

## Q3 2015 Earnings Call

### Company Participants

- Eduardo Haiama, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Antonio Junqueira, Analyst
- Marcelo de Sa, Analyst
- Marcos Severini, Analyst
- Unidentified Participant
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good afternoon ladies and gentlemen, and thank you for holding. Welcome to Equatorial Energia Conference Call to release results for the Third Quarter 2015. We have with us today Mr. Eduardo Haiama. We would like to inform you that this event is being recorded that all participants will listen to the conference call during the Equatorial Energia presentation. And sewing [ph] this, we will go on to a question-and-answer session, when further instructions will be given. (Operator Instructions)

This event is being broadcast simultaneously through Internet via webcast and can be accessed at the [www.equatorialenergia.com.br](http://www.equatorialenergia.com.br), where the respective presentation is also available. The selection of slides can be controlled by yourself. The replay of the event will be available soon after the closing. We would like to remind the participants in the webcast that they can record through the website, questions for the company that will be answered at the end of the conference call by the IR team.

Before proceeding, we would like to clarify that forward-looking statements made during this conference call referring to the Equatorial business perspective, projections, operating and financial goal are based on the belief and premises of the management as well as information presently available. Future statements are not a guarantee of performance as they involve risks, uncertainties and premises as they refer to future events and could therefore depend on circumstances that may or may not occur.

Investors and Analysts should understand that general condition, sector conditions and other operating factors could affect the future results of Equatorial leading to results that differ materially from those expressed in the forward-looking statements.

I would now like to give the floor to Mr. Eduardo Haiama who will begin the presentation. You may proceed.

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

Good afternoon to all of you. And first of all, I would like to thank you for your participation at our conference call to release results for the third quarter '15. Before beginning the presentation, the President, the Chairman of management, Augusto, will be present during the question-and-answer session. Once again they are arriving here to participate with us.

Regarding the presentation on slide number two, I will begin the conference describing the highlights for the period. I will remark on the operating and financial results, and at the end, we will have the question-and-answer session. Before the highlights, I would like to clarify the way that I'm presenting results. The consolidated information reflects a 100% of CEMAR, and 100% of CELPA and 100% of Equatorial Solucoes that in turn consolidates the 100% of the figures for Sol Energias. It is important to observe that CEMAR [ph] results are recorded in income, equity as part of Equatorial.

On slide number six, during this quarter, CEMAR as well as CELPA presented a close in the energy demand of 2% and 3.0% [ph] respectively when compared to the same quarter in 2014. During this quarter, the energy losses for CEMAR represented 17.6% of required energy very much in line with what was presented in the former quarter. And in CELPA, the total losses represented 31.3% of required energy, an improvement of 0.5 percentage points compared to the previous quarter. CEMAR and CELPA continued to present significant improvement in their DEC and FEC quality indicators for the quarter.

We go onto slide number seven. The net revenues of the Equatorial reached BRL1.862 million in the quarter, a growth of 11.5% vis-a-vis the third quarter 2014. This is due to the tariff readjustment of August 2014 and 2015. The extraordinary tariff revision of March of this year and recognition of revenues for tariff flags at the beginning of this year. The adjusted EBITDA was up [ph] 332 million with a growth of 25% compared to the previous year. The adjusted earnings also represented 80 million, a crop of 43% compared to the same quarter in 2014. In terms of the investments, they represent 20% less vis-a-vis the same quarter in the previous year.

In September, the common share for Equatorial became part of the Ibovespa, MSCI Brazil and IbrX-50 indices. This morning the management board has announced a reorganization of positions in the company where Carlos Piani remains as a Member of the Board, but steps down as the Chairman of the Board; Firmino Sampaio, who was the President of the Company, takes on the Chairmanship of the Board; and Augusto Miranda who was the Director of CEMAR, now become Director, President.

We go on to slide number eight, where we have more detailed referring to the reorganization of positions. It is important to mention that Carlos Piani who was the Chairman of the Board and continues to be a Member of the Board, has gone abroad to take on a position as the CEO in Kraft Canada. And being Chairman of the Board is

something strategic while maintaining that company culture that is aligned with our interest and he has stepped down there for.

And based on the consensus, Firmino Sampaio, who used to be the Chairman of the Board, is now taking on this position. And because of our governance that is part of our bylaws the Chairman of the Board cannot be the CEO for the company. We had an in-house Succession Plan and had foreseen that Firmino would become the CEO. We now have Augusto Miranda who has become the CEO of CEMAR and Equatorial.

We now go on to slide number 10 that refers to the energy market. As you can see, the CEMAR demand continues to grow by 2% mainly due to a growth in the customer base of 2.7%, but with some sort of slow down compared to the previous quarter of 5% to 5.5%.

When it comes to the losses in slide 11, the losses of 17.6% CEMAR remains with stable losses of 17.6% during the quarter, in the previous period, it was 17.5%, still below the annual goal of 19.6%. And the same can be seen in the non-technical losses in the low voltage market remaining at 12% -- 12.5% below the annual regulatory goal. It is important to mention that we had planned since the previous quarter, we have a plan to combat loss and because of the economic situation at current that increases the complexity in the company. We have been able to be successful at maintaining a relatively low and stable level of losses in the Company.

Another important point you will observe, we have reviewed the Company losses from the fourth quarter until the second quarter of 2015 due to a new accounting system for a broader [ph] measurement compared to the previous year.

We go on to slide number 12. CEMAR continues to improve the quality of DEC with the reduction of 2% and FEC 6%. In slide number 13, the energy distributed by CELPA with an increase of 3.8%, with an increase of consumers compared to the previous quarter. With the losses more specifically, we ended the quarter with 31.3% of total losses in required energy or a drop of 0.45 [ph] percentage points compared to the second quarter of 2015.

When it comes to the non-technical losses, we also had a drop of 45% to 44% and as we had mentioned in the last quarter, we had reformulated during the second quarter, believing that this change in the process to combat losses would have an impact during this quarter improving losses and this is the result. The Company therefore, despite the rather complex economic scenario and despite the difficulty of expenses in the concession area, has been able to ensure that losses continue to drop.

In slide number 15, we have had a significant improvement in DEC and FEC, a reduction of 16.6% and 19% vis-a-vis the same quarter in 2014. With a consecutive drop since the third quarter of 2012 in the DEC indicator as well as in the FEC indicator. When it comes to the FEC, we are within the annual goal since the first quarter of 2014.

We go on to slide number 17. That refers to the EBITDA for the Company that achieved 365 million, if we adjust for non-recurring results, it would be 332 million, a growth of

24.5% compared to the third quarter of 2014. We remind you that since the first quarter of this year, there is no difference between the regulatory EBITDA and the consolidated accounting EBITDA as we are including the net regulatory assets.

When it comes to non-recurrent impacts for CEMAR, we have three basically: first, a lower recognition of PIS/COFINS with a amount of 9 million; and effect and the different between CVAs accounted of 6 million; and a CVA referring to a Eletronuclear with a positive impact of 1 million during the quarter. In the case of CELPA, the same impacts of PIS/COFINS where the difference of 3 million, CVA for Eletronuclear 4 million, and CVA a total of 7 million.

It is important to mention the growth of EBITDA that basically refers the operation on Financial turnaround that we have implemented in CELPA, and the beginning of the tariff impact in CELPA.

The EBITDA only for this period had a growth of 40%. In CEMAR, we continue to focus on cost control to benefit from the demand growth. When it comes to our net profit, besides the adjustments mentioned in EBITDA, we had a new replacement value adjustment of 12 million and write off of assets was an impact of 4 million on the company results.

At CELPA, besides the events already mentioned, we had a write off of 19 million in assets referring to the Tariff Review process that took place in August of 2015. Another important item, when it comes to earnings during this quarter, we had a difference between accounting the debt that is denominated in dollars, and the hedge, the debt according to IFRS has to be accounted by appropriating this and the swap has to be entered at market value, this has also caused a difference and in oscillation that does not reflect the hedge which is well or good and the trend is that through time, there will be adjustments as we come closer to the maturity of the swapped.

In slide number 19, the debt amortization program is doing very well. We ended the quarter with 2.2 billion in cash and a short-term debt 840 million approximately. When it comes to net indebtedness in slide number 20, it is BRL1.5 billion, excluding the net regulatory assets, consolidated cash position, CCC subrogation and others which would give us a net debt for EBITDA of 1.4 times in the last 12 months.

Now if we adjust the net debt proportionally to the Equatorial state [ph] consumer of 65.1% and in CELPA 96.5%. Our debt would be 1.2 billion that represents 1.5 times the regulatory EBITDA in the last 12 months.

In the slide number 22, we present the investments that add up to 100 million, a drop of 6% compared to the same quarter in 2014; and in CELPA, a 154 million, a drop of 29% compared to the same quarter in the previous year.

With this we would conclude our presentation and we would now like to go on to the question-and-answer session.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now go on to the question-and-answer session. (Operator Instructions) Our first question is from Vinicius Canheu from Credit Suisse. You may proceed, sir.

#### Q - Vinicius Canheu {BIO 6300903 <GO>}

Good afternoon. I would like to speak about the losses when we look at the background of losses especially in CEMAR, we have two great breaks from 2009 to the beginning of 2011, then a peak close to the tariff revision and a another break with stability.

I would like to congratulate you for CELPA, where you have stabilized your model to compare losses. And would like to know if you can expect a similar behavior or if this is just a first movement and it will now be less than 10 sales [ph].

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

If we should expect significant losses or if the losses will be less important and we will have a smoother path in the coming years, when it comes to CELPA reduction. Hello Vinicius, when it comes to losses that I had mentioned, the losses in the present day environment will be appeared in the newspaper stating that companies are undergoing difficulties in terms of the losses.

In the second quarter, although we mentioned that we were controlling this, we have felt a macro loss and this have had an impact on our Combat losses or activities. Having said this, our view is that this is critical for the operation and we're going to put everything we have in this. We're going to attempt to reduce at the atmost the simple losses within 12 or 24 months until we are able to do this.

And in CELPA, the levels are still extremely steep and this becomes ever more critical due to the price of energy that we are paying. One thing is the loss of energy at BRL70 or BRL80, another thing is when that energy is costing 160 or more reais.

And what is it that we wanted to do, if we can reduce losses at a maximum. Now we will pursue this. Now, if it will be possible to be as successful as we were in the past with CEMAR. It is very difficult to mention at this precise moment. The methodology continues to be the same. The loss processes although we have carried out restructuring is the same.

The level of demands that we have in-house to obtain these results have been intensified and we firmly believe that this model will reduce our losses to a more sustainable level. We're working very closely, constantly checking to ensure that we are following the plan that we have set forth. And this increases our confident to say that we're going to be able to lower these levels, but it's very difficult to give you a guidance or percentages because the situations are different.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Very well. Thank you very much for your answer.

## Operator

(Operator Instructions) Our next question is from Antonio Junqueira from BTG Pactual.

**Q - Antonio Junqueira** {BIO 15403195 <GO>}

Hello. Good afternoon. My question is, what is happening with the contracting of CEMAR and CELPA considering the volumes for the coming year. And if you're thinking of the minus 1, system has anneal [ph] manifested itself on this or is that still too far away?

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

Now this information on price is something that I do not know about. When it comes to the hiring or contracting, I am trying to think of what we are doing. We're still over contracted for the coming year. But within the 100%, do remember that our market continues to grow and we will get to that stage where we have over contracted. The gap is no longer as large as it was in 2014.

**Q - Antonio Junqueira** {BIO 15403195 <GO>}

Thank you very much.

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

Thank you very much. When I have more precise information, I will convey it to you.

**Q - Antonio Junqueira** {BIO 15403195 <GO>}

Very good. Thank you.

## Operator

The next question is from Marcelo de Sa from UBS.

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

Hey, good afternoon to all of you. I would like to get a better understanding of your expectations for demand growth for CEMAR and CELPA in 2016, which is your outlook? And if you could speak about the M&A scenario? If you have any expectation or date, if this is going to happen until '16?

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

While the growth for CELPA as I remarked, CELPA compared to CEMAR and once again the CELPA has suffered this slowed down more than CEMAR. And this was happening formerly. Our expectation is that this scenario will not change, the energy required will

continue in the positive level. In terms of volume, build our expectation is that there will be a growth because once again we're combating losses.

We have energy that is being consumed at present in that market and that is not being built. Now, when we compare losses at this level, they normally has an impact on the physical volume. One of the explanations why CELPA has not had a vigorous growth in energy volumes is the success of the combat of losses, what was not being build formerly when this becomes build that will reduce the consumption somewhat.

In CEMAR, we had already observed a certain slowdown at the end of the second quarter, but I still believe it is too early, because in my venue this slow down, I'm not going to say, it doesn't exist, it does. But to truly know if we're going to continue this slow down, if it is going to remain at a level of two or if this is an outlier, if it will continue to grow something that I cannot say it at present. I do believe that we're going to add a positive level, but it's difficult to explain the level, if there will be similar to that of the second quarter or above the level of the second quarter.

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

Is there anything else you wish to know about the market?

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

No, I was more concerned about M&A. And going back to the M&A, this something that we have mentioned constantly while looking at any process that may appear. At CELPA, the same, we are interested in this. The schedule for December of this year, if permitted by the government, we will proceed.

If this is postponed for any reason, we will pursue this with interest. And I'm not able to explain what will happen yet. This is a critical point. And this has been fully disclosed the issue of concession innovation, which has already been resolved and with this the process could continue on.

Now if it will be feasible to do this year, not is something that has not remain clear, but you can be sure that we're going to continue focusing on this. At the end we might decide not to invest, but it will be for other reasons and not because of the analysis or business feasibility.

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

Do you think that a privatization of CELPA would be done with a company free of debt or would this include our liabilities and then you would undergo a restructuring?

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

A very good question. What appears in the newspaper, it would be the same company, the same CNPJ. Now the modeling that is being done is something we have not had access to. There is nothing referring to this specifically.

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

Thank you very much.

## Operator

Our next question from Vinicius from Credit Suisse.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

My question has been partially responded to when it comes to the market. At CEMAR, we that the number of clients has increased, but consumption per customer has dropped, because of the economic situation is, this what is happening or is there something, timely happening or is it due to lower income that has happened impact on that consumption patterns as the customer base continues to increase.

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

I think this is a macro reason for the time being. The economic situation has considerable - - wait, now, why I'm saying this? If you analyze who has had the greatest consumption reduction, it is still that already had a higher per capita consumption. The loss in per capita consumption that was low has always had little growth. The consumption may increase 100%, but it stops there at CEMAR, and it is still very difficult to foresee what is going to happen because of the fluctuations.

And it is very difficult to identify that precise moment that goes beyond the economic situation and refers to climate problem. This might have been a timely impact.

In the fourth quarter, we already observed an improvement compared to the third quarter, but this once again maybe a very timely effect. It's very difficult to truly understand this. What we do understand from the macro view point is that both states have benefited in the middle term with the exchange rate and the agri business that's being exported.

And this has considerable weight on what is happening there. The trend is to have greater investments in expansion in that segment. Once again it is rather complex to forecast this in the short term to know exactly which has been the specific impact.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Thank you very much.

## Operator

The next question from Caroline Yamabushi [ph] from JP Morgan.

**Q - Marcos Severini**



This is Severini from JP. I would like to move away from the questions linked to distribution. We have a great expectation in terms of the privatization. But at the same time, we're very close to the auction for generation. I would like to know if there is any interest in this, if you're analyzing the possibility of looking upon the generation segment more specifically as there are some very interesting alternative?

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

We have the auction now and in the coming year there will be additional plants such SEMEC for example.

**Q - Marcos Severini**

So are you also considering generation? How will you continue to focus on other opportunities for consolidation?

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

Thank you, Severini. When it comes to generation what we have always said is that we would look upon this recently. SEMEC was focusing on distribution. But this is where the company core will invest. Now, if we analyze what is happening, when we look at the economics in the generation segment, at least from our view point until recently, the returns were below what we would like to invest in. Apparently this dynamic has changed. There begins to -- we begin to see attractive returns in the segment. And for this specific reason, I can say that we would be interested in that. If it makes sense in most of the cases, as the auction for example, there are assets that do not have construction risk. The risk return is a completely different thing.

And there are additional complexities that are very difficult to control. The return that is appearing has evidently drawn our attention and we may participate in some of these processes as an opportunity.

**Q - Marcos Severini**

And would this be done through a consortium or a majority stake? How would you do this? Or do you have a flexibility when it comes to the composition of participation, if you find interest in generation in the auction.

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

It would depend on the asset and how we proceed with this. And if we're speaking about a generation that is ready, it is simpler. The way to make an agreement in terms of operation and the trading of energy will be simple when it comes to setting this up. We have no problem in participating a loan or also participating through a consortium. Once again in my opinion, this would not be an impediment, perhaps the lower level of leveraging would allow for this -- allow for a greater leveraging. Thank you very much.

**Q - Marcos Severini**

Thank you and congratulations.

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## Operator

The next question (inaudible).

## Q - Unidentified Participant

Hey, good afternoon, Haiama. I would like to ask a specific question about CELPA, when it comes to the investments. CELPA is undergoing a new tariff cycle, where it has to focus on the regulatory goals. And the investments for 2015 should reach 500 million. Now, is this the level that we can expect for the coming years? Or will there be a significant increase in this amount?

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

500 million, I'm sorry. I'm looking at the accrued investment for CELPA, which is 318 million and perhaps until the end of the year, it will come close to 500 million.

## Q - Unidentified Participant

Is this a level that we can expect for coming years?

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

No, please recall, that the company was very focused on that tariff revision this year and there were some investments that had not been concluded until 2014, and part of which were extended for the beginning of this year. Therefore investments were higher than normal.

What have we always said at CELPA or CEMAR about investments, while we are able to show a strong growth in volume and in CELPA, there are issues of course. At CEMAR, we have the issue of expansion. Now while we have a growth that we need to invest in, there will be investments in that company of 2.5-fold compared to depreciation or three times the depreciation.

Now, if the growth drops again or in the case of CELPA, we're getting to a level of quality, where we can begin to slow down and reduce losses ever more, evidently, there will be a drop to that level. Now, in the short term, which is our main drive besides volume as I remarked before. In the short term what we're focusing on specifically is the level of losses that is still inconvenient of 31% and in CELPA.

## Q - Unidentified Participant

Now given the potential of production that we can attain, how much investment that we can make prudently to seek lower levels of losses and still have a profitable investment.

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

This is a calculation we still have not carried out. We're analyzing this at present. And this could be the difference if we have a lower level of losses.

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## Q - Unidentified Participant

In the medium-term more specifically --

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

We can work with the figures of 2.5 or it's 3 times the depreciation as the rule while we continue to have volume growth, expressive volume growth.

## Q - Unidentified Participant

Okay. Thank you very much.

## Operator

(Operator Instructions) With this, we would like to end the question-and-answer session. We will now give the floor to Mr. Haiama for his final remarks.

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

To conclude, I would like to reinforce our commitment of giving our shareholders value through exceptional, financial and operating techniques. We also want to have the highest transparency and governance. Myself, as well as the IR team are at your entire disposal to respond to any additional questions that you may have. Once again, thank you for participating in our conference call and have a good afternoon.

## Operator

The Equatorial Energia Conference Call ends here. We thank you for your participation. Have a good afternoon and thank you for using Chorus Call.

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