

Y 2018 Earnings Call Portuguese

Company Participants

- Ivan Muller Botelho, 'Chairman of Directors & CEO'
- Ricardo Perez Botelho, 'Deputy Chairman of Directors Member of Executive Board & Director'

Other Participants

- Analyst
- Andre Sampaio

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the teleconference concerning the results of the Fourth Quarter of 2018 of Energisa. We inform that the participants will be listeners only during the presentation of the company (inaudible) operator. We also would like to inform that the teleconference call in Portuguese and it will be by the company's management and for the English conference there will be simultaneous translation.

This event will be broadcast simultaneously via Internet via webcast. Before we go online through clarifying that the operations during this presentation that may include projections, operational goals and other information that on net order are confidential. (inaudible) full-years that these are projections are based on assumptions and strategy. And future results depend as on the variations and circumstances that may not occur.

Investors may understand that the general -- (inaudible) will initiate the presentation Alexandre Nogueira, Vice President of Regulation, Claudio Brandao, Director for Corporate Finances and all team of relationship with investors online (inaudible) opening out to operations. We are very proud of the achievements of the Energisa Group. We have overcome challenges and we are incessantly looking for excellence and well, we acquired two new distributors through auction realized in August Ceron and Eletroacre. And after consistent work and very detailed work, we have achieved great results.

We have 11 distributors in our portfolio over five regions of the country, and we are serving 24% of the national territory, 7.7 million clients. We are going to use our expertise to realize a turnaround of assets for distribution according to our well successful history with the group already. And we are going to take energy further with quality to clients of this region. So, we keep on growing with the acquisition of a (inaudible) in June in Tocantins and by year end December last year.

FINAL

We have now four concessions, with 1.343 kilometers off lines of transmission capacity of transformation of 4.294 MVA and the revenue of 184 million. We continue to focus on the client, as a result of our commitment with quality in the provision of energy. We have been awarded 9 prizes ever in 2018 and 4 of our distributors are among the best in the country. The index of Aneel and this of the satisfaction of clients, we are in the leadership in the Center, Southeast and in the North in the category.

In the last 5, we have seen the ranking of continuity assessing 47 confectioneries, looking at the best performers in the services provided in Energisa's through Southeast Energisa will be ranking with seven visitors [ph] (inaudible), in companies of great and mid-sized. It makes major difference in the life of our clients. We want to provide more prizes and we want to become better and better and that's what we work for. In 2018, the great place to work services defined the distributor as the best develop in the development and performance in continuity of the services provided.

And in other occasions, we are referencing health and up labor health. Last year, we revise and mapped our way of dealing with risk and labor health and we improved even further, in order to advance and bring innovation to the business we invested in a major project of innovation and contribution. The new efforts will lessen bureaucracy receivables loss [ph] will be improved losses will be lessened and will deal with failures that will be diminished majorly. The client will count with new possibilities of the payments of their energy flows and will create more and more channels aiming for improving the experience, where want anyone at a company that is simpler and more digital and more efficient.

We have continued [ph] results that will starts being presented now by our VP Please, floor is yours.

Ivan Muller Botelho {BIO 1745620 <GO>}

Good afternoon, ladies and gentlemen. I'll start presenting results and in the sequence will open a session of Q&A Before starting, I would like to point out that these are the first time after that we consolidate the companies acquired Ceron and Eletroacre. For the operation of what the numbers presented are based upon be there they have that this companies can carry with year from 2017-'18 and the financial bonds carries within pro forma values, therefore their gear in lines is like for financial results that reached that 1,892 million in the semester 4,082 million in the year.

Our calendar see numbers 675 million in the semester and 1.179 million [ph] in the year that has to do with the acquisition of Ceron and Eletroacre 1 million (inaudible) -- 140 million that's what it had represents. It's a business combination according FAF3. Investments have been made in the controller and as per other operational revenue, we have other results in the exercise. Further details of the accountancy you can find out on the '17.

EBITDA (inaudible) was 2.7 that's all double fold and more and the fourth semester according to Eletroacre, we have discussions that were well discussed. We discussed the

Bloomberg Transcript

FINAL

governance of the company and we currently have the realization of an assembly to be held in the near future. We have some events that on subsequent after the closing of the semester. On February 28, BNDESPar [ph] provided the option of sales with the constitution of 3.29% BNDESPar of degree of energy and we have realized the value of the 14 million, now we have 45.9% of the company.

BNDESPar has a contract there has been acquired and we have been successful. Thanks to the relationship with other companies that has been acquired in 2004, we acquired a stocks with yield in the 94 -- 95.4% in yields with the reminiscent of the debts Eletroacre [ph] includes 182,306 million [ph] respectively. The respective and the meaningful partnerships RG 621 million after 5 million in Eletroacre and this contract is managed by CC On the other hand we recorded the assets and after what was mentioned in the auction we have 673 million combining the two companies. And (inaudible) we have an addition of BRL0.50, 65% of gain.

Let's go to Slide 5. We have growth rates, it has to do with classification third distributor, 2.57 in growth, Brazil as a whole grew 1% and then (inaudible) grew so had 5.6%. 123 VWA [ph] with a great number of gigawatts hour. With this segment in that industrial in multiples plus 29.

The food industry has brought major gain energy that -- but I would like 2.7% for the 9.6 gigawatts hour plus and energy is 39.5% in terms of this growth. Year-end we have the consumption of the following distributions, our distributors (inaudible) more than 39 gigabytes [ph] hour. So that with 10 -- 123 gigabytes hour. 1.1% was the growth of Brazil, once again energy that is growing ahead of that number, is like number six the graph to your left hand side, we have losses of the group in the electrical area.

13.7%, as you can see here 0.27 percentage points. According to the new construction [ph] contract, surround an Eletroacre had their losses flexibilized and to be regained over the period of next five years. And certainly they will be an object of focus of planning and efforts towards stabilizing among the companies acquired the Eletroacre had total losses lower than regulatory numbers, without Ceron and Eletroacre in the accounting. 11.6% was level of energy injected, almost constant on the year to September last year and below the regulatory and they're using (inaudible) also with a drop of 0.7 percentage points, considering December 2017 and 0.38 compared to 2018.

This confession is slightly above of the goals of overseas. We are taking measures and due to the currents and the changing teams and we have the department of state that also have had an influence on that. In (inaudible) grows through from 2017 to 2018 would have had results. Tocantins is still below the regulatory goal like Bevin defaults [ph] concerning PDD and the revenue, 0.5% aside Ceron and Eletroacre.

0.606% and you see here in the graph. To diminish and to left and default we used all the rhythms [ph] of artificial intelligence, considering each and every client, customization of the measures applied that are more and more efficient in terms of that collection we have SMS, messages, we have blacklisting of the names in terms of the market that large

among other activities. And all our companies will use the same tools will unify that. Slide number eight, we are going to use the indicators of quality.

We see that except for Ceron, and the indicator deck all distributors are with a good level of quality. We have gone beyond our record numbers, namely market growth to show with an exceptional performance for energy is a Tocantins, deck and non-deck, as mentioned initially by required in [ph] the year, we classified seven of our distributors. Energisa South and Southeast have great results with relationship to the acquisitions, we've regained investments and we've regained strength in terms of deployments of the plans that has been neutral [ph]. Slide number nine as highlights financially speaking considering this year.

We have the legacy distributors year lesser [ph] and one month lag. We have the reduction of 5.6% in the semester [ph] and we gained up 3.8% in the year in line with the inflation rates of the periods. A groups share of that has to do with personnel participation for the results of the group, given the improvement of performance of the group, it's only understandable and internationalization of the teams. The reduction of services was impacted by the anticipation during the drought in Mato Grosso do Sul, we had impacts of that.

We have regulatory adaptations that have affected members as well. Slide number 10, we have the evolution of the EBITDA consolidated pro-forma without Ceron and Eletroacre 683 million in the fourth quarter and 3.884 million [ph], is retraction of 15.3% and 21.5% added respectively. I've tried more in the increases of the adjusted EBITDA that we have a drop of 5.8 [ph] in the semester and an increase of 27.7 in the year. I point out the EBITDA of the year that was affected by effects non-recurrent.

In the end of 2017, we have VNR, we had Mato Grosso, GP and Tocantins, and if we discard those and other effects that are mentioned here, EBITDA would has grown around 25.6% respectively. The semester, we point out the improvement of 94.4% -- 94.4 million that you pardon and installment B [ph]. The first we have 666 million [ph] in the semester again, we have Tocantins influenced by the reversion happening of fourth quarter. 200 million for Tocantins and 13 million for Energisa Southeast.

The year as a whole you can see that the reason no compromising off the whole. It's like 11 as started (inaudible) of the results of the group, we see the numbers the year and incremental 66% compared to 2017. Pro-forma revenue and profits. The results have 72.9% decrease and 0.8% in the year.

However, there are many effects that are non-recurring, the main of them is the bonus of subscription, the debenture of Energisa. We're have relation to that, it's non-cash flow of 107 million [ph] in the first quarter and 165 million in the fourth quarter. Therefore, there has been adjustments for that effect non-recurrent and the Mato's [ph] profitable pro forma would be 49%, superior to prior. That's why we include Ceron and Eletroacre.

10.8 billion [ph] total in 2018 and the adjustment had a drop of (inaudible) in December 2017, 2.7x in December 2018. 2.7 were has to do with the recognition of 1,100 million [ph]

business combination with Acre and (inaudible). Without that, whole of scenario it would be a whole different number. To your left hand side, we see the cost of the debt, 65% of our debt is index to the CDI, and we are benefiting from the interest rates through Brazil.

Our credit deals have been reassured, that's important. I would like to point out some issuances 4.7 million. We had some important aspects here, we had the issuance of Ceron debentures 1.8 million, with maturity for the next in three years. That has to do with being pay debt [ph] for Ceron with another company.

250 million, average cost 4.6 million in CDI and with maturity in 2025 and 2028. Investments wise, we wrapped up the year with 1.981 million including 53.6 million invested during the management of Energisa. Transmission wise, we had 173 million in the year. I'd like to point out the acquisition of the Energisa Paraiba [ph] and the other in the September and October 2018.

Two projects that are being installed, full year obtaining the license for 24 months and we're paying 13 months. In the front year [ph] negotiation with the proprietaries affected and the lines of transmission are majorly concluded. We have less than 5% to deal with Energisa Paraiba, a lot that was a buyer in an auction in June, 2018. The contract was executed in September last year.

We have couple of graphs of work and regularization according to standards are being dealt worth, the common answer way it's being also dealt with. We have agreements in the front (inaudible) in France. 50% of the affected areas are already undergoing clearance for liberation. We point out the fiscal benefit of (inaudible) of the project obtained in January 2019.

Energisa (inaudible) from December 2018, the opposition. We have studies, we have the project, based projects, the confession contractors to be executed next week on March 25. This for lapse [ph] path add up to 184 million with a (inaudible) estimated in the order of 1.5 billion. CapEx and guidance wise, we are estimating investments in the other 2.8%, 87% of that value is focused on the distribution where Ceron and Eletroacre will receive together 699 million in investment every year, so we will be the second distributor in the ranking of the group, but they will have investments.

The distributors acquired the requested along with (inaudible) processing of the revision will be tariffs, the extraordinary once will be realized in December of 2019, in substitution of the (inaudible) of the very first annual adjustments as per foreseen in official documents. EBITDA consolidated, we are at 29.2% and we can see both the graph here. 400 million in growth in this period. Hereby, I end my presentation numbers wise.

I'd like to open for Q&A Operator, the floor is yours. (Question And Answer)

Operator

Thank you. We start now the Q&A session. (Operator Instructions) Mr.Marcelo Sa from (inaudible) Bank would like to ask a question.

Analyst

Good afternoon. I have a few questions. Starting with the regulatory documentation and for transmission and generation, we have a positive outcome, if an above the forecast. I would like to understand what was the your perspective if you see room for the distribution to have a different EBITDA cost.

We are not clear, whether Aneel is open for that kind of change or others and whether they consider distributing company. So, I'd like to know whether you see the possible differences in terms of the autos of distribution. I assume you are not yet has been disconnected.

Ricardo Perez Botelho {BIO 2105867 <GO>}

On March 12 myself we have a discussion into prepared the discussion in the block of generation.

It's well thing and with a positive outlook. We are still in the phase of contribution, it started on March 22 and it's ended in June. We are keeping out or we are analyzing the development of that. And we'll see the differentiation that is to be phased between distribution and the other segments.

These segments are similar and they get positive and nevertheless not the same. So, they'll be dealt with differently. Distribution, we understand that we will have the elements. And the distribution orders, we will be reopening the second semester of due to year.

And around 2020 that should happen. In the module (inaudible) investors and analysts that are here with us on to share and confirm quarter share here with you.

Analyst

Thank you, Ricardo. Another question that I would like to ask is whether you have the assessment of the assets of the bank.

We have started and I too understand the basis of work of yourselves of the company. And I would like to understand if the report on the assets may be greater than expected (inaudible).

Ivan Muller Botelho {BIO 1745620 <GO>}

We see that our planning on the inventory is already going well, and the preparation of the bases that we have. And we proposed that half the amount of our discussion is going according to plan.

Thank you.

Operator

(Operator Instructions). Mr.Andre Sampaio from Santander.

Andre Sampaio {BIO 19422379 <GO>}

Good afternoon.

I would like to ask a question with regards to a (inaudible) graph and the participation. How do you see this possibility, and if you have had any source of studies are looking to that, and funding wise, how do you see that?

Ivan Muller Botelho {BIO 1745620 <GO>}

And I find it's hard at this point to comment on third parties. The payments on the first moment didn't happen because, it didn't happen, it wasn't up to speed in terms of the regulation, they are requiring public information and we're gathering that, so we have some planning for that being other costs wise.

Andre Sampaio {BIO 19422379 <GO>}

We head on Eletroacre.

Is there anything we should watch for and be more careful?

Ivan Muller Botelho {BIO 1745620 <GO>}

Ceron and Eletroacre (inaudible) is well it's that diverse. Right after the privatization, even before we had the via as sure there weren't an actual knowledge of what was to come. The option happens right after that. If we look individually to the current state of that, we will find situations like that.

The analysis of our results here, and you can see in the reports and I have mentioned that we are going to focus on the companies that we have elicited [ph] here. It's difficult to have a comparison at this point honestly.

Andre Sampaio {BIO 19422379 <GO>}

Thank you for your response. And I would like to thank for opening this information.

If cycle wise you have expectations in terms of discussions that have to do with the regulators or things that you may have in that sense.

Ivan Muller Botelho {BIO 1745620 <GO>}

Can you please repeat your question? You're really low, I can barely hear you.

FINAL

Bloomberg Transcript

Andre Sampaio {BIO 19422379 <GO>}

The fifth cycle of revision, the expectations that you have on that on the fourth cycle, had you discussed anything that concerns that? And what you have in terms of expectations towards that.

Ivan Muller Botelho {BIO 1745620 <GO>}

The third cycle, we expect the evolution with regards to the previous cycle in deploying that with incentive we will improve and we are open for the public bidding and this concept has been clearly stated and the signs are being accomplished.

We are expecting a clear discussion. We are working based upon fourth cycle and certainly we are aiming for major improvements.

Operator

(inaudible) from Citibank.

Analyst

Good afternoon.

I would like to understand a little bit more on RGE [ph], in the sense as to whether it would be of immediate impact or whether we have to consider taking longer timeframe, and it validates concerning RGE [ph]. How are they going to occur over the next years on Ceron and Acre?

Ivan Muller Botelho {BIO 1745620 <GO>}

RGE [ph] designated, it's under the intervention of the state managements, once it's being privatized, so we have to consider that public funding is no longer an option here. What happens in the notice that was open to the public. Public, we have 30 years of maturity.

It will have amortization within 25 years in average. In the tariff will have the tariff minus the amount from the auction Ceron and the tariff amount will be 25% lower than the outstanding balance of the loan, and that will be reviewed yearly. RGE [ph] that has been of course dealt with according to the (inaudible) confession is going to be dealt with CVA, well you see it's already on CVA There is an outstanding balance, its updates you long and you're saying that the outstanding balance covers all that RGE [ph] has needed so far. Whatever Ceron needs will suffer amortization.

The differential here concerning the tariff depends upon what the loan is and what we are charging.

FINAL

Bloomberg Transcript

Analyst

Thank you. I think that's clarifies my question.

Operator

(Operator Instructions).

Analyst

Good afternoon. Thank you for the presentation. Operational wise, one of the variations that drew our attention is the non-built net profits, even excluding the Eletroacre and Ceron, it affect the future, this variation has to the volume that you have acquired. I understand all that you have brought to the table including Mato Grosso and (inaudible).

140 million will be recurring in the next semesters, can I take that as the consideration?

Ivan Muller Botelho {BIO 1745620 <GO>}

No, that shouldn't be used as the proxy or a basis for the forecast of the next semesters, semester [ph] that they got bargains or lower [ph] quarters. We depend on variations of one year to the other and to the different variations. We have to take into consideration that already into last quarter we had some variations that were affected by the temperature that we had forecast that's such and even achieved at that level. We have a growth or an increase that has to do with temperature.

But Mato Grosso do Sul those states have results that are come from that.

Operator

(Operator Instructions). ~246 Thank you.

I'd like the passes on to Mr.Ricardo for his last remarks. Mr.Ricardo, please the floor is yours for your last remarks.

Ricardo Perez Botelho {BIO 2105867 <GO>}

Over the next year we aim to integrate the companies, this is what we all want, that's why we want a major portfolio of diversification and we want to elevate all companies to the same level of excellence that all the other companies up to group and our clients are taking into consideration will assess opportunities in these segments, transmission and generation of Energisa. CapEx will be considered.

We'll leverage a number of internal competences in order to change and continue to be relevant and roll further because demands -- with demands are more and more straight. We have confidence that what we have planned entrepreneurship, group pointing will

carry on with the legacy -- successful legacy of our founders. We thank our shareholders, clients, and service providers and providers in general. And thank you and good afternoon.

Operator

Thank you. The teleconference of the results of Energisa's fourth quarter is over. Please disconnect your lines now.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript