



Rating Action: Moody's Ratings assigns Baa2 to CPFL Energia, outlook stable

25 Jul 2025

New York, July 25, 2025 -- Moody's Ratings (Moody's) has today assigned a Baa2 Long Term Issuer Rating to CPFL Energia S.A. ("CPFL Energia"). The outlook is stable.

RATINGS RATIONALE

CPFL Energia's rating reflects our assessment of a very high likelihood of continued support from its controlling shareholder, State Grid International Development Limited (SGID, A1 negative, BCA: baa1), based on the strategic alignment between the two entities, structural linkage through cross-default acceleration, the track record of financial support received from the foreign parent, and evidence of close parental supervision and oversight, which translates into a two notch uplift from CPFL Energia's standalone credit profile.

CPFL Energia's standalone credit profile benefits from its diverse business profile and well-established market position in the Brazilian electricity market with large scale operations in the distribution, generation, transmission, and commercialization segments. Weighing on the credit profile is the large investment plan for the next five years, which will increase the need for higher debt and slightly deteriorate credit metrics. The standalone credit quality ultimately reflects the operating environment in Brazil and the highly regulated nature of the energy sector. As such, CPFL Energia's standalone credit quality is constrained by the sovereign rating (Government of Brazil: Ba1 stable).

CPFL Energia stands out in the distribution sector as one of the largest electricity distributors in Brazil, serving approximately 10.7 million customers across 687 municipalities. At the same time, with an installed capacity of 4.1 GW, it ranks among the largest generators in the country. The group also operates in the transmission segment with an installed capacity of 15.9 thousand MVA and over 6 thousand kilometers of transmission lines. On a consolidated basis, in the last twelve months ending March 2025, 60% of the reported EBITDA relates to the distribution business followed by 30% in generation, 9% in transmission and 1% in commercialization and others.

CPFL Energia's credit profile considers the track record of obtaining adequate and predictable annual and periodic tariff adjustments on its distribution business, along with our view of a moderate regulatory risk in future tariff adjustments and the renewal of the distribution concessions. The distribution concessions in the group with the nearest expiration dates are CPFL Paulista and RGE, expiring in 2027, followed by CPFL Piratininga in 2028. Given the adequate operational and financial performance of the group's distributors, we expect that the concessions will be renewed. Nonetheless we anticipate more stringent regulatory requirements and higher investment needs following the concession renewals and tighter returns in future review cycles.

Within the company's generation business, long-term power purchase agreements (PPAs) set at fixed prices adjusted annually by inflation support CPFL Energia's stable and predictable revenue profile. In addition, the combination of relatively diversified and fully renewable generation matrix (hydro: 61%; wind: 34%, biomass 5% and solar less than 1%) and the contracting of hydro insurance has minimized the Company's exposure to hydrology risk. CPFL Energia's project pipeline under development of 4.4 GW of new installed capacity, with manageable execution risks, will further diversify its energy matrix. The rating considers that the generation segment will continue to be impacted from curtailments, but total losses will not exceed 3% of its annual EBITDA.

The transmission segment brings an additional source of predictable cash flows with over BRL1.1 billion in availability-based payments from long-term transmission concessions that are insulated from volume risk.

In December 2024, CPFL Energia's Board approved the 2025/2029 Multiyear Plan for the Company, which includes BRL 29.8 billion in investments over the next five years. This is a significant increase when compared to the BRL18 billion executed during the 2020-2024 period. The higher investments in the approved plan will continue to focus mostly on the distribution sector, with an average of BRL4.9 billion investments every year. Our ratings base-case, conservatively assumes some deterioration in leverage and coverage metrics as the company will issue new debt to finance the capital expenditures plan, with relatively higher than historical costs, while continuing to pay sizeable dividends during the investment period.

CPFL Energia has been able to record relatively stable leverage metrics over the past three years, despite consistently increasing levels of maintenance and improvements capital investments, with net debt to EBITDA between 2.0x – 2.2x since 2022, which speaks to the prudent financial policy. As of March 2025, the company's total consolidated debt reached BRL 31.5 billion, which includes BRL 2.5 billion of intercompany loans provided by the parent company, SGID. Cash-flow based metrics remain strong, albeit have been on a slow downward trend, due to the increase in total debt, with CFO Pre-W/C to debt dropping to 22.5% in the last twelve months ending in March 2025, in contrast to the 26.4% in 2022. We expect this metric to remain above 20.0% in the next 12 months. The Company has also reported strong interest coverage with a three-year average ending in March 2025 of 3.7x.

CPFL Energia currently has high refinancing needs which impact its liquidity position. As of March 2025, the company reported cash and equivalents of BRL 4.0 billion which is insufficient to face the BRL 4.8 billion in short-term debt. Additionally, the large investment plans and aggressive dividend policy will lead to a negative free cashflow BRL 2.0 billion for the next 12 to 18 months in Moody's base case, exacerbating the company's high funding needs. Nonetheless, we believe the risk is manageable given the company's plan to access to the banking and debt markets finance the bulk of its capital expenditures and the embedded parental support. We also consider that, in case market conditions are unfavorable, CPFL Energia would have the possibility to delay dividend payments or adjust the timing of its capex plans to better manage the cash needs.

The issuer carries a stable outlook, that is aligned with that of the Government of Brazil (Ba1 stable). CPFL Energia's rating is constrained by the Government of Brazil's rating given its local revenue base and regulated business profile. The stable outlook also reflects our expectation that the credit profile will remain robust, despite some deterioration in leverage and coverage metrics, as the company executes its capital expenditure plans. It further considers our assessment of the very high likelihood of support from its controlling shareholder, State Grid International Development Limited (SGID, A1 negative), will continue.

Governance was a key credit consideration for the outcome of the rating. CPFL Energia's rating is highly influenced by the strategic alignment and structural linkages with its controlling shareholder. The governance of the two entities is strongly integrated and makes CPFL Energia susceptible to policies and procedures that could positively impact its operations mitigating standalone credit risks.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

An upgrade of the Government of Brazil's rating would result in positive pressure on CPFL Energia's rating. A rating upgrade would require the company's ability to maintain a strong CFO Pre-W/C to debt ratio above 22%, and interest coverage ratio above 3.2x, while also maintaining a balanced approach toward dividend distributions during the investment cycle.

We would downgrade CPFL Energia's rating if we see a lower probability of timely support from State Grid International Development Limited (A1 negative) in case of need. A downgrade of the Government of Brazil's rating would also result in a downgrade on CPFL Energia's rating. Material increases in external indebtedness incurred at the level of the holding company, could also imply notching for structural considerations. Downward rating pressure would also develop should the company increase its leverage leading to a deterioration of the consolidated credit metrics, such that its: (i) CFO Pre-WC to debt falls below 16% and (ii) interest coverage ratio falls below 3.0x on a consistent basis, allowing for some deviations during the current capex execution phase.

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in August 2024 and available at <https://ratings.moody.com/rmc-documents/426183>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

This rating is solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at <https://ratings.moodys.com/rmc-documents/435880>.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moodys.com> for additional regulatory disclosures for each credit rating.

Bruno Britto
Analyst

Cristiane Spercel
Associate Managing Director

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

© 2025 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED OR OTHERWISE MADE AVAILABLE BY MOODY'S (COLLECTIVELY, "MATERIALS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S MATERIALS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S MATERIALS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES OR OTHERWISE MAKES AVAILABLE ITS MATERIALS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND MATERIALS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR MATERIALS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. FOR CLARITY, NO INFORMATION CONTAINED HEREIN MAY BE USED TO DEVELOP, IMPROVE, TRAIN OR RETRAIN ANY SOFTWARE PROGRAM OR DATABASE, INCLUDING, BUT NOT LIMITED TO, FOR ANY ARTIFICIAL INTELLIGENCE, MACHINE LEARNING OR NATURAL LANGUAGE PROCESSING SOFTWARE, ALGORITHM, METHODOLOGY AND/OR MODEL.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in

the credit rating process or in preparing its Materials.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it. MCO and all MCO entities that issue ratings under the "Moody's Ratings" brand name ("Moody's Ratings"), also maintain policies and procedures to address the independence of Moody's Ratings' credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at ir.moody.com under the heading "Investor Relations — Corporate Governance — Charter and Governance Documents - Director and Shareholder Affiliation Policy."

Moody's SF Japan K.K., Moody's Local AR Agente de Calificación de Riesgo S.A., Moody's Local BR Agência de Classificação de Risco LTDA, Moody's Local MX S.A. de C.V., I.C.V., Moody's Local PE Clasificadora de Riesgo S.A., and Moody's Local PA Clasificadora de Riesgo S.A. (collectively, the "Moody's Non-NRSRO CRAs") are all indirectly wholly-owned credit rating agency subsidiaries of MCO. None of the Moody's Non-NRSRO CRAs is a Nationally Recognized Statistical Rating Organization.

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for India only: Moody's credit ratings, Assessments, other opinions and Materials are not intended to be and shall not be relied upon or used by any users located in India in relation to securities listed or proposed to be listed on Indian stock exchanges.

Additional terms with respect to Second Party Opinions and Net Zero Assessments (as defined in Moody's Ratings Rating Symbols and Definitions): Please note that neither a Second Party Opinion ("SPO") nor a Net

Zero Assessment ("NZA") is a "credit rating". The issuance of SPOs and NZAs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs and NZAs fall under the category of "Ancillary Businesses", not "Credit Rating Business", and are not subject to the regulations applicable to "Credit Rating Business" under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.