FitchRatings

Corporates
Electric-Corporate
Brazil

Light S.A.

The ratings on Light S.A. (Light) and its wholly owned subsidiaries, Light Servicos de Eletricidade S.A. (Light Sesa) and Light Energia S.A. (Light Energia), reflect the fact that Light remains under bankruptcy protection, granted on May 15, 2023, whose effects extend to its subsidiaries.

Key Rating Drivers

Ongoing Judicial Recovery: The court ratified Light's judicial recovery plan (JRP) on June 18, 2024 after creditors approved it on May 29. The JRP includes a capital injection of BRL1.0 billion in cash from reference shareholders and BRL2.2 billion of debt converting into equity. Fitch will review Lights ratings after it leaves bankruptcy protection based on the new capital structure, updated assumptions for operating performance and expectations of financial flexibility. Due to the utilities nature of Light's businesses, the group's operations have not been critically affected by the credit default, despite cuts in operating expenditure and capex.

Debt Restructuring: The debt restructuring will ensure Light Sesa's leverage metrics meet requirements, so that it avoids losing its concession right and has room for its renewal, under the government's new conditions. The debt exchange and equity injection are expected to occur after the concession renewal. Light Sesa's concession expires in June 2026.

Fitch projects the group's net leverage to average 2.9x over 2024-2027, from 6.5x in March 2024. Key assumptions for Light Sesa under this scenario include annual capex around BRL1.3 billion, regulatory losses around 41% of its reference market and no significant market growth.

Regulatory Losses a Key Factor: Fitch believes regulatory losses is the most important variable and the base case assumptions include some deviation from current levels, which averaged 38% over 2024-2027. Fitch does not expect Light Sesa to significantly reduce effective losses of 65%. If the Brazilian regulator accepts the company's claim, with new regulatory levels averaging 47%, then this variable alone could reduce the group's net leverage to around 2.2x over the same period. Fitch's projections include an off-balance-sheet debt of BRL700 million related to guarantees to non-consolidated companies (Norte Energia S.A.).

Credit Environment Limits Recovery: Fitch caps the Recovery Ratings of Light's debt instruments at 'RR4', resulting in 'C' rating for the bonds. This cap reflects concerns over the enforceability of creditor rights in certain jurisdictions, where average recoveries tend to be lower. Without the cap, the Recovery Ratings on the group's unsecured debt instruments would be 'RR2' for debt issued by Light Energia and 'RR3' for those issued by Light Sesa, resulting in 'CCC-' and 'CC' ratings, respectively, according to Corporates Recovery Ratings and Instrument Ratings Criteria.

The recovery prospects, not incorporated in the instruments' ratings, reflect the beneficial treatment for Light Energia's debt and Light Sesa's right to receive around BRL10.1 billion from the government, as indemnification for unamortized assets in case of non-renewal concession.

Ratings

Light S.A.

Long-Term IDR	D
Long-Term Local-Currency IDR	D
National Long-Term Rating	D(bra)

Light Energia S.A.

Long-Term IDR	D
Long-Term Local-Currency IDR	D
National Long-Term Rating	D(bra)
Senior Unsecured Debt - Long-Term Rating	C

Light Servicos de Eletricidade S.A.

Long-Term IDR	D
Long-Term Local-Currency IDR	D
National Long-Term Rating	D(bra)
Senior Unsecured Debt - Long-Term Rating	C

Click here for the full list of ratings

2035 Climate Vulnerability Signal: 17

Applicable Criteria

Parent and Subsidiary Linkage Rating Criteria (June 2023)

Country-Specific Treatment of Recovery Ratings Criteria (March 2023)

National Scale Rating Criteria (December 2020)

Corporate Rating Criteria (November 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (October 2023)

Sector Navigators – Addendum to the Corporate Rating Criteria (November 2023)

Related Research

Global Corporates Macro and Sector Forecasts

Fitch Publishes Report on Light's Judicial Reorganization (May 2024)

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Financial Summary

(BRL Mil.)	2021	2022	2023	2024F	2025F	2026F
Debt	11,649	11,846	12,007	10,213	9,756	8,339
EBITDA	1,869	1,695	1,796	2,327	2,453	2,550
EBITDA interest coverage (x)	3.0	1.9	15.3	21.8	3.8	4.3
FFO interest coverage (x)	2.7	1.7	17.0	19.1	2.9	4.1
EBITDAR fixed-charge coverage (x)	3.0	1.9	15.3	21.8	3.8	4.3

F = Forecast
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Light's ratings reflect the fact that the company filed for bankruptcy protection on May 12, 2023, which was granted by the court on May 15, 2023.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Success in completing a debt restructuring and Light exiting the bankruptcy protection.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Negative rating actions are not possible as Light is at the lowest level of the rating scale.

Liquidity and Debt Structure

Liquidity Compromised: Fitch considers that Light's ability to raise new debt after the debt restructuring will be limited. If the company succeeds in implementing the JRP's proposed capital structure, Fitch believes it would be fully funded over the projection horizon (2024-2027), assuming minimum cash balance of BRL1.5 billion on a consolidated basis and some increase in the regulatory limit for Light Sesa's energy losses.

Light Sesa's debt (BRL9.8 billion, including partial interest accrual since the stay period was granted) would be exchanged for tranches with first instalments due 2028, while debt issued by Light Energia (BRL1.9 billion, with partial interest accrual, or BRL1.3 billion, disregarding debt that have already been excluded from the JRP) would not be restructured, provided that certain conditions are met.

At the end of March 2024, Light had BRL2.4 billion in cash and short-term debt of BRL11.7 billion, mostly concentrated in Light Sesa (BRL9.8 billion). The group's adjusted consolidated debt of BRL12.5 billion comprised debentures (62%), bonds (27%), swaps (6%)and off-balance debt (6%), related to Light's proportional guarantee in favor of Norte Energia S.A., owner of the Belo Monte hydropower plant.

ESG Considerations

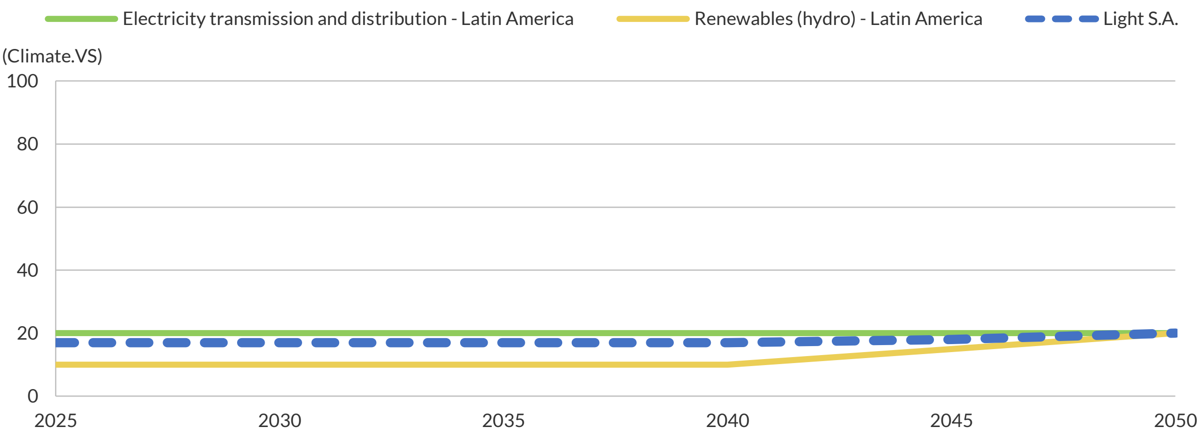
The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Climate Vulnerability Considerations

Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's Corporate Rating Criteria.

The 2023 EBITDA-weighted Climate.VS for Light for 2035 is 17 out of 100, suggesting low exposure to climate-related risks in that year. For further information on how Fitch perceives climate-related risks in the utilities sector, please see Utilities - Long-Term Climate Vulnerability Signals Update.

Climate.VS Evolution
As of Jan 09, 2023



Source: Fitch Ratings

Key Assumptions

- Capital increase of BRL3.2 billion in 2024: equity injection of BRL1.0 billion plus debt conversion of BRL2.2 billion;
- Interest accrual totaling BRL405 million since the standstill was granted;
- Issuance of BRL3.4 billion, with eight years-term, at Extended National Consumer Price Index (IPCA in Portuguese) + 5% per annum, with first instalment due 2028;
- Issuance of BRL3.0 billion, with 13 years-term, at IPCA + 3% per annum, with first instalment due 2028;
- Issuance of BRL670 million, with 10 years-term, at interbank deposit certificate rate (known as CDI) + 0.5% per annum, with first instalment due 2028;
- Existing debt instruments: BRL77 million of debts issued by Light Energia, to be paid according to original terms, after interest accrual;
- Upfront payment of BRL300 million for small creditors in 2024.
- Assumptions for Light Sesa's operations:
  - Increase in the regulatory limit for energy losses, as proposed by ANEEL's technical department in September 2023;
  - Effective energy losses flat at 60% of the reference market;
  - Zero market growth as of 2024;
  - Annual capex of BRL1.3 billion in 2025-2027.

Summary of Financial Adjustments

Fitch excluded revenues and costs related to construction from income statements.

Financial Data

(BRL Mil.)	2021	2022	2023	2024F	2025F	2026F
Summary income statement						
Gross revenue	13,931	12,107	13,476	11,801	10,864	11,243
Revenue growth (%)	13.4	-13.1	11.3	-12.4	-7.9	3.5
EBITDA before income from associates	1,869	1,695	1,796	2,327	2,453	2,550
EBITDA margin (%)	13.4	14.0	13.3	19.7	22.6	22.7
EBITDA after associates and minorities	1,882	1,695	1,796	2,327	2,453	2,550
EBIT	1,191	-1,893	1,538	1,573	1,588	1,584
EBIT margin (%)	8.5	-15.6	11.4	13.3	14.6	14.1
Gross interest expense	-698	-932	-814	-1,087	-645	-591
Pretax income including associate income/loss	-187	-5,358	817	665	1,289	1,308
Summary balance sheet						
Readily available cash and equivalents	3,605	2,084	2,097	4,288	3,914	3,087
Debt	11,649	11,846	12,007	10,213	9,756	8,339
Net debt	8,044	9,763	9,910	5,925	5,842	5,253
Summary cash flow statement						
EBITDA	1,869	1,695	1,796	2,327	2,453	2,550
Cash interest paid	-627	-876	-118	-107	-645	-591
Cash tax	-59	-179	-155	-77	-149	-151
Dividends received less dividends paid to minorities (inflow/outflow)	12	—	—	—	—	—
Other items before FFO	-107	-8	354	-205	-407	—
FFO	1,241	1,028	2,096	2,118	1,598	2,124
FFO margin (%)	8.9	8.5	15.6	17.9	14.7	18.9
Change in working capital	-1,283	-539	-544	-43	-24	10
CFO (Fitch-defined)	-42	489	1,552	2,075	1,574	2,133
Total non-operating/nonrecurring cash flow	—	—	—	—	—	—
Capex	-1,249	-1,470	-773	—	—	—
Capital intensity (capex/revenue) (%)	9.0	12.1	5.7	—	—	—
Common dividends	-164	-95	—	—	—	—
FCF	-1,456	-1,076	779	—	—	—
FCF margin (%)	-10.5	-8.9	5.8	—	—	—
Net acquisitions and divestitures	—	192	—	—	—	—
Other investing and financing cash flow items	-45	-81	-31	—	—	—
Net debt proceeds	567	-557	-735	-1,795	-456	-1,417
Net equity proceeds	1,341	—	—	3,200	—	—
Total change in cash	406	-1,521	13	2,191	-374	-827
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-1,414	-1,373	-773	-961	-1,491	-1,544
FCF after acquisitions and divestitures	-1,456	-884	779	1,114	82	590
FCF margin after net acquisitions (%)	-10.5	-7.3	5.8	9.4	0.8	5.2
Gross Leverage ratios (x)						
EBITDA leverage	6.2	7.0	6.7	4.4	4.0	3.3
CFO-capex/debt	-11.1	-8.3	6.5	10.9	0.8	7.1

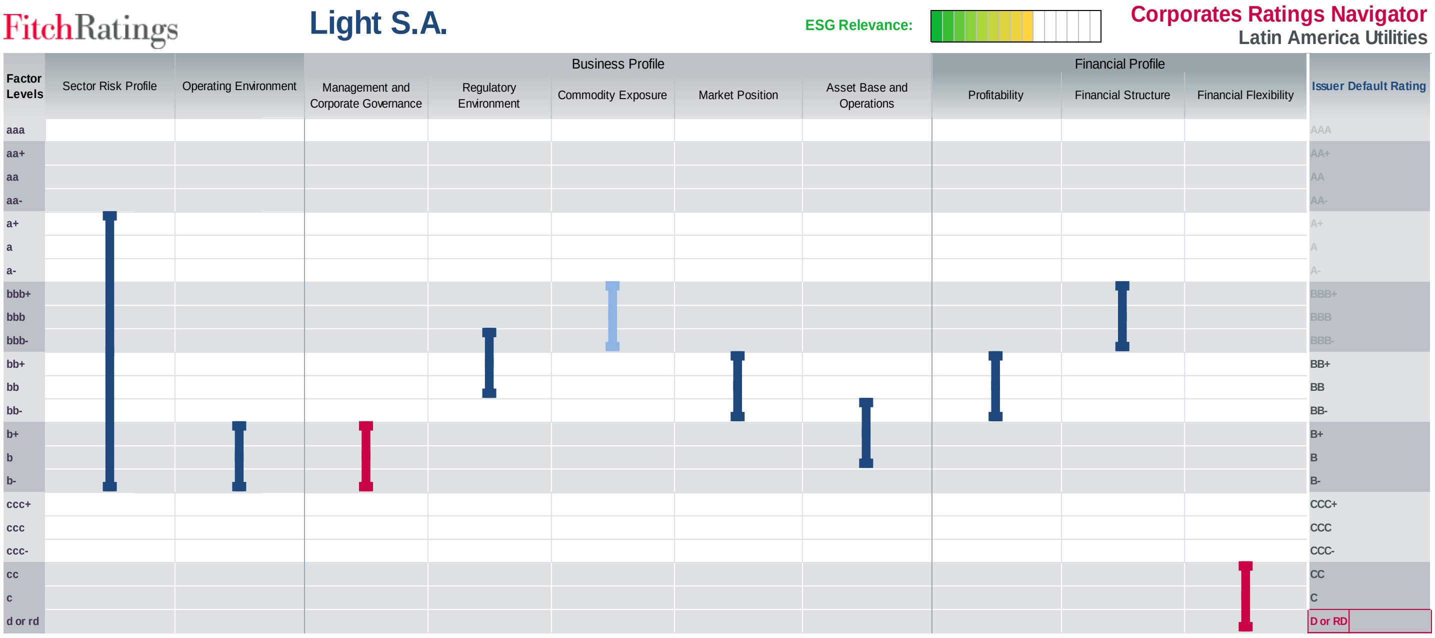
(BRL Mil.)	2021	2022	2023	2024F	2025F	2026F
Net Leverage ratios (x)						
EBITDA net leverage	4.3	5.8	5.5	2.5	2.4	2.1
CFO-capex/net debt	-16.1	-10.1	7.9	18.8	1.4	11.2
Coverage ratios (x)						
EBITDA interest coverage	3.0	1.9	15.3	21.8	3.8	4.3

CFO – Cash flow from operations
Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' 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 Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' 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 Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings 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 Ratings' own internal deliberations, where Fitch Ratings, 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 Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colors = Relative Importance		⇧	Positive
■	Higher Importance	⇩	Negative
■	Average Importance	⇳	Evolving
■	Lower Importance	☐	Stable

FitchRatings

Light S.A.

Corporates Ratings Navigator
Latin America Utilities

Operating Environment

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

Management and Corporate Governance

bb-	Management Strategy	ccc	Strategy visibly failing, major transformation required to avoid company failure, with no better than even chance of success.
b+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
b	Group Structure	aa	Transparent group structure.
b-	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
ccc+			

Regulatory Environment

bbb	Independence	bb	Moderate government interference in utility regulations.
bbb-	Balance	bb	Regulatory framework is biased toward the needs of end users at the expense of sector participants.
bb+	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 Exposure

a-	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	bbb	Weighted average credit quality of actual and potential offtakers is in line with 'BBB' rating.
bbb			
bbb-			
bb+			

Market Position

bbb-	Consumption Growth Trend	bb	Exposure to declining usage or volumes, or self-generation.
bb+	Customer Mix	a	Well diversified customer mix.
bb	Geographic Location	bb	High sensitivity to extreme weather or disaster disruptions.
bb-	Supply Demand Dynamics	bb	Uncertain outlook for prices and rates.
b+			

Asset Base and Operations

bb	Asset Diversity	b	Low quality, small size and highly concentrated assets.
bb-	Reliability of Operations and Cost Position	b	Poor system reliability and disadvantageous cost structure with high operating losses.
b+	Exposure to Environmental Regulations	bbb	Limited or manageable exposure to environmental regulations.
b	Capital and Technological Intensity of Capex	bb	Reinvestment concentrated in capital-intensive or unproven technologies.
b-			

Profitability

bbb-	Volatility of Profitability	b	Stability and predictability of profits viewed as negative outliers relative to utility peers.
bb+	Free Cash Flow	a	Structurally neutral to positive FCF across the investment cycle.
bb			
bb-			
b+			

Financial Structure

a-	EBITDA Leverage	bbb	4.0x
bbb+	EBITDA Net Leverage	bbb	3.5x
bbb			
bbb-			
bb+			

Financial Flexibility

ccc-	Financial Discipline	ccc	Financial management has lost much of its discipline, and subject to frequent, sudden changes consistent with a crisis environment.
cc	Liquidity (Cash+CFO)/S-T Debt	ccc	No near-term prospect of recovery in liquidity score above 1.0x. All/most funding sources subject to material execution risk.
c	EBITDA Interest Coverage	ccc	1.0x
d or rd	FX Exposure	aa	No material FX mismatch.
nr			

Credit-Relevant ESG Derivation

Light S.A. has 5 ESG potential rating drivers
- Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)
- Worker safety and accident prevention
- Social resistance to major projects that leads to delays and cost increases
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	6	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

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 2.22.6.0

FitchRatings

Light S.A.

Corporates Ratings Navigator
Latin America Utilities

Credit-Relevant ESG Derivation

Light S.A. has 5 ESG potential rating drivers

- Light S.A. has exposure to extreme weather events but this has very low impact on the rating.
- Light S.A. has exposure to employee health & safety risk but this has very low impact on the rating.
- Light S.A. has exposure to social resistance but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	6	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Asset Base and Operations; Regulatory Risk; Profitability; Financial Structure
Energy Management	1	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Asset Base and Operations; Commodity Price and Market Risk; Profitability; Financial Structure
Water & Wastewater Management	1	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Asset Base and Operations; Regulatory Risk; Profitability
Waste & Hazardous Materials Management; Ecological Impacts	1	Impact of waste including pollution incidents; discharge compliance; sludge, coal ash	Asset Base and Operations; Regulatory Risk; Profitability
Exposure to Environmental Impacts	3	Networks' exposure to extreme weather events- negative (e.g. risk of drought and flooding) or positive (e.g. additional return on resilience capex)	Asset Base and Operations; Commodity Price and Market Risk; Profitability

E Relevance: 5, 4, 3, 2, 1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Regulatory-driven access and affordability targets of utility services	Asset Base and Operations; Regulatory Risk; Profitability
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Quality and safety of products and services; data security	Regulatory Risk; Profitability
Labor Relations & Practices	2	Impact of labor negotiations and employee (dis)satisfaction	Profitability; Financial Structure; Financial Flexibility
Employee Wellbeing	3	Worker safety and accident prevention	Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Profitability; Financial Structure

S Relevance: 5, 4, 3, 2, 1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	1	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	1	Quality and timing of financial disclosure	Management and Corporate Governance

G Relevance: 5, 4, 3, 2, 1

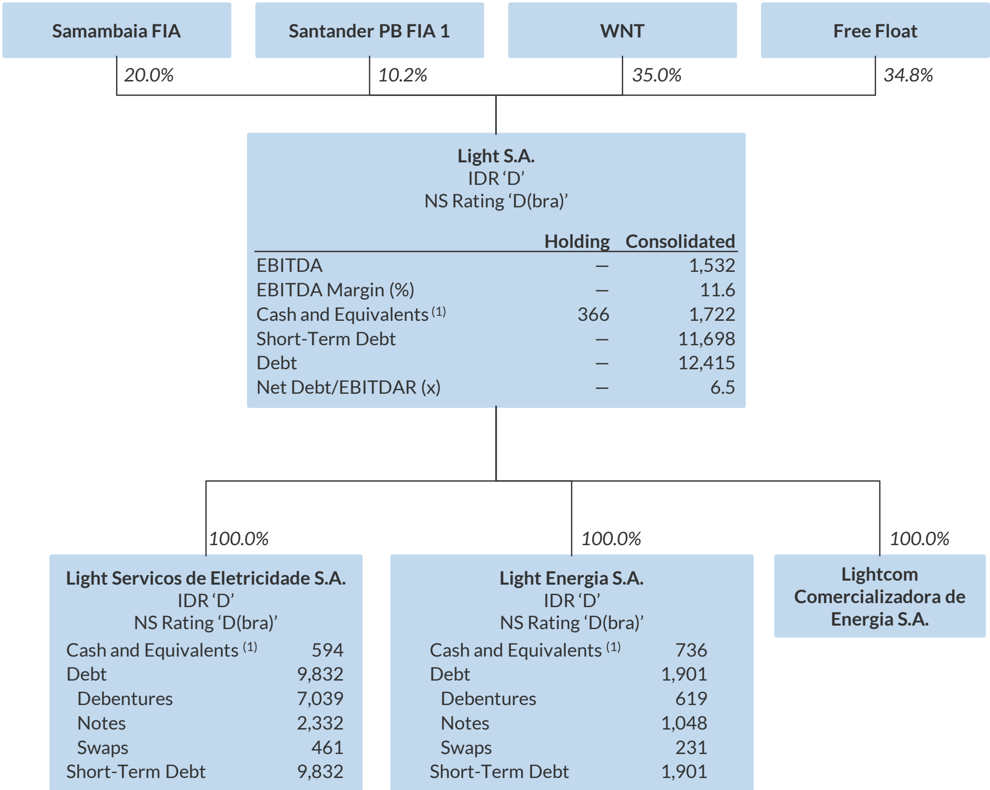
How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.
The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Organizational Structure — Light S.A.
BRL Mil., LTM as of March 31, 2024



[1] After applying a 30% haircut on marketable securities.
IDR – Issuer Default Rating. NS Rating: National scale rating referring to National Long-Term Rating.
Source: Fitch Ratings, Fitch Solutions, Light Energia S.A.

Recovery Analysis

Issuer	Light S.A.		
Issuer Default Rating	D	**As of**	31 Dec 23
Sector	Utilities	**Currency**	(BRL Mil.)
Country	Brazil	**Country group**	D

Going concern (GC) enterprise value (EV)	
GC EBITDA	2,100
EBITDA multiple (x)	3.5
GC value from alternative method	-
Additional value from affiliates, minority interest, other	-
GC EV	**7,350**

EV for claims distribution	
Greater of GC enterprise or liquidation value	8,106
Less administrative claims	811
Total EV	**7,296**

Liquidation value	**Book value**	**Advance rate (%)**	**Available to creditors**
Cash	2,097	0	-
Accounts receivable	1,304	0	-
Inventory	57	0	-
Net property, plant and equipment	-	0	-
Liquidation value of off-balance-sheet assets	10,133	80	8,106
Additional value from affiliates, minority interest, other	-	100	-
Total liquidation value			**8,106**

Distribution of value

					Before country-specific considerations			After country-specific considerations		
Priority	**Amount**	**Concession allocation**	**Value recovered**	**Recovery (%)**	**Recovery Rating**	**Notching**	**Rating**	**Recovery Rating**	**Notching**	**Rating**
Unsecured - Light Energia	1,809	0	1,809	100	RR2	+2	CCC-	RR4	0	C
Unsecured - Light Sesa	9,500	0	5,487	58	RR3	+1	CC	RR4	0	C

Source: Fitch Ratings, Fitch Solutions, Light S.A.

Disregarding any debt restructuring, Fitch's recovery analysis considers that the group's liquidation value, based on the expected indemnification for Light Sesa's regulatory asset base (BRL10 billion) and after an advance rate of 80%, would be greater than the enterprise value as a going concern (BRL7.3 billion). The enterprise value estimate assumes an enterprise value/EBITDA multiple of 3.5x and a going concern EBITDA of around BRL2.1 billion, which includes some increase in the regulatory limit for Light Sesa`s energy losses.

The liability waterfall indicates a recovery commensurate with a Recovery Rating of 'RR2' for Light Energia's outstanding debt and 'RR3' for Light Sesa's debt, after administrative claims of 10%. The group's outstanding debt in December 2023 (BRL10.6 billion) comprised only unsecured instruments. The 'RR2' and 'RR3' Recovery Ratings reflect recovery prospects ranging from 71%-90% and 51%-70%, respectively. However, the Recovery Rating for senior unsecured debt is capped at 'RR4' because under Fitch's Country-Specific Treatment of Recovery Ratings Criteria, Brazil falls into Group D of creditor friendliness, and the Recovery Ratings of issuers with assets in this group are subject to a cap of 'RR4'.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.