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Acquisition of Focus Energia Has No Impact on Eneva's Rating

Fitch Ratings- Rio de Janeiro- December 17, 2021: According to Fitch Ratings, the announced proposed acquisition of Focus Energia Holding Participações S.A. (Focus) is neutral to the credit ranking of Eneva S.A. (Eneva), currently 'AA+(bra)', Flat Prospect, on the Long-Term Brazilian Ranking.

The acquisition will strengthen Eneva's business model with increased scale of assets from various sources of power. On the other hand, disbursements with the acquisition and the investments as estimated by Focus should cause an approximate increase of 1.0x net leverage, which Fitch initially expects for 2022. Even then, the rating should remain flat, very close to the 3.5x headroom. The preliminary scenario considers peak leverage as 3.0x in 2022 and 2.4x in 2023, over the previous projection of 2.0x and 1.5x, respectively.

With all Eneva projects currently under construction being already in operation by the end of 2022, the expected reduction in Eneva's leverage will increase flexibility to invest in new projects or acquisitions from 2023 onwards, albeit on a limited scale. The agency understands that if financed mostly by debt, relevant acquisitions such as Polo Urucu would strongly pressure Eneva's credit metrics and generate strong negative pressure on the rating.

The transaction announced on December 15, 2021, indicates Eneva's proposal to acquire 100% of the shares of Focus, totaling approximately BRL965 million, comprising a cash payment of BRL715 million and an exchange of 17 million shares to be issued by Eneva to the current shareholders of Focus, which, at the time of the announcement, accrued to around BRL250 million. The closing of the transaction and the disbursement should take place in the first quarter of 2022. The acquisition includes the trading operations of Focus as well as its assets and energy generation projects, including the Futura 1 solar complex under construction, which will have 670MW of installed power and should be fully operating by the end of 2022. Additional investments in this project will add around BRL2 billion to Eneva's investments next year. Preliminary estimates by Fitch are that the trader and solar complex will contribute around BRL250 million to the 2022 EBITDA and

between BRL300 million to BRL350 million on average from 2023 to 2024. The agency may revise its initial leverage expectations for Eneva as it obtains better visibility into the operating cash flow of Focus.

Together, the disbursement for the acquisition and investments in the pre-operational phase of the Futura 1 complex will correspond to a liquidity requirement and an increase in net debt of around BRL2.7 billion. At the end of September 2021, the company had a cash position and financial investments of BRL2.2 billion, and will be required to raise debt to finance these commitments and manage its liquidity requirements. Fitch understands that Eneva has proven financial flexibility and has already tested access to the debt market to raise funds and pay for the acquisition and investments of the solar complex, in addition to maintaining a robust cash position. The company has reduced short-term debt maturities of BRL270 million.

Eneva's rating takes into account the favorable business model and the company's outstanding position in the thermoelectric generation segment in Brazil, with long-term contracts for the sale of a significant portion of its energy and internal supply of natural gas, its main raw material. The company has a strong liquidity position and manageable financial leverage considering the different dispatch scenarios of its plants, despite the increased investments in 2021 and 2022. Eneva's operating cash generation is robust and benefits from increased dispatch scenarios. The preliminary baseline scenario considers a dispatch level of 74% in 2021 and above 50% in 2022.

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