,338,018
Total Adjusted Debt With Equity Credit	3,287,316	50,702	50,702	3,338,018
Lease-Equivalent Debt	0	0		0
Other Off-Balance Sheet Debt	0	0		0
Readily Available Cash & Equivalents	1,067,631	0		1,067,631
Not Readily Available Cash & Equivalents	0	0		0
Cash-Flow Summary				
Preferred Dividends (Paid)	0	0		0
Interest Received	96,627	0		96,627
Interest (Paid)	(479,630)	0		(479,630)
Funds From Operations [FFO]	1,986,637	0		1,986,637
Change in Working Capital [Fitch-Defined]	(285,096)	0		(285,096)
Cash Flow from Operations [CFO]	1,701,541	0		1,701,541
Non-Operating/Non-Recurring Cash Flow	0	0		0
Capital (Expenditures)	(844,801)	0		(844,801)
Common Dividends (Paid)	(41,852)	0		(41,852)
Free Cash Flow [FCF]	814,888	0		814,888
Gross Leverage				
Total Adjusted Debt / Op. EBITDAR* [x]	4.5			4.5
FFO Adjusted Leverage [x]	1.4			1.4
Total Debt With Equity Credit / Op. EBITDA* [x]	4.5			4.5
Net Leverage				
Total Adjusted Net Debt / Op. EBITDAR* [x]	3.0			3.1
FFO Adjusted Net Leverage [x]	0.9			1.0
Total Net Debt / (CFO - Capex) [x]	2.6			2.7
Coverage				
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	1.5			1.5
Op. EBITDA / Interest Paid* [x]	1.5			1.5
FFO Fixed Charge Coverage [x]	4.9			4.9
FFO Interest Coverage [x]	4.9			4.9

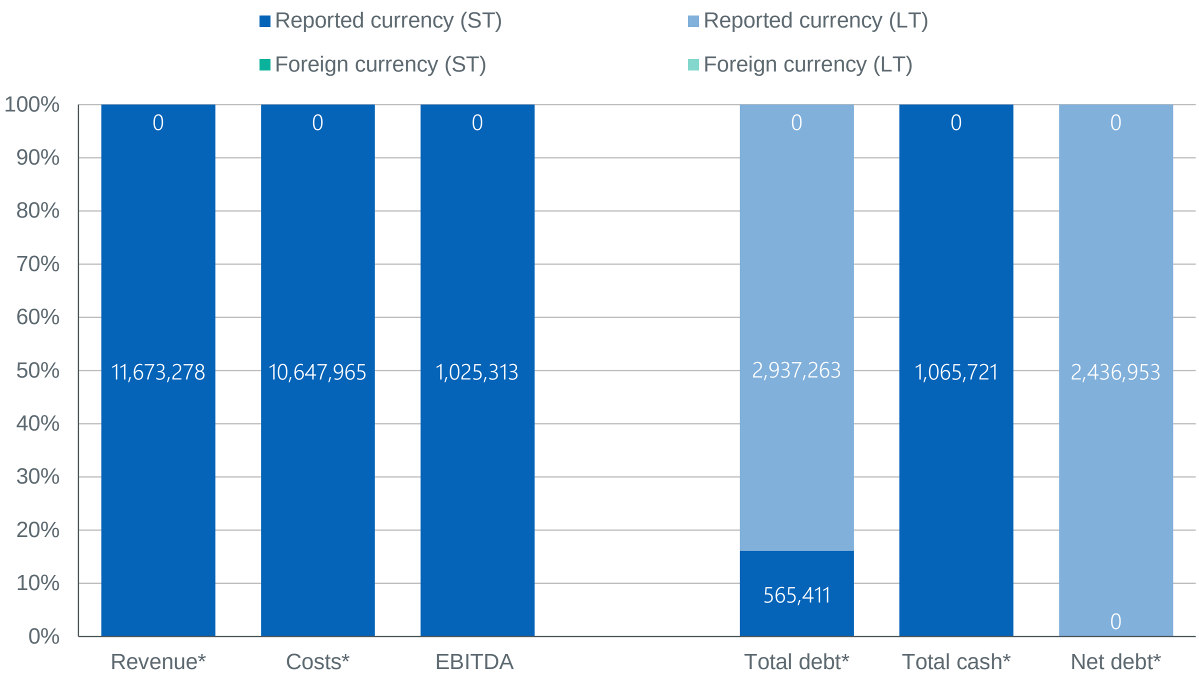
*EBITDA/R after Dividends to Associates and Minorities

FX Screener

Eletropaulo does not have significant foreign currency risk.

Fitch FX Screener

(Eletropaulo Metropolitana Eletricidade de São Paulo S.A. — BB/Stable, LTM Sep-17, BRL 000)



*Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information
Source: Fitch

Full List of Ratings

	Rating	Outlook	Last Rating Action
Eletropaulo Metropolitana Eletricidade de São Paulo S.A.			
Long-Term Foreign Currency IDR	BB	Stable	Affirmed Sept. 22, 2017
Long-Term Local Currency IDR	BB	Stable	Affirmed Sept. 22, 2017
Long-Term National Rating	AA–(bra)	Stable	Affirmed Sept. 22, 2017
9th Senior Unsecured Debentures Issuance BRL250 Million	AA–(bra)		Affirmed Sept. 22, 2017
11th Senior Unsecured Debentures Issuance BRL200 Million	AA–(bra)		Affirmed Sept. 22, 2017
15th Senior Unsecured Debentures Issuance BRL750 Million	AA–(bra)		Affirmed Sept. 22, 2017
20th Senior Unsecured Debentures Issuance BRL700 Million	AA–(bra)		Affirmed Sept. 22, 2017

Related Research & Criteria

Corporate Rating Criteria (August 2017)

National Scale Ratings Criteria (March 2017)

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The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.