NEOENERGIA

IBERDROLA – Investors Day

Feb, 2018

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Agenda

Neoenergia's Overview

Regulatory Environment

Networks (Distribution and Transmission)

Contracted Generation

Financial Results and Debt Profile

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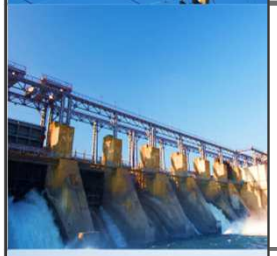
Neoenergia highlights

Favorable sector dynamics

Brazilian electricity sector will continue to offer plenty of growth opportunities at attractive returns

Well developed regulatory framework



Sound business model

Well diversified portfolio of assets with highly regulated business of networks and long term contracted renewable and thermal generation assets

#1 private player in the Brazilian Electricity Sector(1)

Largest distribution company in Brazil with efficient and high-quality operation

Strong and tangible avenues of growth

Growth based on organic initiatives, supported by a solid track record of project development

High corporate governance standards and strong sponsorship

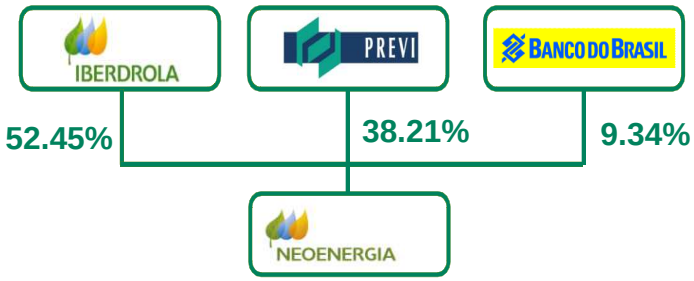
High corporate governance standards, supported by topnotch shareholder and seasoned management

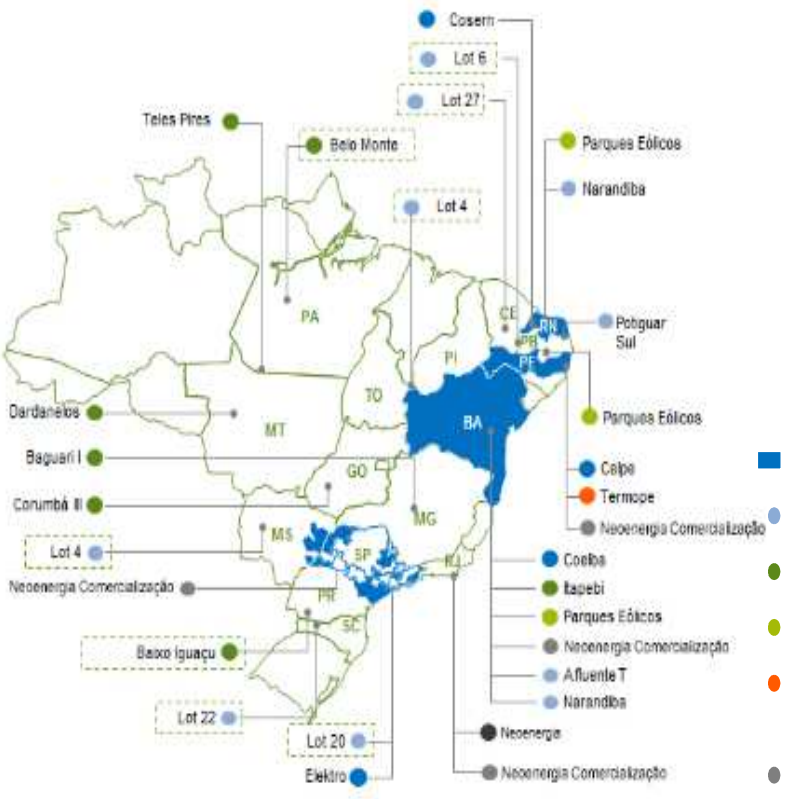
NEOENERGIA

Source: Financial statements and company fillings.
Note: (1) In terms of clients and Net RAB.

Neoenergia's highlights

Leading utility company in Brazil, controlled by Iberdrola and its only investment platform in Brazil





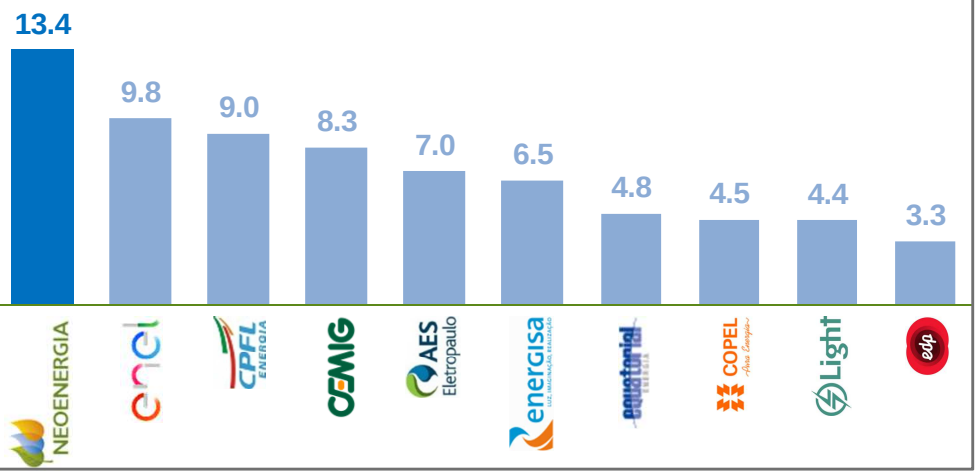
NETWORK	Four DisCos	**Concession area:** 836,000 kms² **Distributed Energy:** 44,575 GWh(1) **Population:** 34 MM
NETWORK	Increasing transmission capacity	**Operating:** 679 kms **Under Construction:** 1,685 kms(2)
RENEWABLE	Renewable generation with long term PPAs	**Wind farms capacity** **Operating:** 0.5 GW **Under Construction:** 0.3 GW **Hydro capacity** **Operating:** 2.1 GW **Under Construction:** 0.9 GW
LIBERALIZED	Generation with long term PPAs + Energy trading	**Thermal generation capacity** **Operating:** 0.5 GW **Energy traded:** 1.5 GW average

Notes: (1) Considers Captive and Free markets; (2) Obtained within 2017 auction: 611 Kms + 1,074Kms

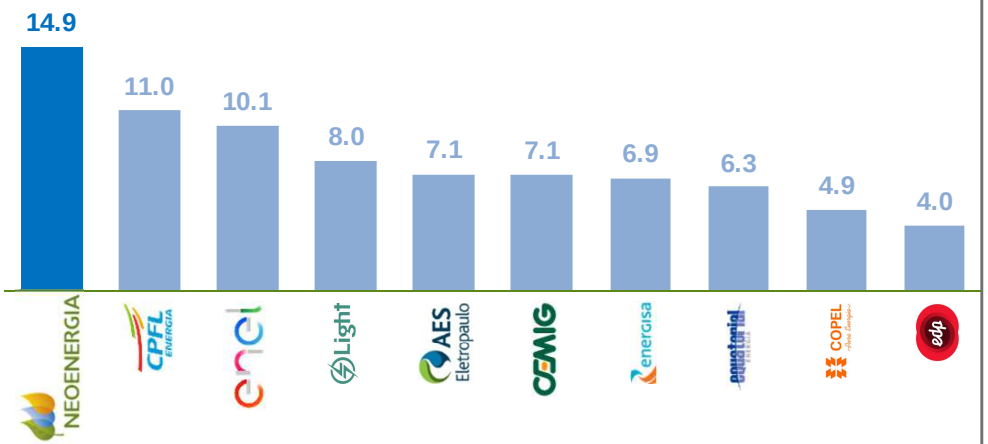
Neoenergia's highlights

Largest energy distribution company in Brazil with efficient and high-quality operation

2016 Number of Clients(1)



2016 Net RAB (R$ bn)(2)



Source: Abradee, companies, newsrun, Aneel and financial statements.

Efficiency and quality highlights

Efficient management processes ensuring the convergence to regulatory limits in all indicators in the medium term - Losses, delinquency and Opex; SAID (DEC) and SAIF (FEC)

Positive evolution of operational indicators SAID (Duration of Outages – hours) and SAIFI (Frequency of Outages)

Efficient assets management process: almost 100% of capex being recognized in the RAB since 2015 for all DisCos

Notes:(1) The number of CPFL and Enel's clients considers AES Sul and CELG-D, that were acquired in 2016.; (2) Net RAB proforma for adjustments made in tariff review years (considering capex and inflation until 2016). For other companies it was considered the net RAB of the last tariff review adjusted by inflation.

Growth Strategy

Largest energy distribution company in Brazil with efficient and high-quality operation

Inorganic and organic growth

- Coelba and Cosern (1997)
- Itapebi (1999)
- Celpe, Termope and NC Energia (2000)
- Dardanelos (2004)
- Baguari (2005)
- Corumbá III (2006)

Expansion of Generation Assets

BRL14bn invested from 2000 to 2017

- Baixo Iguaçu (2008)
- Narandiba (2009)
- Teles Pires, Belo Monte +10 wind farms (2010)
- Brumado (2012) and Potiguar Sul (2013)
- 10 wind farms (2010)
- 6 wind farms (2014)

Universalization of DisCos

BRL24bn invested from 2000 to 2017

Continued growth + efficiency gains

- Incremental capex in DisCos to foster growth
- Incorporation of Elektro Holding assets
- New Auctions 2017
  - ✓ Transmission:
    - 611 kms of transmission lines and RAP of MM BRL 104
    - 1,074 kms of transmission lines and RAP[1] of MM BRL 183
  - ✓ Renewables
    - 9 wind farms totaling 281 MW – 30 years PPA

Increasing CapEx in networks operations

Business consolidation with focus on profitability

Coelba and Cosern tariffs revisions in Apr/2018

1997 — 2006 — 2017 — 2020

(1) Lowest Annual Revenue Required, named RAP *(Receita Anual Permitida)*

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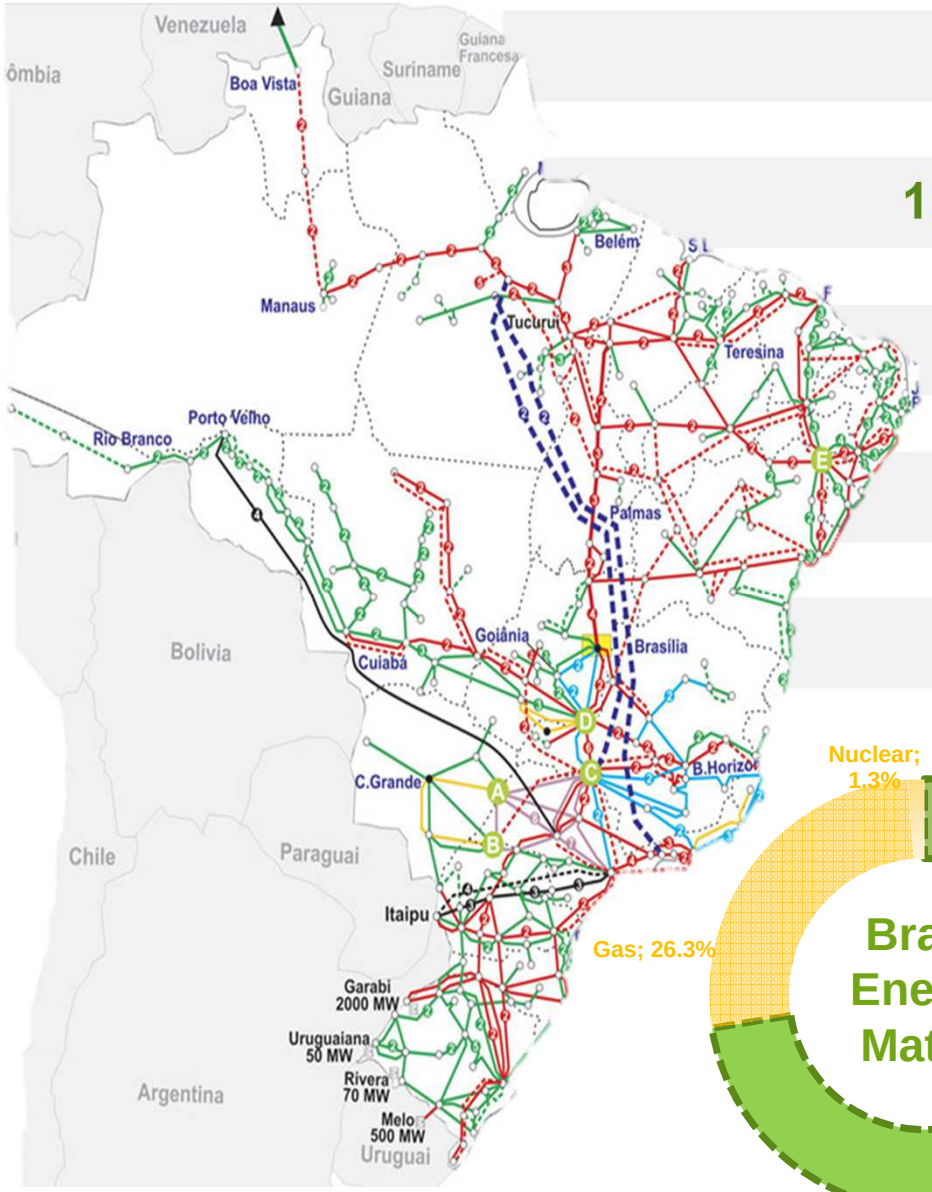
Brazilian Electricity Sector



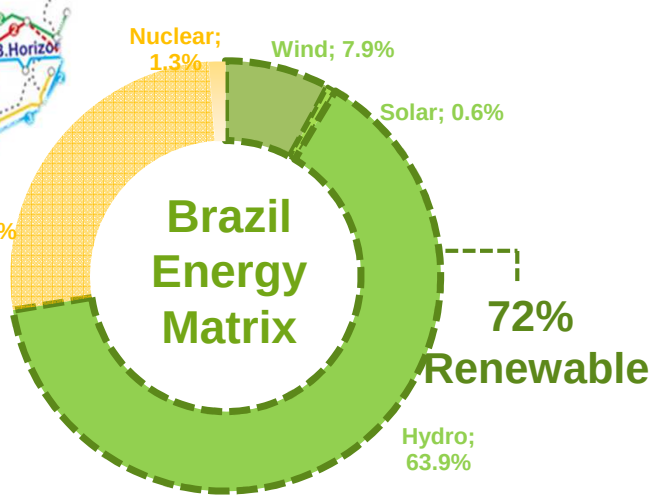
162 GW of installed capacity

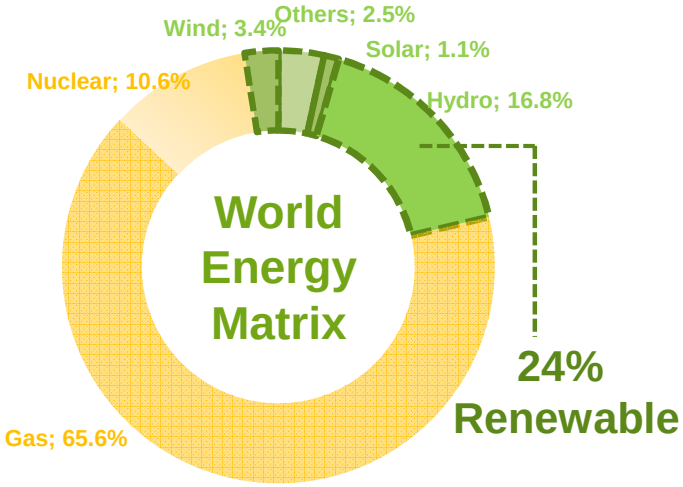
126,000 kms of transmission lines

Network of 3.5 million kms

82 million consumers

Energy Distributed 463 TWh

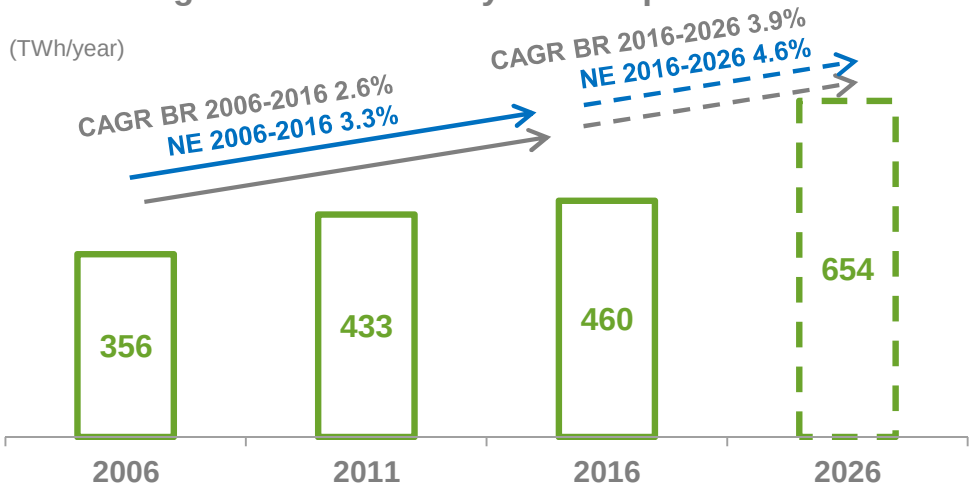




Brazil's Growth Prospects

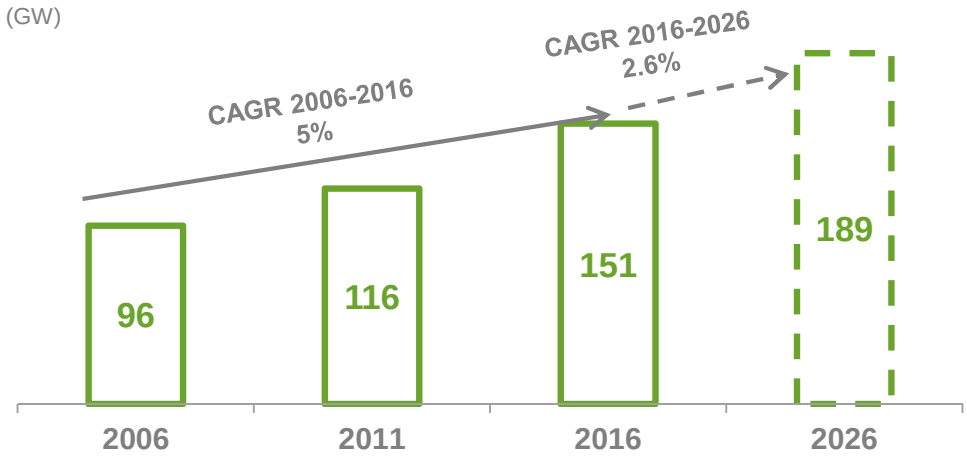
Demand[1]

Resilient growth in electricity consumption



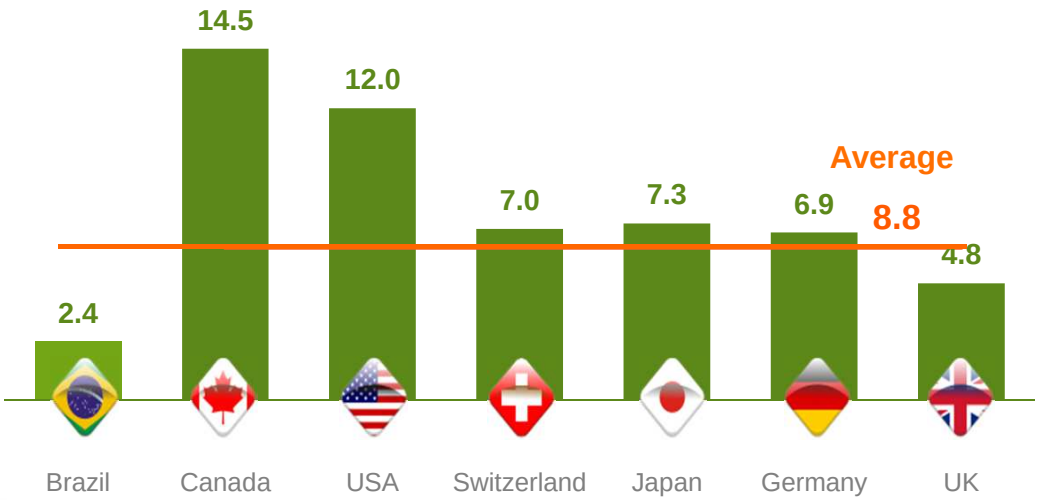
Supply[2]

Installed capacity



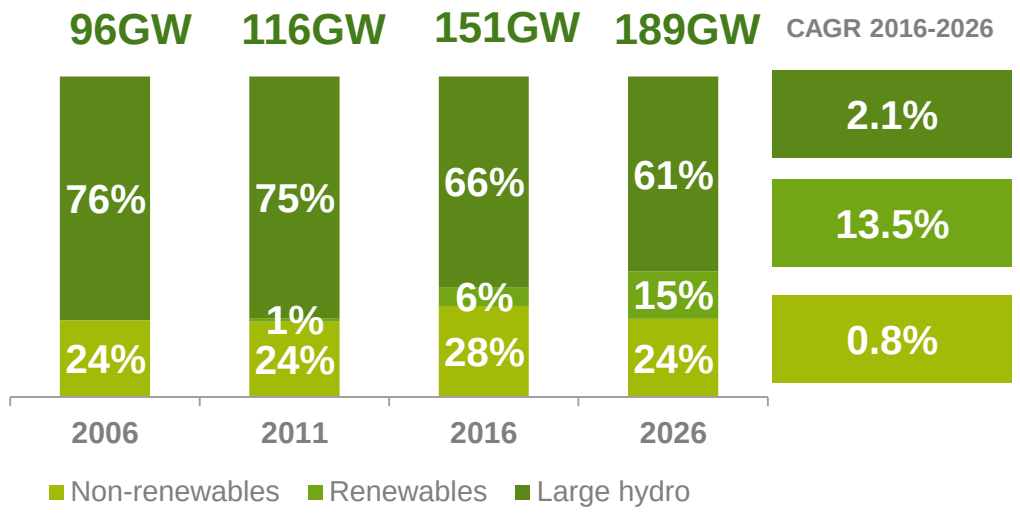
Brazil's significantly lower average consumption

(Electricity consumption per capita in MWh / year – December 2016)



Renewable sources gain significant share in the matrix[3]

(MW installed capacity % breakdown by source)



Source 1: PDE 2017 - 2026 Projection of electricity demand
Source 2: Decennial Energy Expansion Plan 2026
Source 3: Decennial Energy Expansion Plan 2026

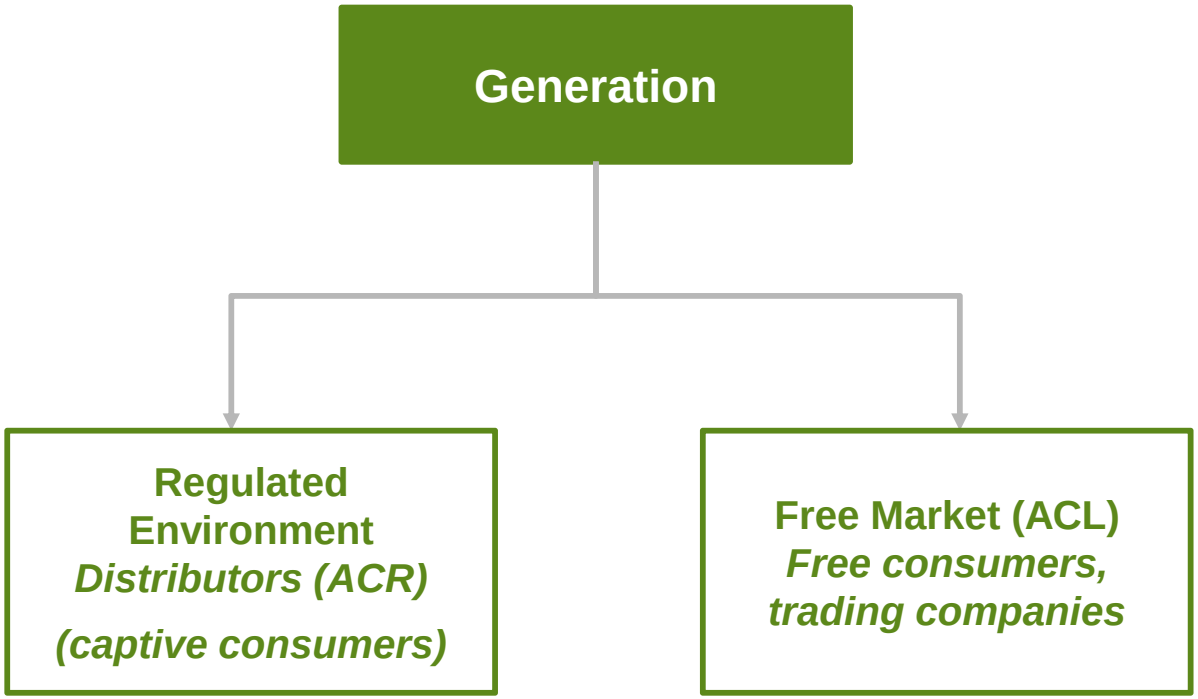
Brazilian Electricity Sector - Institutional Model

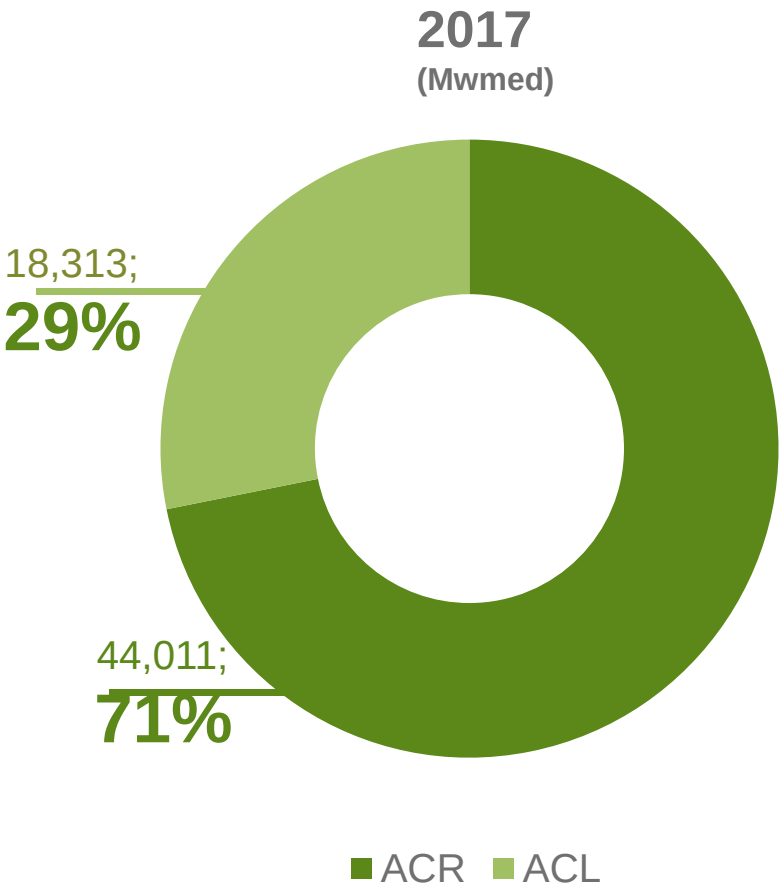
Energy Policy / Matrix	**CNPE**	National Council for Energy Policy
Government	**MME**	Ministry of Mines and Energy
Security of Supply Monitoring	**CMSE**	Committee for the Monitoring of the Electricity Sector
Energy Planning	**EPE**	Energy research company
Regulation and Fiscalization	**ANEEL**	National Electric Energy Agency
Clearing House	**CCEE**	Electric Energy Trading Chamber
Operator	**ISO**	Independent System Operator
Users	**PLAYERS**	Distribution, generation, transmission

Well developed regulatory framework predictable and stable

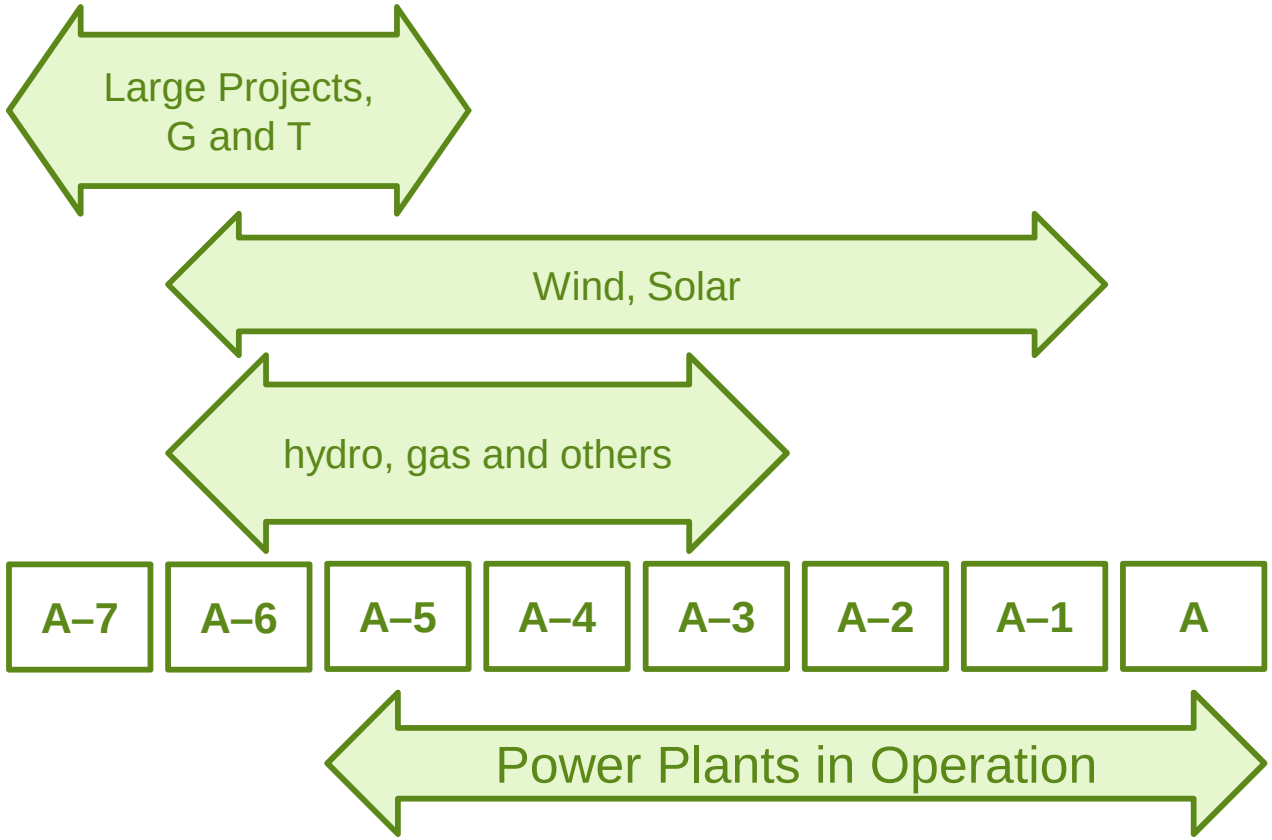
Note: ANEEL Model

Generation Business





Energy Auctions for Regulated Market (ACR)



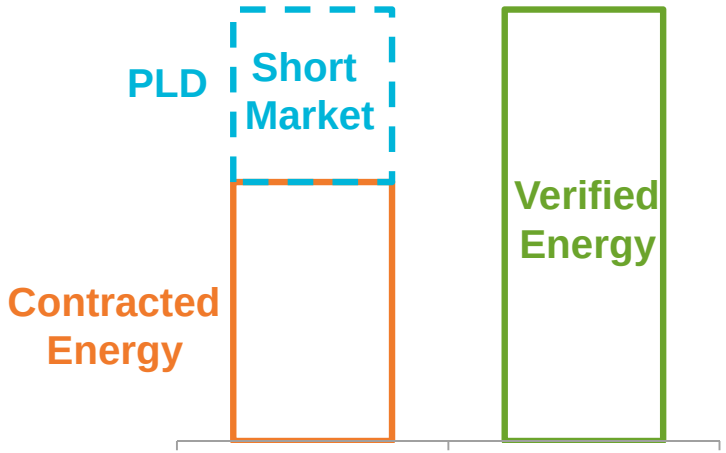
- Previous Environmental License obtained by the Government
- Long-Term Contracts with Distributors
- Price set at auction and yearly adjusted by inflation

Neoenergia Strategy

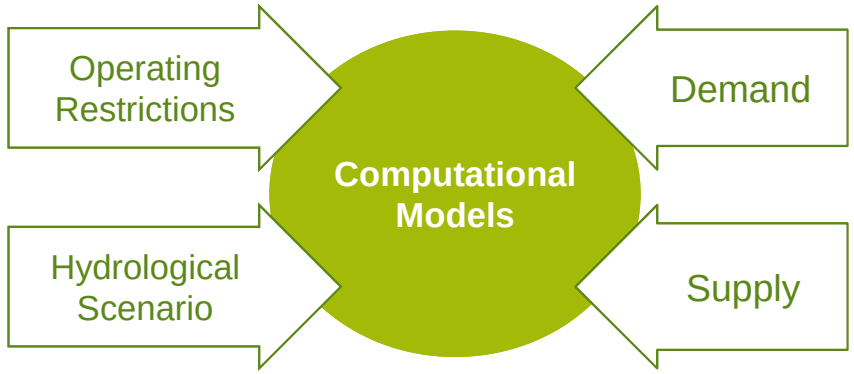
- ✓ Do not participate on structuring projects
- ✓ Only bid for generation projects without transmission risks
- ✓ Be the controlling shareholder: operate and consolidate the business

Spot Market - Settlement of Differences

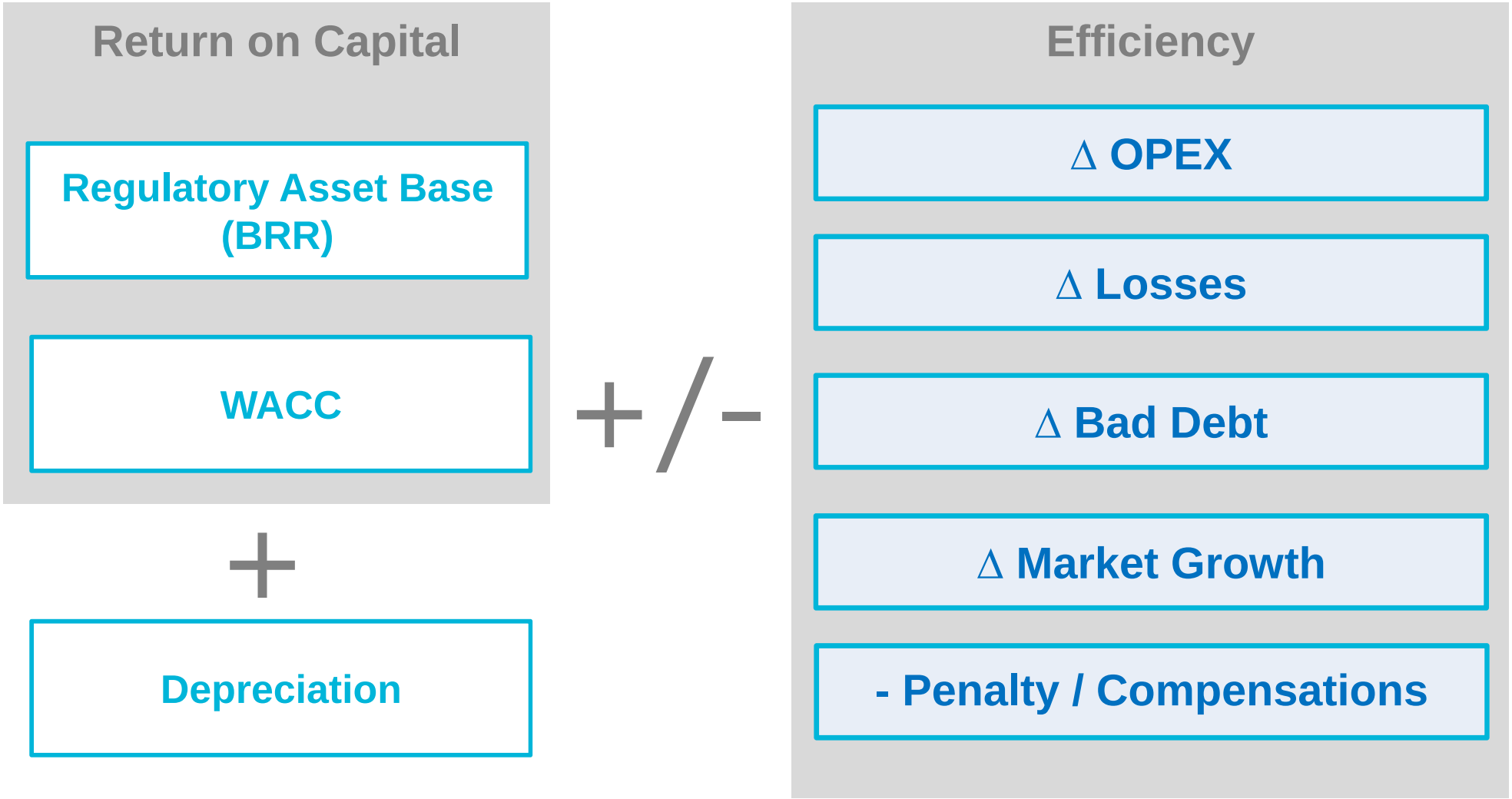
Spot Market



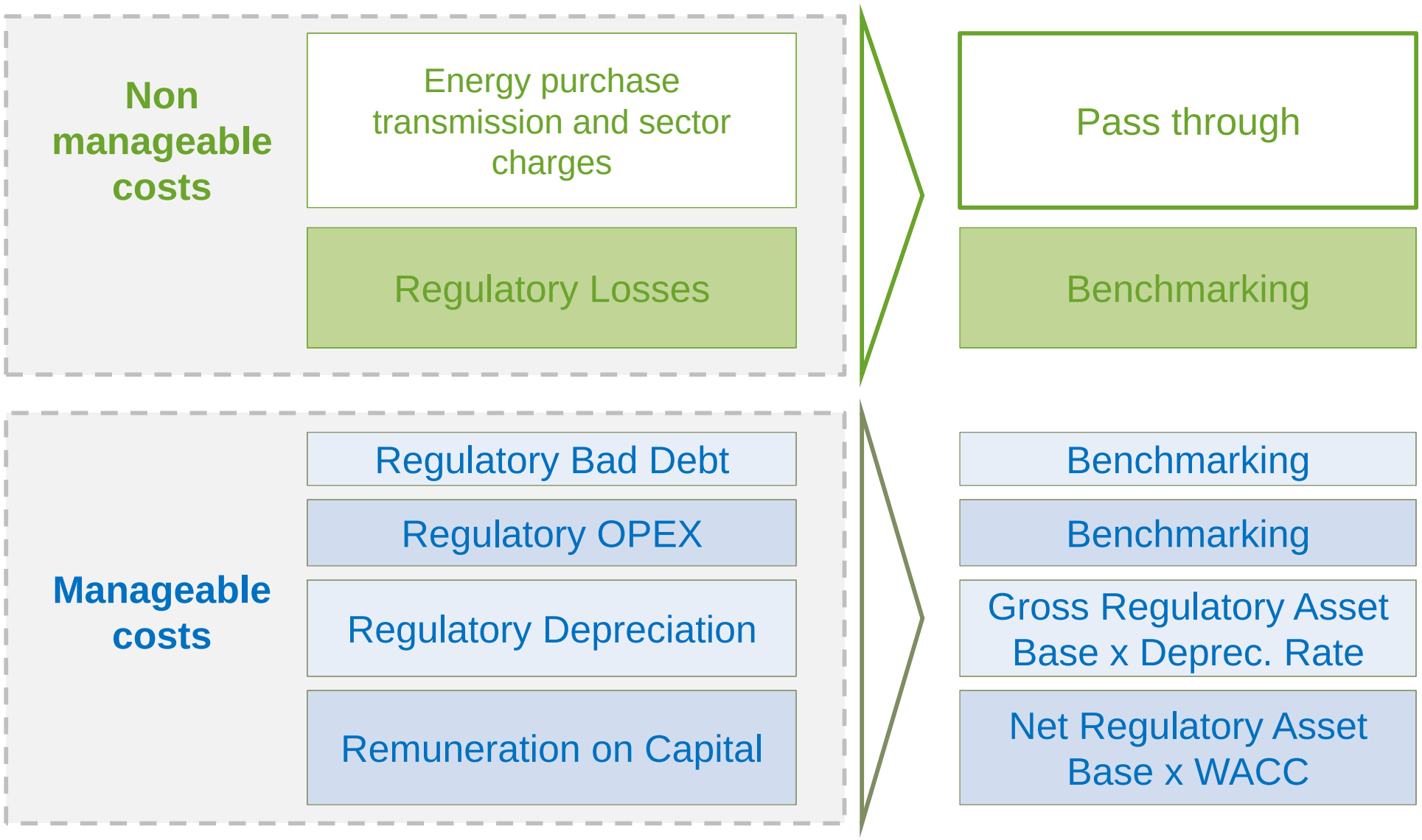
Spot Price



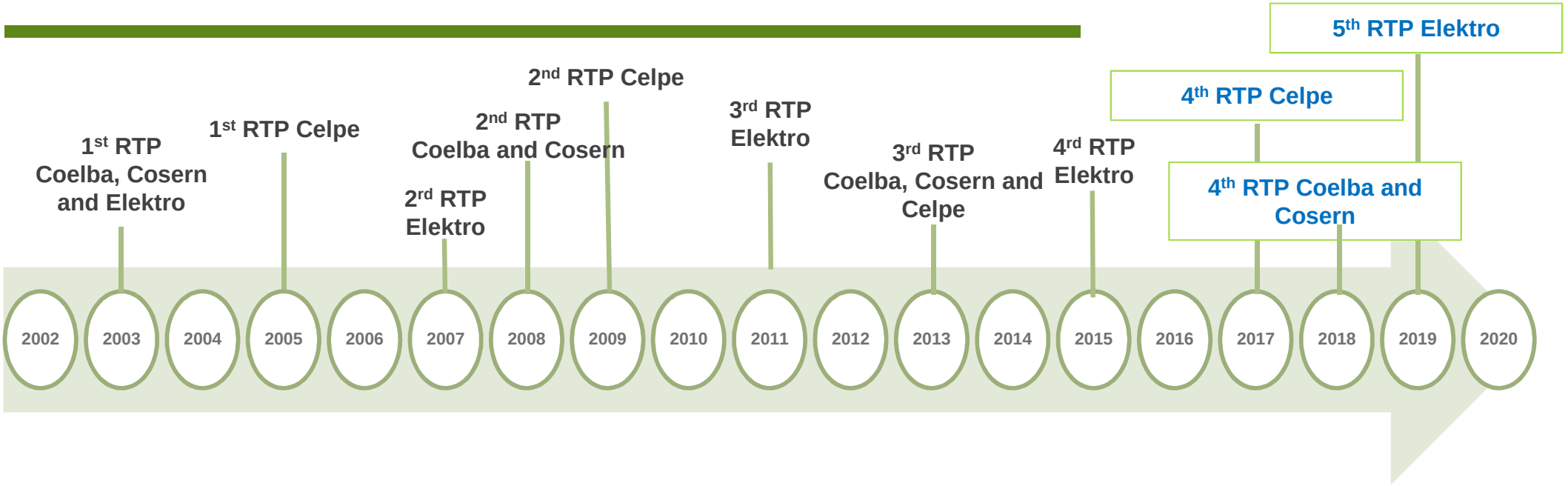
Distribution Business



Distribution Tariff Review Process



Tariff Review Processes



Tariff Review	Every 4 or 5 years	• Pass through: energy supply + transmission + sector charges • Definition - Regulatory Asset Base (RAB) and OPEX • Establish standards for losses, quality and an efficiency factor
Annual Tariff Adjustment	Yearly except on Tariff Review year	• Pass through: energy supply + transmission + sector charges • Manageable costs- Adjusted by inflation + demand growth – X factor

Tariff Review

Increase of MM BRL 260 /year in Celpe's EBITDA

4th Celpe's Tariff Review	Before	After
Part B (MM BRL)	1,333	1,545
Regulatory Losses	14.50%	15.90%
Bad Debt	0.98%	1.38%
DEC annual reduction Target	0.74	0.16

Efficient RAB process ~100% of capex being recognized in the RAB since 2015 for all DisCos

- ✓ In April 2018 the 4th Tariff Review of Coelba and Cosern will take place
- ✓ In 2019 the 5th Tariff Review of Elektro will take place

Transmission

Auction	• Revenue Cap • Annually adjusted by inflation (IPCA index) • Significant increase in WACC • Construction time improved
Growth	• Brazil needs to increase its transmission system by 62,000 kms[1] • BRL 64 billion of investments forecasted[1]
Operation	• Reliability risks (penalties apply if the percentage stablished is not attended)

Note 1:DECENAL PLAN OF EXPANSION OF ENERGY 2026

A solid and visible business model based on its highly regulated asset mix

	Regulatory framework			
	Concession process	**Concession / authorization term**	**Renewal**	**Revenue**
Distribution	• Competitive auctions	• 30 years • Due date: Aug-2027 to Mar-2030	• Possible (+ 30 years) • May be changed Contractual conditions • Indemnification for non-depreciated assets	• Tariff structured to remunerate the concessionaire for: – Part A = Non manageable costs (pass through): energy supply + transmission + sector charges – Part B = manageable costs: capex + opex. Annually adjusted by inflation + demand growth – X factor • Tariff review every 4-5 years: redefinition of Part B, X factor and regulatory level for energy loss and bad debt.
Transmission	• Competitive auctions	• 30 years • Due date: Aug-2027 to Mar-2043	• Possible according to certain contractual conditions • Indemnification for non-depreciated assets	• Revenue yearly adjusted by inflation • Tariff review every 5 years (only WACC - cost of debt)
Wind generation	• Authorization request within ANEEL	• 35 years • Due date: 2046 (avg.)(1)	• No contractual provision	• 20-year PPAs to Discos through competitive auctions with price yearly adjusted by inflation • Bilateral contracts at free market
Hydro and gas generation	• Hydro: competitive auctions • gas generation: authorization request within ANEEL	• 35 years • Due date: 2044 (avg. hydro) and 2030 (gas)(1)	• Possible according to certain contractual conditions(2) • Indemnification after concession expiry	• 35-year PPAs to Discos through competitive auctions with price yearly adjusted by inflation • Bilateral contracts at free market

Note: (1) Considers the weighted average concession term based on the proportional assured energy;
(2) exception to Belo Monte and Teles Pires – no contractual provision

Electricity Sector Reform

Brazil has a mature, well developed regulatory framework established in 1997

The current Brazilian sector model was established in 2003 and the recent challenges faced by the electricity Sector were key driving forces to the ongoing reform

July 2017 - Government Public Consultation 33/2017, where players and society were able to make contributions during the process

February 2018 - Ministry of Mines and Energy sent a Project of Law to Brazilian Presidency

Now, the law will be analyzed and then voted by the house of representatives

General principles of the proposal are positive and reinforce regulatory stability

Detailed regulation will be developed and discussed with the players

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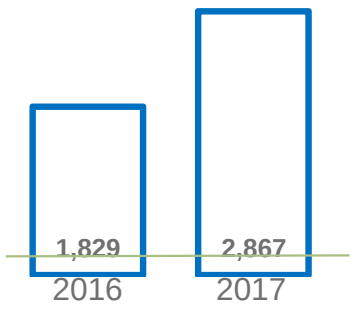
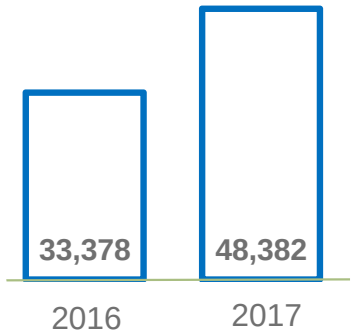
Distribution

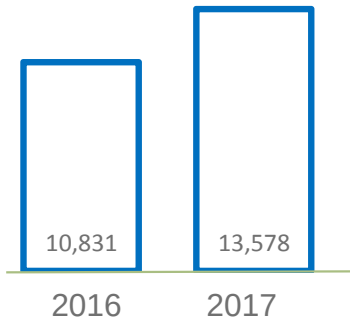
EBITDA MM BRL [1]



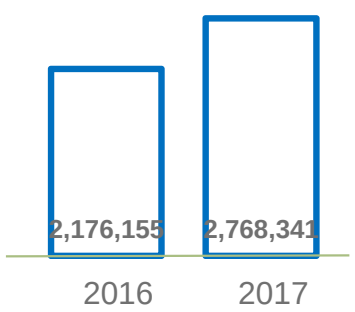
Distributed Energy GWh



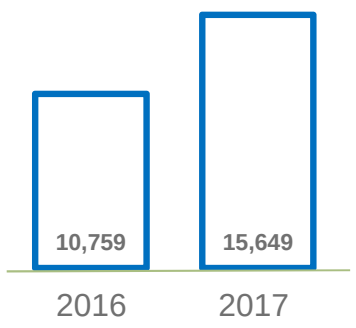
Number of Customers thousand



Investments BRL thousand



RAB MM BRL



2017 figures		Coelba	Celpe	Cosern	Elektro Redes [1]
					
Neoenergia stake	%	96.34	89.65	91.48%	99.68%
Net Rab	BRL bn	7,115	3,790	1,678	3,066
Distributed energy	GWh	16,264	10,772	4,650	16,696
Area	Thous Kms^2	563	99	53	121
Clients	Thous.	5,901	3,652	1,420	2,605
EBITDA	BRL MM	1,077	550	367	873

✓ **Ebitda growth is still to improve from 2018 on due to market growth and the 4th tariff review for Coelba and Cosern**

[1] Considers Elektro Redes 2017 proforma

Transmission

Afluente T

- Assets[(1)]: 7 Substations e 9 lines (489.1 kms)
- Localization: Bahia
- Stake: 88%

Narandiba

- Assets[(1)]: 3 Substations
- Localization: Rio Grande do Norte e Bahia
- Stake: 100%

Potiguar Sul

- Assets: 2 Substations e 1 line (190.1 kms)
- Localization: Rio Grande do Norte e Paraíba
- Stake: 100%

Under Construction

Auction 05/2016

- Nº of Lots: 4 (611 kms)
- Localization: MS, SP, SC and CE
- stake: 100%

Auction 02/2017

- Nº of Lots: 2
- Line extension: 1,074 kms
- Localization: PI, TO, BA, PB and CE
- stake: 100%

Notes: (1) SE Brumado II is counted two times , because it has Assets in Afluente T and in Narandiba ;

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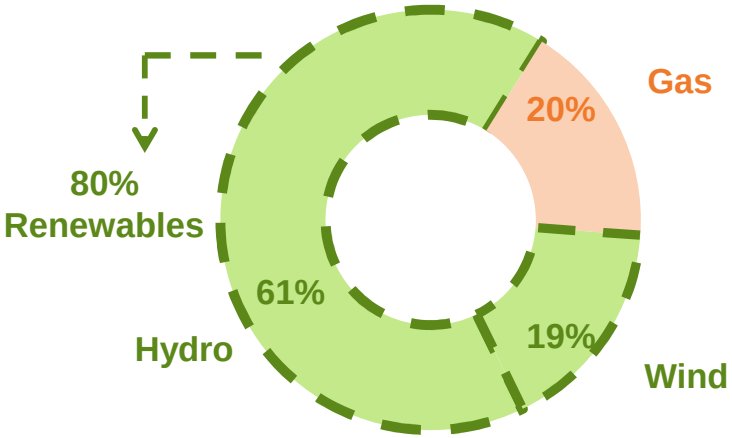
All generation assets are contracted with long term PPAs



Wind Farms (2)

- Inst.Capacity : 516 MW
- State: Rio Grande do Norte, Paraíba e Bahia
- Stake: 100%

Termopernambuco

- Capacity : 533 MW
- State: Pernambuco
- Stake: 100%

Under Construction

Belo Monte

- Capacity(1): 11,233 MW
- State: Pará
- Stake: 10%

Baixo Iguaçu

- Capacity : 350 MW
- State: Paraná
- Stake: 70%

UHE Teles Pires

- Capacity: 1,820 MW
- State: Pará e Mato Grosso
- Stake: 51%

UHE Itapebi

- Capacity: 462 MW
- State: Bahia e Minas Gerais
- Stake: 100%

UHE Baguari

- Capacity: 140 MW
- State: Minas Gerais
- Stake: 51%

UHE Corumbá CIII

- Capacity: 96 MW
- State: Goiás
- Stake: 70%

Águas da Pedra

- Capacity: 261 MW
- State: Mato Grosso
- Stake: 51%

9 Wind Farms

- Capacity: 281 MW
- State: Paraíba
- Stake: 100%

Notes:(1) Under construction. Operating partially since Apr/2016 and fully operational in Jan/2020. Installed capacity operating: 4,510MW; (2) consolidated values include Elektro Holding participation since 08/24/2017 when it was incorporated

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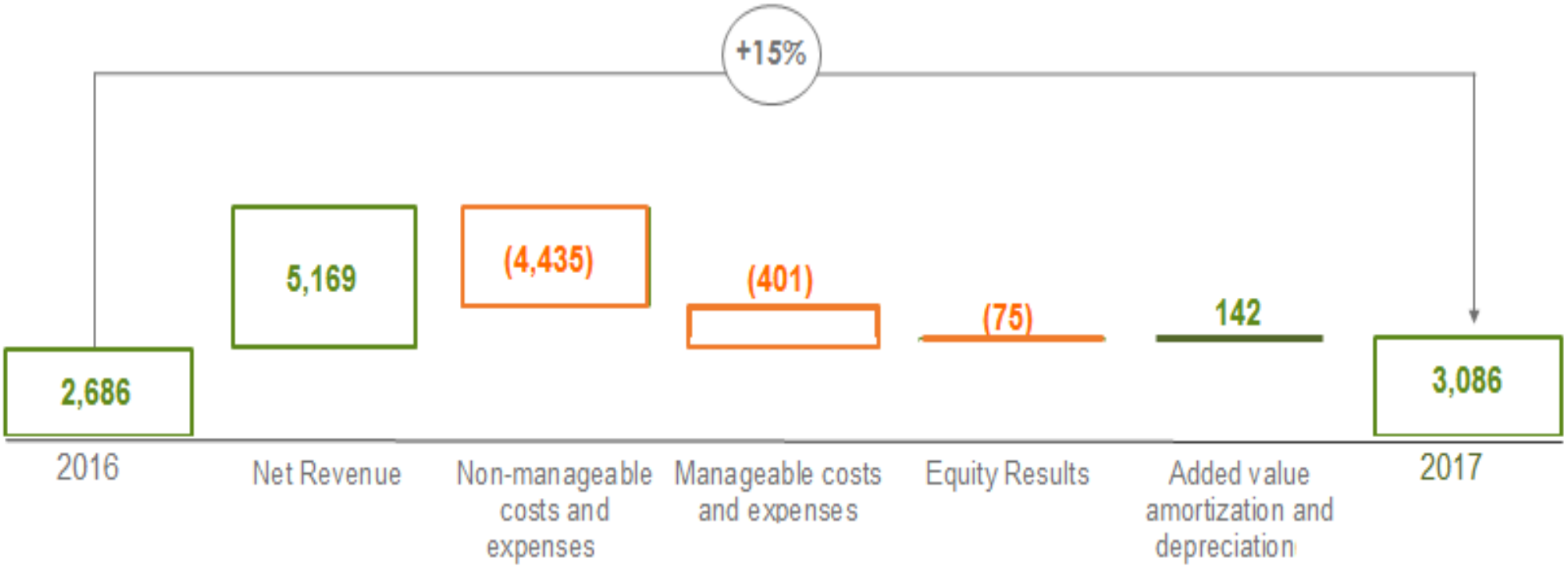
EBITDA (MM BRL)

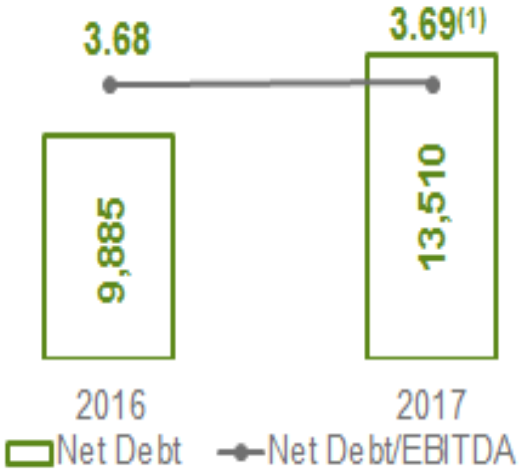


Net Profit (MM BRL)

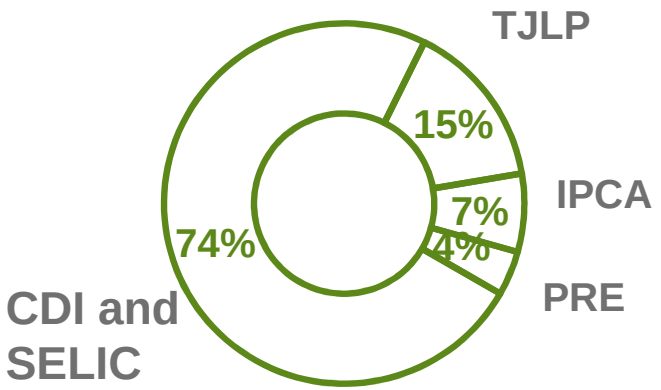
Mainly driven by EBITDA growth

Indebtedness position

Net Debt and Net Debt/EBITDA
MM BRL

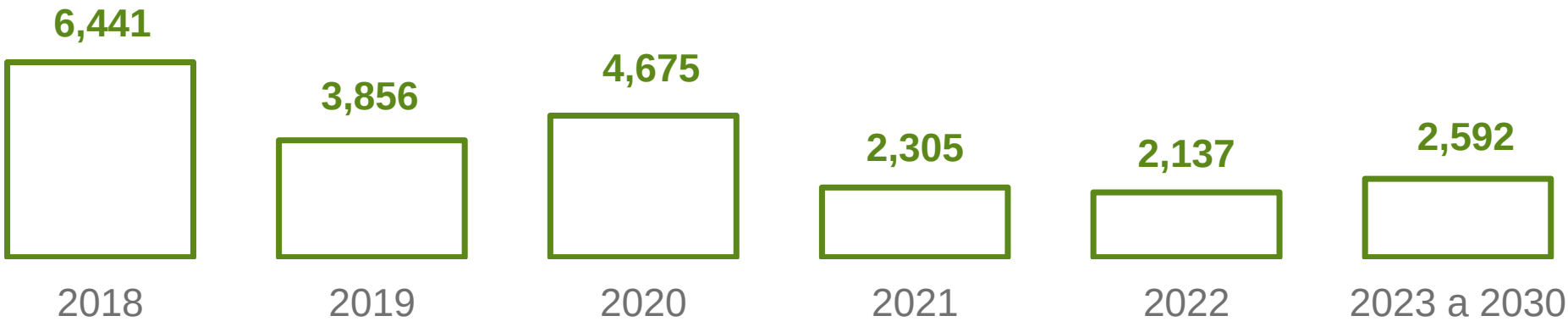


Debt breakdown by indexers
%



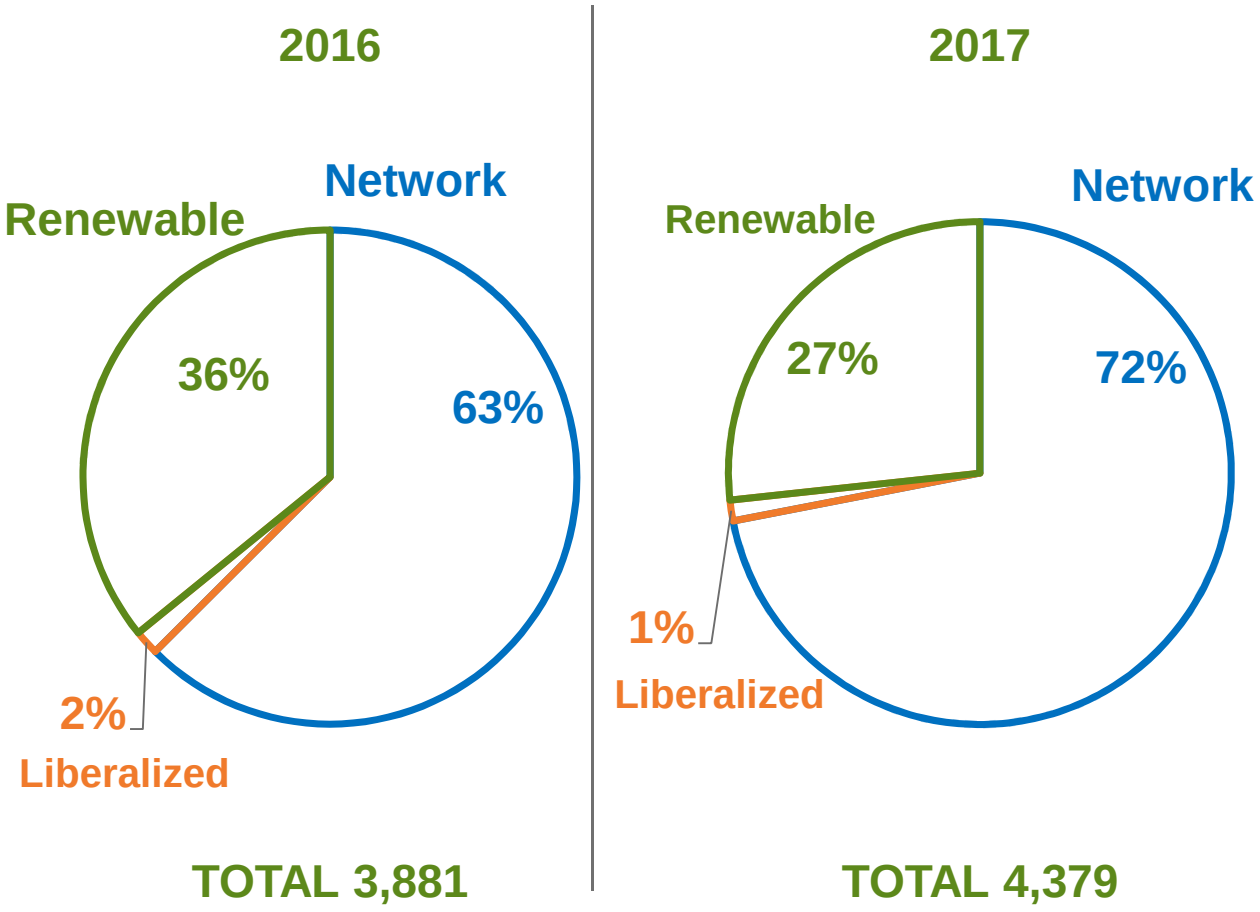
Average cost 96% of CDI

Debt



(1) Considers pro-forma EBITDA

CAPEX (MM BRL)



INVESTMENTS IN 2017(1) (2)

The **BRL 4.4 billion** CAPEX were distributed as follow:

- **72%** to Networks;
- **27%** to Renewable Business and;
- **1%** to Liberalized Business.

It includes BRL 0.4 billion invested in Non Consolidated Renewable Companies

Notes: (1) Considering Non Consolidated Assets; (2)The business segments are composed by Networks (Distribution and Transmission), Liberalized (Gas), Renewables (Hydro, Wind, Commercialization , Services and Holding)

Rating

Corporative Rating S&P– Global Scale

	2015	2016	2017	2018
NEOENERGIA	BB+	BB	BB	BB-
	BB+	BB	BB	BB-

Limited by sovereign rating

Corporative Rating S&P– National Scale

	2015	2016	2017	2018
NEOENERGIA	AA+	AA-	AA-	AA-

Corporative Rating Benchmark – National Scale

Corporative National Rating – Short Term

STANDARD &POOR'S		FitchRatings		MOODY'S	
AAA	-	AAA	CPFL ENERGIA	Aaa	CPFL ENERGIA
AA+	-	AA+		Aa1	-
AA	-	AA	energisa	Aa2	energisa
AA-	ELEKTRO, NEOENERGIA, CPFL ENERGIA, Eletrobras, COELBA, energisa	AA-	COPEL, Lagoa 1, ELEKTRO, Eletrobras	Aa3	
A+	-	A+	Calango 6	A1	-
A	Light	A	-	A2	-
	-	A-	Light	A3	-
BBB-		BBB	CEMIG	Baa1	CEMIG, Light
BB+	CEMIG	BB+		Ba1	-
BB		BB		Ba2	
BB-		BB-		Ba3	
B		B		B1	

NEOENERGIA

Q&A Session

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