

Y 2016 Earnings Call

Company Participants

- Alexandre Nogueira Ferreira, Vice President for Regulation
- Mauricio Perez Botelho, Chief Financial Officer and Investor Relations Director
- Ricardo Perez Botelho, Chairman and Chief Executive Officer
- Unidentified Speaker

Other Participants

- Marcelo Britto, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the teleconference for the earnings call for Energisa 4Q for 2016. We would like to inform that participants will be in the listen mode only. Next, we will begin the Q&A session when further instructions will be given. (Operator Instructions)

We would also like to inform that this conference call will be in Portuguese by the company's management and the conference will be also -- there will be simultaneous translation into English. Any declarations made during this teleconference concerning business perspectives of the company, projections, operational and financial goals are based on assumptions of the Board and management of the company and based on the information currently available.

(Technical Difficulty) When we refer to future events, this will dependent on circumstances that may or may not happen. Investors should understand that general economic conditions and industry conditions and other factors may affect the future results of the company and may lead to results that differ materially from those expressed in future considerations.

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

Mauricio Perez Botelho {BIO 2105889 <GO>}

Thank you. Good afternoon to all. I would like to thank the presence of all of you in our teleconference for the earnings in Q4 2016. We have here with us Ricardo Botelho, Chairman of the Energisa Group; Claudio Brandao, Director of Corporate Finance; Alexandre Nogueira, Vice President for Regulation; Roberto Carlos Currais, Vice President

for Suporte Business; Carlos Marcio, Vice President for Distribution; and Manager of Investor Relations, Mariana Rocha.

I'd like to pass the floor to Ricardo Botelho for his initial comments. Ricardo, you have the floor.

Ricardo Perez Botelho {BIO 2105867 <GO>}

Good afternoon. Perseverance and discipline were fundamental for us to face the perfect storm that hit our business in Brazil in 2016. It was triggered by an adverse macroeconomic environment in the midst of the strongest recession in our country, together with difficulties in politics with the impeachment of our elected President, also cases of corruption involving businessmen and politicians.

We were not caught by surprise by this reality. We foresaw this perfect storm in our strategic plan made at the end of 2014, although the effects on the market were worse than those foreseen.

At that time, we said that it would be vital to be prepared to face the turbulences and at the end we were able to overcome with success this unfavorable scenario for our company. We acted quickly and we concentrated our efforts on initiatives of efficiency and security, reinforcing our capital structure. We had a strong engagement to really deliver the results that we have promised.

So, we bet on the important points in the future of the company. We have the re-IPO of the company in the stock market BM&FBovespa with shares worth BRL1,536 million. These resources were very important to adjust and have a better profile of debt and leverage, also increasing the liquidity of our shares. For this re-IPO, we have the ability and speed to take advantage of window of opportunities, favorable opportunities, in the market and also the demand for the shares was six times that of the offering.

In 2016, we continued with the consolidation of the eight companies we acquired in the Grupo Rede in 2014. We had a lot of progress in the steps of our plan that we developed until 2018. In this direction, we implemented new processes and procedures and we, of course, focused on various measures of our integration plan. We would like to highlight the implementation of the shared services center, which begins its activities in April, within the forecast.

With these measures implemented until now investments of more than BRL4.5 billion in the last three years, we are making a reality of the strategy of creating a basis for a solid and robust group, also an integrated group, for distribution in the country, our vision as a long-term vision.

We have a history of more than 100 years of successes in the country. It is with serenity that we will continue to bet on our dreams in projects expressed by strategic guidelines that will lead the Energisa Group in the next few years.

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Operational efficiency: Continuous search for operational improvements in distribution, the capture of gains in terms of scale and synergy, aiming not only at meeting the goals of the regulating agency, but specially the well-being of our consumers, discipline in the use of resources, discipline in the control of expenses in order to have a robust asset base in our concessions. Also, the adjustment of the capital structure, operations in relation to business in accordance with cash flow and investment needs. Development of new business, active evaluation of new opportunities in the electrical sector. So, with the support of our differential, evaluating, structuring, transforming assets, we have experienced in this, but always with prudence in allocating capital.

Finally, people management. Strengthening of the Energisa culture, engaging employees, fostering safety, and conquering sustainable results.

Well, with these words, I would like to pass the floor to Mauricio Botelho.

Mauricio Perez Botelho {BIO 2105889 <GO>}

I will show few slides with the results and after that we will have the Q&A session. So, please let's go to slide number three. The first point that I would like to highlight is the performance of the market. With a drop in the economy and a drop in income, total consumption of energy fell or dropped 2.5% in the last quarter and had a drop of 1.6% in 2016.

In the losses, we had improvements in relation to September and in a consolidated way we went back to regulatory levels. We had a reduction in DEC and FEC, and in practically all the distribution companies and in a recent ranking of quality of ANEEL eight distribution companies of Energisa were highlighted. The two companies that have the best evolution work; the one in the state of Mato Grosso, going up 16 positions, and Mato Grosso do Sul, which gained 11 positions in the ranking.

In terms of financial items, I would like to stress the inversion of the CVA account, which was active and now it's passive. With also the continuity of the drops we had in previous quarters and the cost of PMSO reduced by 10.3% in Q4 2016 and 1.1% in the year, considering here that inflation in the period was around 6% or 7%.

The Energisa Group closed 2016 with an adjusted EBITDA of 2,051 million and net profit, consolidated net profit, of 195.8 million. We had important non-recurring impacts on our results and we will discuss them later on. The net debt/EBITDA indicator closed 2016 and 2.9 times, a drop of 0.3 times in comparison with September and December of last year 2015.

Now, please, to slide number four. Let's talk more about the market. We see on the graph on the left the variation between quarters and a consideration of non-build consumption, which reflects the variation, the number of calendar days, a drop in consumption of 1.6%. The graph on the right, we have the variation of consumption per class. Except for the segment Others, all the other segments had a drop. Here, we see that -- we see here we had lower temperatures, therefore less electricity consumption. In Industrial, we had a

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drop of 6.7% as a result of the adverse economic conditions (Technical Difficulty) and 5% of these due to the companies in our concession.

In the case of Mato Grosso, we had a drop because of the less production of food due to climate effects, which gave us smaller harvest. We had a drought, which affected the harvest and very less electricity was consumed. Here, also a drop in Sergipe, a drop due to less activity of cement manufacturers and reduction in the clients also, reduction of consumption, oil and gas. In the rural area, 1 -- we had a drop of 1.4%, especially due to more rainfall in December, reducing the use of irrigation. On the graph below, we see a variation of the consumption during the year, a drop of 1.6%.

Now, let's go on to slide number five. Going back to the history, showing the growth of our Group to reinforce this scenario that we're going through, which is not typical. We can see here on this graph, this was the first time in the last 15 years that energy consumption in the distribution companies presented a drop when compared to the previous year. And also it was the lowest in comparison with the other regions in Brazil. And only in 2001, when we had rationing, was the drop -- that we have a larger drop. Also, the average between 1999 and 2016, the consumption in our areas of consumption had an average annual growth rate of 4.3%, while consumption had an increase of 2.8% a year.

As said before, the market in January shows signs of recovery, 4.1% growth in January, practically all the concessions had this growth with a highlight for concessions in the Northeast and Energisa Tocantins. The growth in January for Energisa was above average in Brazil and was 2.8%.

Well, now, let's go on to slide number six. Here, we see the total losses of the Group. On the graph on the left, we have technical and non-technical losses, which represented 12.38% of the energy injected. There was a drop of 76 gigawatts in non-technical losses. And in the consolidated, we closed within the limits of the regulating agency.

A highlight for non-technical losses were the concessions in the Midwest. In the case of the State of Mato Grosso, we had new routines for inspection and also an increase in the success rate fighting losses. We'd like to highlight that during 2016, we hired another 83 teams and we continue with our commitment to be within regulatory limits until the end of 2018 in this state.

Mato Grosso do Sul, consistent reduction during the year. We'd like to highlight that the shielding -- we had shielding measures, installation of a centralized measurement system in areas with high level of social complexity.

Now, let's go on to slide number seven. Here we have delinquency indicators. Okay, here we see this billing during the last two months, the collection and the billing for the last 12 months. Here we see the indicator was constant in comparison with 2015, even with the recession that's we are going through.

On the right, we have delinquency as of the indicator PDD on billing during the last 12 months. In 2016, the consolidated indicator was 0.36% or 0.51 percentage points less than

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2015, especially as a result of reversals that we had in Mato Grosso, in the state.

Now, we'd like to go to slide number eight. Let's talk about quality indicators. Now, concerning the data for DEC and FEC, we'd like to mention the quality ranking of the regulating agency ANEEL, which was published last Monday. Among the 10 largest companies, among the 10 best we have 5. And here -- and among the small companies, we have three among the best. We also obtained two evolutions, two of the greatest evolutions. Mato Grosso went up 16 positions in the ranking of the regulating agency and Mato Grosso do Sul 11 positions. This is -- we are proud of this to be in the -- these positions in the ranking. It is the sixth time that we're among the best, Energisa is among the best. Now, in this way, we're within the regulatory limits of FEC and all the companies and also in the DEC with the exception of Tocantins.

Now, we'd like to go on to slide number eight, financial highlights. Analyzing consolidated PMSO, we had a drop of 10.3% in the quarter, representing a reduction of 62 million. On the graph on the right, we have the values for the year, a drop of 1.1%, which represented savings of 21 million in nominal terms. These reductions are the result of our discipline in costs, which was presented in -- with consistent reductions during the year 2016.

Now slide number 10. Here we have a waterfall graph, which explains the evolution of consolidated EBITDA during the quarter. On the first graph, a small growth among adjusted EBITDA's Q4 2016 and Q4 2015. We had two non-recurring effects, which helped the results, the reversals of contingencies, 43.6 million, in Mato Grosso do Sul and reclassification of VNR, as a result of -- and a change in accounting, adding 25 million.

On the other hand, we had the effective over-hiring, over-purchasing which brought a net negative effect of 45 million. This is the total effect of the year -- for the year, which was considered only now in the last quarter, because until September we had a corresponding CVA on this. The subcontracting of distribution companies was around 111% in 2016 resulting mainly from the obligation imposed by electricity utilities to acquire energy in auctions A-1 in 2015. We are discussing this topic, but in a conservative way we decided to record the effects of these negative effects of over-purchase in 2016.

Once this is recognized as involuntary by the regulating agency, we will then not have these losses of the distribution companies in 2016. We trust that this request made of us show that it was involuntary and voluntary will be accepted by the regulating agency in consideration to the context and also the reasons that we supply. Here, some distribution companies had losses because they overbought. Among them, Mato Grosso and Tocan, 25 million -- and Tocantins 23.5 million and (inaudible) 11.3 million. On the other hand, some distribution companies had revenue, as the case in the Northeast. The net effect of consolidated EBITDA was 45 million in total.

Now, please let's go on to slide number 11. Here we have the waterfall graph, which explains the evolution of consolidated EBITDA during the year. Once again, I would like to stress or highlight the reduction in -- by 21 million of PMSO due to the drop of 1.1% in relation to 2015 in comparison with inflation that was between 6% and 7%. In the year, we had some non-recurring effects which are described in the graph below. The graph on the

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right, we show EBITDA without the non-recurring effects. In this case, the growth was 6.2% in EBITDA during 2016-2015.

Now, we'd like to go on to slide number 12. Here, consolidated result of the year. In a similar to EBITDA, net profit in the quarter was affected by important non-recurring effects, such as the positive effect of the reversal of the contingency in Mato Grosso do Sul, 28.4 million. This is net without taxes.

On the negative side, we had over-purchasing representing a net effect of 26.4 million and accruals concerning credits that Energisa has, adding up to 110 million.

Now, concerning credits, I would like to say -- I would like to give you some details. We had the sale of generation assets, assets in generation, we have a balance to collect a 113.5 million concerning price adjustments, which depended on preceding conditions. There is also a court process, there is a controversy about the price adjustments. We have an accrual of 51.5 million on part of these credits to be received, to be collected due to the controversy.

Energisa believes that these credits will be collected, but in -- since we are conservative, we registered, we booked an accrual for this line. These operations have been discontinued. Additionally, we made an accrual of 79 million in financial results, because the company have also -- as the company have some securities given as payments by a company that is in Chapter 11. So, since the Chapter 11 recovery plan has not been certified by the court, we still have an accrual for these amounts during 2016. Thus, net profit of 2016 would have been 287 million, which comparable to the loss of 124 million in 2015, excluding the sale of assets during that year. In other words, an improvement of 411 million.

Now, let's -- slide number 13. We'd like to talk about indebtedness, debts. With the re-IPO that we did in August, there was a reduction in net debt, now totaling 6 billion. This relationship, net debt and adjusted EBITDA, fell by 0.3 times, both in relation to December 2015 and also the amounts in September 2016. Currently, our cash covers 1.7 times the amortizations foreseen for the next 12 months. An important upside is expected this year, the reduction in the interest rate. This is an upside, the reduction in -- approximately 60% of our debts are linked to the CDI or SELIC index. And for -- so, for every 1% reduction -- for every 1% reduction in the cost of our debt, this represents 60 million of improvements in the expense with interest rates. So, we're expecting a drop in interest rates this year.

Now, slide number 14, investments. Total investments, 1.6 billion, in line with the previous year. When we consider all the investments in the distribution companies, a growth of 6% and around 70% of these investments were in electrical assets.

On the next slide, we will give you a guidance here for CapEx. We already informed this. Here, we have the projections for investments in 2017. As informed yesterday, the estimates of investments add up to 1.4 billion and the majority in the distribution companies. It will be very similar. They are concentrated in Mato Grosso, Mato Grosso do

Sul, Tocantins, which represents 63% of these investments, very similar to 2016 investments in the electrical assets, only a small reduction in relation to 2016. We are maintaining the average -- these average amount of investments for the last three years.

On slide 16, we compare regulatory EBITDA with actual reported EBITDA in the last 12 months with non-recurring. In the consolidated of the Group, we continue above the regulatory EBITDA, especially as a result of the efficient management of costs in the distribution companies and the drop in consumption and in spite of the drop in consumption in 2016.

In this way, I'd like to end my comments, and now we can begin the Q&A session. Please.

Questions And Answers

Operator

Thank you. We'd like to begin the Q&A session. (Operator Instructions) We have a question via webcast. Mr. Tiago Noel from Athena Capital says, good afternoon. What are your expectations concerning the EPB and regulatory costs based on the tariff review you have this year?

A - Unidentified Speaker

I will pass the floor to Alexandre Nogueira.

A - Alexandre Nogueira Ferreira {BIO 19917568 <GO>}

Good afternoon. Our expectations concerning Energisa in Paraiba, we are -- right now, we did work in line with our expectations to achieve the values that are in our plan. We hope that the next -- we will maintain this level of efficiency that we have achieved in the next quarters.

Operator

Mr. Marcelo Britto from Citibank would like to ask a question.

Q - Marcelo Britto {BIO 15393330 <GO>}

Good afternoon. Good afternoon, Ricardo and Mauricio. Could you give more details about the performance, especially the demand in Mato Grosso, where we see a big difference? I'd like to know the reasons for the difference and whether it's the climate that caused this?

A - Ricardo Perez Botelho {BIO 2105867 <GO>}

Hello. Ricardo. Mato Grosso, this is due to the last quarter, which was hardly hit by lower temperatures in October, which is the hottest and most dry month in the state. This month, we had average temperatures 2% lower than historical levels, lower temperatures and this brought about a reduction in consumption, which also affected the need for

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irrigation, we had more rainfall and less need for irrigation. And now in other areas, last year, for example, we had a drought and basically it's this, we had lower temperatures at a time when we have the greatest demand. So, we had lower temperatures, that's why this variation.

And in the middle of -- and then, how about this year the consumption in the state? As we already mentioned in the information we published in January, our demand went up 4% in the consolidated. I would have to look at the numbers for the state of Mato Grosso. We're seeing a recovery in activity, especially as a result of industry that is recovering from the recession and this recovery began in the middle of last year. So, we're seeing a recovery and this we have the numbers for January and the January shows a recovery.

Q - Marcelo Britto {BIO 15393330 <GO>}

Thank you.

Operator

(Operator Instructions)

A - Unidentified Speaker

Since there are no more questions, I would like to make some comments, some final comments. We hope that the institutional environment and regulatory environment of the country will continue, allowing us to continue doing business in a sustainable way. And thus, working for our clients and giving an adequate return to our shareholders. I would like to say that 2017 begins equally challenging and we count on our experience of 112 years. We always have in mind that our objective is to be one of the best and most respected electricity companies in Brazil working with integrity, with values and courage to continue pursuing our vision for the future. I'd like to thank you for your trust and the presence of all the analysts. Thank you very much. Good afternoon.

Operator

Thank you. The call is ended. Please disconnect your lines.

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