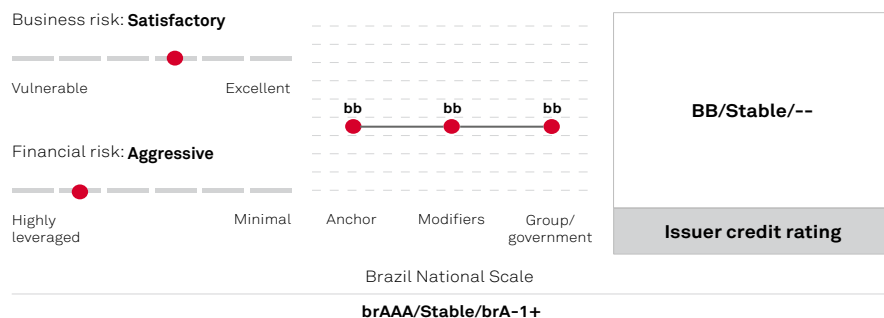


Neoenergia S.A. and Subsidiaries

March 25, 2025

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths

Distribution of energy to roughly 16.6 million clients, 3,312 kilometers (km) of operational transmission lines, and 4.2 gigawatts (GW) of installed capacity.

About 85% of EBITDA from stable and regulated electricity activities, with most distribution clients residential customers, protecting the group during market downturns.

Focus on delivering greenfield transmission assets, improving the power distribution networks, and divesting some noncore assets, which will increase financial flexibility amid sizable capital expenditure (capex) and higher interest rates.

High standing in domestic capital markets and good relationships with banks.

Key risks

Risks in disbursing substantial investments, given the need to raise additional debt amid Brazil's tightening financing conditions, although Neoenergia has a track record of high capex.

High domestic interest rates will keep interest expenses costly, because half of debt is at floating rates.

Following the renewal of distribution concessions, quality metrics are expected to become more stringent, necessitating increased investment in the sector.

Exposure to hydrology increases energy costs and working capital needs.

Higher interest rates will delay Neoenergia S.A.'s deleveraging. Due to rising basic interest rates in Brazil, which S&P Global Ratings expects will reach 14.75% by year-end 2025, a larger share of cash generation among Brazilian corporates, including Neoenergia, will be consumed

to pay interest expenses. Additionally, with the company still executing substantial investments of approximately Brazilian real (R\$) 16 billion over the next two years, we expect Neoenergia's debt to EBITDA to remain relatively stable at 4.5x in 2025 and 2026, while funds from operations (FFO) to debt will be 10%-12%, versus 4.7x and 13.5% in 2024. We expect these metrics to improve to 4.0x and about 15%, respectively, by 2027, driven by expected rate increases aligned with inflation, demand growth at Neoenergia's distribution companies, reduced investment needs, and declining interest rates.

We expect negative free operating cash flow (FOCF) due to sizable investments. In our view, Neoenergia will have an FOCF shortfall for two consecutive years, especially in 2025. That will require the group to raise additional debt in both capital and debt markets to fund investments and refinance upcoming maturities of up to R\$7 billion in 2025. However, we are not concerned about Neoenergia's ability to refinance its debt, since it has wide access to domestic capital markets and benefits from good relationships with a variety of lenders, including development agencies, which broaden its options for refinancing and raising new debt. Furthermore, the group's cash flow is expected to improve with the ramp-up of transmission assets and the organic growth of its distribution business in high-growth areas, which will support new investments through internal cash flows. As of Dec. 31, 2024, Neoenergia reported a robust cash position of R\$7.8 billion, along with undisbursed committed credit facilities totaling R\$2.7 billion.

The company is focused on the delivery of transmission lines and investing in distribution networks. Neoenergia is investing in five transmission line projects that are either partially operational or with advanced physical completion and expected conclusion through 2025. These assets comprise 5,320 km of lines and 11 substations, contributing R\$1.2 billion in regulatory annual revenue (RAP) in the 2024-2025 cycle, and adding to the existing R\$283 million RAP of the transmission assets fully owned by Neoenergia. Out of R\$9.2 billion in investments expected for 2025, the transmission segment will require roughly R\$2.6 billion, while the bulk of capex will be allocated to expand, maintain, and improve its distribution networks, especially in the context of stricter quality metrics requirement amid the upcoming renewal of distribution concessions.

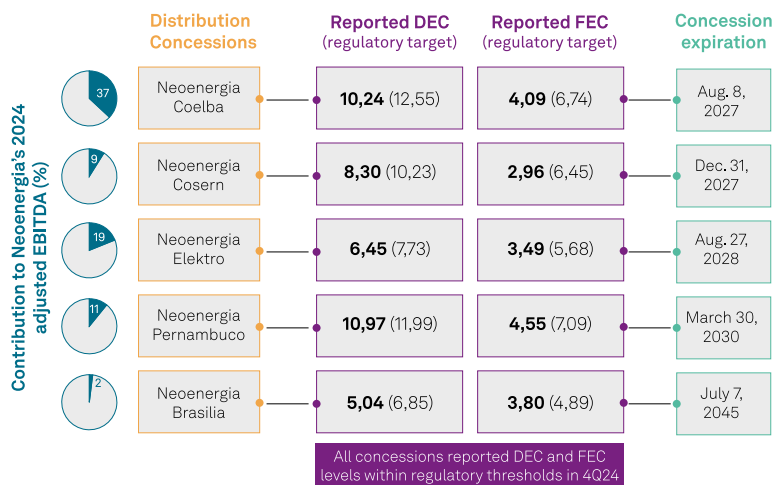
Neoenergia's asset rotation strategy may alleviate financing needs. The announcement that it will sell its stake in Geração Céu Azul for an enterprise value of R\$1.43 billion aligns with the group's objective to optimize its asset portfolio and minimize the necessity for additional funding amid its R\$16 billion investment plan for 2025 and 2026, particularly considering Brazil's high interest rates. Additionally, Neoenergia has established an agreement with Warrington Investment Pte. Ltd., an investment vehicle of Government of Singapore Investment Corp. (GIC; not rated), which grants GIC the preference to acquire stakes in Neoenergia's transmission lines should the company choose to divest from them. This partnership also opens the door for joint participation in ANEEL's upcoming transmission auctions, potentially lowering Neoenergia's capital requirements for future investments in the transmission sector. We believe Neoenergia will continue its strategy of optimizing its organizational structure and divesting noncore assets, although the timing for additional asset sales is uncertain.

We assume a smooth renewal process for Neoenergia's distribution concessions. On Feb. 27, 2025, Brazil's electricity regulatory agency (ANEEL) approved the terms for the renewal of 19 distribution concessions coming due in 2025-2031 for an additional 30 years. As expected, these terms exclude the requirement for grant fee payments but stricter service quality and customer satisfaction standards should require higher investments. This is in response to evolving dynamics in Brazil's energy sector, including increased severe climate events affecting distribution networks, a growing share of decentralized generation, enhanced network digitalization, and the liberalization of the domestic energy market. Four of Neoenergia's

Neoenergia S.A. and Subsidiaries

concessions are due for renewal during this period (see chart below). The renewal process is expected to conclude in third-quarter 2025, pending the Ministry of Mines and Energy's review and approval of the distribution companies' requests for early contract extensions. We do not anticipate any issues for Neoenergia in renewing its concessions, since they meet both service quality metrics (DEC and FEC, which measure duration and frequency of service interruptions) and the economic-financial regulatory requirements. Additionally, Neoenergia is well-positioned to meet the stricter quality metrics by subregions within each concession, thanks to significant ongoing investments, strong cash generation, and broad access to credit markets. Furthermore, the new contracts will provide greater flexibility regarding investment recognition between rate reviews, although this aspect still requires regulation by ANEEL.

Neoenergia's Distribution Concessions



DEC: Duration of energy interruption, FEC: Frequency of energy interruption, Source: S&P Global Ratings. Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

Outlook

The stable outlook for Neoenergia over the next 12 months reflects our view that the company will finish the current investments on transmission lines and focus on the organic growth of its power distribution concessions. Given rising interest rates, we expect debt to EBITDA to remain at about 4.5x in 2025 and 2026, while FFO to debt should lower to 10%-12% in the same period, despite additional cash flows as new transmission assets ramp up. Nevertheless, the group will still invest heavily to expand and improve the service quality metrics of its distribution business, which will require additional debt. The stable outlooks on the subsidiaries, Neoenergia Coelba, Neoenergia Pernambuco, Neoenergia Cosern, Neoenergia Elektro and Neoenergia Brasília, mirror that on Neoenergia, since they are the group's most important subsidiaries, operating in the distribution business, and generating 75%-80% of Neoenergia's cash flow.

Downside scenario

We could downgrade Neoenergia in the next 12 months if we take a similar action on Brazil. We could also lower the global and national scale ratings on Neoenergia if its controlling shareholder, Iberdrola S.A. (BBB+/Stable/A-2), has fewer incentives to provide support to its Brazilian operations, combined with a deterioration in Neoenergia's credit metrics. The latter scenario would consist of FFO to debt below 9% and debt to EBITDA above 5.5x on a consistent basis, which could result from lower electricity consumption, worsening of hydrology conditions

that raise working capital needs because of higher energy costs, or due to higher-than-expected investments or a large debt-financed acquisition. The ratings on the subsidiaries will move in tandem with those on Neoenergia in case of a negative rating action.

Upside scenario

Currently, the sovereign rating on Brazil caps the rating on Neoenergia. Therefore, we would raise the rating on the group if we upgrade the sovereign. On a stand-alone basis, we could revise the stand-alone credit profile (SACP) to 'bb+' if Neoenergia posts adjusted debt to EBITDA below 3.5x and FFO to debt above 23% on a consistent basis, as a result of increasing cash flow and possibly lower investments, which would reduce the group's need to issue new debt while interest rates in Brazil fall. Under this scenario, we would also expect the group to generate positive FOCF, enabling it to finance investments with its own cash. The national scale rating is already at the highest level possible. An upgrade of Neoenergia would result in a similar action on its subsidiaries.

Our Base-Case Scenario

Assumptions

- Energy demand in Neoenergia's concession areas to grow in line with our GDP growth forecast for Brazil of 1.9% in 2025, 2.0% in 2026, and 2.1% in 2027. The macroeconomic assumptions follow our latest report, "Economic Outlook Emerging Markets Q2 2025: Trade Policy Unknowns Dampen Investment," published March 25, 2025, on RatingsDirect.
- For 2025, we incorporated rate adjustments approved by ANEEL, and starting 2026 they are to mirror the inflation rate of the previous year: 4.8% in 2025, 5.2% in 2026, and 4.7% in 2027.
- Average cost of energy in the distribution business of R\$260 per megawatt hour (/MWh)–R\$300/MWh in 2025, which is about 4% higher than 2024. Starting 2026, energy costs to increase in line with inflation, and we expect still favorable hydrology in the next few years. Costs of energy also follows the slight depreciation of the Brazilian real against the U.S. dollar for the portion of energy produced by Itaipu, purchased by Neoenergia Elektro and Neoenergia Brasilia.
- For hydro plants, a generation scaling factor (GSF), which determines the group's level of energy delivery, of about 85% in 2025 and afterward. For wind and solar plants, availability levels of 97%–98% annually. We arrive at EBITDA of R\$1.45 billion–R\$1.5 billion in the generation segment in the next few years.
- In the transmission segment, operating RAP of R\$1.0 billion in 2024 and R\$1.9 billion in 2025, following the start-up of new projects currently under construction. From 2026, we consider RAP increasing with inflation.
- Investments of R\$9.1 billion in 2025 and lowering to about R\$7.0 billion R\$7.5 billion in 2026 and 2027, mostly for expanding and maintaining the distribution segment and delivering transmission lines currently under construction. We assume these investments will be mostly financed through new debt.
- Divestment of the company's stake in Geração Céu Azul for an enterprise value of R\$1.43 billion in 2025.
- Year-end basic interest rates of 14.75% in 2025, 12.50% in 2026, and 9.0% in 2027, affecting the group's interest expense and FFO.
- A conservative dividend policy, distributing the minimum required by law, which is equivalent to 25% of the previous year's net income.
- Our adjusted debt figures include pension-related liabilities of about R\$814 million, financial guarantees of R\$4.1 billion provided to Belo Monte and the transmission lines, and fair value of derivatives that reduces debt by R\$955 million in fiscal 2024. Our adjusted EBITDA excludes the effects of variations in the distribution concession's financial assets and the International Financial Reporting Standard (IFRS) 15 accounting in the transmission segment.

Key metrics

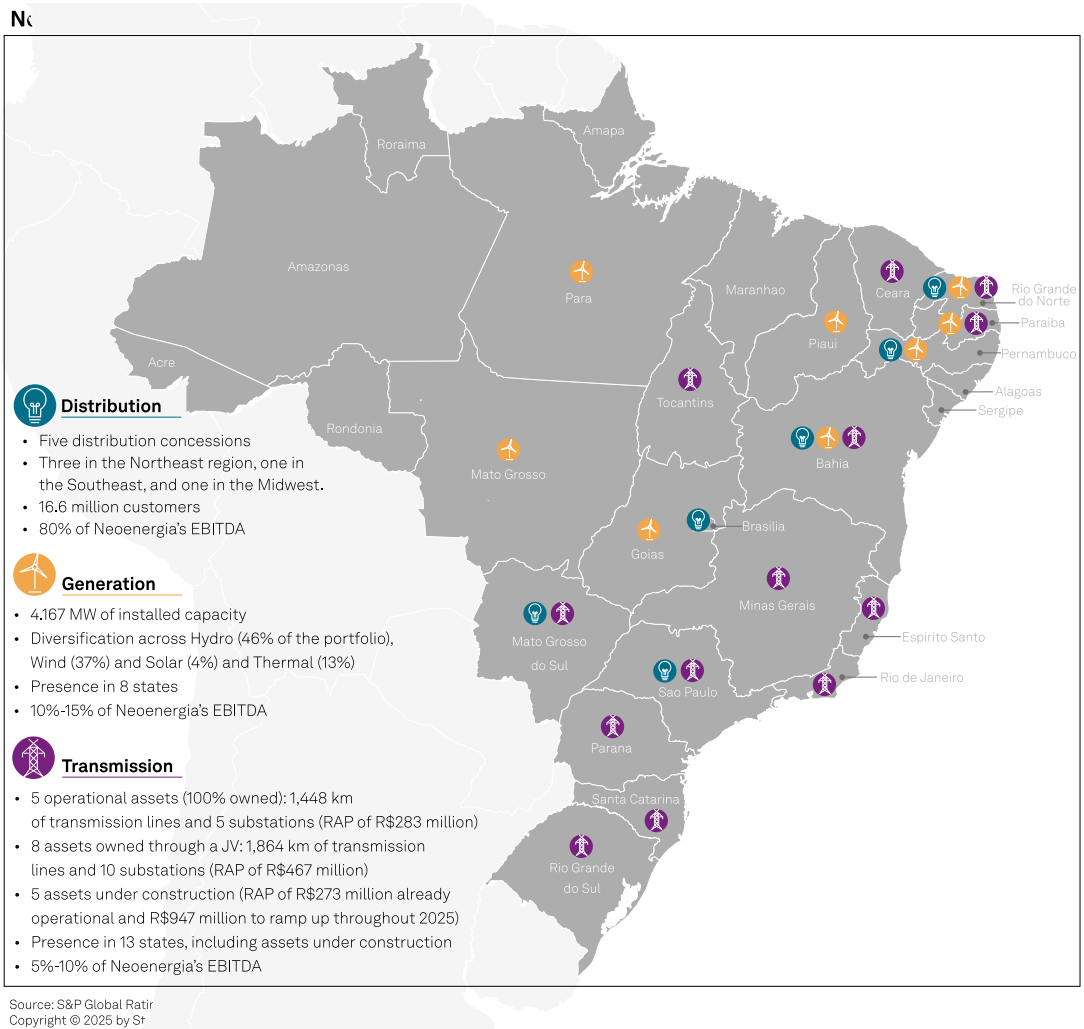
Neoenergia S.A.--Key metrics*

Mil. R\$	2023a	2024a	2025p	2026p	2027p
Energy distributed (GWh)	67,649	70,534	72,000-72,500	73,500-74,000	75,000-75,500
Revenues	35,387.0	36,677.0	38,500-39,000	41,000-41,500	43,200-43,700
EBITDA	10,499	10,339	11,000-11,500	12,000 - 12,500	13,000 - 13,500
EBITDA Margin (%)	29.7	28.2	28,5-29,5	29,5-30,5	30,0-31,0
Funds from operations (FFO)	6,990	6,625	5,000 - 5,500	5,900 - 6,400	7,250 - 7,750
Capex	8,903	9,811	9,000-9,500	7,250-7,750	7,250-7,750
Debt to EBITDA (x)	4.3	4.7	~4.5	~4.5	4.0 - 4.5
FFO to debt (%)	15.6	13.5	~10	10 - 15	12 - 17
FOCF to debt (%)	(16.2)	(13.4)	(10) - (5)	(5) - (0)	(2) - 3
EBITDA interest coverage (x)	2.4	2.2	~2.0	2.0 - 2.5	2.5 - 3.0
FFO cash interest coverage (x)	3.3	3.0	~2.0	~2.0	~2.5

*All figures adjusted by S&P Global Ratings. a--Actual. p--Projected. GWh--Gigawatt hours. R\$--Brazilian real.

Company Description

Neoenergia is an integrated energy group operating in a wide range of electricity-related businesses: distribution, transmission, generation, and trading activities. It operates solely in Brazil, primarily in the northeastern region. Neoenergia has 16.6 million clients in the distribution segment through its five distribution companies and a regulatory asset base of R\$62.9 billion as of Dec. 31, 2024, considering its distribution and transmission assets. Following the divestment of Neoenergia’s 70% stake in the hydro plant Baixo Iguaçu, the group’s installed capacity reached 4,167 megawatts (MW) through hydro (46%), wind (37%), thermal (13%), and solar (4%) power plants, including its minority 10% stake (1,123 MW) in the hydro plant Belo Monte. In addition, Neoenergia operates five wholly owned transmission lines totaling 1,448 km and seven substations, contributing a RAP of about R\$283 million for the 2024-2025 cycle. Additionally, five transmission assets under construction are expected to add R\$1.2 billion in RAP by 2025, of which R\$275 million are already operational, comprising 5,320 km of lines and 11 substations. The group also holds eight operational transmission lines through a joint venture with Warrington Investment, extending 1,864 km and generating a RAP of R\$467 million.



Iberdrola controls Neoenergia through a 53.5% stake. Caixa de Previdência dos Funcionários do Banco do Brasil (not rated) holds 30.3% of the group, and the remaining 16.2% is free floating. Iberdrola is the second-largest power generator and distributor in Spain, as well as a leader in renewables, and it has operations in the U.K. through Scottish Power, in Latin America through Iberdrola Renovables, and in the U.S. through Avangrid.

Peer Comparison

We selected CPFL Energia, Energisa S.A. and Equatorial S.A. as one of the largest private players in the Brazilian electricity sector as peers for Neoenergia. We believe Neoenergia compares well with CPFL, Energisa, and Equatorial in terms of size and geographic diversification, since they operate multiple distribution concessions in Brazil. Given Neoenergia's currently higher level of investments, its credit metrics are slightly weaker than those of CPFL and Energisa, and better than Equatorial's, which also has considerable investments planned and an aggressive growth strategy through acquisitions. That explains our view of Neoenergia's and Equatorial's financial risk profiles as aggressive.

Among the Brazilian players, all four groups derive most of their revenue from the power distribution segment, while also operating power generation, except Energisa. CPFL's generation segment is the largest, representing about 35% of EBITDA, while it represents 5%-

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10% for Neoenergia and Equatorial. After building greenfield investments in generation and transmission, CPFL and Neoenergia have been most focused on their organic growth, while Equatorial and Energisa are growing through acquisitions, with opportunities in the sanitation and gas distribution segments, respectively.

Neoenergia S.A.--Peer comparisons

	Neoenergia S.A.	CPFL Energia S.A.	Equatorial Energia S.A.	Energisa S.A.
Foreign currency issuer credit rating	BB/Stable/--	N/A	N/A	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--	N/A	N/A	BB/Stable/--
Local scale issuer credit rating	brAAA/Stable/--	brAAA/Stable/--	brAAA/Stable/--	brAAA/Stable/--
Period	Annual	Annual	RTM	RTM
Period ending	12/31/2024	12/31/2024	9/30/2024	12/31/2024
Mil.	R\$	R\$	R\$	R\$
Revenue	36,677.0	36,749.9	33,470.6	27,309.3
EBITDA	10,339.0	12,447.3	8,609.8	7,342.8
Funds from operations (FFO)	6,625.0	7,294.2	3,649.9	2,706.5
Interest	4,791.0	2,536.7	4,727.5	3,023.8
Cash interest paid	3,359.0	2,234.2	3,103.8	4,084.3
Operating cash flow (OCF)	3,242.0	6,697.5	3,607.6	3,133.9
Capital expenditure	9,811.0	4,983.2	6,019.0	6,194.5
Free operating cash flow (FOCF)	-6,569.0	1,714.3	-2,411.4	-3,060.6
Discretionary cash flow (DCF)	-7,705.0	-1,765.3	-3,794.3	-4,656.9
Cash and short-term investments	7,826.0	3,547.1	10,280.5	8,561.2
Debt	48,901.0	28,814.3	50,917.1	28,150.6
Equity	32,747.0	21,795.0	25,769.2	20,792.2
EBITDA margin (%)	28.2	33.9	25.7	26.9
Return on capital (%)	10.2	22.5	10.4	14.8
EBITDA interest coverage (x)	2.2	4.9	1.8	2.4
FFO cash interest coverage (x)	3.0	4.3	1.8	1.7
Debt/EBITDA (x)	4.7	2.3	5.9	3.8
FFO/debt (%)	13.5	25.3	7.2	9.6
OCF/debt (%)	6.6	23.2	7.1	11.1
FOCF/debt (%)	-13.4	5.9	-4.7	-10.9
DCF/debt (%)	-15.8	-6.1	-7.5	-16.5

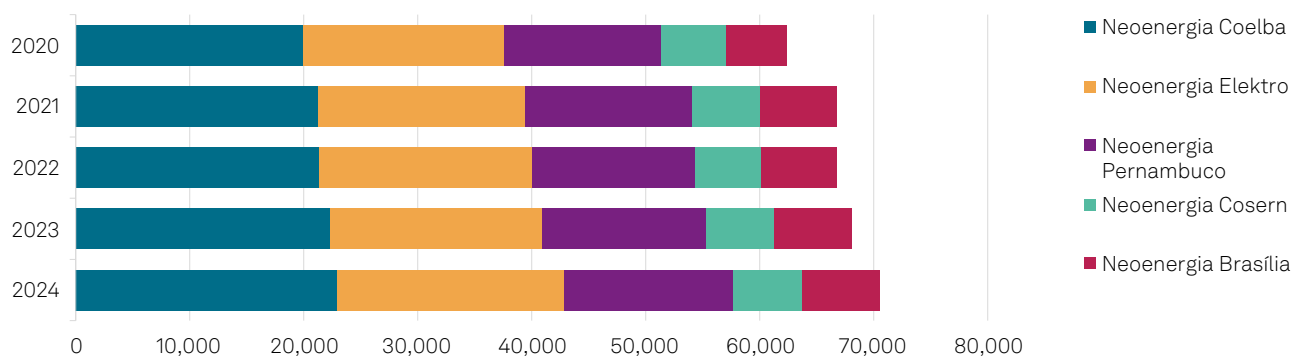
RTM--Rolling 12 months. R\$--Brazilian real. N/A--Not applicable.

Business Risk

Neoenergia’s cash flow is mostly stable because it comes from regulated activities under a favorable regulatory framework. One of Neoenergia’s business strengths is that electric power distribution and transmission activities generate 85%-90% of the group’s EBITDA, offering a high degree of cash flow predictability. This is particularly so for transmission lines, since revenue is based on availability, there’s no volume risk exposure. We expect the transmission segment to generate 5%-10% of Neoenergia’s EBITDA in the next few years, increasing gradually in this range as the group completes the construction of new transmission lines and substations. Meanwhile, the distribution segment should continue representing the bulk of Neoenergia’s EBITDA in the next few years, at 80%-85%. The cash flow stability of regulated activities is supported by Brazil’s regulatory framework that we view as favorable, based on the track record of fully respected contracts among industry players. In Brazil, distribution companies operate with cost pass-through mechanisms and investment-reward schemes. In addition, they are subject to rate readjustments every four to five years (depending on the concession contract). The latter enables the pass through of incurred electricity costs, and general and administrative expenses (usually pegged to inflation). Neoenergia’s highly regulated distribution business operates five concessions in Brazil, whereas three of them (operated by Neoenergia Coelba, Neoenergia Pernambuco, and Neoenergia Cosern) serve the country’s largest states in terms of share of national GDP in northeastern Brazil. Neoenergia Elektro operates in São Paulo, the country’s most populous and wealthiest state, and Mato Grosso do Sul. Neoenergia Brasília, the group’s latest acquisition, completed in March 2021, serves the densely populated Federal District. Electricity consumption in Neoenergia’s concession areas has historically grown faster than national consumption, but we forecast electricity demand will move somewhat in line with our expectations for Brazil’s GDP starting 2025, due to the continued growth of distributed generation and the liberalization of the energy market in the country. This is because since January 2024, clients consuming at least 500 kilowatts (kW) may select their electricity provider.

Electricity consumption

Neoenergia’s distribution companies--captive and free markets (gigawatt hours)



Source: S&P Global Ratings.

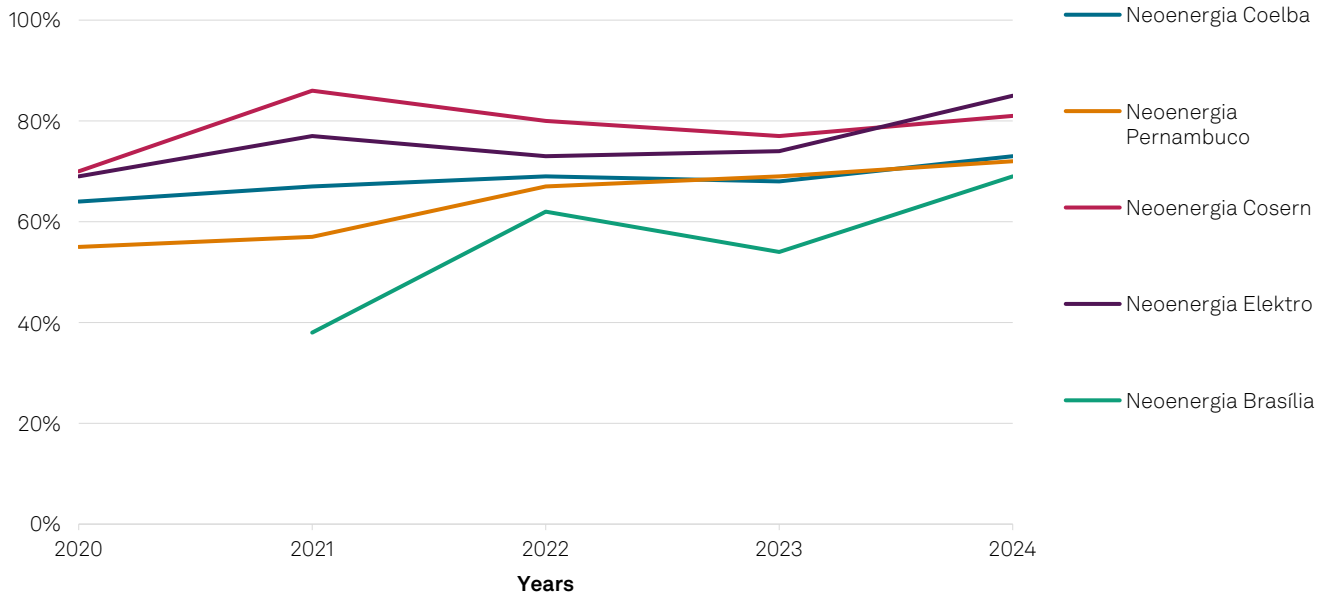
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The company’s operating efficiency continues to improve. Neoenergia has been investing in enhancing service quality across its five concession areas, successfully improving concession-wide average DEC and FEC throughout 2024, in compliance with regulatory thresholds. This

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comes in anticipation of stricter terms under the new distribution concession contract, which will require, on top of global DEC and FEC, minimum regulatory limits by subregions within each concession. It is also a response to the growing importance of quickly restoring systems after extreme weather events, which have significantly affected Brazil's electricity grid, highlighting the need for improved resilience and redundancy, and to incentivize distributors to invest in more remote areas of their concessions. Currently distributors face a penalty on their rate adjustment if less than 80% of subgroups are below the regulatory target for DEC and FEC. Neoenergia's concessions have improved consistently in recent years (see charts below) and we expect the company to keep investing about R\$7 billion in its distribution networks annually. In terms of energy losses, the group continues to invest in increasing inspections, replacing outdated power meters, and standardizing illegal connections across all its concessions. However, energy losses at Neoenergia Coelba and especially at Neoenergia Pernambuco exceeded the regulatory limit by 2.5 and 26.7 basis points, respectively, which translate into nonbilled revenue. Conversely, the group's investments in Neoenergia Brasília are yielding positive results, since the subsidiary's quality metrics and energy losses have aligned with regulatory targets ahead of the initial business plan. Additionally, the robust economic activity throughout 2024 has positively affected the distribution companies' collection rates, which increased to 98.9% across Neoenergia's concessions, from 96.5% in 2023. Despite this improvement, the group continues implementing various measures to assist customers in managing their electricity bills, including offering payment moratoriums and disconnecting services for delinquent clients.

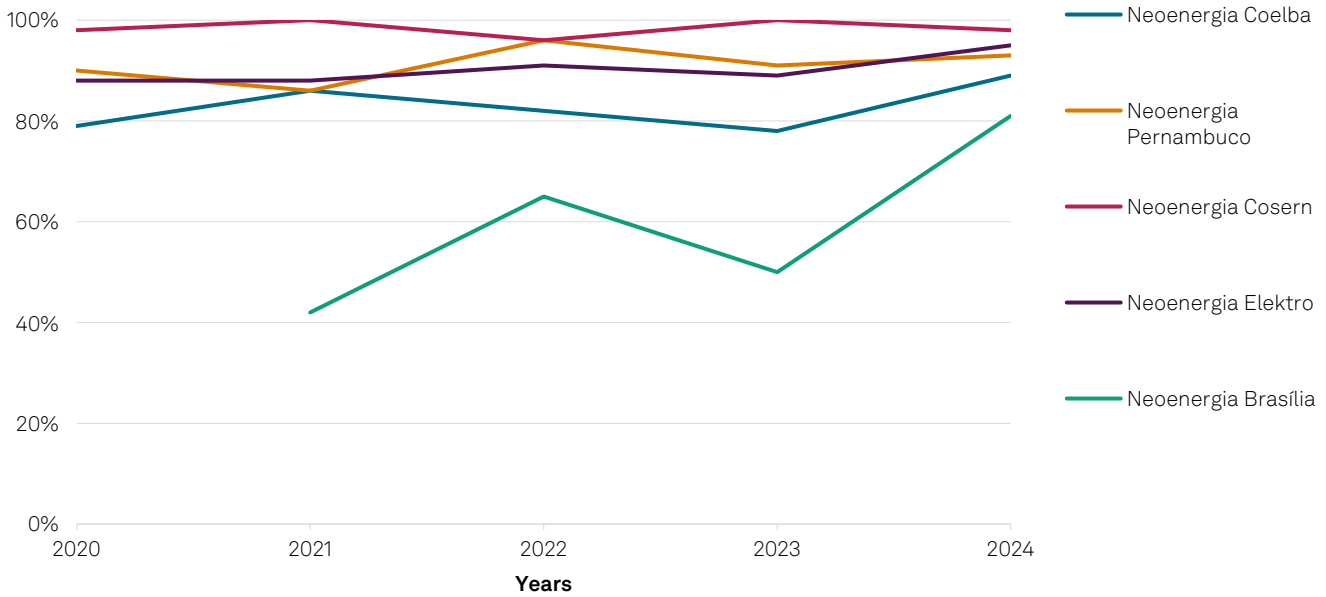
Percentage of subregions complying with regulatory DEC



Source: ANEEL and S&P Global Ratings.

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Percentage of subregions complying with regulatory FEC

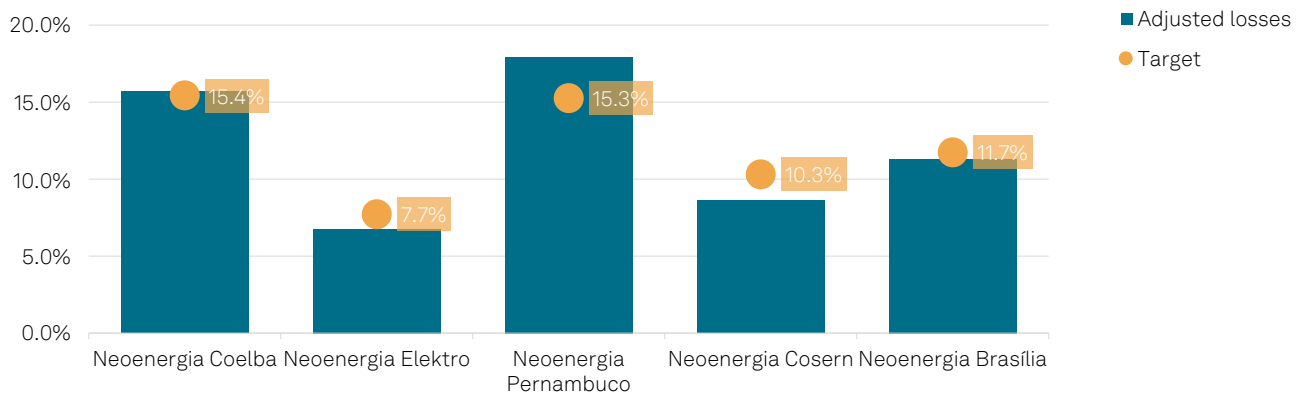


Source: ANEEL and S&P Global Ratings.

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Adjusted electricity losses

As of Dec. 31, 2024



Source: S&P Global Ratings.

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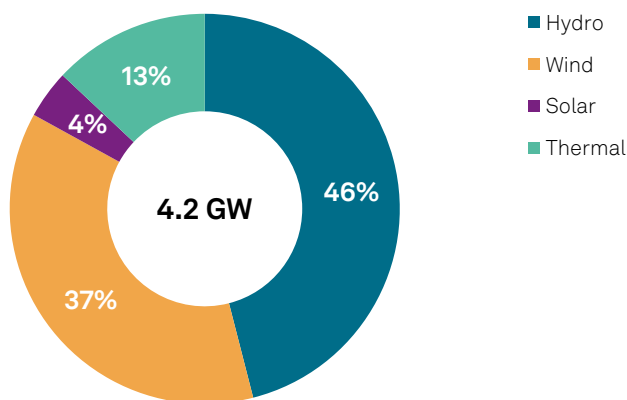
We expect lower cash flow from power generation. The power generation segment, which accounts for about 10%-15% of Neoenergia's EBITDA, experienced a decline in cash generation in 2024 following the end of Termopernambuco's high price power purchase agreement (PPA)

with Neoenergia Coelba and Neoenergia Pernambuco. Nevertheless, due to poor hydrologic conditions throughout 2024, Termopernambuco was able to anticipate the beginning of its new contract from July 2026 to October 2024. The plant will now operate as reserve capacity, receiving fixed revenue of R\$207 million annually (as of November 2021, adjusted to inflation), plus variable revenue in case the operator of the electric system (ONS) requires Termope to dispatch. Although the anticipation was positive, it compares negatively to Termopernambuco's EBITDA of R\$579 million in 2023. Additionally, the company is divesting its 70% stake in the 350-MW Baixo Iguaçu hydroelectric plant, which generates approximately R\$130 million in EBITDA, for an enterprise value of R\$1.43 billion. We see this positively, because the proceeds from the sale will be used to support the company's liquidity during its investment plan, reducing the need for additional debt.

The group's total installed capacity of 4.2 GW also encompasses a 10% stake in Belo Monte's hydroelectric dam, which Neoenergia now reports as an asset held for sale, along with Termopernambuco's 550 MW capacity, which the group may also divest in case it finds a good opportunity. Although Neoenergia aims to sell its interests in both assets, the timing of these divestitures remains uncertain. In our view, the group's expansion of its renewable capacity aligns with Iberdrola's global strategy to maintain its leadership position in renewable energy generation. Furthermore, Neoenergia's diversified generation capacity across hydro, wind, thermal, and solar sources supports stable cash flows, mitigating the risks associated with volatility in specific segments, particularly hydrological risks.

Generation installed capacity

Gigawatts (GW)



Source: S&P Global Ratings.

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Financial Risk

Our assessment of Neoenergia's financial risk profile considers its sizable capex, primarily in distribution and transmission, alongside the additional debt required to finance it amid rising interest rates in Brazil. The current projected average interest rates of 14.4% in 2025 and 13.6% in 2026 are expected to adversely affect overall financial metrics of Brazilian corporates, particularly FFO, since a higher portion of their cash generation will be used to pay interest expenses. Consequently, in the case of Neoenergia, because of still high investments of about R\$9.2 billion in 2025 to finish the construction of transmission lines and to keep growing its existing distribution concessions, we anticipate negative FOCF over the next two years.

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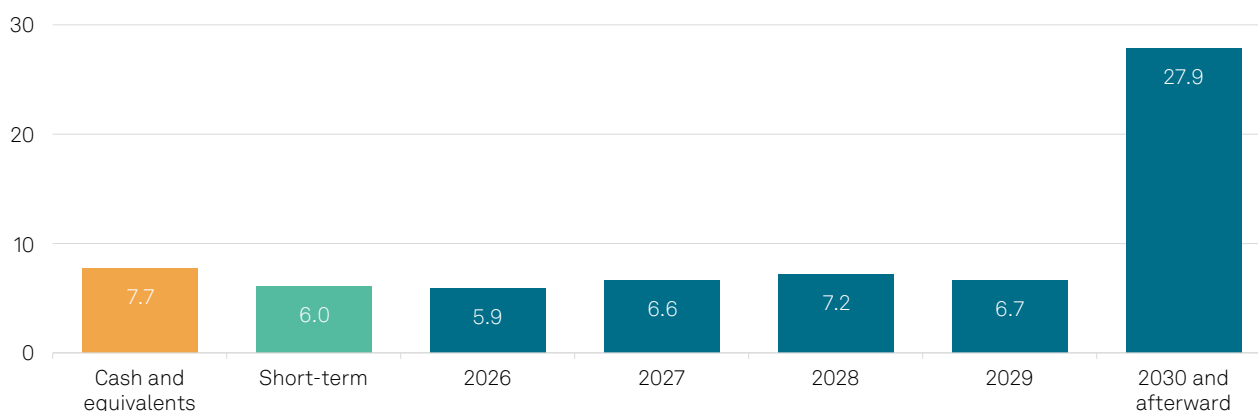
Additionally, we consider the distribution of a minimum mandatory dividend of 25% of the previous year's net income and assume the renewal of maturing concessions.

As a result, we expect Neoenergia's leverage, measured by net debt to EBITDA, to remain at about 4.5x in the next two years, while FFO to debt should lower to 10%-12%. We expect these metrics to improve to 4.0x and about 15%, respectively, by 2027, driven by expected rate increases aligned with inflation, demand growth at Neoenergia's distribution companies, reduced investment needs, and declining interest rates. This is still in line with the current aggressive financial risk profile. Our figures include debt adjustments such as pension-related liabilities and financial guarantees, which altogether add R\$4.9 billion in debt, and we disregard additional asset sales besides the 70% stake in Baixo Iguaçu.

Debt maturities

Debt amortization profile

Repayment of debt principal (bil. R\$)



R\$--Brazilian real. Source: S&P Global Ratings.

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Neoenergia S.A.--Financial Summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
Reporting period	2019a	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	R\$	R\$	R\$	R\$	R\$	R\$
Revenues	23,525	26,331	33,756	32,458	35,387	36,677
EBITDA	4,810	6,664	7,047	9,697	10,499	10,339
Funds from operations (FFO)	3,215	5,160	5,208	6,962	6,990	6,625
Interest expense	1,330	1,484	2,627	4,071	4,398	4,791
Cash interest paid	1,270	948	1,265	2,675	3,044	3,359
Operating cash flow (OCF)	3,410	3,543	132	4,620	1,632	3,242
Capital expenditure	4,309	6,337	9,369	9,892	8,903	9,811
Free operating cash flow (FOCF)	(899)	(2,794)	(9,237)	(5,272)	(7,271)	(6,569)
Discretionary cash flow (DCF)	(1,596)	(3,261)	(9,945)	(5,982)	(8,688)	(7,705)
Cash and short-term investments	4,066	5,076	5,617	6,901	7,522	7,826

Neoenergia S.A. and Subsidiaries

Neoenergia S.A.--Financial Summary

Gross available cash	4,066	5,076	5,617	6,901	7,522	7,826
Debt	18,141	24,303	36,426	42,241	44,860	48,901
Common equity	19,259	21,509	24,238	26,937	30,076	32,747
Adjusted ratios						
EBITDA margin (%)	20.4	25.3	20.9	29.9	29.7	28.2
Return on capital (%)	10.2	12.3	9.1	12.7	13.8	10.2
EBITDA interest coverage (x)	3.6	4.5	2.7	2.4	2.4	2.2
FFO cash interest coverage (x)	3.5	6.4	5.1	3.6	3.3	3.0
Debt/EBITDA (x)	3.8	3.6	5.2	4.4	4.3	4.7
FFO/debt (%)	17.7	21.2	14.3	16.5	15.6	13.5
OCF/debt (%)	18.8	14.6	0.4	10.9	3.6	6.6
FOCF/debt (%)	(5.0)	(11.5)	(25.4)	(12.5)	(16.2)	(13.4)
DCF/debt (%)	(8.8)	(13.4)	(27.3)	(14.2)	(19.4)	(15.8)

Reconciliation Of Neoenergia S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R\$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2024									
Company reported amounts	52,600	32,638	48,993	12,794	9,701	4,791	10,339	3,242	979	5,837
Cash taxes paid	-	-	-	-	-	-	(355)	-	-	-
Cash interest paid	-	-	-	-	-	-	(3,359)	-	-	-
Lease liabilities	243	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(7,826)	-	-	-	-	-	-	-	-	-
Dividends from equity investments	-	-	-	132	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	32	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	930	-	-	-	-	-
Noncontrolling/ minority interest	-	109	-	-	-	-	-	-	-	-
Debt: Guarantees	4,065	-	-	-	-	-	-	-	-	-
Debt: Workers comp/ self insurance	814	-	-	-	-	-	-	-	-	-
Debt: Derivatives	(995)	-	-	-	-	-	-	-	-	-
Revenue: other	-	-	(12,316)	(12,316)	(12,316)	-	-	-	-	-
COGS: other nonoperating	-	-	-	9,538	9,538	-	-	-	-	-

Neoenergia S.A. and Subsidiaries

Reconciliation Of Neoenergia S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R\$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
nonrecurring items										
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	159	159	-	-	-	-	-
D&A: other	-	-	-	-	(56)	-	-	-	-	-
Working capital: Taxes	-	-	-	-	-	-	-	355	-	-
Working capital: other	-	-	-	-	-	-	-	3,245	-	-
OCF: Taxes	-	-	-	-	-	-	-	(355)	-	-
OCF: other	-	-	-	-	-	-	-	(3,245)	-	-
Capex: other	-	-	-	-	-	-	-	-	-	3,974
Total adjustments	(3,699)	109	(12,316)	(2,455)	(1,745)	-	(3,714)	-	-	3,974
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	48,901	32,747	36,677	10,339	7,956	4,791	6,625	3,242	979	9,811

Liquidity

We assess Neoenergia's liquidity as adequate because we expect sources of cash to exceed uses by more than 1.1x over the next 12 months, even in the event of a 10% decline in EBITDA. The company's liability management efforts in 2024 extended the weighted average debt maturity profile to 6.3 years from 5.2 years in 2023. However, Neoenergia still has meaningful debt maturities in 2025 and 2026, of about R\$7.0 billion and R\$6.7 billion, respectively, in addition to its capex of about R\$16.2 billion in the next two years. Despite our expectation of lower cash generation due to rising interest rates, we believe that the group's cash position, expected cash generation, and approximately R\$2.7 billion in committed credit facilities will sufficiently cover its debt maturities and partially finance its investments in 2025. We expect Neoenergia to continue refinancing its debt while funding a portion of its investments with additional borrowings. We believe that Neoenergia has flexibility to postpone dividend payments and investments in case of stressful conditions. Although we don't incorporate further sales of assets in our liquidity analysis, we recognize they could strengthen liquidity in case the group sells additional noncore assets. In addition, we think the group has a good standing in capital markets and solid relationships with banks.

Principal liquidity sources

- Cash and cash equivalents of R\$7.8 billion as of Dec. 31, 2024.
- Committed credit lines of about R\$2.7 billion available to finance investments.
- Expected cash flows of R\$6.0 billion–R\$6.5 billion in 2025.
- Proceeds from the sale of Baixo Iguaçu of R\$1.43 billion, considering its enterprise value.

Principal liquidity uses

- Short-term debt of about R\$7.0 billion in 2025.
- Maintenance investments of about R\$6.4 billion in 2025.
- Working capital requirements of about R\$1.1 billion in 2025, including intra-year working capital needs.
- Minimum dividend distributions of about R\$920 million in 2025.

Covenant Analysis

Requirements

Neoenergia and its subsidiaries are subject to the following financial covenants, measured either quarterly, semiannually, or annually:

- Net debt to EBITDA of up to 4.0x; and
- EBITDA to interest of at least 2.0x.

The calculation of these covenants differs from our methodology, because variations in the concession's financial assets are considered as part of distribution companies' EBITDA. In addition, at the consolidated level, the covenant calculation doesn't adjust for the effects of IFRS 15 in the transmission segment, while we remove construction margins in the pre-operating period. Also, our adjusted metrics include debt adjustments related to pension liabilities and financial guarantees provided to equity affiliates, while the covenant calculation doesn't include them.

Compliance expectations

We expect Neoenergia to comply with the required financial covenants under its bank loans and debentures in the next two years with a cushion of 10%.

Environmental, Social, And Governance

ESG factors have an overall neutral influence on our credit rating analysis of Neoenergia. The group operates mainly distribution and transmission networks (roughly 85% of EBITDA) in the northeastern region of Brazil, with 20% of its client base belonging to the low-income slice of the population. In line with other integrated energy groups in Brazil, such as CPFL Energia and Companhia Energetica de Minas Gerais (CEMIG), we consider that Neoenergia is well positioned for the energy transition. Roughly 87% of its installed capacity is renewable. Neoenergia has a stake in Termopernambuco, a gas-powered thermoelectric plant, but our ESG assessment isn't affected: Termopernambuco represents a small share of the group's total installed capacity, it uses a relatively clean fossil fuel (natural gas), and serves as energy reserve to support Brazil's energy matrix, which is skewed toward hydro.

Group Influence

We consider operations in Brazil to be important to Iberdrola's strategy of expanding regulated activities (electricity distribution and transmission) in high-growth markets, as well as in the renewable segment. We expect Neoenergia to represent a smaller proportion of Iberdrola's revenue--less than 10% from 15%--after its parent acquired 88% of Electricity North West Ltd., and the remaining 18.4% of Avangrid Inc. in 2024. Nevertheless, we believe the group continues to see Brazil's favorable regulation positively and should keep mainly investing in power distribution. In addition, we expect Neoenergia to continue operating as a stand-alone entity and not rely on the parent's direct financial support. We believe Neoenergia Coelba, Neoenergia Pernambuco, Neoenergia Cosern, Neoenergia Elektro, and Neoenergia Brasilia are the group's most important subsidiaries since they're electricity distribution companies generating 80%-85% of Neoenergia's cash flow. Even though these subsidiaries are operated on a stand-alone basis due to regulatory purposes, we consider that Neoenergia adopts an integrated financial strategy toward all its subsidiaries.

Rating Above The Sovereign

Neoenergia--through its subsidiaries in the electric power distribution, transmission, and generation segments--operates in a heavily regulated industry. It's regulated at the federal level through ANEEL. We believe that in a sovereign stress scenario, the government could interfere in the electric utility sector, given its ability to determine the guidelines for the segment. Therefore, we believe that a default of Brazil would provide incentives for the government to intervene in the sector's companies, including Neoenergia, which could hamper their ability to repay debt. At this point, considering our 'BB' sovereign rating on Brazil, which is at the same level as Neoenergia's SACP, the rating on the group is not capped. Nevertheless, if there were any negative rating action on the sovereign, our ratings on Neoenergia and on its subsidiaries would move in tandem.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of Dec. 31, 2024, Neoenergia's gross debt totaled R\$52.6 billion, consisting of debentures (52%) and bank loans (48%) from several financial institutions, including development banks. Out of the total amount, roughly 10% of debt is at the holding level and the remaining 90% is at the subsidiaries' level. We rate several of Neoenergia's and its subsidiaries' debt instruments on the national scale (see table).

Debt-level ratings

Issue	Amount	Maturity	Rating
Neoenergia S.A.			
6th debentures issuance	R\$1.3 billion	Jun-33	brAA+
Companhia de Eletricidade do Estado da Bahia (Neoenergia Coelba)			
12nd debentures issuance	R\$700 million	Apr-26	brAAA
13rd debentures issuance	R\$800 million	Oct-31	brAAA
1st commercial notes issuance	R\$800 million	Dec-28	brAAA

Debt-level ratings

Issue	Amount	Maturity	Rating
Neoenergia S.A.			
14th debentures issuance	R\$1.2 billion	Apr-32	brAAA
2nd commercial notes issuance	R\$500 million	Jul-29	brAAA
16th debentures issuance	R\$1.2 billion	Sep-30	brAAA
17th debentures issuance	R\$ 1.5 billion	Nov-33	brAAA
18th debentures issuance	R\$ 1.0 billion	Jun-31	brAAA
Companhia Energetica de Pernambuco (Neoenergia Pernambuco)			
10th debentures issuance	R\$500 million	Apr-26	brAAA
11st debentures issuance	R\$500 million	Oct-31	brAAA
1st commercial notes issuance	R\$500 million	Dec-28	brAAA
12nd debentures issuance	R\$1.2 billion	Apr-32	brAAA
2nd commercial notes issuance	R\$450 million	Jul-29	brAAA
13rd debentures issuance	R\$ 1.2 billion	Nov-33	brAAA
14th debentures issuance	R\$500 million	Mar-29	brAAA
15th debentures issuance	R\$700 million	Dec-30	brAAA
Companhia Energetica do Rio Grande do Norte (Neoenergia Cosern)			
1st commercial notes issuance	R\$500 million	Dec-28	brAAA
10th debentures issuance	R\$800 million	Jul-29	brAAA
11st debentures issuance	R\$500 million	Jun-28	brAAA
12nd debentures issuance	R\$650 million	Mar-34	brAAA
Elektro Redes S.A. (Neoenergia Elektro)			
7th debentures issuance	R\$1.3 billion	May-25	brAAA
9th debentures issuance	R\$700 million	May-28	brAAA
10th debentures issuance	R\$650 million	Oct-31	brAAA
11st debentures issuance	R\$500 million	Jul-29	brAAA
12nd debentures issuance	R\$200 million	Mar-29	brAAA
13rd debentures issuance	R\$1.2 billion	Apr-34	brAAA
14th debentures issuance	R\$500 million	Feb-32	brAAA
Neoenergia Distribuição Brasília S.A.			
5th debentures issuance	R\$300 million	Jul-29	brAAA
6th debentures issuance	R\$200 million	Mar-29	brAAA
Calango 6 Energia Renovavel S.A.			
1st debentures issuance	R\$43.5 million	Jun-28	brAA+
Lagoa 1 Energia Renovavel S.A.			
1st debentures issuance	R\$46.2 million	Mar-29	brAA+
NC Energia S.A.			
1st debentures issuance	R\$31.6 million	Dec-25	brAA+
EKTT09 Serviços de Transmissão de Energia Elétrica SPE S.A. (Alto Paranaíba)			
1st debentures issuance	R\$1.1 billion	May-38	brAA+
2nd debentures issuance	R\$1.0 billion	May-38	brAA+
Neoenergia Morro do Chapéu Transmissão de Energia S.A.			
1st debentures issuance	R\$432 million	Dec-38	brAA+

Debt-level ratings

Issue	Amount	Maturity	Rating
Neoenergia S.A.			
Itapebi Geracao de Energia S.A.			
6th debentures issuance	R\$150 million	Mar-29	brAA+
R\$--Brazilian real			

Analytical conclusions

The 'brAAA' issue-level ratings on issuances by Neoenergia Coelba, Neoenergia Pernambuco, Neoenergia Cosern, Neoenergia Elektro, and Neoenergia Brasilia are the same as the national scale ratings on the same entities, because they're the group's main operating companies and they finance themselves mostly through unsecured debt at their level. The 'brAA+' issue-level rating on Neoenergia's debt is one notch lower than the national scale rating because about 90% of the consolidated debt is at the operating subsidiaries' level, indicating structural subordination of the holding's obligations. Furthermore, the 'brAA+' issue-level ratings on issuances by Calango 6, Lagoa 1, NC Energia, Itapebi, Alto Paranaíba, and Morro do Chapéu reflect the reliance on Neoenergia's guarantees (credit substitution). We treat these debt instruments as the group's obligations; therefore, they are subordinated to other obligations.

Rating Component Scores

Foreign currency issuer credit rating	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--
Business risk	Satisfactory
Country risk	Moderately High
Industry risk	Low
Competitive position	Satisfactory
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb
Group status of Neoenergia to Iberdrola	Strategically Important
Group status of Neoenergia's discos within the group	Core

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023

Neoenergia S.A. and Subsidiaries

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of March 25, 2025)*

Neoenergia S.A.

Issuer Credit Rating	BB/Stable/--
<i>Brazil National Scale</i>	brAAA/Stable/brA-1+

Issuer Credit Ratings History

20-Dec-2023	BB/Stable/--
15-Jun-2023	BB-/Positive/--
07-Apr-2020	BB-/Stable/--
11-Jul-2018	<i>Brazil National Scale</i> brAAA/Stable/brA-1+
12-Jan-2018	brAA-/Stable/brA-1+
16-Aug-2017	brAA-/Negative/brA-1+

Related Entities

Companhia de Eletricidade do Estado da Bahia

Issuer Credit Rating	BB/Stable/--
<i>Brazil National Scale</i>	brAAA/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA

Companhia Energetica de Pernambuco (CELPE)

Issuer Credit Rating	BB/Stable/--
<i>Brazil National Scale</i>	brAAA/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA

Companhia Energetica do Rio Grande do Norte

Issuer Credit Rating	BB/Stable/--
<i>Brazil National Scale</i>	brAAA/Stable/--

Neoenergia S.A. and Subsidiaries

Ratings Detail (as of March 25, 2025)*

Senior Unsecured	
<i>Brazil National Scale</i>	brAAA
Elektro Redes S.A.	
Issuer Credit Rating	
<i>Brazil National Scale</i>	brAAA/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA
Neoenergia Distribuicao Brasilia S.A.	
Issuer Credit Rating	
<i>Brazil National Scale</i>	brAAA/Stable/--
Senior Unsecured	
<i>Brazil National Scale</i>	brAAA

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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