

## Y 2017 Earnings Call

### Company Participants

- Alexandre Nogueira Ferreira, Regulatory Affairs and Strategy Director
- Claudio Brandon, Corporate Finance Officer
- Mauricio Perez Botelho, Chief Financial Officer and Investor Relations Officer
- Ricardo Perez Botelho, Vice Chairman and Chief Executive Officer

### Other Participants

- Andre Sampaio, Analyst
- Marcelo Sao, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen, welcome to the Earnings Conference for Q4 '17 of Energisa. We informed that the participants will be in the listen mode only during this call. Next, we will begin the Q&A session, when further instructions will be given.

(Operator Instructions) We would like to inform also that this earnings call will be in Portuguese and presented by the company's management and we will have simultaneous translation into English. This event is also being broadcast simultaneously on the Internet via webcast, and in the company's IR website and also MZiQ platform, [www.mziq.com](http://www.mziq.com). This conference contains forward-looking statements that are subject to known and unknown risks and uncertainties that could cause the company's actual 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.

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 differ materially from those expressed in this call.

Now, I would like to pass the floor to Mr. Mauricio Botelho, who will begin the presentation. Sir, you may proceed.

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

Good afternoon to all. I would like to thank you all for participating in our earnings call for Q4 '17. We have in this teleconference Ricardo Botelho; Gioreli de Sousa, Vice President for Distribution; Alexandre Nogueira, Regulation; Claudio Brandon [ph], Corporate Finance, Director; and also Investor Relations Officer, Mariana Rocha.

I'd like to pass the floor to Mr. Ricardo Botelho, and he will make the first comments.  
Ricardo, you have the floor.

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

Good afternoon to all. I would like to begin saying that the scenario in 2017 was very challenging, but as shown by our numbers, we were able to deliver good results focused really in having a sustainable business. We have an excellent team. We have also the beginning of activities of our Shared Service Center in Cataguases. We began the Shared Service Center in April, last year. And also now we're in transmission.

We concluded many investments totaling BRL2 billion, and we invested also in distribution company improving quality and we are waiting for new rate-setting events. We did the rate-setting review with success, and in April this year, we will have the conclusion with rate-setting for the State of Mato Grosso do Sul. We have the complexity of the acquisition of Rede Group. We showed our hedge and we're delivering more consistent results. Also, we have operational efficiency in all our operations. We will expand -- we are working now and through the actions of the government, they will give more choices to consumers.

We maintain also, our work in the electrical sector, we want to grow and we want to be a reference in four aspects; customers satisfaction, work, work environment and profitability. Of these four, three we were able to do in 2017. We won many awards. Our distribution company won awards for example, in the State of Paraiba, best place to work, customers satisfaction and good economic performance in distribution by EFTP [ph] and Abradee, and apart from the company being recognized as the better distribution company in Brazil.

Together, we are closer and closer to our goals. We are reaping the fruits for having people with talent, discipline in costs, and for being leaders in this sector. With this spirit, we are prepared for a new cycle of growth, and we know, we're on the right path and at the right speed and we continue with the solid governance system, ethics and integrity. And we have a commitment with today and the future.

Now I'd like to pass Mr. Mauricio Botelho, CFO.

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

Thank you, Carlos. So, let's go one to the presentation, then I will begin the Q&A session. On Slide number 3, we have the highlights. We see the growth, the market was already showing recoveries, since May, and we closed the quarter with 6.3% growth in the quarter. And the year 2017, 0 point -- in terms of total consolidated losses here reached 11.81% of the Required Energy, 0.42 percentage points below the regulatory income. Only Mato Grosso and Tocantins are little over the deck regulatory limit. Adjusted EBITDA reached 806.6 million in the quarter, 2.4 million in 2017, an increase of 40.2% and 15.7% respectively. Here we see also net income 232.6 million, an increase of 560.8% and

192.4% in the year. Net debt of 7.2 billion [ph], net debt over adjusted EBITDA ratio of three times.

Now let's go on to Slide number 4, we'd like to talk a little bit about the markets and among the concessions, we see consumption in Mid West and North, Mato Grosso growth in the quarter 2% and 6.3% in the north region. The growth consumption went up due to residential clients and rural clients. We have high temperatures and industry also had a recovery in comparison with the same quarter in 2016, when these numbers were down. In Mato Grosso do Sul, in the State of Mato Grosso do Sul, we grew 6.9% in the quarter, especially due to industry, metallurgy and recovery of consumption of our clients. In Tocantins, we had an increase of 8.6% in the quarter, 2.4% in the year, and significant growth in industry in the last quarter.

And going on to Slide number 5, we have a comparison between us and the Brazilian market. We continue to have growth above the national average. We reached this difference 2.9% higher than the national average and higher than our average.

Now going on to Slide number 6, let's talk about the total losses in electricity. You can see, we have five consecutive quarters with the downward trend, reducing the losses December 2016 from 12.38% down to 11.81% in December 2017. So this consecutive quarter with reduction in losses were within the regulatory camp. We have the case of Mato Grosso, that is not there yet, but we're getting there. And in the case of Minas Gerais, we have yet more to do.

Now let's go on to Slide number 7, talking about delinquency. Here we should make some comments. This is percentage of PDD and supply build 0.67% here delinquency rate 0.42 above December 2016. This goal -- this is due to some reversals that we had in Mato Grosso, the State of Mato Grosso in 2016. We had an important reversal in the case of the State of Sergipe CODEVASFP and EBITDA 13.4 million, and we are about to sign an agreement. Now, if we remove the effects of 2016-2017, this indicator would be in 0.76%, or 29 percentage points below 2016.

The economy has a slight recovery, the economy had a slight recovery in Brazil, and going to the level we had before the crisis. So, we are ready for new actions for collections, accounts receivable, especially in Paraiba. And with this objective, both in the state to Mato Grosso, we began to coordinate collection activities in the field and in the back-office, resulting in new negotiations for these steps. We use some tools, sophisticated tools as Advanced Analytics in the case of the State of Paraiba, with our clients allowing us better accounts receivable, better collection at lower cost.

Now Slide number 8, we will talk about quality indicators, service quality indicators. As you can see all the companies are within Regulatory FEC and DEC, you can see the distribution companies in the Southeast and Northeast. In the case of Midwest and North, we had an unfavorable environment in 2017, a strong elevation of weather conditions, challenging weather conditions. In Mato Grosso, we had very strong rain and wind, much higher than the average we have had, and this allowed an improvement with the exception of October and November. We are taking measures to improve this. In the case

of the State of Tocantins, we have a similar climate condition with worsening of indicators in November-December. Once again, we have a plan being carried out with teams, investments, and we had a reduction of 4.26 in DEC very close to the goal.

Now on Slide number 9, let's talk about PMSO, Personnel, Material, Services and Other. Here we had some non-recurring events in Personnel, Material, Services and Other, in Q4 2017, in Personnel, we had 45 million in payments for labor lawsuits, and all of this was accrued provisions, and in Personnel, we also had an increase in cost of 5.5 million, in concerning labor taxes. Another extraordinary event of 46 million, concerning healthcare plans, since some of these controlled companies, continue with this benefit, with healthcare plans that are paid for retired employees, in spite of monthly contributions, we have to do a reassessment of this of the healthcare plans to be in accordance with the sector's plans.

Now, Materials and Services, this line rose, grew, we had some increases in cost, especially for the quality indicators in the State of Mato Grosso and Tocantins. We had an IT system migration. We also had some extra expenses migration to new IT systems. (Technical Difficulty)

## Operator

Ladies and gentlemen, please remain connected. Energisa's conference call will be back soon. Please proceed.

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

We would like to apologize. I was talking about expenses in IT systems migration in Mato Grosso do Sul, 14 million, and most of it, at the end of the year. These are contingency expenses to improve quality migration of IT systems. In the Southeast, we finished this migration. In Mato Grosso do Sul this migration will happen in August 2018.

In terms of Other costs, we had an increase in the State of Mato Grosso, we paid compensation to 18 million. Last year, we had a reversal of this indicator, due to the way this is posted in our accounting. We have this system from the regulating agency and at that time we had a reversal in 2016. In 2017, we had a slight increase and this increase resulted in this increasing cost. We also had events, if we look at all of these cases that I mentioned, especially non-recurring, healthcare plans, we see -- if we remove this, the increase would be 4.1, a little above the inflation of the period. If we did not consider these.

Now let's go on to Slide number 10, talking about EBITDA. EBITDA -- adjusted EBITDA grew 15.7%. In adjusted EBITDA line, we had an increase, here we see a cost of 87 million, concerning CODEVASFP. Also, I would like to analyze EBITDA, 24.2% increase in the quarter, and 8 in the year.

Now going into non-recurring events, here on the right. Here we see compensatory costs, labor lawsuit costs, healthcare plan, retirement benefit, also the PDRT, the healthcare

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plan, and over purchased electricity, as of 2016, it impacts EBITDA. Reversals in Mato Grosso and Sergipe in Q4, and here we had a reversal in 2016, and in effect here, and also in the case of Sergipe. And finally reversal of contingencies in Mato Grosso and Mato Grosso do Sul states in Q4 2016. So, if we don't consider the non-recurring effects, the EBITDA would be in line with that of Q4 '16. The performance -- we also had outsourced services, materials and also regulatory issues in Mato Grosso and also migration of systems already mentioned. So in a similar way, non-recurring, otherwise the EBITDA would be 4.6% higher; EBITDA without non-recurring effects, the last line would have been 14.6 million, one -- in line with EBITDA grew 12.8%.

Now Slide number 12, and let's talk about net income. Here we see the things that impacted EBITDA, we had other events, non-recurring events in Q4 '17, that I will mention. The first item, we joined government tax agreement for ICMS credit losses, which were not considered, the impact 98.9 million, which were recorded in the financial results. Another item that we adjusted and it is related to the converse ability of the shares that the National Development Bank can have with bonuses and subscription and the value of this issuance BRL18.20, mark-to-market of seventh issuance of debentures. So, we had to do a mark-to-market of this derivative. This converse ability in shares, 150 million before taxes, obviously, this increases the reduction in the debt, and we will also have more taxes. This should happen until 2020, when we have the amortizations of this debenture. Also, we removed TR [ph] for comparative reasons, the update of VNR, concerning the change in procedures, 120 million financial assets of concession, although, we had a negative effect of 5.5 million in Personnel. We had a positive effect of 9.6 million in finance, and 16.7 million in taxes. So, in the end, it's positive 20.9 million.

Finally, in Q4, we had deferred tax assets 138.9 million, comparing with Q4 '16, we had non-recurring events as provisions, accruals in Energisa, 110 million. Having said this, in the quarter, the profit would have dropped 32.2%, and also especially in the case of Mato Grosso, we had an impact of 81 million in the quarter. It's important to stress that these happened with the closing of some basis. Some of these were not registered as assets of the company, and apart from an increase in TR.

Now looking at non-recurring effects, we had an increase of the last line 51.1% net income without non-recurring effects. Here we'd like to remind a relevant fact; due to these effects, Mato Grosso do Sul were reclassified, both the effects were not material, and they reflect on consolidated. So, we will have --.

Going on to Slide number 12, debt. Debt had an increase of 1.1 billion. The increase of the debt, two items; one, that I will call a non-cash effect. We have here the effect of mark-to-market, 150 million, another 150 million related to pension fund benefits in the company's healthcare plans, and we have registered here financial restatement of EEVP's and BNDESPar, 182 billion -- million, sorry. In terms of financing and debentures, we see loans during 2017 for our investment program. In terms of evolution of the cost of the debt, we have the graph on the left, the cost dropped to 9% a year, a good evolution.

Going on to Slide number 13, let's talk about investments. 2 billion in investments, 21.9% more in relation to 2016. Investments, as you can see are concentrated in electrical and non-electrical assets of the distribution companies related to distribution.

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On Slide number 14, let's talk about projections of CapEx, we announced today this projection, 1.8 billion; the distribution companies, 1.65 billion; of which 1.2 billion electric assets; 140 million non-electric assets; special obligations 314 million. Mato Grosso is 40%, then Tocantins, 15%, Mato Grosso do Sul 12% of this.

Now Slide number 15, regulatory EBITDA versus reported EBITDA without non-recurring effects, consolidated 33% above regulatory and with annual evolutions, important annual evolutions beginning with 24.7% above regulatory, then 20.6% in 2016. On the right of the graph, we see the situation of the companies. Here we see 52.5% above regulatory for pioneer companies, and so we see here an important increases in the companies acquired. In 2016 -- 2015, sorry, 8.4% above regulatory, 2017, 24.2% above the regulatory EBITDA.

Let's talk about tariff review. We already -- you already have the numbers. These three distribution companies will have a resetting of tariff reviews. These are the numbers already published and increase here 8 million concerning regulatory EBITDA. Here it is important to mention this issue that Ricardo mentioned, the ranking of the companies. We had -- we received the ranking of companies and this helps the others that will go through our tariff review. In the case of Mato Grosso do Sul, where it is now in the 13th position, in terms of efficiency, -- here at the top you can see the graph, the public hearing 66.70%, also Mato Grosso, 76.60% to 87.80%, you can see from 2014 to 2017. And Sergipe went from -- position 43 to 42 from 60.20% to 71.60% efficiency ranking.

On Slide number 17, we'd like to comment on RAB. Total group considering the numbers already published. We have here a consolidated expansion of 32%, or 2.2 billion. So here on the right -- in the companies that will have a tariff review. We have Mato Grosso, 52.2%; Sergipe, 3.5 billion; in the case of Mato Grosso do Sul, little more modest, here going to 1.8 billion. In the case of Sergipe, this is the graph on the left, 165 million, going to around 800 million. And Mato Grosso, going increasing 52% to 3.5 billion [ph].

Here, we'd like to conclude the presentation, and now we're available for the Q&A session.

## Questions And Answers

### Operator

We would like to begin the Q&A session. (Operator Instructions) Mr. Marcelo Sao [ph] would like to ask a question.

### Q - Marcelo Sao

Good afternoon. Thank you for the call. I have a question concerning Eletrobras. We know -- we saw that according to the news, Eletrobras will be auctioned on May 4th. What can you comment about this? Are you interested in distribution companies that will be auctioned? And maybe in the Amazon, what could you tell us about this? Another point concerning tariff review, you mentioned that the distribution companies improved. Did you see the impact that you could comment to us with preliminary numbers?

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

Marcelo, let's divide the question. I will talk about privatization, first. Concerning the privatization auction, we're now at -- we are now very close to the auction. Our comments will be limited from now on. We said that we're analyzing four areas that will be auctioned; Piaui Rondonia Acre, we are not looking at Amazon, or Amazon and Roraima.

So, I would like to now pass the floor Alexandre, he will comment the second part.

**A - Alexandre Nogueira Ferreira** {BIO 19917568 <GO>}

Good afternoon, Marcelo. Concerning regulatory issues, we're analyzing the impacts, and there will be a resetting of rates, tariff review in Mato Grosso, and the losses that we had, the actual losses in 2017, agreeing BRL60 million. But as I said, we are analyzing these impacts.

**Q - Marcelo Sao**

Fine. Thank you.

**Operator**

Mr. Andre Sampaio would like to ask a question.

**Q - Andre Sampaio** {BIO 19422379 <GO>}

Good afternoon. I'd like to ask a question about tax assets, taxes, and the process at headquarters and this amount that you present.

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

I will divide this with, Claudio. Tax assets, the holding had loans from the past. This situation was not ideal, due to the cash generation it had. And with the Shared Services Center, we began to have more taxable revenue. We're also considering other effects, the deleveraging of the holding. The holding will receive dividends with the tariff reviews. In the future, there will be more dividends. This helps reduction also in interest rates and possibility of converse ability of BNDES, the National Development Bank in the debentures, these are being studied.

**A - Claudio Brandon**

Good afternoon. Practically, what is done in technical terms, we evaluate the capacity of the companies that have negative tax basis to use this in a flow of 10 years. This was done by the auditors and we materialize this possibility of using these funds as credits.

**Q - Andre Sampaio** {BIO 19422379 <GO>}

Thank you. An additional question, could you comment on PMSO from now on, Personnel, Material, Services from now on?

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

Well, non-reoccurring, we hand pressure. We have some effects that are contingency events. For example, migration of IT systems, which were concluding. It's in progress.

**Q - Andre Sampaio** {BIO 19422379 <GO>}

This will continue in 2019?

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

No, we won't have this in 2019-20. So, we will a tour de force to recover quality in Mato Grosso in the State of Tocantins too. There will be some extra costs. We can tell you that this won't come back, these expenses won't come back. We had some non-recurring expenses, as mentioned, labor lawsuits we're making an effort, especially in the Rede companies. Also a little bit of PERT, as mentioned, the PERT problem, P-E-R-T problem. In the end, we have an positive accounting result. You have also some impacts here on the results. So, basically this is concerning IT, information technology, I don't see problems in the future. We had an impact in 2016-2017, different effect in the semesters.

**Q - Andre Sampaio** {BIO 19422379 <GO>}

Thank you.

**Operator**

(Operator Instructions) Mr. Marcelo Sao has a question.

**Q - Marcelo Sao**

I'd like to ask another question. Could you comment your expectations in terms of growth in volume. You had a good increase in volume. What can you talk about growth and volume for 2018?

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

Well, Marcelo, in the last few months, we mentioned, we had some climate conditions, but we had a good recovery in January, 3.3% increase in January. So there is a positive trend that we see in terms of growth. We hope it will be better than 2017.

**Q - Marcelo Sao**

Good. Thank you.

**Operator**

We'd like to conclude the Q&A session. Now, I'd like to pass the floor to Mr. Mauricio for his final remarks.

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



I will pass the floor to Ricardo for the final comments. Ricardo?

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

Okay, Mauricio. We continue with our efforts recently, actually today, we had a report published by the regulating agency, ANEEL, and we had an excellent performance, I'd like to share with you, with this. Minas Gerais first place in continuity, then, Minas third, and another three company of ours until the 10th place. So, in the evaluation of the distribution companies, we have ours as first and Energisa, fifth.

Also, I'd like to update you, we continue with our studies in the State of Goias and Para. We also continued -- also in our efforts in transmission, and everything is within schedule. So, we hope that the political environment will continue allowing us to have an attractive business. The maintenance of the regulatory numbers at 8.9, has given us a favorable environment for investments.

So, we'd like to thank you all for being with us. Thank you for participating and good afternoon.

## Operator

Thank you. This concludes Energisa's conference call. Please disconnect the lines and have a good day.

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