

## Q2 2017 Earnings Call

### Company Participants

- Alexandre Nogueira Ferreira, Regulatory Affairs and Strategy Director
- Mauricio Perez Botelho, Chief Financial Officer and Investor Relations Director
- Ricardo Perez Botelho, Chief Executive Officer
- Unidentified Participant

### Other Participants

- Maria Carolina Carneiro, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. Welcome to the second Energisa's Conference Call to discuss Q2 2017 Results. We inform that the participants will be in the listen-mode only. And we'll then begin the Q&A session when further instructions will be supplied. (Operator Instructions). We also would like to inform that this conference call will be made in Portuguese by the management of the company and the English conference, will be through simultaneous translation. It will be transmitted through the Internet with the platform at the site [www.mziq.com](http://www.mziq.com).

We'd like to clarify that any declarations made during this earnings conference concerning the business perspectives of the company, projections, operational goals are based on beliefs of the management. So they depend on information currently available. Future considerations are not guarantees of performance. So they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other factors may affect the future results of the company and may lead to results that will differ materially from those expressed in the conference.

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

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

Thank you. I would like to thank the presence of all in our earnings conference with the results of Q2 2017. I have here with -- I'm here, Ricardo Botelho, Chairman of Grupo Energisa; Claudio Brandon [ph], CFO; Roberto Carlos Currais, Vice President for Business Support; Alexandre Nogueira, Vice President for Regulation; and also Claudio Brandon [ph], CFO; and also Mariana Rocha, Manager and Investor Relations Officer.

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I will present some slides and then we will have time for questions and answers. So please let's go on to slide number three. The first point that I would like to highlight is the market, which had a growth of 2.3% in the quarter without considering the non-billed while Brazil had a drop of 1% in the period. In this way during the quarter Energisa Group had a growth of 3.3 percentage points above the country average.

In terms of the losses we had improvements for the third consecutive quarter. And we'd like to highlight the losses of ETO Tocantins, which in June, now stayed within the regulatory goal.

Financial highlights we are continuing with cost reductions with personnel, material and others PMSO which dropped 0.5% in Q2 in relation to the same period last year. Adjusted EBITDA of the Group totaled BRL471.2 million during the quarter, a growth of 14.1%. And if we consider the the last two months, we have an adjusted EBITDA of BRL2.2 billion.

Net -- consolidated net profit totaled BRL75 million in comparison with the loss of BRL 27.2 million in Q2 '16. Among the recent events, I would like to say that we continue the merger of the distribution companies in south/southeast, the first case of a grouping of concessions in Brazil. This new distribution company called Energisa Sul Sudeste, now has a concession contract of its own and a tariff readjustment, which came into force on July 12 unifying the tariffs of five distribution companies. At the same time we migrated the systems of the company to a new platform identical to the one that we operate in the other companies of the group with the exception of Mato Grosso.

Here, slide number four, please. If we look at the graph on the left, we see the variation between quarters. Considering the non-billed consumption and the growth of consumption was 2.6% in the quarter. The consumption had a growth in all the regions where the group is present. I'd like to highlight Midwest with 3.9 growth, Energisa Mato Grosso grew 4.8% and Mato Grosso do Sul, 2.5%. These regions had high temperatures and this helped to grow consumption. On the graph, on the upper right corner, we have the variation of consumption per class, which had a growth in all segments. Residential class and commercial class had a behavior influenced by the higher temperatures, especially in the Midwest and especially during the months of May and June.

The industrial class once again has a drop due to the performance of Energisa Sergipe due to a reduction in the consumption of the cement manufacturers apart from a drop in the consumption of clients in the segment of oil and gas in the States. The better performance can be seen in Energisa South/Southeast where industry had an increase in consumption of 4.9% and Energisa Borborema was a growth of 2.7%. Now the rural class, rural areas grew 5%, especially due to irrigation activities and there was also a record harvest in 2016, 2017.

Now going on to slide number five, please. With the geographic diversity that we have, we operate in many regions. So the market of these companies -- of our companies has been growing above the national average. We have seen on the graph on the left, we see the growth, month after month, the blue line and then we also see Brazil's growth the country's growth in orange. You can see that only in February, we were below the country

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average. In June, we had a growth of 5.7% while the country had a growth of 1.1%. On the graph on the right, we have year-to-date data. Until June we grew 2.9 percentage points above the country average.

Now going on to slide number six, the graph on the left here -- here on the left, here we have a division between technical losses and non-technical losses, here, which represented 11.98% of the energy injected. Going back to the levels of 2015, once again we closed within the regulatory limits and the reduction of non-technical losses in the last 12 months amounted to 212 gigawatt hours.

When we compare with March, 2017, we reduced the losses in the main concessions, in this case Energisa Mato Grosso, Mato Grosso do Sul, Tocantins, Paraiba and Sergipe. The highlights in losses was our concession in Tocantins which closed Q2 '17 within the regulatory goal and we had even mentioned in the conference call of Q3 '16, we mentioned this area, we had a forecast to get to the goal at the end of 2017. We were able, therefore, to get to the goal in Q2.

Now going on to slide number seven, here we have a history of the losses in Energisa Tocantins. You can see that at the red end of 2015, the losses in the distribution company began to rise. This was the beginning of the economic recession. The reversal of this trend began at the end of 2016 due to the improvements of the actions, fighting these losses, internalization, training of the teams and especially in the rural areas and this allowed a reduction of the cases of billing by average without reading the meters due to the difficulty of access.

Additionally new reading routes, meter reading routes were defined and with public lighting and also we recounted the public lighting. We have the challenge of continuing the reduction of losses in Energisa Tocantins, the actions to fight, losses will continue within 2017. And we have the commitment to close 2017 within the regulatory limit. So among the distribution company only Minas Gerais and Mato Grosso are above the regulatory limits.

In the case of the state of Minas Gerais, it's important to stress that the origin of the increase is in technical losses, non-manageable. For example, the regime for hydro distribution here in relation to Mato Grosso, for the third consecutive quarter, we reduced losses. The improvement is due to better work in the units, and an increase of 83 teams which now are during the ramp-up phase.

We are -- we may -- we hired these teams during as of January, and they need 90 day training period which is mandatory. In May, the 83 teams were already working in the field. And therefore, we began to see the effect fighting these non-technical losses. We believe that the numbers, their actions will be more relevant in the next quarter.

On slide number eight, here we have delinquency. The collection rates in the last 12 months and billing of the period, here, we see that the indicator is in line with the indicator of June 2016, inspite of the effects of the bank strike on the last work day of June.

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On the right, we have delinquency based on the indicator PDD on supply that was built during the last 12 months is indicator -- consolidated indicator was 0.40% or 0.43 percentage points lower than in Q2, '16. And especially as a result of reversals that happened in Energisa Mato Grosso. This -- considering these reversals the indicator would be 0.97% drop of point one percentage point in relation to Q2 of last year.

We are still making an operational effort to reinforce collection and continue to curb delinquency. Going on to slide number nine, we have the quality indicators. We have DEC and FEC, moving average of the last 12 months. They had expressive improvements of these concessions and the highlight here is South/Southeast, an improvement of 41.3% in FEC and also 36.8%. In Borborema we had an improvement of 25.2% in DEC and 21.4% in FEC.

So these, all these concessions had -- were within -- they were all within the regulatory limits of FEC. All the concessions are within regulatory limits in terms of FEC now. In relation to DEC, only Mato Grosso and Tocantins are above the regulatory limits. In these two concessions we are taking more operational actions to change this DEC situation.

Going on to slide number 10, here we have financial results. On June 28, 2017 we received the Abradee Award, which is a reference in the electrical sector choosing the best distribution companies per region on a national level, and they look at social responsibility, management quality, evaluation by clients and operational management.

Group Energisa won 110 awards in eight categories. Energisa Paraiba was the great winner and has the award Best Distribution Company in Brazil. In the ISQP, for example, satisfaction with perceived quality, Group Energisa won the first place in Brazil. This is calculated based on evaluations made by clients concerning supply of energy, service, information and communication, bill and image. The recognition of Energisa Paraiba as the best distribution company in Brazil and Energisa Mato Grosso do Sul as the best in the North and Midwest regions of Brazil, we are -- we have the first place in ISQP and our commitment with our clients is to have a long-term vision and this is what really guides us.

Slide number 11, we are here analyzing consolidated PMSO. We had here a drop of 0.5% during the quarter representing a reduction of BRL2 million. If we consider and the inflation in the last 12 months, the drop was 3%. We have a drop of 3.4% for an amount of BRL16 million.

On slide number 13, here we have the Shared Service Center. One of our initiatives to reduce costs, it began on April 3, 2017, the Shared Services Center and here we divided everything in phases.

First, we integrated human resources activities, then input, supplies, accounting, finance and telecom. In the second wave we will unify the services of information technology and in 2018 we will unify the billing system. The Shared Services Center will concentrate all the administrative activities different areas of the company, will execute the work with alignment and everything will be centralized. While the corporate areas will be focused on

strategic topics. So from now onwards we will capture more additional synergies when the group makes acquisitions in growth.

On the next slide, number 13, we have the graph that explains the evolution of EBITDA, consolidated EBITDA during the quarter. In the graph, we have a robust growth between adjusted EBITDA of Q2 '17 in comparison with Q2 '16. We had an increase of 58 million. Explaining this in more detail we had an improvement of 155 million, 19.3% more in installment two of the distribution companies, these who went through the fourth readjustment of tariffs. Tocantins, another 47.3 million, South/Southeast, an extra 35.2 million and Minas Gerais with an extra BRL16.2 million due to tariff increases.

Individually the distribution companies that had reduction in EBITDA we'd like to highlight Mato Grosso do Sul which was affected by accruals, another BRL16 million and also as a result of financial risks during the process in progress in the distribution company. Energisa Mato Grosso accruals or provisions as a result of write-offs, roughly BRL17 [ph] million preparing us for the closing, which will happen on October 17. And in the case of Sergipe we had also adjustments in the pension fund and more movement of personnel in the distribution company. And this cost us another 330,000 in indemnity costs.

Here on the right, just considering the non-recurring effects in the quarter that is, cost with labor, labor costs and labor card [ph] cost and updating VNR. We had a growth of 18% in adjusted EBITDA, when we compare the first two quarters.

Now going on to slide number 14, here we will talk about profit. The net profits BRL 75 million and it had an impact due to the points explained in EBITDA and improvements in financial results.

Slide number 15, now talking about debt. The net debt went from BRL6.1 billion in March 2017 to BRL6.3 billion in June. A small increase influenced by the increase in CVA, passive CVA. And these amounts include sectorial credits. Between payments of debt during the quarter, I'd like to mention the prepayment of loans from Eletrobras concerning resources for the global reserve, reversal RGR and the balance was 247.8 million, in the following distribution companies: Mata Grosso, 219.7 million; South -- Mato Grosso do Sul, 24.7; Sergipe, 1.9 million; South/Southeast 1.5 million.

Also it's important to stress that we finished -- we sourced 374.9 million in debentures of infrastructure as we mention on the next slide.

Slide 16, we issued debentures in two series, an excellent issuance of debentures with single amortization at the maturity date five years, the first five years, the second seven years. Due to the size of the investments through the holding company, we issued private debentures and these resources are then sent to each distribution company, according to the slide. In this case six distribution companies of the group, will receive the benefit.

So in this first debenture we will finance projects for distribution lines, high tension distribution lines and substations, and as the Government Ministry of Energy required [ph]. And we have a new law which now allows the process of approval of projects with

investments, thus facilitating the issuance of debentures for the distribution company. I would like to highlight, in yesterday's council meeting, we approved the issuing of 300 million in debentures for Mato Grosso do Sul aiming at substituting existing debts that are more expensive.

On slide 17, on the graph on the right, we see an increase of 47.4% in investments in the distribution companies during the semester totaling BRL1.1 billion. Most of these investments in electrical assets happened in the concessions that are going through the fourth cycle of tariff review, Mato Grosso, 117.3 million and Mato Grosso do Sul, 149.2 million and Sergipe 19.7 million.

We had investments through Obrigacao Especial totaling 255.8 million of which, triggered an 18.1 million were in Energisa Mato Grosso do Sul in the State of Mato Grosso and in the State of Mato Grosso do Sul, 184.5 million. These investments are linked to the inclusion of networks based on resolution ANEEL -- and this became -- this expired in June 2017. These assets generated important special obligations, as we call them. They are networks made by third parties, which are 100% depreciated with no impact on net remuneration and they will be including we will receive them without any cost for the distribution company. It is important to include these assets. We will operate them formally and they will be considered for the definition of cost by the regulation agency.

On slide 18, here we have a comparison of regulatory EBITDA and actual EBITDA reported in the last 12 months without non-recurring effects. So in the consolidated -- the Group above, we have 34% especially as a result of management and also Phase II of the distribution company. We have an improvement in societary [ph] EBITDA as compared to regulatory EBITDA. In July 2016, we had a tariff review. It is the periodic. This was done in the State of Tocantins. And on July 27, 2017, the compensation base in the State of Tocantins was certified in a final way recognizing an increase of 44.3 million in the compensation base. And 9.1 million in the net compensation to our company.

At prices of June 2016, this recognition shows, the management of assets and control of equity implemented by Energisa Group after the acquisition of the shareholder control of Energisa Tocantins. You can see on the slide that Energisa Tocantins is the first in the ranking in evolution, in BRR. This happened in the third and fourth cycle with a growth of 72%.

Also we reported the number -- preliminary numbers for the tariff review of Energisa Paraiba. We have the third and fourth cycle of tariff reviews, a growth of 22%. In relation to part B, there was a growth of 9.3% and the main increase in the regulatory EBITDA, EBITDA added 34 million to Phase B. These amounts are preliminary. The final numbers of the review will be known on the 15th or 22nd of August.

On slide number 20, we have a summary of our participation in the last auction for transmission. Here we won two lots -- lot 3 and 26. Internally, we put together an executive team with a lot of experience in the sector. Among the activities already finalized, we have the creation of the SPEs -- we have -- we created Energisa Goias for

the State of Goias, Energisa Para for the State of Para and we're preparing the basic project. It's in progress.

And also studies for environmental licensing.

On August 11th we will sign the contracts for the concessions. So we'd like to conclude the comments and now we can begin the Q&A session.

## Questions And Answers

### Operator

Thank you. We'd like to begin now the Q&A session. (Operator Instructions). Ms. Carolina Carneiro would like to ask a question.

#### Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good afternoon. Thank you for the call. I have two questions. The first concerns regulatory issues. We're hoping for the second semester of this year, 2017, that the regulating agency will give guidance concerning some issues for distribution companies that will have reviews -- I believe you have important distribution companies that will have a review next year. And recently this definition for transmission or -- for transmission were higher than those for distribution. So I'd like to know if you have any expectation or forecast for this discussion of updating tariffs.

And the second question, could you give us more details about possible gains by implementing the second and third wave of the shared services centers that you mentioned on slide 12, what can we expect in terms of PMSO, cost reductions and other alliance, gains in productivity and tax credits, what can we expect? Thank you.

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

Okay. Alexandre, could you answer the first question please?

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

Okay. Carolina, good afternoon. Concerning the regulatory work, we are always with the regulating agency to make these adjustments to reflect this trend. But conversations are still in the preliminary phase, but they are willing to discuss this.

#### Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Thank you.

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

Well, Carolina, concerning your second question, we're not supporting any guidance, but I can tell you that, we are maintaining our discipline in PMSO. The Shared Services Center aims at trying to bring improvements in process, more speed and some cost reductions

and these are the reasons for the Shared Services Center. We have improvements in the tax part, the Shared Services Center is for the holding that we have tax credits still. So we have therefore a better tax allocation based on the billing. So, substantial tax reduction associated with the Shared Services Center.

## Operator

Mr. (inaudible) would like to ask a question.

## A - Unidentified Participant

Good afternoon. Thank you for the opportunity. The strategy of the company with the privatization of distribution companies of Eletrobras. So what is your interest in participating in the next auctions, next year too?

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

(inaudible). We're always looking at the opportunities in the market. It will depend on the opportunities. We have an internal discipline to look at all the details. And also we analyze the impact, also technical impacts. So we try to analyze all of this. And obviously, the financial discipline too. We analyze all these points.

## A - Unidentified Participant

Thank you.

## Operator

(Operator Instructions). We'd like to close the Q&A session. Now I'd like to pass the floor to Mr. Mauricio for his final comments. Mr. Mauricio, please proceed.

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

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

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

Good afternoon. Concerning the final comments, we continue with consistent deliveries. Our focus has been in the execution and delivery of our commitments. When we acquired the Group our operational expenses continued to drop inspite of inflation during the period. We have plans and measures to improve quality, especially in the State of Tocantins and reinforcement in collections in the main concessions.

Investments continue to focused on expansion and reinforcing the electrical network with the basis that we are closing some of these projects for Energisa Mato Grosso, Energisa Mato Grosso do Sul and Sergipe.

The recent issuance of debentures for infrastructure are an important event, and we continue with our greater commitment to be one of the largest and most respected in



the sector of electrical energy. Thank you. Good afternoon.

## Operator

Thank you. So this concludes our conference call. Please disconnect and have a good day.

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