

## Q4 2017 Earnings Call

### Company Participants

- Eduardo Haiama, CFO, IR Officer & Member of the Executive Board

### Other Participants

- Marcelo SÃ¡, Associate Director and Analyst
- Vinicius Tsubone, Analyst of Latam Utilities, Oil & Gas

### Presentation

#### Operator

Good afternoon, everyone. And thank you for waiting. Welcome to Equatorial Energia S.A. Fourth Quarter of 2017 Results Conference Call. With us here today we have Mr. Eduardo Haiama, Chief Financial and Investor Relations Officer. This event is being recorded. (Operator Instructions) This event is also being broadcast live via webcast and may be accessed through Equatorial Energia S.A. website at [www.equatorialenergia.com.br](http://www.equatorialenergia.com.br) and MZiQ platform, [www.mziq.com](http://www.mziq.com), where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event concludes. Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward statements are based on the beliefs and assumptions of Equatorial Energia S.A. management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore, depend for circumstances that may or may not occur. Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Eduardo Haiama. Mr. Haiama, you may begin your presentation.

#### **Eduardo Haiama** {BIO 7279971 <GO>}

Good morning, everyone. First of all, I would like to thank you for joining us in our Fourth Quarter conference call. As for our agenda for today, I'll start the conference call describing the highlights of this quarter, then I'll comment on operating financial results. Then finally, we will open the Q&A session.

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As for the highlights for the quarter on Slide 3. Adjusted EBITDA reached BRL 520 million, with CELPA keeping its bad debt provisions flat in the quarter compared to Third Quarter. Our total billed volume in Equatorial amounted to 4,000 gigawatt hour, represent a growth of 5.7% at CEMAR and 1% at CELPA.

Total losses in CEMAR amounted to 17.2%, a drop of 1.1percentage points compared to that seen in Third Quarter. And at CELPA, total losses were flat at 27.5%. It's important to remind that as from First Quarter '17, we start to report financial asset update in operating revenues instead of in the financial revenues, thus impacting net revenues and EBITDA. For comparison purpose, Fourth Quarter '16 and 2016 figures were also adjusted accordingly.

And regarding the adjustment, mainly, in the financial asset update, EBITDA would have reached BRL 489 million or an increase of 2.4percentage from last year. In the transmission segment, we concluded acquisition with a 51% stake in Intesa. And operational line would post BRL 99 million in regulatory EBITDA in 2017. Also, in February of this year, we raised BRL 185 million for SPE 07, the vehicle responsible for the construction operation of Lot 23 located in ParÃi.

Moving on to Slide 5. Energy sales grew by 5.7% at CEMAR, mainly due to the recovery in the company's energy losses in the quarter and the growth in the number of consumer as a (recor) and it grew only 0.6%.

On Slide 6. CELPA's billed grew by 1% in the quarter in line with the 1.2% growth in the required energy, basically caused by the favorable weather conditions in the quarter.

On Slide 7, CEMAR total losses ended the quarter at 17.2%, a drop of 1.1% compared to Third Quarter. Considering the new technical losses approved by ANEEL in the recent company's tariff review, the non-technical losses over low voltage market reached 7.9% this quarter, a 1.8percentage drop compared to Third Quarter. In terms of quality indicators, both DEC and FEC at CEMAR continued to improve in the quarter.

Moving on Slide 8. CELPA's energy losses in the quarter flat at 27.5% compared to Third Quarter. And non-technical losses also flat at 35.7%. Despite being the most competitive concessionaire in the country according to ANEEL, in 2017, CELPA was able to reduce, again, total losses by 0.8percentage point and is currently above -- slightly above the regulatory level by 0.6percentage points. In terms of quality indicators, we continue to improve also both metrics in this quarter and continue to beat the regulatory goals.

Moving on to Slide 10. We show the evolution of the bad debt provision in both companies. In terms of CEMAR, it was basically flat compared to Third Quarter, at 1.2%. Going forward, we expect bad debt to be around 1% to 1.5% at CEMAR. As for CELPA, after showing 3 quarters of improvement in terms of bad debt provisions, in the Fourth Quarter we ended 2.1% of gross revenues, despite the fact that we continue to have a very significant loss from these initiatives in the still delicate economic situation of the state.

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Moving on to Slide 11. As we have mentioned before, since First Quarter of this year, we are accruing financial asset update in the operating line, thus affecting net revenues and EBITDA. And adjusted EBITDA reached BRL 232 million versus BRL 208 million in the Fourth Quarter of '16. Had we not changed that accounting of the financial asset update, adjusted EBITDA would have reached BRL 229 million versus BRL 202 million of the last quarter -- Fourth Quarter last year.

Moving on to Slide 12. CELPA's EBITDA amounted to BRL 285 million in the quarter or 0.4% increase year-on-year. As for adjusted net income, it amounted to BRL 142 million in Fourth Quarter and it's important to mention that the main nonrecurring effect is that, in this quarter, the Fourth Quarter of '17, we booked BRL 169 million in deferred tax assets.

On Slide 13 we show the consolidated figures for Equatorial. Adjusted for the nonrecurring effects already affecting CEMAR and CELPA, consolidated EBITDA amounted to BRL 520 million. And if we disregard the accrual of financial asset update since First Quarter of '17, adjusted EBITDA would have reached BRL 489 million versus BRL 478 million in Fourth Quarter '16.

On Slide 14 we present the debt amortization schedule and leverage for the company. Considering 100% consolidation of CEMAR and CELPA, Equatorial's net debt-to-EBITDA reached 1.8x EBITDA, represent BRL 3.2 billion of net debt. It's important to mention that the group ended with a consolidated cash of BRL 4.2 billion, which is more than enough to cover the next three years of debt maturity.

Also, the highlight, it's important to mention that Equatorial issued its first debt at the holding level amounting to BRL 1.1 billion in total to help fund the development of the transmission lines and also part of the acquisition of Intesa. Finally, it's important to highlight, again, that we issued the bridge loan of BRL 185 million for SPE 07 with a duration of 1.8 -- 1.5 year.

Moving on to Slide 15. We show the main CapEx made by the consolidation in the quarters. As can be seen, the investment in transmission segment have started to pick up, reached BRL 104 million in the quarter. And this expansion is basically related to the conclusion of the environmental studies, the secure of the land rights for the lines and such field services as topography, field probing and aerial survey.

On Slide 17, in (more tables) transmission. In December, we announced the conclusion of the acquisition of the 51% stake in Intesa and existing transmission lines operating in the state of Tocantins and Goiás. Regarding the whole business and looking at Intesa as a proportional stake, total annual revenues arise from greenfields and Intesa stake should reach BRL 940 (sic) (946) million by the time the greenfield project is operational.

Moving on to Slide 18. We show the current status of our lines project-by-project. The main highlight here is the conclusion of the property here is that -- the municipalities affected by the lines, which was an important step towards obtaining all the environmental permits. Also, most of our SPEs have more than 61% of the land rights

secured. These 2 points, environmental rights and land rights, they are crucial to the start of the construction phase.

I believe (Lacara) now we can start the Q&A session. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Mr. Marcelo, would you like to pose a question?

### Q - Marcelo SÃ;

So I have one question specifically about the results. Why the recurring EBITDA in this quarter grew only 2.4% year-on-year in a quarter that Equatorial reported, like, good costs and CEMAR reported very strong volume growth? We are just figuring out exactly what happened because I thought that EBITDA would grow more.

### A - Eduardo Haiama {BIO 7279971 <GO>}

There are basically 2 events that impact the EBITDA compared to last year when you only look at volumes in the current years. One is that the way we're accruing regulatory assets for losses, despite the fact that losses are kind of similar in terms of quarterly losses, the way we show accrual losses is looking at the regulatory year, not like a -- the typical year. And that can create some discrepancies. And if I'm not wrong, in the case of CELPA, it probably represent about BRL 10 million difference, right, from what you would look at for the quarter loss specifically. The other thing that occurred that impacted -- and it was basically at CEMAR, it's related to the non-billed volumes, right? And in the case of CEMAR specifically, if I'm not wrong, the gap represented about close to BRL 30 million, if you compare quarter-over-quarter. Those are the main difference why, despite the fact that -- and you're correct. So our volume growth, the reported volumes were better, losses was also improving, why the EBITDA specifically in this quarter did not post a higher number. But I don't know if it explains or help you explain the gaps.

### Q - Marcelo SÃ;

So in theory, I mean, the recurring EBITDA would have to be higher than that, right? I mean, probably, part of these known billed revenues you're going to maybe recognize in the first Q? Does it make sense or not?

### A - Eduardo Haiama {BIO 7279971 <GO>}

Part of it, not necessarily because it (seems) fluctuates a lot depending on the quarter. But if you consider it at the reported volume, then the actual billed volumes will (bill) at this level. And -- of course, it can change a lot quarter-over-quarter. You're right, the -- what would be the recurring EBITDA would be higher. But this known billed volume, it's really - it kind of fluctuates, it kind of depend on the number of the days that you bill or not. It's sort of dependent on the seasonality of the quarter and your -- what you approved in the previous quarter regarding what should be the billed volume that we viewed would be

billing, right? So there is a frustration on (how this) can change. So -- but for the rest of the perspective, you're right.

### Q - Marcelo SÃ;

And sorry, I didn't really understand what happened with the losses in CELPA that explain that impact. I thought that this was like -- I didn't expect it -- don't understand exactly the difference and how this impact the quarter. And this is not adjusting the recurring level, the losses explanation that you gave.

### A - Eduardo Haiama {BIO 7279971 <GO>}

Yes. Because the losses specifically is how you should accrue the regulatory assets related to losses. We don't accrue necessarily regarding -- looking at the losses -- in the quarterly losses. So in the quarterly loss, you can do the math. We had total losses of 25.5% industrial at CELPA. So it would be below...

### Q - Marcelo SÃ;

The regulatory level?

### A - Eduardo Haiama {BIO 7279971 <GO>}

The regulatory level. So in this sense we say okay. So we should make money, right?

### Q - Marcelo SÃ;

Yes.

### A - Eduardo Haiama {BIO 7279971 <GO>}

But the way we accrue the regulatory losses is looking at the regulatory year, not necessarily at the quarter specifically. And that can change a little bit. If you look at it on an annual basis perspective, it would have been different. But when you accrue it the way ANEEL sees it, not necessarily it's going to match specifically the losses that we had in the quarter.

### Q - Marcelo SÃ;

So in theory, I mean, assuming that you're now in this lower level of energy losses, let's say that, for example, you keep this level in the next 2 quarters. So we kind of expect that this will have a higher impact in EBITDA because you're growing something that happened in the past. So this is also something that will impact in the future, right?

### A - Eduardo Haiama {BIO 7279971 <GO>}

Yes.

### Q - Marcelo SÃ;

Got it. Okay. Then the other question would be, if you can give us -- if you can comment a little bit more on the Electrobras privatization auction. Now that the shareholders approved to take the CCC credit. So I think that the conditions now have improved substantially especially for Amazonas. So can you give us -- talk a little bit more about how Equatorial sees this investment opportunity?

**A - Eduardo Haiama** {BIO 7279971 <GO>}

In general or in Electrobras assets or specifically in Amazonas?

**Q - Marcelo SÃ**

In general. But specifically Amazonas, actually.

**A - Eduardo Haiama** {BIO 7279971 <GO>}

Well specifically in Amazonas, we cannot comment because we haven't yet concluded our analysis. And by the time we conclude, not necessarily we're going to be able to disclose. But I would say like, for us, the complexity to operate Amazonas, of course, is kind of a different degree the way you operate ParÃ because it has much more, what we call isolated systems, (many more). But from a (Brazil) standpoint, if something like that we ever had, we manage to deal with. So from an operational perspective, we do not see a problem, right, acquiring and managing Amazonas, definitely. I don't know, as far as the kind of risk return, what would be appropriate. Same thing applies for the other companies. I believe like, even the experience that we have in operating very complex concessional areas in the kind of assets that could be up for sale, right, by Electrobras, from an operational perspective, of course, we cannot -- never ignore the kind of risk that you might face in the kind of -- this challenge could be different than we faced in the past. But if you believe like we have grasped, let's say, a way to manage these companies efficiently. So as long as we see an interesting risk return profile, you can be sure you're going to see us there, right? And the only thing that could prevent us to make the move, despite the fact that we might see a good risk return, is if we believe by making 1, 2 or 3 moves with the recover limit in terms of our operational capacity.

**Operator**

Mr. Vinicius Tsubone of HSBC, would you like to make a question?

**Q - Vinicius Tsubone** {BIO 20139966 <GO>}

Could you please give us some color on why you closed December 2017 with a high BRL 4.2 billion cash and equivalents position? This is much higher than the CapEx needs for the transmission projects this year. And was the company preparing to do an acquisition or it was just some temporary position?

**A - Eduardo Haiama** {BIO 7279971 <GO>}

Thank you, Vinis. You should see as an insurance, right? We do have a very large CapEx, over the next two years mainly, right. Regarding transmission, 2, 2.5 years. And the way we have managed our liquidity and financial profile is let's roll over all the debt maturity

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we have in the next 3 to four years at CEMAR and CELPA. So that we know that by the time we are building the lines, right, we are not going to need to fundraise for CEMAR and CELPA. And that would compete with the money that we're going to raise for the transmission lines. And also, even after the construction and we have already (like) have been working a lot in -- and you're right, trying to secure long-term financing for the line or some -- or part of it, we want to make sure like we don't face an issue by the time we are raising, let's say, infrastructure debentures for the long-term financing and that would compete, also, in terms of raising money for these companies. So I would see this cash position, more like should serve this purpose, right? They're not necessarily speaking of our acquisition, of course acquisition is always in our mind. We cannot ignore the fact that we do see a (project marked) for M&A probably this year and maybe next year. And we need to be ready. But the main, I'll say, reason, the main use of proceeds for this cash is to, let's say, keep liquidity high and also make sure like we do have the proper funding for, on the safe side, for raising money for the transmission lines, construction and also to roll over all the debt maturing in the same period for CEMAR and CELPA.

**Q - Vinicius Tsubone** {BIO 20139966 <GO>}

Got it. And if I may ask a second question. What is the cost for the BRL 185 million in promissory notes that you issued in February?

**A - Eduardo Haiama** {BIO 7279971 <GO>}

Given the -- I don't know, by heart, exactly the spread. But if I'm not wrong, it's CDI plus 1 point something %. It's not more than that.

**Operator**

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Eduardo Haiama to proceed with his closing remarks. Please go ahead, sir.

**A - Eduardo Haiama** {BIO 7279971 <GO>}

To sum up, I would like to reinforce our commitment, delivering a differentiated purchase to our shareholders for exceptional financial and operating results. We'd also like to highlight our adherence to the highest level transparency and in corporate governance and reassure that both me and our Investor Relations team are available, should you have any further questions.

Thank you, all again for taking part in our Fourth Quarter conference call. And have a good day.

**Operator**

That does conclude Equatorial Energia S.A. conference call for today. Thank you very much for your participation. And have a nice day.

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