

## Q1 2018 Earnings Call

### Company Participants

- Henrique Freire, Chief Financial Officer
- Miguel Setas, CEO and Investor Relations Officer
- Unidentified Speaker

### Other Participants

- Analyst
- Bruno Pascon, Analyst
- Marcelo Sa, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good afternoon and welcome to the Conference Call of EDP Energias do Brasil to discuss the Earnings of the First Quarter 2018. Right now, all participants are in listen-only mode. Later on, we are going to start the Q&A session when further instructions will be provided. (Operator Instructions) This presentation, together with the slides will be simultaneously webcast on the company's website, [www.edp.com.br/ir](http://www.edp.com.br/ir). In there, you will also be able to find the company's earnings release.

Before moving on, EDP Energias do Brasil would like to let you know that any statements made during this conference call relative to the company's business outlook as well as projections, operating and financial goals relative to its potential growth are based on forecast based on the company's expectations with regard to the future of EDP Energias do Brasil. Forward-looking statements depend on the country's economic scenario, performance and regulation of the energy business in addition to other variables, and therefore, are subject to changes.

Now, we'll turn the call to Mr. Miguel Setas, CEO and Investor Relations Officer for EDP Energias do Brasil. Please, Mr. Setas, you may go on.

#### Miguel Setas

Good morning, everyone. I would like to start by welcoming you for our call of the first quarter 2018. I am here with Henrique Freire and other directors of EDP, first to make the presentation and then answer your questions.

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This is a quarter that we believe was very positive with solid results consistent to our evolution in recent years. And I would like to start by emphasizing the delivery of results. So, we are going to start on page three of our presentation and I would like to highlight in a summarized manner that deliveries of the last -- the latest cycle of management of the company.

And basically we have six main pillars here. The first pillar that we highlight in this phase is execution excellence and here we have a clear focus on the delivery of our hydroelectric plants that were in construction, most particularly the one that is now in full operation in the first quarter of 2018, that is Sao Manoel.

In addition to that, what we believe is the performance similar to generation, back in the area of transmission. And you're going to see in our presentation, we already have clear signs that we are going to follow along the same lines in terms of deliveries as we did in generations. We have these five projects in transmission and we are going to take a look at them further on.

Then it is our portfolio the second pillar. And here, we would like to highlight some acquisitions that we had, most particularly the acquisition of Celesc, also Eficiencia Energetica and investments with the sale of Pantanal Energetica and our share in EDP Renovaveis -- Renewables, and also new businesses. We had a relevant start in the business of transmission and also an expansions, both organic and inorganic, in the business of distribution.

The third point that I would like to approach is operational efficiency. And here talk about the quality of our services, losses, cost control and also our shared services operation that contributes to the efficiency of the company as a whole.

The fourth pillar of our delivery is risk control. All this growth, all this efficiency comes along with an associated controlled risk and risks here mean credit risks, energetic risks and financial risks.

The fifth pillar is Pecem operation. As you know this was a plant that in the beginning of its operation had some challenges to stabilize. And we see that along the year, specifically the last two, three years, its operations are completely stable, particularly in the first quarter of '18, we had availability close to 208%, which is a very, very relevant present.

And finally, the last pillar, is corporate governance. We had significant advances there, particularly in the representation of our independent members, the implementation of our new compliance program. But it's truth that make us believe that we have a very solid and outstanding governance in the industry.

And this is the background for the beginning of this new growth cycle for the company. Delivery that is second to none in all of the areas in which we focus on. And this is the background that explain the results of this quarter.

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So, on page four, I'm going to give you some operational highlights. They are already in the release. I am not going to waste too much time in them. But very briefly, as I mentioned, availability close to 98%. Sao Manoel is ahead of schedule, four months ahead of schedule. The last machine one month before regulatory timeline. With that we are able to generate BRL94 million additional revenue that was not in the business plan of this product in the bid.

The continuity of our strategy to manage energy risks, today we are continuing with this strategy that has been protecting our operations for the GFF and spot price effect. Today we have a hedge that is quite significant. And in distribution if -- we have growth of 2.3% in the quarter. I would like to remind you that it is the third quarter in the row that we have market growth in distribution, which already signalizes a recovery after the years of '15, '16, in which we really have the impact of the economic crisis in those areas.

So, in distribution the completion of Celesc, we reached a level of 19.6% of Celesc capital stock, which enables us to appoint three members out of 11 of the Board of Directors, and which we are doing. We are going to see that further on this appointments was already completed. And Celesc's governance already has EDP's representation in its Board.

Then total losses, we are going to see numbers further on, but again we continue to reduce our losses, fighting delinquency. Again, we had a reduction of our delinquency levels. In commercialization, an increase of 30% of the energy traded, a record quarter in terms of economic results. And in transmission, as I mentioned, the beginning our construction work ahead of schedule.

So now we are going to page five, and here we highlight the plans of Sao Manoel that is fully operational already. The first unit -- generating unit is four months ahead of schedule. And this advance of schedule resulted in 94 million, and also we de-contracted 30% of the assured energy of this plant, which enabled us to improve the average price of this project.

So we are very pleased with the final results of this project. And remember most of the generation projects in Brazil, as you know, are according to ANEEL's analysis, 85 of these projects are behind schedule. So, being able to deliver a project in time is already something which should be highlighted and we didn't do this once or twice, but three times and it is a track record that we are going to take to transmission.

And on the next page you'll see this track record. You see the first slot that was auctioned in '86. We already started construction, licensing is finished, we are 17 months ahead of regulatory schedule. And this is in addition to the months of construction already leads to seven months before we had the auction and we expect we are going to be 17-months ahead. So, we were thinking of August 2020 and we are now thinking of the beginning of 2019. So, this is what we intend to do also in the Santa Catarina, Sao Paulo, Minas and Maranhao lines.

So, you see on the slide, some advances that we are having in Santa Catarina, we have already EIA-RIMA, that is the environmental impact study. And in some of the regions, we

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have already some of the licensing completed and therefore, the beginning of this cycle of expansion already shows our strategy to advance this work.

On the next page, I have a quick word on Celesc. As I mentioned, we completed the second phase of acquisition of the stock. Today, we have a 19.6% of the total capital stock of this distributor, with investments close to BRL300 million. I'd like to remind you that this acquisition was done with (inaudible) below 1, that is conditions that we found very appealing in terms of the attractiveness of this investment. And now we are starting to participate in the company management by means of an appointment of three out of 11 members in the Board of Directors of the company. Our members is, Jose Luiz Alqueresis, Luiz Otavio, and Mr. Itkes. They are part of the Board and today, it is the first meeting in which our appointed members are attending.

And therefore, this is the first phase and we are also going to appoint one officer for the management board of Celesc. This is the (inaudible) that we are agreeing to appoint, and we are also going to have someone in the tax audit committee of the distributor. So, it is just the beginning of a partnership and along the coming months the idea is for us to give you clear indications of our strategy to take part in the company management.

With that, I close my first part of the presentation. I'm going to turn the call to Henrique and I'll come back in the end.

## **Henrique Freire** {BIO 19117781 <GO>}

Good afternoon, everyone. I would like you to go to slide number eight and I'm going to talk about the financial highlights of the quarter. This is another quarter with solid results, solid delivery. And in the net income, we are 58% above the Q1 '17, with all other lines positive. EBITDA 20% above the first quarter '17, by means of our cost controls that are quite strict with PMTO, that is minus 5.1%. Pecem is a highlight. We have a record level with 44.4 million in net income. And in commercialization again an excellent and solid quarter being an essential pawn in managing the risk of the Group.

Going to slide number nine, I talk about the commitment to cost control. Remember that since 2015 we implemented our zero base budget. We had more than 150 initiatives in the period with accumulated gains of more than 200 million. Also, we worked with productivity of personnel, we revealed many good processes and we worked with cost control and being more efficient in the control of our costs that was very clear in this quarter.

And if you take a look at personnel, despite the 2.7% increase in the collective bargaining, we have an nominal decrease of this account. Again with strict control of extra hours and our programs to up incentives till retirement, so that we can renew our personnel panel. And we see a reduction in payroll. For material services and others, we had again a positive result, with growth below the period's inflation and also in terms of average, we were 5.1% below inflation. So this is the result of a very hard work that started again in 2015, with the implementation of the zero base budget. And we have seen evolution quarter-on-quarter.

Going to slide number 10, we some indication on our debt. In this quarter we had an issuance of 335 million some would be BNDES. In distribution we had a program with the BNDES and also we had emissions of 200 million in a strategy to recycle and lower the cost of our debt for older debt with emissions with 180% of the CDI. We also have a strategy with the holding and the idea is to reduce the level of our indebtedness. And if you take a look at seeing the timeline, what happened from 2015 to today.

On the slide 11, we have the comparison of our corporate EBITDA and the regulatory EBITDA in our distribution. You can say that in both distribution companies we are above the regulatory EBITDA. The focus -- talking about the market Miguel mentioned, we have a positive evolution of the markets for the third quarter in a row. This is helped by the industrial segment with growth of 3.6%, and it's been something because of a lot of reasons, we had slightly greater by increase up 0.4%.

Now, talking about losses, we believe that this is something that we have to focus on, but in two distributors we had a regulatory gap of 10 million. Remember that in the whole of 2017 was 68 million. So we are reducing this and in this quarter we reached 10 million. In the next slide you have a bit more detail on this.

And in terms of OpEx we had a gain in the distributors of 16 million. And PDD, as you know, we have a new norm in IFRS. In distribution, it is transmission that impacts distribution. We have a concept of PDD for an estimated loss of net credit. And basically, we have a gap of 10 million. And if you take a look at in the EDP Sao Paulo, we reached 0.8% of gross revenue. Remember that we had readjustments in October last year of 24%, so in terms of impact PDD has an impact of the first quarter. So in terms of percentage it is below 11%. And remember that for the year of '17, we had it higher. So PDD in the quarter-to-quarter is generally higher. This is a paramount consumption of the Brazilian market. So in the first quarter, there is a traditional increase of this line. But still with the two distributors, we were below 1%.

Going to slide number 12, we talk about CapEx and also the reduction of licensing distribution. You see that in this quarter, our CapEx was 104 million compared to 140 last year. It was according to our strategy because the works that we have in progress and their implementation. Remember that our commitment for this year is to complete the year of '18 with investments in distribution of 630 million, above the 568 of 2017.

What we can observe in terms of non-technical losses, there is I'm talking about the low voltage energy in EDP Sao Paul were below the target, with 894 vis-a-vis '19. And in Espirito Santos this gap is 0.4%, it was much higher in the past as you know. We are still penalized by technical losses. It was a higher target. But we see that this gap is going down 0.8% in EDP Sao Paulo and 1 percentage in EDP Espirito Santos.

Talking on slide number 13, about Pecem. We had our results that was anchored in exceptional performance in this quarter. We reached availability of 98%, so we improved the whole cycle. And what impacts our margin positively is that we had a reduction in what we call coal logistics costs. We will have the anchoring of the vessels and land transportation and here we were able to have a reduction year-on-year of minus BRL13

million for this cost. On the other hand, the plant is more efficient, the energy efficiency is better and therefore we had better margins. So here again we had historical growth of 40 million in this quarter.

On slide, 14 we talked about managing the hydrological works. As you know, in this quarter, we had a GSFF at 102%, so we had generation of secondary energy and a natural hedge. Basically, what we had was 110 and 155 of the GSF. But we know that this is effect results from a strategy in the market that is seasonal and we believe that this is going to be impacted in the second quarter of the year.

We are going to have a scenario not different to 2017, with higher spot prices and GSF below 1. So, we continue with our hedge strategy, we have what we call the additional hedge and natural hedge with 16% of our portfolio, which enables us to face the next question quarter with some comfort. In this quarter we had the impact of GSF in spot prices.

And then, we see that our hedge strategy basically contributes for a neutral impact in this result. So it was neutral, but it was not negative and we believe this is going to have a high impact, especially in the second half of the year.

On slide 15, we highlight commercialization and services. Remember we had high volatility in this quarter with an increase of 30% growth in traded volumes. And we also show our long-term strategy. We continue to sign contracts with parties for the periods of '18 to '21 on average of 1,200 megawatts.

As for results, we had growth in EBITDA of almost 60% commercialization year-on-year. Remember that in '17, we had EBITDA of 151 million with historical results, but we continue to have a very positive trend.

Talking a bit of services in the bottom left -- right chart. We have a gross margin that is 34% above that of last year, focusing on energy projects.

And now, I'm going to turn the call back to Miguel for his final words.

## **Miguel Setas**

Thank you, Henrique. Just to close and then to open for Q&A, I would like to tell you that right now, we are preparing our strategic plan for the new '18 to '22 cycle. Then obviously, this is the right time we are going to communicate that to the market, but I would like to give us some color in our strategic plan.

We have six -- key three pillars that are going to be monitored in our operation. And these have along the years guaranteed our results. Three pillars -- we have profitable growth and here we talk about the expansion of our transmission business, expansion of our investments in distribution both organically in our distributors, and inorganic as it was in

the case of the expansion to Santa Catarina; the expansion of energy and solar services and we relevant investments there.

All that supported by a rational of optimizing our costs further, and recycling our capital in view of investments in businesses with appealing attractiveness, and also ensuring a strict and firm discipline in capital allocation. So this is in growth.

In efficiency, I think the consistency of results that we have been showing in cost reduction show a -- the consequence of us focusing on enhanced efficiency. The result of the zero base budget in a systematic way. We already entering the third cycle of this exercise which result, as Henrique showed, quite consistent. Also the optimization of our capital structure, especially leveraging the holding.

And in closing now our capital structure and our financing costs. And finally, one word about digitalization, which is something we have been hearing in recent months. We were identified by Gartner as a case in world reference called the Robotization of Processes the Utility Segment. And this is an area in which we want to continue to invest and we have to continue expanding our digitalization agenda.

And now controlled risk. We have hydrological risks, we have delinquency risks, and financial risks. And all that as associated to our capital structure and our leverage. So basically, the chart that you can see on page 16, is something that you are already familiar with. We already presented that before. We have to update now according to new cycle '18 to '22.

Basically this is growth that is already contracted, both in transmission, distribution and it will enable us to diversify our value chain even further. Today, we are concentrated in four segments and we are going to have the diversification to six segments in our value chain with contracted growth, with CAGR of double digits for the next year.

And therefore, this is the rational that we are following. A consistent delivery of results, with growth already identified, contracted and with risk efficiencies that are really outstanding.

With that, I'm going to close and we are going to open for questions and answers.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now start with the Q&A session. (Operator Instructions). The first question comes from Andreia Sampaio [ph] from Santander.

### Q - Unidentified Participant

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Good morning, everyone. I have two questions. The first is the next transmission option and what are your expectations in terms of competition, and if you are interested in any specific line? And the second would be the program, the downtime in per se, how much CapEx are you expecting to use?

Andreia, thanks for your questions. As for the transmission auction, I think that the last auction signaled the competitive environment in which we are prevailing. So we expect that this auction should be equally competitive. The competitive environment has been intensifying in recent auctions. And we are studying some lines of this auction. And then you will understand because of competitive reasons, I would rather not say which lines, but we are looking into that, whether we are going to take part. We believe that the competitive -- the competition is going to be fierce. We are not going to do away profitability levels.

So as we did in previous auctions, we are going to preserve and privilege our profitability. And last year, we took part in two lines and we were not awarded because we believe that because of the competition the profitability was not appealing to us. And this is the same that is going to happen for the next auction.

As for the program maintenance to per se, I'm going to let Henrique answer your question for CapEx numbers.

**A - Henrique Freire** {BIO 19117781 <GO>}

We are going to have an investment of approximately BRL1 million, and this is expected to happen in the second half of the year.

**Q - Unidentified Participant**

Okay. Thank you. About the same then the idea is to keep this level of percent for the maintenance (inaudible) and that you have in the next five years, do you expect it to go down?

**A - Unidentified Speaker**

Yes. We have to think of all the components that are necessary, but this matter of investment especially in the main downtime, are going to be at this level of currency as amount.

**Q - Analyst**

Okay, thank you.

**Operator**

Next question comes from UBS from Marcelo Sa.

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



Hello, everyone. Thanks for the call. I have two questions about this slide number 11, where you showed the comparison of corporate EBITDA and regulatory EBITDA. As with Sao Paulo. What would be other revenues? Because most of your efficiency is being explained by these two boxes and I don't exactly understand what they are.

**A - Henrique Freire** {BIO 19117781 <GO>}

I am Henrique here. Those are the revenues quarter-on-quarter. And they had to do with the cancellation of contracts, the purchase of energy and it's something that we captured again. The results is the (inaudible) of energy that is done quarter-on-quarter. And not invoiced energy that has this impact and in this case it's selling tax of approximate 10 million and so there are some small effects that may contribute to that. So they would be non-recurrent, they are not structural.

**Q - Unidentified Participant**

Yes, no it is structured because it has to do the day-to-day management. But we are not going to have the same amount because of this effect.

Okay. So this would be the others and other revenues as a complement of cost, what's that?

**A - Unidentified Speaker**

It is the shared structure, okay it is this percentage that stays with company. Yes. Okay. I got it.

**A - Henrique Freire** {BIO 19117781 <GO>}

And bringing up the revisions about 60%, so other revenues would be recurrent.

**Q - Unidentified Participant**

Okay I got it. And the other question I have is about Pecem. We have 12 million of gains. Now is it something that is recurrent that is part of the business? That is you keep the high availability, you are going to have that, because from I understood, when you have higher availability you reversed cost in the past.

**A - Unidentified Speaker**

But this 12 million is it non-recurrent or recurrent?

Well, as you know we have an average of 16 months. It has to do with the accumulated availability in the period. In 2015, there was a revision of the fiscal guarantee of 600 to 720, and there was some processes in ANEEL that have to do with the availability of this additional energy. So this effect is something that is still being discussed in terms of reimbursement and the remainder still needs to be analyzed in the quarters to come. Therefore, it is something that is the average.

## Q - Unidentified Participant

Okay I understood. Thank you very much.

## Q - Analyst

(Operator Instructions) Our next question comes from Bruno Pascon from Goldman Sachs.

## Q - Bruno Pascon {BIO 16451201 <GO>}

Thanks for taking my call. Good morning. Congratulations on your results. I have a question about capital allocation, you closed a growth cycle that was quiet successive and you have an expected increase in cash. So when we look at cash generation in the coming years, and the price of the stock today, it is a bit lower than what you have been delivered. So in your strategy of capital allocation, are you thinking of increasing the payout of dividends, which you already increased from they IPO to today?

And even thinking of the competitive environment, and your participation in future auctions, inorganic growth, new projects, brownfield ,how do you want to further improve the allocation of capital? For this is gap there actual company amount and the stock prices should be decreased.

## A - Unidentified Speaker

Bruno, thanks for your question. I would try to answer as well as possible. As you know, we already have contracted an investment cycle that is quite ambitious. That is all the investment that is allocated now for transmission we are talking about BRL3 million for the next four years. And it's possible that are other auction developments for these investments to be expensive. So we understand that the company will have capital needs that has to do with it's investment needs, which makes us think. But we are not going to have resources to have a major buyback program. But as you know, we have a long-term incentives by means of the attribution of shares to our top management, our officers in top management and therefore, if there is a buyback program it's going to be focused on this mechanism of retention and incentives to our top managers.

So, we believe that the buyback program is not going to be something that is going to be necessarily right now. But the company has investment commitments that are expressive and can even be extended. When we talk about Celesc for instance and our participation there, that can be also be translated in the developments of new businesses in Santa Catarina. So we are not only focused on the distribution business, we have transmission business, both in the partnership with Celesc, and projects that we can develop locally. So just to give you signs that the company may have growth that will demand allocation of resources that is further what we assume.

And our understanding about this gap that you mentioned, the trading of the stock and the value of the company, just leads us to make consistent deliveries quarter-on-quarter so that this value can be detected. And as you can see in the first quarter, this is the focus of our management. In our business lines, in our variables to deliver the value that is implied in each of our business lines, and this is what we are going to continue to do for the coming years. This is our strategy.

**Q - Bruno Pascon** {BIO 16451201 <GO>}

Okay. Miguel thank you very much.

## Operator

(Operator Instructions) Next question is Marcelo Sa from UBS.

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

We have one more question about Celesc. You had the intention to buy minority shareholders to appoint one more member and in this manner, you will have a veto power in important decisions. You were not able to do that. So what is the strategy looking to the future? And how much does that affect your initial strategy which was indeed having four members and having a veto power in important decisions? Could you give us a bit of information on that?

## A - Miguel Setas

Hi, Marcelo. Thanks for your question. Effectively, we initially had the prospect of being able to get into 33% of the capital stock and we were with approximately 20. And does means that we are going to continue seeking for opportunities to increase the stake. We don't think this is a limiting cover for our participation in company management. As I mentioned, we are going to have a direct participation in the management board of the company which is even beyond our expectations. We are going to have a EDP officer taking part, full time in the company management. We are going to have representation in the tax committee. And these are the committees that are presented to the Board of Directors.

And so we believe that today, the company has multiple instrument for effective participation in the company governance. And obviously if the opportunity happens, together with other shareholders that are part of the corporate structure, we might have points of convergence that will enable the company management to have the best participation of minority shareholders possible. So as you mentioned, we were below our industrial expectation, but we are finding different ways, mainly with other shareholders that are part of the company management to have effective participation that enables us to create value in the company management.

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

Okay. Miguel, thank you very much.

## Operator

Since there are no further questions, EDP's conference call to disclose the earnings of the first quarter 2018 is now closed. Any questions on the webcast are going to be answered by the IR team. We thank you very much for attending and wish you a good afternoon. Thank you.

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