

## Q2 2017 Earnings Call

### Company Participants

- Eduardo Haiama, CFO, IR Officer & Member of the Executive Board

### Other Participants

- Andre Sampaio, Research Analyst
- Marcelo SÃi, Associate Director and Analyst
- Maria Carolina Carneiro, Head of Utilities
- Vitor Sousa, Research Analyst

### Presentation

#### Operator

Good afternoon, everyone. And thank you for waiting. Welcome to Equatorial Energia S.A. Second Quarter of 2017 Results Conference Call. With us here today, we have Mr. Eduardo Haiama, Chief Financial and Investor Relations Officer. This event is being recorded. (Operator Instructions) This event is also being broadcast live via webcast and may be accessed through Equatorial Energia S.A. website at [www.equatorialenergia.com.br](http://www.equatorialenergia.com.br) and MZiQ platform, [www.mziq.com](http://www.mziq.com), where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions in our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Equatorial Energia S.A. management and on information currently available to the company. They involve risks and uncertainties because they relate to future events. And therefore, depend on circumstances that may or may not occur. Investors and analysts should understand the conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Eduardo Haiama. Mr. Haiama, you may begin your presentation.

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

Good morning, everyone. First of all, I would like to thank you all for joining on our Second Quarter conference call. As for the agenda for today, I'll start the conference call

describing the highlights of this quarter. Then I'll comment on operating financial results. And finally, we will open the Q&A session.

As for the highlights for the quarter, Slide 3. Adjusted EBITDA reached BRL 429 million, with CELPA reaching the regulatory target for energy losses. Our billed volume in Equatorial amounted to 3,600 gigawatt hour, representing a 3% contraction in CEMAR and 1.9% growth in CELPA year-on-year. Despite economical recession in Brazil, we were successfully continuing to reduce the loss within CELPA. By the end of the Second Quarter, total losses amounted to 26.8%, a drop of 0.7percentage points compared to the same -- in First Quarter of '17. And in CEMAR, total energy losses closed the quarter at 18.6% or 0.4percentage points above First Quarter '17.

Starting First Quarter '17, we started to accrue financial asset update on operating revenues and in the financial results, thus impacting net revenue and EBITDA. For comparison purpose, First Quarter figures -- Second Quarter figures are also adjusted accordingly.

Adjusted EBITDA reached BRL 429 million or 12% increase over Second Quarter '16. Disregarding the adjustment made in the financial asset update, adjusted EBITDA would have a record BRL 419 million or 30% increase from last year.

Finally, from April transmission auction, Equatorial has already signed its concession contracts. Regarding the October's auction, we have already delivered the environmental study for Lot 23, located in Para ba state.

Moving on to Slide 5. Energy sales were off 3% at CEMAR, mainly due to the economic recession, lower temperature that continue to impact demand.

On Slide 6, on the other hand, CELPA demand grew by 1.9% despite the same impacts of lower temperature and economic recession. But this growth was mainly coming from curbing energy losses that we'll see on Slide 8.

On Slide 7, we can see an increase in CEMAR energy losses, total losses in the quarter of 18.6% and nontechnical losses of 13.6%. And both index continue to remain below regulatory target levels of 19.7% and 15.1%, respectively. After the heavy rains that impacted CEMAR's quality indicators in the quarter -- in the First Quarter, that, in fact, the index continued to improve, reaching 14.7 hours and 7.6x, respectively.

Moving on to Slide 8. CELPA's energy losses for the quarter was 26.8%, a drop of 0.7percentage points compared to First Quarter. And nontechnical losses dropped to 34% versus 35.7% in the First Quarter. (inaudible) CELPA reached their regulatory target for energy losses.

Given the weak demand in the first half due to the weather issues, we are currently evaluating how we'll also consider impacted losses next year. So we do expect some

volatility in energy losses in the second half of '17, when the weather should not be a potential variable (explanation).

Quality indicators continued to show improvement and continued to be below regulatory targets, both for (inaudible) indicators.

Moving on to Slide 10. As I have mentioned before, starting last quarter, we are accruing financial asset updates in the operating line, thus impact in net revenue and EBITDA. Hence, adjusted EBITDA reached BRL 209 million versus BRL 176 million of Second Quarter last year. Had we not changed the accounting financial asset update, adjusted EBITDA would have reached BRL 203 million versus BRL 151 million in the Second Quarter '16. As for net income, adjusted net income reached BRL 113 million versus BRL 101 million reported in the Second Quarter of last year.

On Slide 11. CELPA's adjusted EBITDA reached BRL 218 million in the quarter or 4.9% increase year-on-year. The nonrecurring events that were adjusted in the EBITDA calculations are BRL 15 million (was related project expense) without the corresponding (CPA) approved, BRL 13 million in mismatch in the report of initial PIS/COFINS tax and BRL 3 million in pension expense from previous years.

As for the adjusted net income, it amounted to BRL 61 million versus BRL 102 million in the quarter -- in the Second Quarter of '16.

On Slide 12, we show consolidated figures for Equatorial constitute the same nonrecurring impacts that I mentioned before. Consolidated EBITDA amounted to BRL 429 million or 12% growth year-on-year. While net income amounted to BRL 154 million versus BRL 180 million in the Second Quarter of last year. Without the change in the accrual of financial asset update for our financial operating line, adjusted EBITDA would have reached BRL 419 million, or 30% increase from last year.

On Slide 13, we present the debt amortization schedule and the leverage for the company. Considering (inaudible) in CEMAR and CELPA, consolidated net debt to EBITDA ratio fell to 1.7x from 1.8x of First Quarter, represent BRL 2.7 billion of net debt. Important to mention that the group ended the quarter with more than BRL 2.5 billion in cash position. That's more than enough to cover debt maturity over the next two years.

Moving on to Slide 15, regarding our transmission business. These figures highlight the company's (anticipated) market trends and roughly (inaudible) trends. There's 2 auctions held in October and April. We were able to secure the (inaudible) construction operation of 8 different transmission lots, amounting to approximately BRL 850 million in annual revenues with a total estimated CapEx by ANEEL being BRL 4.5 billion, BRL 4.6 billion, representing more than 2,500 kilometers of (bridge).

On Slide 16, we give you a bid update on the transmission lines. As you can see, all the lots acquired in October's auction have already signed the concession contract. And even the ones that we won in April, we have already signed.

On top of that, for all the lines, we have already started the study of the environmental license. And in the case of Lot 23, we have even concluded and already delivered to the environmental agents. All these lots, except for Lot 15, they have all obtained the right of way. And as for Lot 31 that we just signed the concession on, we also bring out an effort to get it soon.

Finally, I believe like we definitely can start the Q&A session. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Mr. Marcelo SÃ; from UBS.

### Q - Marcelo SÃ;

I had 2 questions. The first question is I'd like to listen a little bit better, if you can comment on your expectation for energy demand in CELPA and CEMAR for the second semester, if you guys are expecting demand to go up. And the other question is regarding energy losses in CEMAR. I'd like to understand now that the tariff in SAIDI has concluded, if you guys expect that the trend is going to change and we're going to see some reduction in energy losses in CEMAR going forward?

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

Thank you, Marcelo. Regarding the demand for the second half, given that the issue of weather is not that -- is variable, we do expect some growth, such that you see what -- we have been increasing the number of customers every single quarter. And the department as a whole is somehow starting to grow. So we do expect to see some growth. It's hard to say if it's going to be a robust one, (inaudible) roughly more towards the end of the year. But we are optimistic regarding bolstered demand going forward. As for loss at CEMAR, we have revised our study like end of last year and this year. And showed exactly how we can continue to reduce loss in results, having our (inaudible) issue. And basically, (inaudible) show like there are some tools that we use very effective regarding loss reductions at some of these cities and the capital of MaranhÃ;o state that we haven't been used in the countryside. So we have been deploying since starting end of last year, early this year, these tools. And we do expect to collect the benefits of this implementation that I've been doing over the months. Probably, I feel like that's towards like end of this year, next year. Then we're going to have a much tighter control of losses in general. So through regulatory -- an update that we believe they're going to be stable, without having to increase our operating costs. That's the guidance I can provide to you right now.

### Operator

Our next question comes from Mr. Andre Sampaio from Santander.

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

I just wanted to ask a question on the solutions division. We have been seeing the personnel costs increasing. I want to know, what do you expect to have from personnel costs for the year and on a normalized basis?

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

Andres, thank you for the call. Thank you for the questions. Regarding the personnel costs or operating costs in general?

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

Yes. My question was on personnel costs. But if you can comment on overall costs as well, it would be good.

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

Yes. You can see in terms of personnel costs, we have been flat both at CEMAR. And in case of CELPA, we have been decreasing. That's why unless if you're talking about the third-party service, it definitely bridged up, right, especially in CELPA and (inaudible). And what happened especially regarding third-party service, like we said in First Quarter, since we saw that there was a lag in terms of some gaps, in terms of people industry to combat delinquency and also to improve our loss reduction, we have increased our operating costs. So third-party cost was -- is in personnel. So there are -- we would be able to collect all the receivables that we have billed in the past, right? And because of the limitation of the new commercial season, we were not able to do it efficiently. That's why we increased the costs. And what we said before is like once we believe this situation normalized in terms of collection, we do expect some decrease in part of this cost due to -- given also in the amortization of the collection but also given that the economy we do -- expecting to grow. We do expect also a lower demand from the commercial side, specifically because, I think, in personnel, we have to make sure to keep it very tight in this part.

**Operator**

Our next question comes from Mr. Vitor Sousa from Brasil Plural.

**Q - Vitor Sousa**

I have a question regarding the CEMAR provisions that -- CEMAR provisions (inaudible) dropped quarter-over-quarter basis and -- but also on year-over-year basis. My question is what can we expect for the next quarter? Because this quarter seems to be at really low levels versus the historical level. So what can we expect for the next questions -- for the next quarters?

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

Thank you, Vitor. Regarding provision in CEMAR, in the First Quarter, we said like the decrease in what the (negatives and price) for us, right, we believe are like -- given the changes that we promoted in terms of the commercial department for CELPA and CEMAR, it was all in our internal issue (inaudible) for having the delinquency, (went up) from 1.7% that we ended 2016 should close to 3% in the First Quarter of '17. And our

FINAL

expectation in the Second Quarter, what it would do is like given that we put a lot of focus on improving that, we would try to recover this (inaudible) we had in the First Quarter. So that's exactly what happened, right? There was a lot of factors. But we're going to recover this unpaid dues, right, in the first half, in the First Quarter, in the Second Quarter. And that's why you have some kind of (inaudible). But looking forward, let's say, on a normalized base, we do expect that delinquency rate at CEMAR should be around like 1.5%, 1.6% for (inaudible). As for (contingence) I feel it fluctuates a lot. It depends on the quarter specifically. But if you say in terms of the semester. So first semester 2017 to first semester '16, I feel like it's actually not changing much. So we don't see the (inaudible) that we had in the Second Quarter '17 to be recurring, obviously like more like a normalized in the semester going forward, maybe a little bit lag in that. But it's not going to be too far away.

## Operator

Our next question comes from Ms. Maria Carolina Carneiro from Santander.

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

I want to ask about the appetite for growth that the company have right now. We have a potential disposal of distribution assets the second semester. Some big company is trying to sell distribution assets, maybe Electrobras moving with privatization process. And also we have the auction for transmission segment and auctions also for duration segment. So I would like to have your view on what's priority right now for Equatorial? And what would be the potential firepower that you see in case some of these opportunities actually are attractive for the group?

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

Thanks, Maria. Regarding growth, specifically, we (inaudible) we believe like the risk-return ratio for M&A or even for greenfield, specifically, if you really, like, are patient to analyze and go off and do one that you believe like have the most -- we feel like have very good risk-return profile, that's (inaudible) we saw that the risk return was (accounted by), was more like (4 to 7). So in a sense, yes, we are interested in opportunity like, new opportunities. And we have in the second (inaudible) distributions (inaudible) for us. I believe we do have a differentiation in terms of turning around, in terms of improving distribution. So that should be our, let's say, priority. And thus analyzing assets. As for transmission, after the many lots that we won in the first -- in the auction in October and in April, I would say like we will analyze. Although I would say like we'll be more selective in terms of greenfield. But if there's opportunity in brownfield, yes, I'd say like we will analyze it because, I would say like the assets that we won in the auction in October and in April, we can say that we are like one of the big players in transmission in Brazil. So transmission became for us a core in terms of analyzing opportunities, As for generation, I can say like we would be interested. I would say like comparing distribution and transmission, for us, analyze generation, you need to be something different, right? Because other than that, we prefer to increase the areas where we are in, right? But as we saw in the past, there are some opportunities that are very good in the past in terms of generation. So if this opportunity arise again, yes, we're definitely going to see us there not necessarily bidding. But definitely going to see us there as an (institute), taking time to turn this in -- the economics and the kind of risk-return profile that we might see.

## Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Eduardo Haiama to proceed with his closing remarks. Please go ahead, sir.

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

To sum up, we would like to reinforce our commitment in delivering our differentiated appreciation to our shareholders for such an (operational) operating results. We also would like to highlight our biggest -- the highest level of transparency in corporate governance and reassure that both me and our Investor Relations team are available should you have any further questions. Thank you, all again for taking part in our Second Quarter conference call. And have a good day.

## Operator

That does conclude Equatorial Energia S.A. conference call for today. Thank you very much for your participation. And have a nice day.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript