

## Q3 2019 Earnings Call

### Company Participants

- Augusto Miranda da Paz Junior, Chief Executive Officer
- Leonardo da Silva Lucas Tavares de Lima, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Analyst
- Lilyanna Yang, Analyst
- Marcelo Sa, Analyst
- Thiago Silva, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen, and welcome to the audio conference call of Equatorial Energia SA to discuss the earnings of the third quarter '19. Right now, all participants are in listen-only mode, later on we'll start the Q&A session when further instructions will be provided. (Operator Instructions)

Now we are going to turn the call to Mr. Augusto Miranda, CEO; and Leonardo Lucas, CFO and IR Officer. Please, Mr. Miranda and Mr. Lucas, you may go on.

#### Augusto Miranda da Paz Junior {BIO 21202645 <GO>}

Good afternoon, everyone. First of all, I would like to thank you all for joining us in our third quarter '19 conference call. Before I start with the results, I would like to talk about some recent news that were published in a recent notice to the market.

You know that Mr. Firmino Sampaio has left the position of Chairman in Equatorial Energia, but he remains as a Board member. The Chairman position is taken by Mr. Carlos Piani, who has already held this position before between 2010 [ph] and 2015 and is a former CEO of the company. Another recent change is Mr. Eduardo Haiama is stepping down as CFO and IRO and being appointed as a Board member, which should be voted in the General Meeting already called for next week. I would like to thank Haiama for the 11 years he dedicated to the group as CFO and IR Officer, and I'm happy to note that we should keep this as a strategic view as a Board member.

The CFO and IR position is now filled by Mr. Leonardo Lucas, who has been working in the Group since 2005 in several different positions within the financial department. So

Leo, we are going to continue -- counting on your competence, and please introduce yourself to the market.

## **Leonardo da Silva Lucas Tavares de Lima** {BIO 17560076 <GO>}

Hello, everyone. Good afternoon. Thank you, Augusto. Well, as Augusto mentioned, I've been in the group since 2005, been 14 years, in the beginning of Equatorial Maranhao, at that time CEMAR. I was responsible for the budgeting department, then took the role of controller. And finally, I stepped up as CFO.

In 2012, when we acquired CELPA, I took the role of CFO and IRO in Para, taking part of the turnaround since the beginning. In 2016, I became the corporate officer of the holding, overseeing the controlling, budgeting and funding operations for the Group as a whole.

I'm very motivated with the challenge now, taking the position of the CFO and IRO of the assets of the Group. I would also like to thank Haiama in all those years we worked together in several matters, and I'm sure I can keep on counting on his guidance as a Board member.

Now, we are going to go to the presentation. I'm going to start describing the highlights of the quarter. Then I will comment on our operating and financial results. Next, I will give you an update of the transmission project. And finally, we are going to open for the Q&A session.

So now we are going to start on slide number 3. In the third quarter '19, Equatorial's consolidated EBITDA reached BRL1 billion. This number was affected by the consolidation of the Piaui and Alagoas distribution companies, both already posting positive figures to the Group. And also, we have the adoption of IFRS 15 for the transmission assets. We'll further disclose this impact on the next slides.

In Alagoas, we are posting BRL61 million as OpEx in the third quarter following several measures taken by the Group since we arrived. Also in Alagoas, we've recently received a benefit from Sudene that will last until 2028.

In Piaui, the highlight is the drop in losses for the second consecutive quarter. As for our sales volumes, we have growth of 1.6% in the quarter, basically following the growth posted by three of our four concession areas. As for transmission projects, we've recently received the last environmental license that is necessary for the construction of all of our projects. In SPV 8, we had another section of this asset that has gone on line in September, amounting to additional BRL17 million in annual revenues.

In terms of EBITDA, if we were to consider only the old assets, basically Maranhao and Para, we would have reached BRL540 million in the quarter.

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Now we are going to move on to slide number 5. The combined energy sales from all the four DisCos in the Group grew by 1.6% in the quarter. The 3% growth posted by Maranhao was mainly fueled by the growth in industrial and residential segments. Industrial segment was impacted by the pickup of mining activity in the state. In Para, we grew by 1.7%, strongly affected by the residential consumption growth and retail sales in the region.

Piaui posted a growth of 1.2% in the quarter, due to the large reduction following the lost combat activities we have already been implementing in that concession. Alagoas was the only concession to report negative growth in the quarter with a drop of 0.9% due to increased energy losses in the quarter.

On slide 6, we show our growth in required energy in all but one of our concessions in this quarter. Consolidated numbers, our combined growth of injected energy reached 2.1% in the third quarter. Maranhao and Para posted the highest growth within the Group, amounting to 3.5% and 2.8%, respectively. Both are slightly influenced by better weather conditions in the quarter. In the case of Maranhao, we also had a pickup in industrial activity in the quarter.

In Piaui, we believe that despite the slight positive influence of the weather, the main reasons behind the 0.4% drop in the quarter are yet the slow economic activity as well as the beginning of the loss combat initiatives.

Alagoas posted a 0.9% growth in the quarter, which we believe is due to some economic activity pickup, especially considering the activities in the oil and gas segment.

Finally, we would like to highlight that in this quarter, all distribution companies showed an increase in consumers registered as low income due to the campaigns made by the Group in order to guarantee access to the tariff discounts for consumers who are eligible.

On slide 7, we show total energy losses in our DisCos. The level of energy losses in Maranhao and Para were affected by the more integrated policy of loss combat and collection adopted in these concessions since the second half of '18. In Para, we believe the effects of this new policy is -- are already accounted for.

In Para, after the tariff review approved in August, regulatory level of total losses went up to 25 -- 27.5% following the increase in the level of technical losses recognized in the company's tariff structure. In Piaui and Alagoas, the level of loss in the companies were basically affected by adjustments in the billing procedure that had to be made when we arrived in these companies.

Despite of that, some loss combat initiatives in Piaui are already showing results, reducing the level of the losses in the second quarter in a row. In Alagoas, in turn, given that we are concluding hiring, training of teams and structuring of the loss combat program, we had energy losses growing by 0.3 percentage points in the quarter.

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On slide 8, we see that quality indicators for Maranhao and Para continue to be well below the regulatory target. As for Piaui, the increase seen in recent quarters is a consequence of the adjustment in the measurements we've made after our arrival in quality indicators. This change should continue to affect the indicator until the fourth quarter since it's calculated as a 12-month moving model. In Alagoas, there was a similar adjustment in the calculation, but with a much smaller impact in the final picture.

Moving to slide number 9, as for sites, we are below the regulatory targets in all our DisCos, even acquired -- recently acquired -- even considering recently acquired companies, Piaui and Alagoas.

Moving now to slide number 11, here, we show the evolution of our manageable expenses in the DisCos. Maranhao's operational expenses amounted to BRL125 million in the quarter, up by 16% mainly due to the increases in third party services connected to loss combat and collection expenses. In Para, expenses -- our operational expenses had a drop of 3% due to the internal redesign of some company's activities within the company. In Piaui and Alagoas, we had significant reductions in OpEx in the quarter of roughly 30%. It's always important to remember that in the early stages of a turnaround process, we should expect some volatility in such expenses.

Moving on now to slide number 12, Maranhao posted a 13% drop in EBITDA in the quarter. The main reasons behind this figure are, difference of in the unbilled revenue between quarters, higher OpEx, as explained earlier, and lower financial asset update.

The EBITDA in Para dropped by 2% in the quarter due to a reduction of BRL22 million in the financial asset update. If we are to disregard this effect, EBITDA would have grown by 6.5% in the quarter.

In Piaui, for the third quarter in a row, the EBITDA figure is positive, reaching BRL75 million in the quarter, a strong number even before completing a year confirmed in the company and before the company's extraordinary tariff review. In Alagoas, already in the second quarter, we are consolidating results. The recurring EBITDA amounted to BRL50 million following the ongoing restructuring in OpEx at the company.

On slide 13 now, we show the consolidated EBITDA for Equatorial. In the third quarter '19, we posted an adjusted EBITDA of BRL1 billion results that benefits from the consolidation of transmission assets and the newly acquired DisCos. For comparison purposes, we exclude the results of the new assets, that is Piaui, Alagoas, Transmissao and Intesa. And in this case, the consolidated EBITDA would have reached BRL550 million [ph] a drop of 6% year-on-year. However, if we disregard the total decrease of the BRL32 million of the financial asset update at Maranhao and Para, the EBITDA drop would have been just 1%. As of the next quarter, I would like to highlight, we are going to have the full impact of Para's tariff review.

Moving on to slide 14. On slide 14, we show the amortization schedule and leverage for the company. Equatorial's leverage, considering the full consolidation of these assets, reached 3.4 times in the quarter, following the consolidation of the numbers of Piaui and

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Alagoas, and accumulated CapEx deployment in the transition assets construction. Remember that when we calculate leverage, it is different from the calculation of covenants in Equatorial, as it considers the last 12 months of the results from any new assets acquired in the Group in the period.

The Group ended the quarter with almost BRL4.7 billion in cash position, which is enough to cover more than the next two years of debt maturity. Additionally, the recent conclusion of the preferred share issuance in Equatorial Distribuicao added recently, this week, BRL1 billion to the company's cash balance, thereby improving leverage and reducing the consolidated numbers. We believe that we have a very comfortable debt structure to accommodate the cash needs of Piaui and Alagoas as well as the future CapEx for transmission projects, considering the long-term debt that we have secured for the Group.

We'll now move on to slide 15. Here, we show the main investments made by Equatorial in recent quarters. As you can see, the investments in the transmission segment has picked up in recent quarters and have reached BRL1 billion in the third quarter '19. Given that all the eight projects are with ongoing construction, since the beginning of the development of transmission projects, we have already spent approximately BRL3.3 billion.

Now we are moving on to slide 17. We have already obtained the construction environmental license for all of our projects, including the last section of SPV 7 that was pending. So all of the eight projects are under construction. I would like to highlight the evolution of all our SPVs, but particularly SPV 8, the second largest in our portfolio and also the last to be acquired. It has already reached 95% progress as of the end of October. SPVs 1 and 2 should also be mentioned as they are almost reaching 90% completion. Finally, SPV 4, our biggest individual line, is above 50% built.

On slide 18, as we start to have bigger CapEx disbursement following the start of the construction of the lines, here, we show the long-term funding status for each SPV. This was the result of a three-year long fundraising efforts from four different sources: BNDES, the Federal Development for the Northeast Region, the Amazon Development Fund and also complemented by infrastructure debentures. We have already secured 100% of all long-term debt at a very competitive cost. This should translate into significant boost to returns and reduction of risks, not only in terms of liquidity, but also in terms of volatility, as all our long-term financing are indexed to the IPCA, which is the same index of our revenues.

Out of the BRL4.1 billion in financings signed, BRL2.7 billion or about 67% have already been disbursed.

We'll now open for your questions.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from Thiago Silva from Santander. Please Mr. Silva, you may go on.

**Q - Thiago Silva** {BIO 17655676 <GO>}

Good afternoon, everyone. Thanks for taking my question. Thanks for the call. I have two questions. First, about the extraordinary review, I would like to ask, if you could give us a bit of an overview of all the appeals that you've had? And also, what was the trends, because I know that you recently had an agreement with Itau Bank, and within this agreement, I know there are some terms in terms of a buy option. So I would like to know if you could give us a bit more color on costs, terms and et cetera.

**A - Leonardo da Silva Lucas Tavares de Lima** {BIO 17560076 <GO>}

Hi, good afternoon. Thiago, thanks for your question. Well, the first portion of your question, you talked about Ceron and Eletroacre. Perhaps you were referring to Piaui.

**Q - Thiago Silva** {BIO 17655676 <GO>}

Yes. I'm sorry. Yes, that's exactly that.

**A - Leonardo da Silva Lucas Tavares de Lima** {BIO 17560076 <GO>}

Okay. Well, with regard to Piaui, we had the process denied and we already appealed to an administrative suit. We are very confident about the quality of our claim that was built, and we believe that discussions are going on. So we are quite confident with the quality of appeal that we made, and we believe that our asset base for Piaui is the base that is better consolidated -- the best consolidated in the Group. Of course, as we know that it is just a matter of the time. We have to break down the whole base, but I think that with a bit more time for discussion, we are going to successfully close this issue.

As for Alagoas, the process is slowing. Regularly, we try to accelerate times and we are watching out for any additional information that is required for us to be able -- in Piaui to be implemented in Alagoas as well. As for Itau, you are quite right, we do have a buy option in this operation. And this was a term that is the transition contract. I don't know if I answered your question.

**Q - Thiago Silva** {BIO 17655676 <GO>}

Yes. And do you have any -- for the last question, do you have any information that you could give us in terms of cost and time for this agreement with Itau Bank?

**Q - Analyst**

Well, the first buy option is corrected by the CDI Index, and we have a six years' time -- seven years' time to make the option.

**Q - Thiago Silva** {BIO 17655676 <GO>}

Okay, thank you very much.

## Operator

Our next question comes from Marcelo Sa from Itau. Please Mr. Sa, You may go on.

### Q - Marcelo Sa {BIO 16454581 <GO>}

Hello, everyone. Just as a followup for the question before. Could you give us an estimate of time to complete the process with CEPISA? Do you think you're going to close that by the first quarter 2020? As for Itau, do you have a sell option for Itau? That is does Itau have a sell option?

And the second question that I would like to understand is this company's PBC policy. I know in CEMAR, it was quite low. I know there were non-recurring effects that took place, but they were not very well described in the release. In CEPISA, there was a reversal. And in CEAL, there was 0.4%, which seems to be too low. But as CEAL does not have much of a history around -- history with the local brand, we couldn't understand what would be its normalized level. So if you could explain the dynamics for these four areas, I would appreciate it.

### A - Leonardo da Silva Lucas Tavares de Lima {BIO 17560076 <GO>}

Well, thank you very much. I'm going to start with the review. Well, we thought that it had to do with time and the discussion. And basically, our claim was to close the subject until March, and this is what we are working.

As for the PBV -- PBC, sorry, sometimes we have a bit more volatility in quarters, especially now in this quarter when you have an impact of this readjustment. It is natural that it is slightly lower percentage wise in this quarter. For you to think of PBC, because of volatility, I think that you should think of a longer time, the last 12-months.

When you talk about Piaui and Alagoas, we have been implementing several turnaround options, including fighting against delinquency. And we are having very, very high collection levels, above 100%. So perhaps we can even intensify this volatility. So this is about PBC, that is the provision for bad credit. As for the agreement with Itau, we just have the buy option. They don't have the sell option.

### Q - Marcelo Sa {BIO 16454581 <GO>}

And could you think of a provision for bad credit in CEAL [ph] that would be a bit more normalized just for us to project the model from now on? I understand that in the short term, you have a lot of volatility, but perhaps we could have a reasonable number to consider in the long-term both for CEPISA and CEAL.

### A - Leonardo da Silva Lucas Tavares de Lima {BIO 17560076 <GO>}

Well, in the case of CEPISA and CEAL, we are implementing a series of actions, and the level of collection is very high. So while the level is high, we tend to have a lower provision for bad credits. So not only -- it's going to be clearer as time goes by, but we

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have had and will probably continue to have a higher collection level in this company, given the opportunities of accounts receivables that we have.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Okay, perfect. Thank you very much.

## Operator

(Operator Instructions) Our next question comes from Lilyanna Yang from HSBC. Please, Ms. Yang, you may go on.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Hello, thanks for the opportunity. I have two questions. One is about the growth of volumes in the market. In your areas, it's still below the average of Brazil. Could you comment a bit on that? And perhaps contextualize how you are changing your billing process to try to account better the part of loss and delinquency.

The second question -- and congratulations on your new role. Do you have a view about why -- what can be different from now on in terms of management or do you think that your management is going to be more or less in line with the previous management? Thank you very much.

**A - Leonardo da Silva Lucas Tavares de Lima** {BIO 17560076 <GO>}

Good afternoon, Lilyanna. Well, first, with regard to volumes. We are seeing slightly higher volumes, stronger volume in Maranhao in the residential market and, again, the pickup of the industrial markets. So we do see a scenario of a somewhat recovery, particularly in Maranhao. In Para, we do see the recovery, but not as strong.

In Piaui, well, we are still with negative numbers. So it seems that the scenario in Piaui is a bit more deteriorated than in Para and Maranhao. And also, because our combat -- loss combat program is going on, probably we are having some reaction of consumers holding up a bit of consumption.

In Alagoas, a bit lower than the others in terms of the level of activity, but with our loss combat program that is about to be completed, has not still yielded effect in Piaui. So generally, what happens in our concessions, especially Maranhao and Para, which are places that we are a bit more acquainted with, is that prices takes a bit longer to hit the states, but also takes a bit longer to leave the states. And this is something that we have already observed at least in Maranhao and Para.

As for indicators, we have quite well consolidated program in terms of indicators, metrics, how to break down the metrics and monitor business performance. And it's not only monitoring business performance from top-down, but also how they affect all the levels of the organization. So, as we implement action in new companies, those initiatives have



been an accelerator of our turnaround. So the numbers of Piaui and Alagoas are starting to show these results.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Thank you very much.

## Operator

(Operator Instructions) Since there are no further questions, we are now closing the Q&A session. We would like to invite Mr. Augusto Miranda to proceed with his closing remarks. Please, Mr. Miranda, you may go on.

**A - Augusto Miranda da Paz Junior** {BIO 21202645 <GO>}

Well, to close, I would like to reinforce our commitment in delivering our differentiated appreciation to our shareholders through exceptional financial and operating results. Also, I'd like to highlight our adherence to the highest level of transparency and corporate governance and reassure that mostly and our Investor Relations team are available to help you with any questions you may have. Thank you again for taking part of our 3Q conference call, and have a good day.

## Operator

The conference call of Equatorial Energia is now closed. We thank you very much for attending. Have a good day, and thanks for using Chorus Call.

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