

## Y 2015 Earnings Call

### Company Participants

- Eduardo Haiama, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Pedro Luiz Manfredini, Analyst
- Sergio Tamashiro, Analyst

### Presentation

#### Operator

Good afternoon everyone and thank you for waiting. Welcome to Equatorial Energia Fourth Quarter of 2015 Results Conference Call. With us here today, I have Mr. Eduardo Haiama, Chief Financial and Investor Relations Officer. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Equatorial Energia remarks, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) This event is also being broadcast live via webcast and may be accessed through Equatorial Energia website at [www.equatorialenergia.com.br](http://www.equatorialenergia.com.br), where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after this event is concluded. Those following the presentations 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 management, and on information currently available to the company. They involve risks, uncertainties, because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and Analysts should understand that conditions related to the market economic conditions, industry and other factors could also cause the results to differ materially from those expressed in such forward-looking statements.

Now I'll 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'd like to thank you all for joining us in our fourth quarter conference call. As per agenda for today, which you can see on slide two. I'll start the conference call describing the highlights on this quarter, then I'll comment on operating financial results, later we'll comment on some recent news, and finally, we open a Q&A session.

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For the highlights, I'd like to clarify some procedures regarding the figures present in earnings release in this presentation. I'd like to point out that some of this information reflects 100% of CEMAR's, 100% of CELPA's, and 100% of Equatorial Solucoes, which in turn consolidates 100% of Sol Energias' figures.

Moving on to slide six. In this quarter, both CEMAR and CELPA continue to post strong demand growth, respectively of 4.5% and 12.2% year-on-year. In this quarter, CEMAR's losses remained flat at 17.6%. As for CELPA, total loss decreased by 2.1 percentage points reaching 29.2% quarter-over-quarter. In terms of quality indicators, both company continue to improve significantly.

Moving on slide seven. Adjusted EBITDA reached BRL381 million or 51% increase year-on-year, basically due to demand growth and also cost control. In the quarter, Equatorial represents an adjusted net income of BRL244 million or 89% up year-on-year. Consolidated investments decreased by 32% to BRL329 million. As I have mentioned early in 2015, with the creation of the Tariff Flags and implementation of Extraordinary Tariff Review in March 2015, the gap between Tariff and energy purchase cost would drop significantly for the sector. You know, in our case, that represents a drop for net regulatory assets of BRL685 million at the end of 2014 to translating to a regulatory liability of BRL66 million at the end of 2015.

We are also proposing dividend of BRL198 million or BRL1 per share. And finally, in January of this year 2016, CELPA rolled over about almost BRL200 million during 2016, extending the maturity of this debt by one year more.

Moving on to slide nine. We will talk about the electricity market in CEMAR. As you can see, energy demand continue to post a healthy 4.5% growth, especially fueled by the growth conversation [ph] or consumption. The demand in the industrial and free customers, they decreased in the quarter.

On slide 10, CEMAR posted a total loss of 17.6%, still below the regulatory target of 19.3%. In terms of non-technical losses, we reached 12.4%, still below the 15.4% defined as regulatory target by ANEEL.

Moving on to slide 11, in terms of cost indicators, we continue to improve cost indicators in both DEC and FEC by 4.4% and 3.3% quarter-over-quarter, and it's still below the regulatory parameters set by the regulator.

Moving on to slide 12. Demand in CELPA increased by 12.2%, basically explained by the reduction in energy losses. And as what you have seen in CEMAR, industry and free customers continued to decrease in the quarter which is the macro condition of the country.

On slide 13, we show the losses for CELPA, and we have reduced by 2.1 percentage points reaching 29.2% in terms of total losses, and 38.6% in terms of non-technical losses. As I've mentioned in the second quarter of last year, and later on, we have changed our program since the end of second quarter of 2015. So there we increased the efficiency of

our losses combat initiatives and several other procedures. So there the impact for the loss combat has improved, mainly in the second half and that's the result of this loss reduction more significantly in the fourth quarter.

Moving on to slide 14, DEC, FEC. We continue to post significant improvement of 9.5% in terms of DEC, and 9.4% of FEC in terms of quarter-to-quarter. And if you look in terms of 12 months period, we have improved by 23% in terms of DEC, and 25% in terms of FEC.

Now moving to the financial results, slide 16. Fourth quarter adjusted EBITDA reached BRL381 million or 51% increase year-on-year. In terms of CEMAR's adjustments, basically we have three, 12 million is a provision of lawyers' expense for the lawsuits that we believe have the probabilities of remote or possible [ph] when we have a success fee. BRL6 million is by -- related to public lighting loss initiatives that are before we approve that our CapEx and given that we don't have now Investor Relations that we accruing as OpEx that impacted the quarter by about BRL6 million and our recurring base would be around like BRL0.8 million per quarter. And finally, BRL3 million is related to the amortization expense of our regulatory assets related to electronuclear in that purchase.

As for CELPA, the main non-recurrings are BRL15 million related to an early retirement plan that we set in the quarter and BRL8 million is related to the neutrality of Parcel A from previous quarter that impact in the fourth quarter.

Moving on to the net income. Adjusted net income by the same adjustment that we made in EBITDA, led to an EBITDA of 244 -- net income of BRL244 million or an increase of 89% year-on-year. And the main adjustments especially in CELPA, they are related to adjustment that we made still due to the Tariff Review process that we have written off some assets in our intangibles and prominence, but it's really a non-recurring and has no impact in the recurring EBITDA for the future.

Moving on to slide 18, in terms of debt amortization schedule, we ended 2015 with a gross debt of BRL4.8 billion, of that 2.5 billion in CELPA and 2.2 billion in CEMAR. It's important to mention that we also ended the quarter of consolidated cash position of BRL2.5 billion. So we have very liquid cash position. And also, as I have mentioned in the beginning of this presentation, we have already rolled over, almost BRL200 million during the short-term in CELPA, extending this order matured by one year.

Moving on to the net debt on slide 19. Breaking on consolidated net debt amounted to BRL1.6 billion. If you adjust that proportion to our share in CEMAR and CELPA of 65% and 96% through which net debt of BRL1.3 billion in the net debt to EBITDA of 1.5 times, that is still very comfortable considering this kind of leverage.

Moving on to slide 21. In terms of the CapEx as I have mentioned, CapEx reduced by 32%, basically explained by the reduction in the CapEx in CELPA of 67%. And finally, as I've mentioned in the beginning, we are proposing a dividend of BRL198 million that would represent almost -- it represent BRL1 per share.

With that, we believe we can start the Q&A session. Thank you.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Mr. Pedro Manfredini from Itau BBA.

#### **Q - Pedro Luiz Manfredini** {BIO 16314973 <GO>}

Hi, good afternoon guys. Just a quick question here. So we saw a good set of result in 2015, especially at CELPA. So can you give us more color on how the year has started for both CELPA and CEMAR, we know that the first quarter results are yet to be published, but if you guys could give us more color regarding commercial losses and volumes for the -- for 2016 will be very helpful? Thank you.

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

Thank you, Pedro. So far, what we have seen and basically what we have said late 2015, the third quarter results, we continue to expect that our volumes should remain in terms of CELPA, the physical volumes. So the required energy around like 0% to 1%, and that has been the case. But as for CEMAR, I mean, the physical volumes would increase basically because of the weather. If you have seen what's happened this year, the weather has been drier there, than it was last year. So we are kind of expecting -- kind of a pickup in terms of volumes, but I can't say that it's going to be sure significant one or not.

As for losses in CELPA, we said that our fourth quarter was a strong one due to the -- all the change that we have implemented by the end of second quarter and continue to do so in the second half of 2015, but it was strong and you have this -- you have seen this drop of 2.1 percentage point from third quarter to fourth quarter. Also because, some of the action that we have performed since -- at the end of second quarter, third quarter and fourth quarter, some of them, they only materialize in the fourth quarter, and by materialize, I'm saying that some of the areas that we build customers that we found for all other supplies there.

So the addition of the past consumptions, the kind of concentrated in the fourth quarter, so you have to kind of a one-off. So in the first quarter of '16, you should expect like a -- it's not like under a big cover or something but we -- given that we have been implementing and have been performing this strong change in the last combat initiatives for a while, it should kind of a normalize, this kind of impact, let's say.

As for CEMAR, it's hard to say, because it's -- we have kind of a low level. We believe that we have -- we still have room to improve, but we also facing a tough market scenario. So most likely, if that (inaudible) going to be relatively kind of flat around the figure that we have posted in 2015. So we don't expect any big variability on the way up or the way down, it will be like around the same figure.

#### **Q - Pedro Luiz Manfredini** {BIO 16314973 <GO>}

Got. it Thank you.

## Operator

(Operator Instructions) Our next question comes from Sergio Tamashiro from Haitong.

### Q - Sergio Tamashiro {BIO 2274485 <GO>}

Hi everyone. Could you make any comment on the level of contracted the Energia for 2016, and if you are over contracted, and if you are -- which solution are you discussing with the government?

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

Thank you, Tamashiro. In terms of volume of over contraction from (inaudible) position, we're expecting around like 110 and 109, it's going to really depend on the demand growth -- and what have been seems like the first part which like I also mentioned in the previous question. First quarter in CEMAR has been strong due to the weather. So I'm not sure like what if the (inaudible) because it's a healthy market, so there that number can change to 109, 110, maybe a bit below that. The sector as a whole has been talking a lot to the regulator and to the (Technical Difficulty) companies and we need to find a solution (Technical Difficulty) in terms of maybe (Technical Difficulty) some general (Technical Difficulty) the power plant -- have delays. Right, so there we can extend the beginning and with that we believe like only by doing this, we are going to be able to reduce our loss this over a contractual situation. There are other initiatives that this FEC has been discussing.

And we believe like it's some of the -- they are implemented. You should expect at least for 2016. We should not face that problem, and if we have a problem, it's going to be a very small one. But I truly believe like, we -- at the end of the day, maybe not 2016, well maybe early 2017, we're going to set up a permanent solution for under or over contracted situation that there has been the issue for the sectors since 2012. So that's what I can say today. We haven't yet set a final solution or we haven't yet like agreed what would be the best solution for the structural quarter for this over contract or under contracted situation on the company.

### Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay. Sure. Clear enough. Thank you.

## Operator

Our next question comes from Mr. Pedro Manfredini from Itau BBA.

### Q - Pedro Luiz Manfredini {BIO 16314973 <GO>}

So Haiama, here I goes with another one. So can we expect any change in the CapEx levels for 2016 compared to the level that we have seen in the past two, three years for both CELPA and CEMAR. I'm asking that because 2016 is definitely a very challenging year for the companies for -- all distribution companies regarding that client addition -- additional clients and growth for the current clients. So are you guys consider any reduction in the CapEx level or any postpone for CapEx in 2016, perhaps you to concentrate more sort of the investments for the tail end of the tariff [ph] cycle?

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

Thank you, Pedro. In terms of the CapEx level, you should not expect a big change. In terms of CELPA, yes, because we give them very strong CapEx in 2014. So in 2015 was already lower, right, but we still have some important gap within the first quarter. So for 2016, you should expect kind of the same level we had in 2015, but we also in terms of the absolute level, I wouldn't expect this to reduce, even though, as I have mentioned that in the first quarter of '16 was stronger than a normal year.

And the reason is, although you should expect reduction in terms of investment that we made in distribution network. We do have an important CapEx for this year that should be probably and it is probably related to the loss combat initiative. So the loss combat initiative should probably compensate the reduction that we will see in distribution investments per se.

As for CEMAR, we haven't yet know reduction demands. Like as you saw, last year we grew -- we continue to post like a very healthy demand growth rate of 4.5%, 4.3%. In 2016, we continue to see kind of healthy growth. In the grid per se, we cannot say this, (inaudible) state of the art grid. So you still have like many parts of the grid that we continue to -- we need to continue to invest, so to cope with demand and also improvement in quality. And sometimes, the demand growth that can be, not take zero, but it's mainly lower, but if you need to invest because the demand growth is not like uniform across the grid. So you do have some investments and requirements in part of the grid that is still -- we still don't have the proper CapEx you to provide the power, as we need to invest there. So 2016 sure a year that you should expect a strong CapEx for CELPA and CEMAR, not like CELPA as you saw in 2014 for the most in the range of what you saw in 2015. And for CEMAR, you should expect a pickup because, if you see growth and also needs for improving some of the quality metrics.

## Q - Pedro Luiz Manfredini {BIO 16314973 <GO>}

Okay. Thank you.

## Operator

(Operator Instructions) Excuse me, 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 in delivering a differentiated depreciation to our shareholders for exceptional financial and operating results. We also would like to highlight over the years, the highest level of transparent in corporate governance and reassure that both me and then our investors relations team are available to help you, should have any further questions. Thank you all again for taking part on fourth quarter conference call and have a good day.

## Operator

That does concludes Equatorial Energia conference call for today. Thank you very much for your participation and have a nice day.

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