

## Q2 2020 Earnings Call

### Company Participants

- Mauricio Perez Botelho, Chief Financial Officer, Investor Relations Director & Member of Executive Board
- Ricardo Perez Botelho, Deputy Chairman of Directors, Member of Executive Board & Director
- Unidentified Speaker

### Other Participants

- Analyst
- Carolina Carneiro
- Henrique Peretti

### Presentation

#### Ricardo Perez Botelho {BIO 2105867 <GO>}

Ladies and gentlemen, good afternoon. We're going to start Energisa Conference Call to discuss the Second Quarter of 2020 Results. After that, we're going to start our Q&A session. (Operator Instructions). This event is also being broadcast simultaneously on the internet via webcast.

This conference call contains forward-looking statements that are subject to known and unknown risks and uncertainties that could cause results to differ materially from those in the forward-looking statements. Such statements speak only as of the date they are made, and the company is under no obligation to update them in light of new information or future developments. Mauricio [ph] he's going to present the results of investment and subsequent event. We will have our Q&A session.

And I'm now going to move on to Slide three. In Slide three, you can see Energisa's results during the pandemic and you can see the result for each one of the challenges that were met. This emergency was global and was unprecedented. It is testing our resilience and we have had important results regarding the services we provide to our society. As a concession, we provide services that are essential in all of the regions we work at.

With that we have to guarantee, the continuity of our services. We have been coherent. Our commitment with the society and different companies are aligned with our objectives. We are always mindful of our clients trying to guarantee the maintenance of essential services.

Our human management focuses on people. We are always careful about the health of our employees and service providers engaged in our activities, safety above all. Life cannot be replaced and that's why we have created different safety protocols in response to a very stressing moment during the pandemic and innovation, which may be a minor or major change in the processes and final quality of the products and services we deliver, but it's important to always generate new value to the company and clients.

So moving on to Slide 4. We have the five main pillars of our crisis management and I would like to highlight some of the actions that we carried out. We have directed the digital channels called Center [ph] and temporarily closed our branches as a safety measure between March 23 and August 1st.

We've also promoted a movement with social actions with the support of our partners, employees and with a donation of BRL8 million. We have also had communication campaign for a responsible consumption to our clients, which were observing social distancing in their residences and we have also included messages on care with hygiene, social distancing, among other actions, which have made and still make a difference in the lives of many people.

As a contingency measure for a click -- a quick performance of our technical team, we have monitored the availability of critical systems on a daily basis. In terms of our employees, we have started providing healthcare reports with hygiene, we created telemedicine channels and implemented special cleaning protocols for different environments with preventive barriers at entrance, massification of home office, among other options to minimize virus proliferation.

We had weekly campaigns of pulses which allows us to evaluate the engagement of the different teams, their morale and we have adopted corrective measures and adjusted our communication messages. In terms of results, we have an efficient management focusing on operating cash generation, cutting expenses with a better control of investments in 2020, by means of a new prioritization of projects.

From the very beginning of the crisis, we tried to confer financial resilience to the company so that it could go through this moment of uncertainties with financial health. The company was also an important stakeholders in the discussions with the government and NIO [ph] and our actively pursuing to overcome the imbalances caused by consumption reduction default in over contracting.

In terms of safety, we have worked with rigid protocols for the detection and protection against COVID with teams in the field using the quick test for suspect cases, also for the contact network. We have access restriction, more isolated spaces and schemes for remote operation, a call center with 50% of the workforce to maintain distancing and our plan to resume activity on site in our offices and branches, is being done in ways taking into account home office work, surrounded by numerous precaution measures.

In terms of innovation, we are going through a moment where acceleration of a series of trends are going on. Innovation and adaptation will be very important now. We are

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reimagining our future, where digital transformation will be very important in business processes, will allow us to be more fluid and provide better client experience.

In Slide 6, we have the highlights -- the operational highlights for the quarter. In terms of the energy market-to-market, we had a retraction of 4.9% due to the COVID crisis and that generated socioeconomic restrictions and we also have the milder temperatures and the center South and Southeast regions of Brazil. And as you can see in the graph, all of our distributors had to reduce consumption in different areas. This shows the internalization of the coronavirus in our country and also the socio-economic profile in each region. The distributor that contributed the most for this market reduction were ESC with 26%, EPP with 22% and ESS with 18%. The business class was the most affected with a reduction of 19.1% when compared to the same period in the previous year because of the restrictive measures and the reduction of business activities.

In these areas in the center West and North which include Energisa (inaudible) suffered less impact, because they concentrate activities, which is related to the agri business and had a --an excellent performance of harvest protein production and exports. The performance in the industrial sector, which is not related to the agri business and more severe social distancing reduced the consumption in the Southeast and Northeast regions.

In the next Slide, I would like to highlight consumption variations in each class for 2020 compared to the same period in 2019, with a highlight to the performance in the second quarter, where Energisa (inaudible) to be more resilient in face of pandemic and consequent economic recession in the residential and rural market with a growth of 4.9% and 6.6% when compared to the second quarter of 2019. This latter was caused by harvest such as soy, corn, coffee and citrus. The (inaudible) distributors, which had a highlight in the rural segment included ESS with 11% in the area of citrus, ETO stood unchanged with 11% of soy and eggs. EMS was 9% of soy and EMT with 8% in soy.

And Slide 8, we have the accumulated energy market. In the last six months of 2020 with a reduction of 1.1%, the main impact where the retraction in consumption of the business class in -- of 9% actually and industrial up 4.9%. The good performance of our market in the first quarter of this year and 2.5% has attenuated the impact of the COVID crisis in the consumption for 2020. In the accrued values for the year, the center West regions and North where least affected. Considering public data of ETE, the accumulated consumption for Brazil from January to May 2020 had a marked retraction of 4% when compared to the same period in 2019 and that is in face of a 0.4% of the distributors in Energisa Group, showing substantial dislocation of the energy market and the Brazil markets. This difference was even greater when we compare the residential market where Energisa grew 5.6% now. In Brazil 0.3%.

In the next Slide, we can see the total losses for the group with including a strong impact of the COVID crisis which began in March with an accumulated performance in the last 12 months. These losses which were stable in the last five quarters until March 2020, had a growth of 0.29 percentage points or in other words 13.81% of energy in June 2020, when compared to 13.52% in March 2020 and 13.55% in June 2019. Restrictions to work of the teams in the field were not involved in emergency activities because of the pandemic and

also clients, venues just as ANEEL Resolution 878, and state, and city level decrease which resulted in the suspension of invoicing, increase of fraud and reduction of actions to fight the losses observed in the last quarter. In combination, we had a relevant decrease in the energy market of business consumers, industrial public services, and high and free tension with an impact which is explained by the reduction of the denominator. And that has led the indicator.

To go up in percentage terms on the other hand, we had a reduction in the load and consumption with reduced technical losses in those regions. In face of this scenario, according to our 11 distributors in June 2020, six of them were below Aneel's regulatory goal. And the state of Minas Gerais, Sergipe, Paraíba, Mato Grosso -- Mato Grosso do Sul, and Rondonia were the ones that were above this goal, this regulatory goal. It's important to highlight that in Rondonia and Acre -- we have had a trend towards decrease of losses in the last quarter and the reduction, when compared to June 2019, was of 0.84% and 0.45% at stages.

In Minas Gerais, we have a specific characteristic since the total loss deviation regards the regulatory limitations and is exclusively attributed to non-technical losses. And as is the Mato Grosso do Sul, was a little bit higher its regulatory limitation due not only to the effect of the pandemic, but also because of the growth and the technical loss resulting from a simultaneous reduction of thermal generation and water generation in the south and center region, all of them very close to the loading banner. We have closely monitored each one of our distributors, and since July, we are resuming our pre-crisis routine to fight these losses and combined to the resumption of our economic activities, because of these efforts, our expectation is to have a better performance of this indication in the next quarter.

In the next Slide. I'd like to highlight our performance in the continuous improvement of the quality indicators of the 11 distributors where it can remain within the regulatory limitation with the DEC and FEC indicators. Even Energisa Rondonia had an improvement of these indicators when compared to March 22 with a DEC of 43.31 and FEC of 22.29. In face of this challenging quarter, I am proud to say that Energisa Acre has reached its best historical values for both indicators and ETO has reached its better performance for FEC. This result was reached consistently by Energisa's group distributors, as a result of a responsible allocation of investments.

In Slide 11 which is the last one of operating highlights. We have an evaluation of our consolidation rate for June 2020 with accrued values for six months. It was 96.10% when compared to the total build during this period, representing a reduction of 0.6 percentage point. This indicates an expressive decrease of our revenues in the month of March and May 2020, resulting from the socioeconomic, COVID crisis and also the measures adopted by ANEEL by means of resolution 878, which were valid until July 31, 2020.

These measures were attenuated with the full exemption of clients classified within the social (inaudible) until July 1 to minimize the effect of these restrictions with higher impacts in the residential and business area, the company has intensified the billing campaigns, offering options to divide claim payments in a more flexible way. For the accumulated in

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the year, the PPG impact of COVID was BRL188.4 million. Of this total, BRL25.2 million were recorded in March 20, BRL163.2 in the second quarter of 2020.

In addition to the historic basis as a metric to measure the expected losses, future conditions of default are also analyzed by the company for additional provisioning. It's important to highlight though that the expectation is that this variable will have a limited reach of impact in the analysis of losses expected for the year, once our concessions will be able to resume activities on August 1st. Energisa also has an expectation that Aneel will provide regulations to re-establish those concessions that were most affected by the default rates.

I now turn over to Mauricio Botelho, who will talk about the financial highlights of the quarter.

### **Mauricio Perez Botelho {BIO 2105889 <GO>}**

Thank you very much, Ricardo. Good afternoon, everyone. We're now moving on to Slide 13, and we're going to talk about PMSO. In the second quarter, it was BRL554 million, a reduction of 16.3% or the equivalent to BRL108 million when compared to the second quarter of 2019. In the accumulated for the year, this reduction was BRL84 million. And of course, this indicates our commitment to reduce operational costs and also in the delay of expenses in face of the pandemic scenario and the operational restrictions, as Ricardo just mentioned.

And now we're moving on to Slide 14. We have the EBITDA for this quarter. We can see a reduction of 11.2% in the quarter, equivalent to BRL92 million for -- when compared to the second quarter of 2019. The main indicator that led to this was the increment of default caused by the temporary restrictions and also to the defaulting clients and regulations imposed by Aneel. And that led the company to develop provisions for those doubtful defaulting clients of BRL163.2 million.

The accumulated in the year was a total decrease of 4.3% since we had a positive variation of 2.5% in the first quarter. In terms of EBITDA, we have some non-recurring events and different items to be adjusted for 2020 and 2019. I highlight the additional provisions of PPG [ph] because of the COVID. Also, we have the (inaudible) registration, IFRS accounting among others (Technical Difficulty) BRL139.3 million. And here with the same type of analysis taking into account the effects of the market and also the non-recurring events, we have a total of amount of BRL11.5 million and there would be a significant impact, we can see a small amount of 1.7%.

And we're now going to move on to Slide 16, where we talked about our net debt taking away the credit we had this quarter in a total of BRL13.9 billion, an addition of BRL222.8 million when compared to March 2020. It's important to highlight in this quarter that we had different capitations and also extension of debt -- debt payments and a total amount of 9. -- BRL27.9 million, cash reinforcement in the group was expanded to BRL61 million, reaching a total of BRL4.2 billion. I'd like to highlight that from the beginning of the

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pandemic, we had a reinforcement of our operating capital. We captured BRL1.73 billion in credit lines made available to the company.

The mean deadline of our gross debt is of 4.0 years. That mean cost is 5.73% when compared to 5.60% in March 2020. As you all know, the main indicator of leverage of adjusted EBITDA to that closed quarter is 3.7 times when compared to 3.5 times in the first quarter. It's important to highlight now, that we had covenants limits for the year of 2020 of 4.25 times.

In the next Slide, we can see that investments were in the order of BRL672 million, a reduction of 11% or BRL82 million when compared to the second quarter of 2019. This reduction is a result of a review of the budget of the distributors to adapt to the environment of a lower demand of energy, caused by the pandemic. Taking to account only the distributors, the amount invested was of BRL568.4 million which represents a decrease of 16.3%. And in the six months of 2020, investments added to BRL1.4 billion.

Now in the next Slide, I'd like to highlight subsequent events. We had the first review of our tariffs \_\_31.30\_\_ and you can see that we had an investigation in July 2020. Now regarding that net payment, it reached BRL1.4 billion when compared to BRL596 million in July 2016. I would also like to highlight the release of the COVID account which was created to provide liquidity to the distributors in the country, in this moment of pandemic and also to maintain the payment flow in the electric sector chain.

As you all know, this resource was determined by Decree 10.350 and the contract was performed by means of a bank pool. With that we had an increment of debt. For the distributors, the amount authorized by the COVID account for the 11 distributors in Energisa's group, which goes all the way to December is of approximately BRL1.4 billion. Of this total, BRL997 million were included in the company's cash on July 31.

And we're now going to talk a little bit about the transmission and construction project. We have Energisa Para I, which has a physical advance of 91% and Energisa Para II with a physical advancement of 41% and Energisa Tocantins with the physical advance of 12%. We also had some interruptions in the construction in the (inaudible) because of the state and municipal Decrees due to the COVID-19 pandemic. Some quarantine measures such as segregation of teams to contain contaminations were adopted. And to minimize this, we have reorganized our schedule according to our previous projections and our focus is to be delivered -- to be able to deliver as planned.

Energisa Tocantins Transmissora is obtaining its environmental licensing, we had minor impact in some of the archaeology activities. And from the beginning of the construction of the transmission lines which started in 2017 and to June this year, we have invested BRL451.6 million of which BRL73.6 million were invested in the second quarter of this year.

I would also like to highlight a new acquisition Alsol, the acquisition was made in May last year. It was an important one for the group. It is a company specialized in distributed generation, uses different renewable sources, and is pioneer in our country and photovoltaic systems and energy storage. I think that it would be important here to give a

highlight that we intend to get to the end of 2020 with 70 Megawatt peak in operation with anticipated investments of about BRL90 million.

This is what I wanted to tell you. And I will turn over to the operator for the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

Thank you very much. We're now going to start our Q&A session. (Operator Instructions) Our first question is from Credit Suisse. Carolina, please proceed.

### Q - Carolina Carneiro

Good afternoon, everyone. Thank you for the call. I have two questions. The first one, going back to what you mentioned in the beginning of the call regarding the extraordinary tariff, which is what everybody is expecting, I'd like you to talk to us a little bit about what would make sense in terms of methodology? Also would companies have an estimate for the year in terms of cash generation and COVID and NAL would review this account or would you try to compensate results with goals for deadlines or in terms of methodology? I would like to know if you are already discussing something.

The second question is that we can see in your results, you were able to compensate this effect and this is what it looks like by analyzing your results. But I would like to know what other measures could be used to try to adjust cash and avoid leverage increasing in the next month?

### A - Unidentified Speaker

Good afternoon, Carol. I'm going to divide this answer with Alexandre. Alexandre will answer your first question.

Good afternoon, Carol. How are you doing? Good afternoon, everyone. Regarding your question and effects of the pandemic, we have discussed with NAL along with ARAD [ph], and we have discussed our expectation, have made some suggestions of possible methodology. And I believe that we will have a second phase, where we will have a period with important contributions to find the best solution.

Carolina regarding your second question. We announced in the very beginning of the pandemic a CapEx reduction, the objective was to cut 20% in CapEx with reductions in operational expenses in the order of 7.2%. In this quarter, we had a more intensive reduction and this was the quarter, where the pandemic was more intensive. Part of this reduction is also associated to the fact that we cannot carry out some activities. And it all depends on how fast we resume our economic activities, we have some positive signs in

the market, in July things are changing and the situation is better, it's small but we are gradually recovering and the economy also is recovering.

This is an indication that this objective is maintained, but it may be reviewed if we have a resumption, it will be lower depending on what happens.

### **Q - Carolina Carneiro**

Okay. Thank you very much.

### **Operator**

Our next question is from Marcelo (inaudible).

### **Q - Analyst**

Hello, everyone. Thank you for the call. I have two questions, The first one is about (inaudible). I just wanted to understand the information you said, also what the senator mentioned and other people saying that eventually, we would have a provisional decree where tariff increases would be included. I want to better understand what this means and what the idea of this law project is? And how that would affect your distributors? This is the first question.

The next question, I understand you said that the volume is positive but could you give us a little bit more details for July and early August? Thank you very much.

### **A - Unidentified Speaker**

Alexandre will answer your question now.

Marcelo, good afternoon. We know basically what the press is saying about these measures. Of course, every measure that somehow is aimed at the sustainability is welcome, but we don't know a lot about it actually. I know as much as you do. Marcelo, could you repeat your second question, please?

### **Q - Analyst**

The second question is because you have just commented that, the volume has been more positive in July and August, I don't know whether I understood your properly, but I just wanted to have a little bit more details about the demand, the most recent demand and also you could talk a little bit about the Center West and Northeast.

### **A - Unidentified Speaker**

As we mentioned, things started changing in July. We hope actually we are analyzing the sales volume figures, as we always do. And then we'll be able to see a mild recovery in different areas, each area has its own specificity.

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### Q - Analyst

Well, if you allow me to continue asking Alexandre last week, we had a meeting with NAL. I asked the agency about potential deferrals and whether it would be possible for NAL to (inaudible) unilaterally. Correct, the amount -- that would not be a good idea and I was very clear. They said this is not a possibility unless the company requested it, if it was something decided together and then everybody questioned what these measures that the government can use. I don't know whether that's something aligned with changes in each of the different sectors, or whether that could be something in terms of having different (inaudible) for consumers in the Southeast region and somehow subsidize what happens in the Northeast, good we use an alternative like that.

### A - Unidentified Speaker

Hi Marcelo. In fact, we cannot do any unilateral deferral. We know very well that we do not have the minimal sustainability levels for economic stability. Also regarding the news you're talking about, we know as much as you do. We understand that these measures will somehow alleviate, but we don't really know what will happen. We do not have detailed information.

### Q - Analyst

Okay, great. Thank you very much.

### Operator

(Operator Instructions) Our next question is from (inaudible).

### Q - Analyst

Good afternoon, everyone. Thank you for the call. I have two questions. When we look at the company's debt, I was worried about the concentration of payments for 2021. What has the company done to delay these payments?

Number two when we look at different things, which is one of the main stakeholders in your results, you had less volume decrease. Is it a fact? Because I was not able to understand exactly what happened? Could you give me a better idea?

### A - Unidentified Speaker

Okay. Let me see if I can share this answer with my colleagues. But in terms of debt, we really have a concentration in the beginning of next year. As mentioned, we have reinforced our operating cash and most of payments will have a deadline of one year. Payments will be made in the second quarter of next year. We're also planning to obtain loans, and that may also extend our deadlines a little bit because we can obtain CapEx for distribution, and that would help us postpone these payments.

### Q - Analyst

So we will gradually work or improve this debt profile (inaudible) could you answer?

## A - Unidentified Speaker

Regarding (inaudible) and decreases in our revenues, even though the volume wasn't so low, we have to analyze and see what the effects of CVA are. We have just had a tariff review. We also have some aspects related to the spread and the difference in energy revenue and (inaudible) energy there. We have in fact such as liquidation done in the short-term. There are different factors that may have an impact on revenue, also on the spread margin for Tocantins. So we have a combination of different factors.

## Q - Analyst

Well, I know that you have already reviewed your tariffs recently. So you hadn't implemented it?

## A - Unidentified Speaker

Yes, perfect. So it is now clear. Thank you very much.

## Operator

Our next question is from and Henrique Peretti from JP Morgan. Please proceed.

## Q - Henrique Peretti {BIO 18446440 <GO>}

Thank you. [Foreign Language], Good afternoon. I have two questions, The first one is along what Marcelo mentioned for the second quarter. I wanted you to explain, what the default issue is like, if it is improving and what your expectation is to the end of the year? If you had a (inaudible) recovering all of this, would you be able to revert part of the losses in the second quarter? And also how can we see the provisioning for this? Second question is about growth. Because of the uncertainties in Acre, deleverage level of the company and we also have the pandemic which causes some uncertainty. But what would you have for M&A and also the bidding, the invitation for tender?

## A - Unidentified Speaker

Well, I will try to divide the answer to your question. Regarding the pandemic, we have evaluated the recoverability of the asset. In July, actually we showed in the presentation that in July we had 102% over the 30-day average. So July has been 100%, August is also above 100%, we are recovering. And as mentioned in my presentation, once we had the authorization to discontinue, we will have a decrease and default, but at the end we always have something remaining.

I think that there is a trend towards recovery in the third and fourth quarter and this CBD [ph] requirement. We have had a lot of payments made flexible, divided into different payments. And regarding the M&A growth, privatization in the second quarter and also well, we always analyze opportunities for growth. Of course, we are not going through very good time. The pandemic is here, but we are going to analyze these projects. The company is focused on growing. Thank you very much.

## Operator

Our next question is from Mrs.Carolina Carneiro, Credit Suisse.

### Q - Carolina Carneiro

Hello, everyone. I would like to take this opportunity to ask you about low-income registrations. We know that this quarter you had to strong activities because of the crisis, of course, but I would like to know if you could update, is it still like that as you mentioned for the second quarter. And if so, do you have any idea of (inaudible) addition for these residential clients that could be converted into low-income of the total residential clients you have. Thank you very much.

### A - Unidentified Speaker

Just one minute. We are consulting our team. We have had over 100,000 new low-income clients included in this period. So this is a way to help us overcome the impact of default. Another important factor cutoff is that different studies have reviewed their use of CMS for this class of consumers and in some states, they chose to provide a total exemption to these clients. That's another factor and I would like to add that we already have some potential in Acre, Rondonia for this inclusion. And so we see opportunities, we are working with digitalization issues we have done it in the past, we're incrementing it but also the low income percentage in our revenue in terms of amounts is relatively small.

While we have about 20% of our consumer base. While in terms of revenue, it corresponds to about 5% of our gross revenue.

### Q - Carolina Carneiro

Okay. Thank you very much.

### Operator

(Operator Instructions) We will now end our Q&A session, and I'll turn over to Mauricio Botelho for his final considerations. Please Mr.Mauricio, proceed.

### A - Mauricio Perez Botelho {BIO 2105889 <GO>}

Well, I'd like to thank you all for your presence here in this Q&A session. It is always good to talk to the market about our activities. So, we are going to stop here. And I'll see you next time. Thank you very much.

### Operator

This concludes Energisa's conference call. You may disconnect. And have a good day.

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