

## Q1 2017 Earnings Call

### Company Participants

- Carlos Marcio Ferreira, Vice President, Electric Power Distribution
- Mauricio Perez Botelho, Chief Financial Officer and Investor Relations Director

### Other Participants

- Maria Carolina Carneiro, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. Welcome to the earnings call for Q1 2017 of Energisa. We would like to inform that the participants will be in the listen mode only, and then we will begin the Q&A session when further instructions will be given. (Operator Instructions) We would like to inform that this call is in Portuguese, will be presented by the company's management, and for the English conference, there will be simultaneous translation.

Before we proceed, we would like to clarify that any declarations made during this call concerning business perspectives of the company, projections, operational goals, financial goals are based on beliefs of the management of Energisa and based on information currently available.

Future considerations are not guarantee of performance and involve risks and uncertainties. They refer to future events and depend on circumstances that may or may not occur. Investors should understand that general macroeconomic conditions, industry conditions and other operating factors may affect the future results of the company and lead to results that differ materially from those expressed in these considerations.

Now I'd like to pass the floor to Mr. Mauricio Botelho who will begin the presentation. Mr. Mauricio, you may proceed.

#### **Mauricio Perez Botelho** {BIO 2105889 <GO>}

Thank you very much, operator. Good afternoon. I would like to thank the presence of the participants in our earnings call for Q1 2017. Together with me, we have Ricardo Botelho, Chairman of Energisa; Claudio Brandao, Finance Director -- Corporate Finance Director; Alexandre Nogueira, Vice President for Regulation; (inaudible) Vice President for Business Support; Carlos Marcio Ferreira, Distribution Vice President, and the Manager of Investor Relations, Mariana Rocha.

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So we will see some slides and then we will have the Q&A session. So please, let's begin with slide number three, where we have some highlights of the quarter. The first point that I would like to highlight was the market, which presented the best performance since Q2 '15. In losses, we had improvement for the second consecutive quarter, and in a consolidated way, we are below the regulatory levels. Among the financial highlights, we have the continuity of cost reduction in personnel, materials, services and others, which dropped by 4.5% in Q1 in relation to last year.

Adjusted EBITDA totaled BRL577.1 million in Q1. If we consider the last 12 months, we have an adjusted EBITDA of BRL2.2 billion. Net profit -- consolidated net profit grew 5.1% in the quarter totaling 131 million.

Among recent events, I'd like to highlight our participation in the last transmission auction. Additionally, ANEEL approved the merger of the South and Southeast distribution companies. This expectation is that the grouping of concessions will result in an improvement in operations and a gain in scale. The tariff anniversary of this new concession was delayed to July 12.

On slide four, we have some highlights concerning the market. Looking here on the graph on the left, the variance between quarters and considering non-billed consumption, this shows the variance of the number of calendar days for billing. The growth in this case in consumption was 3% in the quarter, the best performance since Q2 '15.

Consumption had a growth in all the regions where our group is present with the exception of the North region with Energisa Tocantins and their sales were affected, had a drop due to lower temperatures and high rainfall during the quarter and also by the reduction in some industrial clients, a drop in some industrial clients. Last year, in Tocantins, we had the opposite situation. Last year there, we had a drought and high temperatures. That's why we had this reduction in consumption in Tocantins.

On the graph on the right, we have the variance of the consumption by class, which I'd like to say, show here the growth in all the segments. The classes residential and commercial, in spite of the billing calendar being smaller by 1.3 days as a result of 2016, have an extra day. Here we had an increase in the consumption in the distribution companies in Northeast and Southeast.

Now in the industrial class, we have a graph on the upper -- on the right of the slide, which shows the performance of the class during the last quarters. You may see that since 2014, this class did not present a positive growth. In this quarter, although a timid increase of 0.1, we already see signs of recovery of the economy in these regions. I would like to highlight Mato Grosso do Sul, EMS, 10.7% growth, motivated by the food industry and also steel industry.

The class rural was the one that contributed most for the growth in the quarter with an increase of 9.9% due to more irrigation activities and due to the effects of the harvest. And there are expectations to have a record harvest in 2017. Additionally, we have a growth a little above the average growth in Brazil in March. We grew 2.0, the

diversification of areas of operation, and different regions has helped us to have a small recovery in consumption.

Now on slide number five, here we have the total losses of the group. On the graph on the left, we have the division between technical losses and non-technical losses. Added, they represented 12.15% of the injected energy, going back to levels below those of March 2016. We had a significant drop of 130 gigawatts in non-technical losses, and once again, we closed within the regulatory limit.

The highlight is for the losses -- the highlights in losses; Mato Grosso with a drop of 42.1 gigawatt as a result of more auditing and we closed more than 2,000 cases of fraud and also more shielding. Also Energisa Tocantins had a reduction in gigawatt in non-technical losses due to an increase in the teams that are reading meters. Here therefore, this was not reflected in the percentage due to a drop in the market in this area of concession, as mentioned previously.

On slide number six, here we have the delinquency indicators. The collection rate reflects the billing in the last 12 months and our indicator was practically constant in comparison with Q1 '16, even with a scenario of recession. On the right, we have delinquency as of the indicator PDD, on the billing, on the supply billed in the last 12 months. This consolidated indicator was 0.19% or 0.82 percentage point lower than Q1 '16, especially as a result of reversals that happened in Mato Grosso, the region of Mato Grosso EMT. Disconsidering these reversals, the indicator would be 0.85%, which would represent a drop of 0.17 percentage points in relation to Q1 last year.

Now please slide number seven. Here we have the quality indicators in relation two DEC and FEC and the 13 distribution companies. All the concessions are within the regulatory limits for FEC, and concerning DEC, only Mato Grosso and Tocantins are above the regulatory limit. In Energisa, in the state of Mato Grosso, we had a deviation this quarter, which will be reversed in the case of Tocantins. We are introducing supplementary measures to reverse these negative climate effects, which had an impact on the indicator of the distribution company.

On slide number eight, here we have some financial highlights, analyzing PM -- consolidated PMSO, we had a drop of 4.5% in the quarter, representing a reduction of BRL21 million. If we consider the inflation in the last 12 months, which was around 5%, we had a drop of 8.6% or around BRL42 million. We had an important reduction in the expenses with material in Energisa Solucoes, 7.5 million, and in the expenses with services in Energisa Mato Grosso, also 7.5 million, as a result of our initiative to internationalize the maintenance activities, preventive and corrective maintenance. In others, I would like to highlight the reduction in discretionary expenses such as transportation, rental, insurance and others.

Now let's go on to slide number nine. We have the graph explain the evolution of consolidated EBITDA during this quarter. On the first graph, we see a robust growth between adjusted EBITDAs in Q1 '17 and Q1 '16, represented by an increase of BRL134 million. Well, we had an improvement of 79.9 million in Part B, which we call spread of the

distribution companies, as a result of the growth in the market, also tariff increases, readjustments and our efficiency and fighting losses. As already mentioned, we had an improvement of 21 million in PMSO.

Also -- we have also the case of the airplane in Mato Grosso in that concession, and when we purchased the Rede Group, this had a positive impact with the sale of the airplane, 22 million in the quarter. Disconsidering the effects of non-recurring effects in the quarter, for example, the sale of the airplane and costs with labor lawsuits and monetary -- updating VNR, we had a growth of 38.9% in adjusted EBITDA when comparing the two quarters.

Now let's go on to slide number 10, talking about net profit. Net profit in the quarter grew 5.1% as a result of the effects already explained in EBITDA. Now, these improvements came, but were compensated by the worsening of financial results in relation to Q1 '16. In that quarter, we had a strong non-recurring positive effect due to the market derivatives for exchange rate protection. These were concluded in the first semester of 2016.

Number 11, slide number 11, debt. We see here that net debt went from 6.022 billion in December '16 to 6.061 billion in March 2017, a small rise due to an increase in passive CVA, since these values include sectorial credit.

Now we can go on to slide number 12. The graph -- on the graph on the right, we have an increase of 37.4% in the investments of the distribution companies in the quarter, totaling BRL407 million. Of this amount, 322 million, around 80%, went to the distribution companies, which soon will be -- will have the fourth cycle of tariff review. Energisa Paraiba, Energisa Sergipe, Energisa Mato Grosso and Energisa Mato Grosso do Sul. The compensation base in Paraiba closed in February and the review of the distribution company will happen in August 2017. For this case of Paraiba, we made a prepayment of the debt linked to loans from PLPT. As has in the case of Paraiba, it is around 5 million.

Once again, the regulatory agency will have a hearing in 60 days before the review and this should happen at the end of June. The basis for compensation in Sergipe, Mato Grosso, Mato Grosso do Sul will be closed in October 2017 and the three distribution companies will also have a review in April 2018. Here, we did not inform projections for the remuneration base of the distribution companies, but we trust that there will be a recognition of the investments made during the last cycle.

On slide number 13, we compare regulatory EBITDA with actual EBITDA reported in the last 12 months, without non-recurring effects. In the consolidated of the group, we are above the regulatory EBITDA, around 34%, especially as a result of the management of Phase B of the distribution companies. Also, the continuous improvement of societary EBITDA, especially now in the last quarter, and due to the EBITDA, also regulatory EBITDA of the acquired companies.

On slide 14, we have a summary of our participation in the last auction, transmission auction. I would like to highlight that we were winners of two lots, which will bring synergies and operational benefits too, although -- lot 3 and lot 26. Although they did not have an impact in the result of this quarter, we made a specific call for this.

And I would like to highlight that we began activities -- our activities to develop the projects aiming at optimizing the schedule. We already signed a pre-contract EPC new -- contract, full turnkey, the company, that one is Omexom, a subsidiary of VINCI Energies, a French group, a multinational French group with presence in more than 50 countries.

So I'd like to conclude our presentation and now we are available to answer questions in the Q&A session.

## Questions And Answers

### Operator

Thank you. Now we would like to begin the Q&A session. (Operator Instructions) Mrs. Carolina Carneiro from Santander would like to ask a question.

#### Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Thank you for the call. I have two questions. The first has to do with losses. You highlighted an ETO in the state of Tocantins, where you had a drop in non-technical losses and that it did not have an effect on the indicator. Could you give us more details? In the next quarter, can we have this positive impact having an effect on the numbers and also, the actions to fight fraud and non-technical losses, and can we expect a reversal of this in the next quarter?

Also you talked about tariff review. We know that for the state of Paraiba, we will have the hearings at the end of June, but I'd like to know about the other regions, Mato Grosso, Mato Grosso do Sul. Are you discussing tariff reviews or to update the tariffs maybe in 2018? I believe that these have reviews in the beginning of the year. Could you give us your expectations, whether we can have an increase or do you believe that it will remain as it is now?

#### A - Mauricio Perez Botelho {BIO 2105889 <GO>}

Carol, I will answer backwards, beginning with your second question. Yes, I believe these concessions could go through a review with (inaudible) and a review in 2018. So this is our understanding concerning this point.

Now, the losses, I have Carlos Marcio, he is on the cellphone.

#### A - Carlos Marcio Ferreira {BIO 15944970 <GO>}

Yes, here. I'm with the speaker phone.

#### A - Mauricio Perez Botelho {BIO 2105889 <GO>}

Could you please answer?

#### A - Carlos Marcio Ferreira {BIO 15944970 <GO>}

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Okay. Thank you for the question. Concerning Tocantins, we made decisions, especially in the reading, rural reading of meters, we were having a significant loss and we saw in non-technical losses, we already saw the result of our efforts to read meters. The reduction in this semester was 12.6 gigawatts due to the reading of meters.

And another thing that we found in losses, we made an analysis. We redirected the teams to regions where we had higher volumes of delinquencies. So we had this drop in the quarter and our expectation is that in -- as we said in other calls, by the end of the year, we see these losses going down to the regulatory levels. So basically this is what we're doing in Tocantins. This is our perception.

**Q - Maria Carolina Carneiro** {BIO 16342681 <GO>}

Thank you.

## Operator

(Operator Instructions) Thank you. I'd like to pass the floor to Mr. Mauricio for his final comments. Mr. Mauricio, you may proceed with your final comments.

**A - Mauricio Perez Botelho** {BIO 2105889 <GO>}

Thank you very much to all. We understand that Energisa has had consistent results in the last quarters. I would like to highlight that there was a special -- regulatory special regime, a plan for recovery of failures that was signed with ANEEL for the acquisition of the Rede Group. With the exception of EMT or Mato Grosso, we closed all in April 2018 -- sorry, Mato Grosso will be concluded in April 2018. The others were already concluded.

We had a commitment with the regulating agency and our shareholders. We are delivering important progress in the distribution companies acquired in the operational area, drops in not-technical losses and improvement in quality indicators, and also the financial side, in finance, with the strict control of cost.

We continue with our integration project with the distribution companies and -- this year and next year. In April, we inaugurated the service, shared service center of Energisa. We centralized all the activities such as financial, finance, human resources, purchasing, fleet and travel. This way, different departments of the company now can access this work in a very aligned and centralized way. In terms of investments, they are focused on the expansion and reinforcement of the electrical network, especially the distribution companies that will have tariff reviews between August '17 and April '18.

Also, I would like to highlight that we began in the transmission segment. This was a very planned move with adequate profitability and this will allow us to have tangible benefits for the distribution companies in the Midwest and improvement in losses in DEC and FEC, allowing us to expand in areas where the transmission connections were saturated. We continue to work in this sector, always observing a size that will ensure consistent delivery and execution capacity. I'd like to thank all the investors, shareholders and wish you a good afternoon. Thank you.

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## Operator

Thus the earnings call is concluded. We wish you a good afternoon.

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