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Neoenergia S.A. and Subsidiaries

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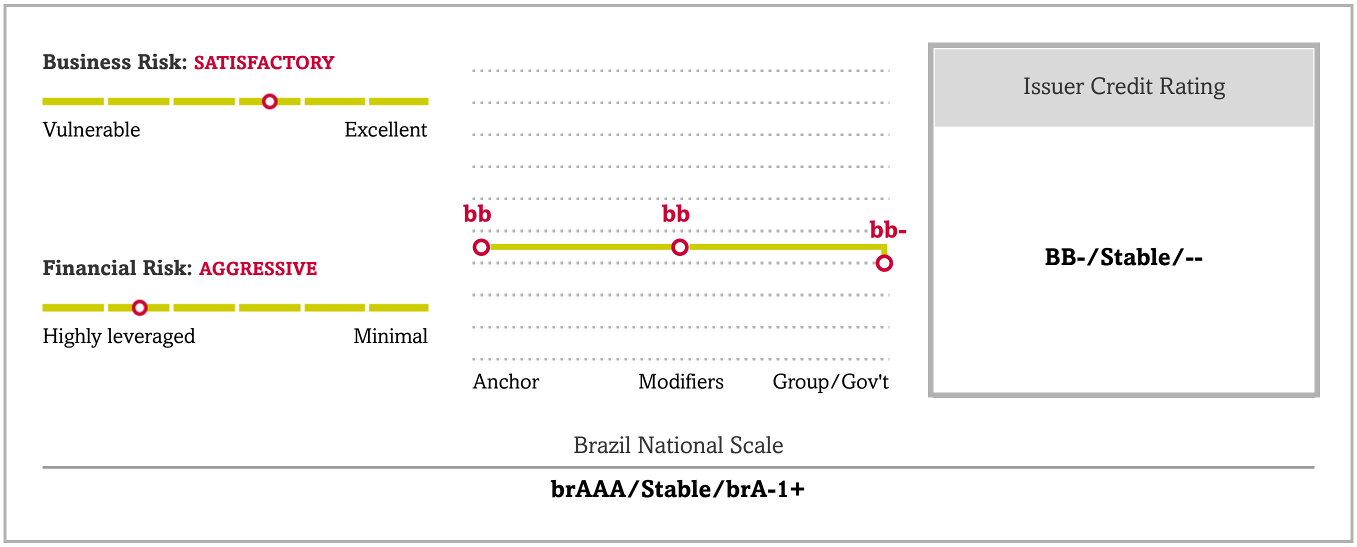
Neoenergia S.A. and Subsidiaries



Credit Highlights

Overview

Key strengths	Key risks
Regulated network activities will represent about 80%-85% of Neoenergia's revenues in the next few years, which will result in more resilient cash flow generation.	Neoenergia, especially its distributors, will be affected by COVID-19, which should translate into lower demand, energy surplus, and an increase in delinquency levels.
Generation business has long-term contracts, so the group has less exposure to spot market prices.	Neoenergia will require new debt to finance its robust investment plan and to refinance existing short-term debt maturities amid more difficult market conditions due to the coronavirus pandemic.
Diversified customer base with residential clients representing the largest stake, which protects the company during market downturns.	Execution risk related to the construction of its new transmission lines and wind farms, especially in the next two years.

Coronavirus pandemic will affect the group, especially the distributors. Given that Neoenergia's cash flow generation comes mainly from regulated activities, we generally view it as more resilient to economic downturns. However, we will closely monitor not only a potential increase in the amount of losses and delinquency levels, but also regulatory initiatives to address the issues that distributors are facing, such as the exception for low-income clients to prevent a spike in delinquency. The regulator also recently approved tariff increases for distribution subsidiaries COELBA, COSERN, and CELPA, but the implementation of these were postponed and will take effect in July 2020. To compensate for this, the three distributors will be able to defer part of the monthly sectorial charges payments. We believe that a prolonged economic slowdown relating to measures to contain the virus would result in negative industrial and commercial consumption, especially during the second quarter of 2020. The downside risk of an electricity consumption slowdown might increase if demand doesn't recover after measures to contain the pandemic are lifted.

At the same time, although right now the company has the equipment to perform the investments, we believe that the continuous economic shutdowns globally could affect the supply chain of some equipment for the wind farm construction, transmission lines, and investments in the distribution network. If that scenario materializes, Neoenergia might need to postpone part of its investments, but we do not expect the company to be subject to penalties because in most cases, the works are advanced in relation to the regulator's schedule.

Finally, although market sentiment in the short term has worsened, we still think Neoenergia has the ability to refinance its R$3.4 billion debt maturing throughout 2020. The company doesn't have debt maturity concentration in the next few months, and has a cash position of R$4.7 billion (as of March 31, 2020) that gives it some financial flexibility.

Transmission projects should make Neoenergia's cash flows more stable. We expect Neoenergia to benefit from more stable cash flow generation in the next few years with the startup of its new transmission assets. The company has been demonstrating good capacity to execute the required investments, so far saving about 30% relative to the original estimates by the regulator when the lots were auctioned. Lots 20 and 27 are already operational, earlier than their original schedule by 14 and 13 months, respectively.

Table 1

Work Status on Transmission Lines

Expected annual revenues	**R$104 million**		
Project	**Auction**	**Extension**	**Expected COD**
Lot 20	Apr-17	Substations	Operational
Lot 27	Apr-17	Substations	Operational
Lot 22	Apr-17	Substations	Feb-21
Lot 4	Apr-17	578 km and one substation	Aug-22
Expected annual revenues	**R$183 million**		
Lot 4	Dec-17	729 km	Mar-23
Lot 6	Dec-17	345 km and substations	Mar-23
Expected annual revenues	**R$501 million**		
Lot 1	Dec-18	673 km and substations	Mar-24
Lot 2	Dec-18	656 km and substations	Mar-24
Lot 3	Dec-18	478 km	Mar-24
Lot 14	Dec-18	769 km and substations	Mar-24
Expected annual revenues	**R$18 million**		
Lot 9	Dec-19	210 km and substations	Mar-24

Expansion in renewable energy capacity continues. Neoenergia has been increasing its footprint in the non-conventional renewable segment. Once the construction of its onshore wind farms in northeastern Brazil are completed, its capacity in the segment will increase from the current 516 megawatts (MW) in operation to 1,554 MW by 2022. Although this project will consume about R$4 billion in new investments that we expect it to finance through debt, the bulk of Neoenergia's capital expenditures (capex) plan is for its distribution and transmission segments. We expect leverage to remain at current levels until 2023.

Outlook: Positive

The stable outlook on Neoenergia for the next 12 months reflects that on the sovereign rating on Brazil (BB-/Stable/B) and considers our view that the group, as a regulated utility, could be subject to government intervention in a hypothetical sovereign default scenario.

Upside scenario

Given that the global scale sovereign rating caps the one on Neoenergia, we would raise the rating if we upgrade the sovereign. We could raise its stand-alone credit profile (SACP) if its credit metrics improve consistently, especially if Neoenergia generates positive free operating cash flow (FOCF) over the next few years, mainly because of stronger operating performance, since we expect investments to be high and financed through new debt.

For the national scale rating, there isn't an upside scenario because the ratings are already at the highest level possible.

Downside scenario

We could downgrade Neoenergia in the next twelve months if a similar action occurs on Brazil.

We could lower the global and national scale ratings on Neoenergia if we come to believe that 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 funds from operations (FFO) to debt below 9% and debt to EBITDA above 5.5x, which could be a result of a combination of a prolonged COVID-19 pandemic with larger-than-expected capex and high dividend payouts.

Our Base-Case Scenario

Assumptions

- Due to the coronavirus pandemic, we revised downwards our expectations for electricity consumption in Neoenergiaś concession areas, which should be zero or negative in 2020, but then would recover gradually from 2021 onwards.
- Rate adjustments of 5.0% for COELBA, 3.4% for COSERN, and 5.2% for CELPE, all postponed to July 1, 2020. Although these readjustments were supposed to be implemented in April 2020, the regulator and the companies agreed that in order to

Key Metrics

	2020E	2021E
Investments (bil. R$)	5.0-5.5	6.0-6.5
Debt/EBITDA (x)	3.5-4.0	3.5-4.0
FFO/Debt (%)	15-20	15-20
FOCF/Debt (%)	(15)-(10)	(15)-(10)

compensate for the late application due to the pandemic, the three distributors will be able to defer part of the monthly sectorial charges payment; neutral from a cash flow standpoint. We expect Elektro would have higher-than-inflation rate hikes to compensate for higher electricity costs from Itaipu Binacional (brAAA/Stable/--) because this hydro plant's prices are set in U.S. dollars. From 2021 onwards, we are assuming that all adjustments will be in line with our inflation expectation.

- A generation scaling factor of 80%-85% in 2020 and 2021, which will result in larger electricity costs for generators and distributors.
- Investments of more than R$5.0 billion in 2020, and surpassing R$6.0 billion in 2021, because the group will finish constructing the transmission lines.
- Neoenergia will finance a large portion of these investments through new debt.
- A conservative dividend policy, distributing the minimum required by law, which is equivalent to 25% of previous year's net income.

Base-case projections

Distribution business will remain the core business. Although Neoenergia is widening diversification with investments in transmission and unconventional renewable generation, the distribution business will continue to generate the bulk of consolidated cash flows. We expect lower electricity consumption in 2020 due to the impact of the coronavirus pandemics, but we are incorporating a recovery starting in 2021.

Transmission lines will increase cash flow stability. Given that transmission lines' cash flows rely on their availability to the Brazilian national system, this is the company's most resilient business. Once all assets are operational, the lines will represent between 10%-15% of consolidated EBITDA, which will help provide greater resilience to consolidated cash flow generation.

Neoenergia's investments will require additional debt, but as soon as its new assets start operating, we don't expect credit metrics to change materially, because debt to EBITDA should remain at 3.5x-4.0x and FFO to debt between 15%-20% in the next few years, while FOCF will remain negative.

Company Description

Brazil-based electric power integrated group Neoenergia, through its subsidiaries, operates in the electric power distribution (Coelba, Celpe, Cosern, and Elektro), generation (Calango 6, Lagoa 1, Termope, and others), and transmission (Afluente T) and trading (NC Energia) segments. Through its four distribution companies, Neoenergia serves approximately 14 million clients, and distributed about 58.9 terawatt hours (TWh) of electricity in 2019 (including the free market). The group has about 700 km of operational transmission lines, while more than 4,500 km are under construction. Neoenergia also has about 4.0 gigawatts (GW) of installed capacity through hydro, thermal, and wind power plants, including the stakes in the jointly-controlled 1,819 MW Teles Pires hydropower plant and the 10% stake in the 11,233 MW Belo Monte hydro plant. In addition, it's constructing wind parks for 1.0 GW. In the rolling twelve months ended on March 31, 2020, Neoenergia reported revenue of R$28.3 billion and EBITDA of R$5.9 billion.

Iberdrola controls Neoenergia with a 51.04% stake. Caixa de Previdência dos Funcionários do Banco do Brasil (Previ) holds 30.29% of the group, and the remaining 18.67% is free floating. Iberdrola is the second-largest power generator and distributor in Spain, as well as the leader in renewables, and it has operations in the U.K. through Scottish Power, and in Latin America and the U.S. through Iberdrola Renovables and Avangrid, respectively.

Business Risk: Satisfactory

A large, well-diversified group. In our view, Neoenergia has large scale and exposure to regulated network activities, and a diversified business portfolio. It's also one of the largest electricity distributors in Brazil through its four subsidiaries, and is increasing its footprint in unconventional renewable generation. On the other hand, we view Neoenergia as geographically concentrated because it operates solely in Brazil.

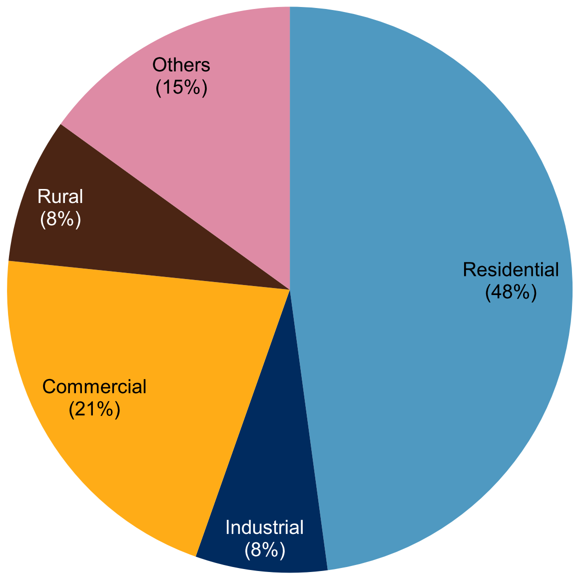
Most of its cash flows come from regulated activities. One of Neoenergia's business strengths is that electric power distribution activities generate about 80% of the group's EBITDA. This offers a high degree of cash flow predictability, which should further improve in the next few years as new transmission lines enter into operations, given that their revenues are based on their availability to the system, and therefore they're not exposed to volume risk.

We view the regulatory framework in Brazil as credit supportive, with a track record of fully respected contracts among industry players. Nonetheless, regulatory independence is still recovering after political interference earlier in the decade temporarily weakened the financial stability of the players, especially in the electricity distribution segment. Neoenergia's highly regulated distribution business serves three of the country's largest states in terms of GDP in northeastern Brazil and a portion of the states of São Paulo, the country's most populous and wealthiest state, and Mato Grosso do Sul. Although electricity consumption in its concession areas in the country's northeast has historically increased above both Brazil's overall consumption and that of the entire northeastern region, the country's weak economy has hurt the group's operations.

Diversified customer base. In the distribution segment, we consider the group's client portfolio as diversified, with the more stable and inelastic residential customers representing about 45% of consolidated captive market demand.

Chart 1

Energy Distributed - Captive Market
GWh

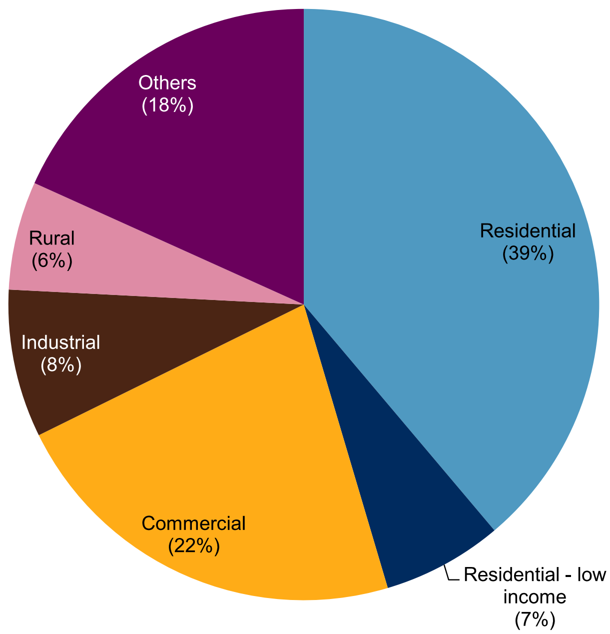


Source: S&P Global Ratings.

Even though three of the group's four distribution companies are located in northeastern Brazil that has a lower-than-average electricity consumption per capita, overall electricity consumption growth is above the country's GDP growth rate. Although Neoenergia isn't diversified in terms of multiple regulatory jurisdictions, it serves about 13% of the country's power demand or about 56.5 TWh.

Chart 2

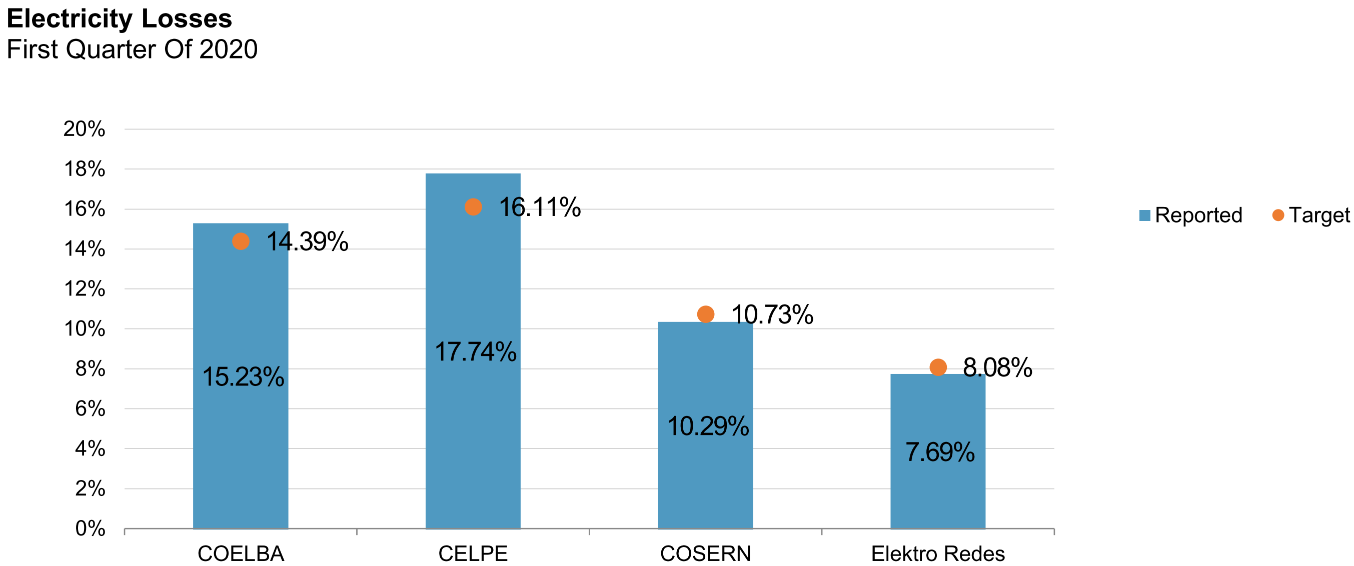
Revenue Breakdown By Distribution Segment



Source: S&P Global Ratings.

Investments to improve service quality. Neoenergia has been continuously investing to improve the service quality at its four concession areas, boosting average duration and lowered frequency of service interruption (DEC and FEC, respectively), which are all in compliance with the regulatory standards. However, Coelba and Celpe still have higher electricity losses than the regulatory level not covered through tariffs, denting their profitability.

Chart 3

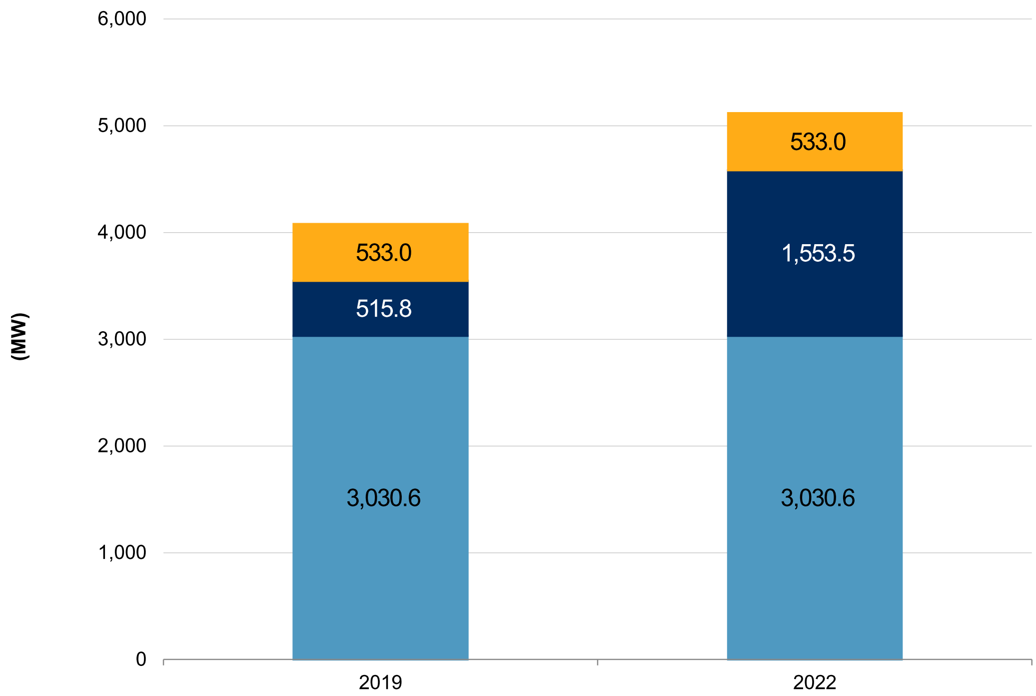


Source: S&P Global Ratings.

Long-term contracts in the generation segment strengthen cash flow stability. Neoenergia has a diversified power generation asset base consisting of hydro, wind, and thermal power plants that sell electricity through short- and long-term power purchase agreements in the free and regulated markets. This helps to mitigate the volatility of conditions inherent in this segment. In 2016, Neoenergia adhered to insurance to protect its generation assets from hydrology risks whenever the generation scaling factor (GSF) falls below a certain level for its contracts in the regulated market (each contract has a specific GSF trigger), which helps make cash flows more predictable. In addition, the Itapebi hydro plant sells its output to the group's trading company, which is responsible for managing Neoenergia's risk allocation to prevent cash flow volatility.

Chart 4

Installed Capacity Breakdown



Source: S&P Global Ratings.

Peer comparison

Table 2

Neoenergia S.A.--Peer Comparison

	--Year-ended on Dec. 31, 2019--			
	Neoenergia S.A.	**CPFL Energia S.A.**	**Enel Americas S.A.**	**Iberdrola, S.A.**
Global scale rating	BB-/Positive/--	--	BBB/Negative/--	BBB+/Stable/A-2
National scale rating	brAAA/Stable/brA-1+	brAAA/Stable/--	--	--
(Mil. R$)				
Revenue	25,595.6	29,064.0	57,537.5	164,362.6
EBITDA	6,840.2	7,564.2	16,055.2	44,133.1
Funds from operations (FFO)	5,245.6	5,442.3	11,263.4	34,518.9
Interest expense	1,329.8	1,485.6	1,779.9	7,841.6
Cash interest paid	1,270.2	1,158.1	2,533.6	6,021.3
Cash flow from operations	3,409.6	5,762.9	8,069.1	25,393.0
Capital expenditure	4,308.5	2,236.8	6,605.0	24,177.5
Free operating cash flow (FOCF)	(898.9)	3,526.1	1,464.1	1,215.4
Discretionary cash flow (DCF)	(1,596.4)	2,992.0	(1,446.1)	(7,416.2)
Cash and short-term investments	4,065.6	2,788.2	8,277.9	9,560.6

Table 2

Neoenergia S.A.--Peer Comparison (cont.)				
	--Year-ended on Dec. 31, 2019--			
	Neoenergia S.A.	**CPFL Energia S.A.**	**Enel Americas S.A.**	**Iberdrola, S.A.**
Gross available cash	4,065.6	2,788.2	8,277.9	9,560.6
Debt	18,140.6	17,884.0	17,320.1	189,924.5
Equity	19,258.7	13,283.2	49,225.2	212,883.8
Adjusted ratios				
EBITDA margin (%)	26.7	26.0	27.9	26.9
Return on capital (%)	16.0	21.2	19.4	7.0
EBITDA interest coverage (x)	5.1	5.1	9.0	5.6
FFO cash interest coverage (x)	5.1	5.7	5.4	6.7
Debt/EBITDA (x)	2.7	2.4	1.1	4.3
FFO/debt (%)	28.9	30.4	65.0	18.2
Cash flow from operations/debt (%)	18.8	32.2	46.6	13.4
FOCF/debt (%)	(5.0)	19.7	8.5	0.6
DCF/debt (%)	(8.8)	16.7	(8.3)	(3.9)

We have chosen the following companies as peers for Neoenergia:

- CPFL, which is also one of the largest private players in the Brazilian electric sector;
- Iberdrola, which is Neoenergia's controlling shareholder; and
- Enel Americas, which has geographic diversification across Latin America, but Brazil is its largest market.

We believe Neoenergia compares well with CPFL in terms of size and geographic concentration, given that both companies only operate in Brazil. Enel Americas, and especially Iberdrola, are better positioned because they operate in various regulatory jurisdictions. Neoenergia's parent has network operations in countries with well-established, stable, and predictable regulatory regimes.

Financial Risk: Aggressive

Our assessment of Neoenergia's financial risk profile incorporates additional debt the group needs to raise to finance its investment plan, resulting in negative FOCF in the future. In spite of the expected negative impact from COVID-19 in 2020, we expect that Neoenergia will be able to sustain debt to EBITDA between 3.5x-4.0x for the next two years, and this ratio could slightly improve as the new assets, both transmission and renewable, start operating.

Financial summary

Table 2

Neoenergia S.A. -- Financial Summary						
Industry Sector: Electric Utility						
(Mil. R$)	**RTM ended on March 31, 2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Revenue	25,746.4	25,595.6	22,998.5	17,320.0	13,432.7	14,911.6

Table 2

Neoenergia S.A. -- Financial Summary (cont.)

Industry Sector: Electric Utility

(Mil. R$)	RTM ended on March 31, 2020	2019	2018	2017	2016	2015
EBITDA	7,494.9	6,840.2	5,084.7	2,567.9	3,360.9	4,154.0
Funds from operations (FFO)	5,870.4	5,245.6	3,551.3	1,118.0	2,181.4	3,141.2
Interest expense	1,436.3	1,329.8	1,294.9	1,114.1	1,074.7	864.6
Cash interest paid	1,235.2	1,270.2	1,276.5	1,276.0	1,015.5	768.4
Cash flow from operations	3,021.9	3,409.6	1,328.4	694.4	1,105.7	2,407.9
Capital expenditure	5,097.9	4,308.5	4,143.1	3,807.4	2,707.4	2,139.7
Free operating cash flow (FOCF)	(2,076.0)	(898.9)	(2,814.6)	(3,113.0)	(1,601.7)	268.2
Discretionary cash flow (DCF)	(2,623.7)	(1,596.4)	(3,349.0)	(3,134.1)	(1,659.8)	26.8
Cash and short-term investments	14,905.6	4,065.6	3,955.2	3,873.1	1,393.6	2,597.6
Gross available cash	14,905.6	4,065.6	3,955.2	3,873.1	1,393.6	2,597.6
Debt	74,028.3	18,140.6	16,919.0	14,491.5	11,577.4	8,844.3
Equity	76,687.2	19,258.7	17,576.8	15,608.4	9,219.8	9,314.9
Adjusted ratios						
EBITDA margin (%)	29.1	26.7	22.1	14.8	25.0	27.9
Return on capital (%)	16.6	16.0	13.2	6.9	14.4	19.8
EBITDA interest coverage (x)	5.2	5.1	3.9	2.3	3.1	4.8
FFO cash interest coverage (x)	5.8	5.1	3.8	1.9	3.1	5.1
Debt/EBITDA (x)	2.5	2.7	3.3	5.6	3.4	2.1
FFO/debt (%)	31.4	28.9	21.0	7.7	18.8	35.5
Cash flow from operations/debt (%)	16.2	18.8	7.9	4.8	9.6	27.2
FOCF/debt (%)	(11.1)	(5.0)	(16.6)	(21.5)	(13.8)	3.0
DCF/debt (%)	(14.0)	(8.8)	(19.8)	(21.6)	(14.3)	0.3

Liquidity: Adequate

We assess Neoenergia's liquidity as adequate because we expect its sources of cash to exceed uses close to 1.2x in the next 12 months, even if EBITDA were to fall 10%. We consider that Neoenergia has enough cash in hand to face its short-term debt maturities, even considering the challenging market conditions to refinance maturities amid the coronavirus pandemic. In our view, the company can rely on its solid relationship with banks while its standing in capital markets is solid. In addition, we believe that Neoenergia has flexibility to postpone dividend payments and investments in case of stressful conditions.

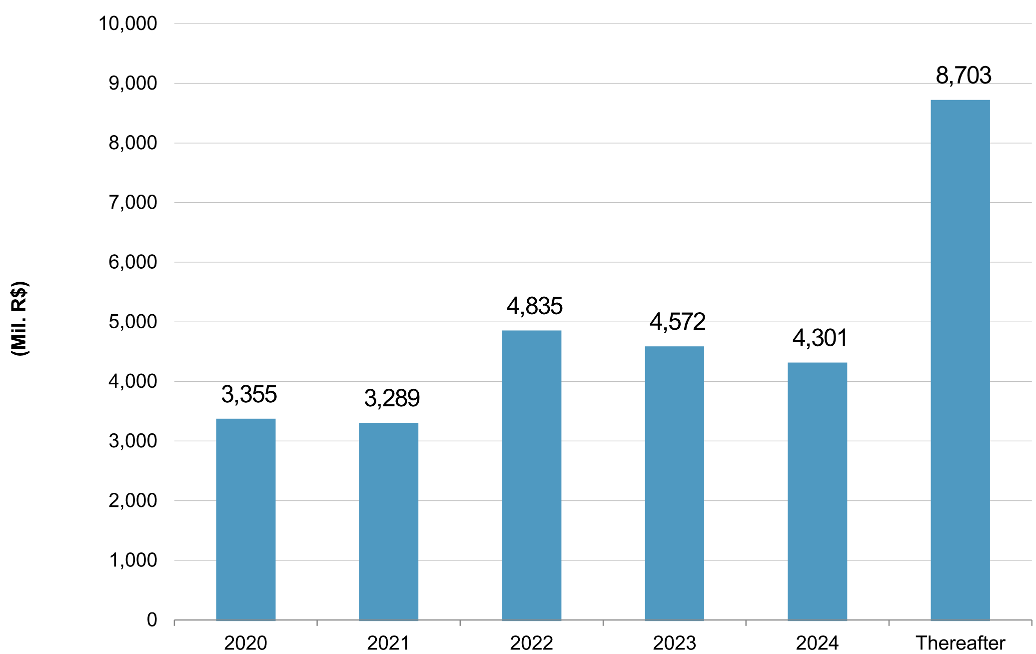
Principal Liquidity Sources	Principal Liquidity Uses
• Cash and cash equivalents of R$4.7 billion, as of March 31, 2020; and • Expected cash flow generation of about R$ 4.0	• Debt amortization of R$3.4 billion throughout 2020; • Minimum maintenance investments to perform in 2020 of about R$2.0 billion; and

billion throughout 2020.	• Minimum dividend distributions of about R$500 million in 2020.

Debt maturities

Chart 5

Amortization Profile
As of March 31, 2020



Source: S&P Global Ratings.

Covenant Analysis

Compliance expectations

We expect Neoenergia to comply with the required financial covenants under its banks loans and debentures, even if forecasted EBITDA were to fall 10% from our base-case scenario.

Requirements

Main covenants, measured either quarterly, semi-annually, or annually:

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

The subsidiaries are also subject to the same financial covenants, measured on a consolidated basis. The only exception is Elektro, which has the following covenants measured at its level:

- Net debt to EBITDA of up to 3.0x; and
- EBITDA interest coverage of at least 2.5x.

Although the covenants for Elektro are more restrictive, we believe the subsidiary has greater flexibility because it has less debt compared to the group.

These ratio calculations differ from our methodology, because they consider the variations in the regulatory assets and liabilities as part of the distribution companies' EBITDA.

Environmental, Social, And Governance

We view Neoenergia's environmental risks as higher than peers given its exposure to climate change, which could affect water levels in Brazil, where the energy matrix is hydro-based (60% of capacity). Still, the negative financial impact is partially mitigated because it contracted a hydrology hedge covering the exposure under the regulated PPAs that currently account for about 60% of the energy produced. Neoenergia's ESG strategy is aligned with that of its controlling owner, Iberdrola, which aims to be carbon neutral by 2050. As such, its expansion investments are focused on transmission lines and renewables; in particular it is investing in the development of 1.0 GW of onshore wind assets, which will allow it to achieve 1.6 GW of wind capacity by 2022.

From a social standpoint, we view Neoenergia as more exposed than local peers because about 20% of its residential clients are low income and benefit from government social programs including subsidies on their electricity bills, reducing delinquencies. Any change to the political framework supporting these low-income customers could affect the company's performance.

Group Influence

We consider the Brazilian operations as strategically important to Iberdrola's strategy to expand regulated activities in high-growth markets. However, Neoenergia doesn't represent a significant portion of the parent's consolidated earnings (about 15% of EBITDA in 2019), and we expect it to operate as a stand-alone entity and not rely on the parent's direct financial support.

We believe Coelba, Celpe, Cosern, and Elektro are the group's most important subsidiaries because they're electricity distributors, responsible for more than 75% of Neoenergia's cash flows. In addition, although these subsidiaries are required by law to be separate from the group for regulatory purposes, we consider that Neoenergia adopts an integrated financial strategy.

Rating Above The Sovereign

Neoenergia, through its subsidiaries in the electric power distribution, transmission and generation segments, operates in a heavily regulated environment. It is regulated at the federal level, through ANEEL. We believe there could be potential interference from the government 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 to the government to intervene in the companies in the sector, including Neoenergia, which could hamper its ability to repay debt. Therefore, we consider that as a regulated utility, the ratings on Neoenergia and its subsidiaries are limited by that on Brazil.

Issue Ratings - Subordination Risk Analysis

We rate several of Neoenergia and its subsidiaries' debt instruments on the national scale:

Table 4

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 (Coelba)			
9th debentures issuance	R$400 million	Oct-21	brAAA
10th debentures issuance	R$1.2 billion	Apr-23	brAAA
12th debentures issuance	R$700 million	Apr-26	brAAA
Companhia Energetica de Pernambuco - CELPE			
7th debentures issuance	R$590 million	Jan-22	brAAA
8th debentures issuance	R$500 million	Feb-23	brAAA
10th debentures issuance	R$500 million	Apr-26	brAAA
Companhia Energetica do Rio Grande do Norte (Cosern)			
7th debentures issuance	R$370 million	Oct-24	brAAA
Elektro Redes S.A.			
7th debentures issuance	R$1.3 billion	May-25	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+
Termopernambuco S.A.			
4th debentures issuance	R$800 million	Dec-21	brAA+
7th debentures issuance	R$300 million	Aug-23	brAA+

The 'brAAA' issue-level ratings on Coelba, Celpe, Cosern, and Elektro are in line with their issuer credit rating, because these entities are the group's main operating companies, and they finance themselves mostly through unsecured debt.

The 'brAA+' issue-level rating on Neoenergia's debt is a notch lower than the issuer credit rating because more than 95% of the consolidated debt is at the operating subsidiaries' level, indicating a structural subordination of the holding's obligations.

Finally, the 'brAA+' issue-level ratings on Calango 6, Lagoa 1, NC Energia, and Termopernambuco reflect these issuances' reliance on Neoenergia's guarantees (credit substitution). As such, we treat these debt instruments as the group's obligation; therefore, subordinated to its other obligations.

Reconciliation

Table 5

Neoenergia S.A.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. R$)							
	--Rolling 12 months ended March 31, 2020--						
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Neoenergia S.A. reported amounts	26,219.0	19,909.0	28,277.4	5,907.8	4,426.3	7,494.9	3,021.9
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	(389.3)	--
Cash interest paid	--	--	--	--	--	(1,235.2)	--
Reported lease liabilities	96.0	--	--	--	--	--	--
Accessible cash and liquid investments	(4,518.0)	--	--	--	--	--	--
Income (expense) of unconsolidated companies	--	--	--	(38.7)	--	--	--
Nonoperating income (expense)	--	--	--	--	308.6	--	--
Noncontrolling interest/minority interest	--	307.0	--	--	--	--	--
Debt: Workers compensation/self insurance	843.0	--	--	--	--	--	--
Debt: Derivatives	(3,929.0)	--	--	--	--	--	--
Revenue: Other	--	--	(2,531.0)	(2,531.0)	(2,531.0)	--	--
COGS: Other nonoperating nonrecurring items	--	--	--	4,156.8	4,156.8	--	--
Depreciation and amortization: Other	--	--	--	--	(21.5)	--	--
Working capital: Taxes	--	--	--	--	--	--	389.3
Working capital: Other	--	--	--	--	--	--	1,321.5
Operating cash flow: Taxes	--	--	--	--	--	--	(389.3)
Operating cash flow: Other	--	--	--	--	--	--	(1,321.5)
Total adjustments	(7,508.0)	307.0	(2,531.0)	1,587.1	1,912.9	(1,624.5)	0.0

Table 5

Neoenergia S.A.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. R$) (cont.)

	Debt	Equity	Revenue	EBITDA	EBIT	Funds from operations	Cash flow from operations
S&P Global Ratings' adjusted amounts	18,711.0	20,216.0	25,746.4	7,494.9	6,339.1	5,870.4	3,021.9

Ratings Score Snapshot

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

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bb

- **Group credit profile:** bbb+
- **Entity status within group:** Strategically important (+3 notches from SACP)
- **Rating above the sovereign:** (-4 notches from SACP)

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016

- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Brazil Outlook Revised To Stable From Positive On Uncertainty Related To COVID-19; 'BB-/B' Ratings Affirmed, April 6, 2020

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	Significant	**Aggressive**	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	**bb**	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 28, 2020)*	
Neoenergia S.A.	
Issuer Credit Rating	BB-/Stable/--
Brazil National Scale	brAAA/Stable/brA-1+
Issuer Credit Ratings History	
07-Apr-2020	BB-/Stable/--

Ratings Detail (As Of April 28, 2020)*(cont.)		
12-Dec-2019		BB-/Positive/--
12-Jan-2018		BB-/Stable/--
16-Aug-2017		BB/Negative/--
23-May-2017		BB/Watch Neg/--
17-Feb-2016		BB/Negative/--
10-Sep-2015		BB+/Negative/--
11-Jul-2018	*Brazil National Scale*	brAAA/Stable/brA-1+
12-Jan-2018		brAA-/Stable/brA-1+
16-Aug-2017		brAA-/Negative/brA-1+
23-May-2017		brAA-/Watch Neg/brA-1
17-Feb-2016		brAA-/Negative/brA-1
10-Sep-2015		brAA+/Negative/brA-1
04-May-2015		brAAA/Negative/brA-1+
Related Entities		
Companhia de Eletricidade do Estado da Bahia		
Issuer Credit Rating		BB-/Stable/--
Brazil National Scale		brAAA/Stable/--
Senior Unsecured *Brazil National Scale*		brAAA
Companhia Energetica de Pernambuco (CELPE)		
Issuer Credit Rating		BB-/Stable/--
Brazil National Scale		brAAA/Stable/--
Senior Unsecured *Brazil National Scale*		brAAA
Companhia Energetica do Rio Grande do Norte		
Issuer Credit Rating		BB-/Stable/--
Brazil National Scale		brAAA/Stable/--
Senior Unsecured *Brazil National Scale*		brAAA
Elektro Redes S.A.		
Issuer Credit Rating		
Brazil National Scale		brAAA/Stable/--
Senior Unsecured *Brazil National Scale*		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.