

Q1 2018 Earnings Call

Company Participants

- Mauricio Perez Botelho, Chief Financial Officer and Investor Relations Director
- Ricardo Perez Botelho, Chief Executive Officer

Other Participants

- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the Conference Call concerning the earnings of Q1 2018 for Energisa. We inform that the participants will be in the listen mode only during the presentation. Next we will begin the Q&A session when more Instructions will be supplied. (Operator Instructions) We also inform that this conference call will be done in Portuguese by the company's management and in English via simultaneous translation. This event is also being transmitted simultaneously through the Internet via webcast.

Before proceeding, we'd like to clarify that any declarations made during this conference call concerning business perspectives of the company projections and financial and operational goals are based on beliefs and assumptions of the Board of Energisa, as well as on information currently available to the company. Considerations about the future are not guarantees of performance and involve risks, uncertainties and assumptions they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operational factors may affect the future results of the company and may lead to results that will be differ materially from those expressed in such future considerations.

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

Mauricio Perez Botelho {BIO 2105889 <GO>}

Thank you. Thank you to all for your participation in this conference call for the earnings of Q1 '18. We have with us Ricardo Botelho, Chairman of Energisa; Gioreli de Sousa, Vice President, Distribution; Mr. Alexandre Garcia [ph], Vice President, Regulation; Mr. Claudio Brandao, Corporate Finance; and Mariana Rocha, Investor Relations Manager. So, we will share the slides and then we will begin the Q&A session.

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Please let's go on to slide number three. Here we have the main highlights. Among the operational items, I'd like to highlight the growth of the market. We are in a recovery since May 2017, and we closed Q1 with an increase of 3.5% while the increase in the Brazilian market was only 0.4%. In terms of the losses, we closed the quarter with 0.4 percentage points below the regulatory limit. In the case of EMT, which is continuing to decline. All we see that in quality, all the concessions are below the FEC limit in relation to DEC. The highlight is ETO, which reached the lowest historical level and went into the regulatory limit.

Among financial highlights, the Group closed the quarter with an adjusted EBITDA of 783 million and consolidated net profit of 142 million.

Also subsequent events, we finalized two processes: first, the OPA of EMT together with Rede, now we have 97.5% of this distribution company, and also we concluded tariff reviews for EMT, EMS and ESE.

Now let's go on to slide number four. Here we will show the growth of the market, 3.1 percentage points above the national level, we continue this with the growth. Among distribution companies, the highest growth in consumption was seen in the Midwest, especially in EMT, which grew another -- which grew 5.7% and influenced by higher consumption in residential and industrial. Also consumption showed growth -- consistent growth ETO continues 5.5% growth, EMT 2.7%, and ESS grew 3.4%. We'd like to highlight that ESS now is the third largest distribution of the Group overcoming and surpassing EPB. The consumption and the area of concession of Sergipe now has had growth for the second consecutive quarter and went up 1.8%. On the other hand, ENF had a drop of 0.7% due to a reduction of clients in the steel sector, a steel works client, and EBO with a drop of minus 1.5% due to heavy rainfall, higher rainfall.

Now, slide number five. Here we have a slide on electrical losses of the Group. And the graph on the left, we have total losses, which represented 11.87% of the energy injected. Although the graph has high losses -- although the graph presents high losses, according to our release until 2017, the losses of ESE considered the total supply to the neighboring distribution company Sulgipe.

With the closing of the data and the tariff cycle, we removed the energy. It is no longer injected and therefore the denominator for the calculation changed. Using this same basis of comparison, the total losses of the Group would be 11.93% in December, 2017. This way, a small drop of 0.07 percentage points in this quarter.

We'd like to highlight the regulatory limit, which is 12.24%. It was reviewed to reflect this adjustment. Among the highlights, in terms of electrical losses, I'd like to mention EMT, which had a reduction in losses for the sixth consecutive quarter, the total losses dropped 15.21% in Q1 '17 to 14.49% in this last quarter.

Now going on to slide number six. Here we see the delinquency rates, which is a calculation of percentage between PDD and supply build -- build supply. The increase among the quarters is due to a reversal of accruals or provisions that affected the

indicator in March, 2017. If we remove these non-recurring factors on a consolidated basis, the indicator of delinquency of the Group would be 0.83% in Q1 '18 in comparison with 0.98% in Q1 '17, which represents a reduction of 0.15 percentage points.

On slide number seven, here we see quality indicators. All the distribution companies are below the FEC limits, and several of the countries continue breaking their own historical records. In DEC, we'd like to highlight that, since February, the ETO indicator is within the regulatory limit, reflecting the effectiveness of our recovery plans that were implemented as of 2017. The distribution company reduced by more than 10.7 hours DEC in the last 12 months, and in March, we received our historical -- lowest historical level. In EPB, third -- the third in the ranking of quality of the regulating agency in 2018 reached a historical minimum limit of DEC and FEC. And EMT continues to improve the DEC indicator and that reduced by one hour the indicator in March, 2018 and in relation to 2017. And is well on its way to the regulatory limits. In EMS, we have the lowest level of DEC since the beginning of the concession in 2014.

Now going on to the next slide number eight. Let's talk about PMSO, consolidated PSO, we had an increase of 4.2% close to the inflation of the period, which was 3%. In personnel, we had an impact of labor lawsuits in EMS, another 6.6 million labor lawsuits, which have offsets in the reversal for accruals. In third parties and material, we had an increase of 12.4 million concerning readjustment of contracts and increase of teams hired for the summer plan for preventive maintenance and also to fight losses. Finally, we had an improvement of 2.4 million in fines and compensations in the liquidation of the civil contingencies.

Now, going on to slide number nine, here we will see consolidated EBITDA, the graph shows the evolution of EBITDA. It went up 35.7%. We'd like to highlight that there are non-recurring events on the table on the right, which comes from EBITDA. We'd like to highlight the drop in indemnity costs in two quarters. These events are now normalized. We had 45 million concerning the re-posting of CVA values of previous years EMT, EMS, which improved the EBITDA of these two companies. Also, we had the effect of VNR. As of 2016, it was considered as other revenue, having a positive impact on EBITDA. Finally, we had -- we removed the line [ph] on the airplane of EMT. This happened in Q1 '17. In this way, this considering non-recurring events, EBITDA of the quarter grows 10.3% in relation to Q1 '18. This increase comes specially due to the improvement of 102 million in Part B of the distribution companies due to the growth of the market and tariff reviews that have already occurred.

Going on to slide number 10, we'd like to comment on the results apart from the effects that had an impact on EBITDA. We had another non-recurring event, which is associated to the accounting record of the conversion of the emission of debentures of Energisa. This convertibility of the shares has a strike price BRL17.88 per unit, while our share closed the quarter negotiated at BRL34.70. This is an option in cash, which reflects the high probability of conversion and this effect -- effect of this financial derivative had an impact on our profit and negative impact of 107 million or 40% of the profits of the period. Thus the conversion becomes advantages and thus we have this impact on results. Having said this, the profit with or without recurring events was the same and grew 8.7% in the quarters.

Slide number 11, we'd like to talk about the net debt. The net debt went to 8.1 billion, an increase of 900 million in relation to 7.2 billion in December. The increase of the debt have this impact. First, we added 107 million due to the debentures converts -- debentures of Energisa SA, totaling 257 million in debt. The second, dispersals -- disbursements concerning the payment of the acquisition of shares from EMT approximately spent -- approximately 530 million during this quarter.

Finally, also the loans to continue the investments of the Group. On the graph on the left below, we see the evolution of the cost of the debt close to 8% at the end of the quarter. Here, investments in 2017, slide 12, we closed the quarter with 352 million, a reduction of 19% due to the process that gave us a tariff review in EMT, EMS and ESE. Now in transmission, we made investments of approximately 7 million in the quarter and here we updated some projects continuing within our schedule. The sharing -- the contracts for sharing infrastructure CCI with the transmissions companies, there were exits that were signed, and the development of executive projects is going well. We are now concerning the environmental licenses. The regulating agencies are analyzing our studies. They are in progress and there are negotiations with the owners of the land of the transmission lines. All these activities are happening as planned.

Now slide 13, we'd like to talk about the compensation of Energisa due to our distribution being -- distribution companies being in the fourth cycle. If we consider Energisa as a single company, we would have a compensation base of 9.2 billion, which represents real evolution of 32% in cycles due to intensive investment and good management, this ensures the recognition of the investments made during the last few years.

On slide number 14, we have a comparison of regulatory EBITDA versus reported EBITDA -- actual reported EBITDA in the last 12 months. In the consolidated of the Group, we are above the regulatory EBITDA around 33%. The evolution of the companies acquired by the Rede Group, today are at 26% above the regulatory level with -- therefore consistent evolution since 2014.

So I'd like to conclude the presentation and we would like to begin the Q&A session.

Questions And Answers

Operator

Thank you. We'd like to begin the Q&A session. (Operator Instructions) Mr. Fernando Bossi [ph] from UBS has a question.

Q - Unidentified Participant

Good afternoon. A question concerning the privatization of the distribution companies of Eletrobras. I'd like to know, if you have an expectation about the timing when this should happen?

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

Today, there was the news that the government is analyzing the privatizations and it would be difficult to have them before the elections.

Q - Unidentified Participant

Do you have anything to say about when these companies will be privatized?

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

Well, our information is similar to the one you have. We don't have anything extra apart from that. It seems that during May, there should be a final report from the TCU, and at the end of May or June, by mid-June, we should have the results available.

Q - Unidentified Participant

Thank you.

Operator

(Operator Instructions) Thank you. We'd like to pass the floor to Mr. Mauricio for his final comments.

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

I would like to pass the floor to Mr. Ricardo Botelho, who will make the final comments, please.

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

Well, Mauricio, I would like to make some comments concerning the public offer for the acquisition of the shareholder control of Eletropaulo. On May 4th, we canceled our public offer. Our offer made on April 5th, forecasted a maximum disbursement of 3.2 billion and capitalization of the company with another 1 billion. Our proposal was based on a careful analysis of the potential and risks of the assets and the distribution of electricity. We knew that the challenge would not be easy and we were going into a game to compete with responsibility. Since it is a regulated activity, we evaluated the level of competitors' offers and considered this as long-term sustainability for clients, vendors and shareholders. And these levels went beyond what we understood as reasonable for the activity. In the same way, we are always prudent, one of our most important qualities is to make prudent capital allocations, always searching for value generation for our shareholders and sustainability of the business in the long-term. These principles are the ones we use for during all our history. Thus we are sure that we are here to preserve the balance and to take care of the interests of our clients, employees and shareholders today and in the future. We thank you very much for your trust and we wish you a good afternoon. Thank you.

Operator

Thank you. This concludes the conference call of Energisa. Please disconnect the lines and we wish you good afternoon.

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