

## Q1 2017 Earnings Call

### Company Participants

- Henrique Freire, Chief Financial Officer
- Miguel Setas, Chief Executive Officer and Investor Relations Officer

### Other Participants

- Carolina Carneiro, Analyst
- Marcelo Brito, Analyst

### Presentation

#### Operator

Good morning. Welcome to the Conference Call of EDP Energias do Brasil to discuss the Earnings of the First Quarter 2017. 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 simultaneous webcast on the company's website, [www.edp.com.br/ri](http://www.edp.com.br/ri). In there, you'll also be able to have the company's earnings release.

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

Now, we're turning the call over to Mr. Miguel Setas, CEO and Investor Relations Officer of EDP Energias do Brasil that will start the call. Please Mr. Setas, you may go on.

#### Miguel Setas

Thank you. Good afternoon, everyone. I would like to get you all my warm welcome to this call, the earnings of the first quarter 2017, and to tell you that I'm here with our CFO, Henrique Freire and other officers and managers of the companies.

I'm going to start referring to the beginning of the presentation, we'll try to have a short call, so that we can be available for your questions for longer. So we are going to start with slide three, and here we highlight that this quarter is a quarter that is so solid in terms of our economic result. And I believe that this result is a consequence of the consolidation

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of a gradual process of the optimization of our operational fronts. And I'm going to highlight some of the results that will illustrate those results.

So in practice that translated into an addition of the 500 million of EBITDA on our recurring base, by recurring base we are excluding that effect of the sale of Pantanal Energy that went up in the first quarter of '17, and also the receiving of the insurance of Pecem of around BRL80 million that also has an impact last year. So if exclude this effect that are certainly non-recurring, we have a normal EBITDA with an increase of 18.1%.

Three operating highlights that are quite relevant; the first in distribution, as you know, we have been highly focusing the convergency of loss curve is closer to the regulatory loss curve. So this quarter once more in a very consistent manner, we were able to get closer to these curves. In Sao Paulo we closed the quarter with 9.60%, which shows a reduction of 0.38 percentage points compared to the previous quarter and Espirito Santo 13.08%, which is a reduction of the 0.14 percentage points compared to last year. Year-on-year, we are talking about differences of 1.6 percentage points, 1.7 percentage points. And therefore, in 12 months we can see such striking different tariff. Also in terms operating efficiency, we have the construction of Sao Manoel with 85% completion in its physical construction, that's calendar, and that shows also the change that we had in contractors of last year, that sometimes can slow down the pace of construction. So we are working and we are working very hard together with our partners to start the first machine of this plant to fill in the year of 2017.

And another operating highlight is Pecem, once again it has 90% availability in terms of average availability of the plant. We closed the quarter with 94% which is a comparatively, if you think of historical levels, a very consistent level and that really shown that we had a completely stable generation levels at Pecem is certainly a positive highlight in terms of operations in the first quarter.

In addition, the company, as you know, is implementing the second round of our strategic plans and systematically because of that we have been showing evolutions quarter-on-quarter below inflation with PMSO below inflation. So this year, once again we had a lower rate compared to the inflation of the period of 3.6%, so another positive point for our cost.

And finally, as a highlight of the period, we have the issuance of debentures of BRL340 million in our two distributors with the market rate that are quite competitive and recording demand three times above the offer of those issuance. So clearly the credit market is in a different period than we were one year ago and today we have a quite competitive rates. So these are the summaries of our economic operational highlights of the quarter.

And of course, I could not fail to remind you that as the consequence of these highlights of this year we have the participation of the Transmission Auction in the company in which EDP was awarded four lots and therefore, we are going to open a new phase of growth for the company in a segment that we're not very much present. We had being awarded

one lot in the previous auction, but this was a year that our presence was quite more relevant. So I would say these are the highlights of the quarter.

And all that said, I'm going to turn to Henrique Freire, that is going to see our operating economic financial results in a bit more depth.

## Henrique Freire {BIO 19117781 <GO>}

Good morning, everyone. I would ask you to go to slide number five of the presentation and here we have some data in terms of the volumes of energies that transacted in this quarter compared to the first quarter '16.

Starting to the upper left corner, we see the level in generation with a drop of 3.2%. If you see the breakdown in this table, we had a difference in the strategies that was adopted and some markets consumed more energy in the second half of the year and therefore we had a drop altogether 3.2, but we already have the start-up operation of Cachoeira that last year was not in the part [ph] so we didn't have the non-consolidation of (inaudible).

In terms of commercialization, we have a significant increase certainly because we had an increase of margin and the results of commercialization as a whole. And in distribution, we see a flat market in terms of the energy distributed, 0.2%, putting together those distributed a growth of 1.4% in Sao Paulo and minus 1.4% in Espirito Santo.

I think that the captive market did have a drop but compared to the first quarter last year to this year not much. There was integration to the pre-market that has some attractiveness to bring more consumers, we see that this continues to happen but consolidated these are the numbers that we have.

Moving to slide number six, we have some indicators that are quite relevant for Pecem. First, we have availability; availability of the plant has been quite consistent, we see the fourth quarter '16 was already 94%, in this quarter it was again 94%, remember that our regulatory target is 90%. And we have that in our accounts an average of 60 months that is calculated in August of the year and then projected as of January of the following year. So these things take some time to have an impact, but this impact is very consistent in terms of results operationally speaking.

You know the water chart, this is the highlight, we had an impact of around three times and that was translated into 8.8 million in our account because of the movements that are explained. The last year, we thought that the surplus would be higher. We entered the provisions for this charge, then there was this agreement with us and the state and today we continue with our plea together with ANEEL, because we considered this charge should not be a charge for the plant, but in terms of accounts for now this is the number that we have.

On slide seven, we talk a bit about distribution. We have some quality and losses in terms of (inaudible), you'll see both for EDP Sao Paulo and Espirito Santo that we are below

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ANEEL's target. In fact, with a considerable comfort in (inaudible) with a better number in Espirito but Sao Paulo is still below. And here we have a line voltage losses that are quite relevant to those has to do with the initiatives that we are investing on in terms of CapEx, OpEx, identification of such and you see that we are starting have results here. You see that in Sao Paulo this ratio has a drop of 1.77 percentage points going from 11.37 to 9.60, very close to ANEEL's target which is 9.55, so we are almost on line and more importantly in the state of Espirito Santo, we see that EBITDA at Espirito Santo had a drop of 1.61 percentage points getting to 13.08 and our ANEEL target is 11.45, so we are 1.63 percentage points, if you compare that to one year ago, the gap was almost 7 percentage points, so it is quite significant evolution.

Going now to a deeper analysis of our economic financial performance, I'm going to ask you to go to slide number nine, where we have an analysis of our different businesses and its main -- and their main highlights. Starting with hydroelectric generation, we see the effect of the hydrological risk.

The energy scenario in this period was favorable, the GSF was 108.5% in this quarter compared to last year that was close to 88%. So, there was a generation of secondary generation that was settled at BRL155 per megawatt hour. Just as a note, in terms of what we call GSF flat was almost 100% -- 99%. And therefore, this is what is considered in terms of reimbursements to suppliers, this is what ANEEL takes into consideration. There was a seasonalization of the market that somehow pushed more energy to the second half of the year. And in this first quarter, we see the GSF with those numbers.

And then we have a note with due to energy contracts a reduction of 27 million. Remember in the first half of 2016, we have the contract of Enerpeixe that was ended in the end of contract. And then the new contract had an impact of 23 million, which is practically the whole amount that we have here. And then 2 million difference, but possibly some lower generation of our hydro-electric plants that we had last year.

As for thermal, we have minus 39, remember that last year we received to the insurance of Pecem, relative to the claim that we had in 2014. Those insurance has an impact of 15 million in the gross margin and (inaudible) 7 million in terms of EBITDA. And therefore out of the 39 million, we had to discount those 15 million.

And then last year we did not have this situation that I'm going to tell you, which is the increased costs in the coal logistics, that is coal transportation from the ports to the plant. And this transportation had an increase of BRL23 million compared to last year. So we have an increase now in our inventories of coal in December '16, it went from 120,000 tons to 300,000 tons in the beginning of this -- in the end of this first quarter. We are going to have some kind of intervention in the transportation of coal in May and therefore transportation will have to be reduced, so we decided to have a reinforcement of our inventory in the period.

Talking about distribution, we had an evolution of more than BRL63 million in the period which accounts for an increase of 24% compared to last year.

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First we have a gain in terms of the tariff effect which has an impact in EDP Sao Paulo of 15 million and in Espirito Santo with a tariff review of more than 21 million this quarter compared to last quarter. We also have market gains, we see that the market was somehow flat in the consolidation of the distributors that in the residential and concrete building we did have an increase and this increase is reflected in those margin gains.

In terms of over contracting, last year we had a more negative impact of about 27 million and now 3.9 million. In January and February we had a negative impact, but March we had a positive impact and we are talking about both EDP Sao Paulo, where the involuntary exposure is still exists, there was no changes. And it was negative in January and February, but positive in March.

Commercialization, we have this, as I mentioned an increase in volume that also there was an increase in our long [ph] position, so the result is 26 million above last year, so quite positive results. So altogether, we had an increase of margin of 9.6%, going from BRL803 million to BRL879 million.

Turning to slide 10, we see some focus on PMSO [ph], we started this year with an increase of 3.6% and this number is to be highlighted, because we are in a period of a drop in inflation and we see that in the end of last year in November, we have the wage review which translated into numbers that were slightly below what we expected and we were able to cope with that and still be beyond -- below inflation. That's all due to some programs that we started in 2016 and also part of our base zero budget.

This has to do with, for instance, a reduction of extra hour and that has an impact in our accounts, commercial lines had just an increase in wages that was a positive thing. And so in distribution, we increased our activity, trying to fight our losses in a bit more strategic way, and therefore, we saw that our cuts and -- disconnections in reconnections with 46% increase and also loss combat with an increase of intensity in terms of our activities.

We have an increase compared to the last quarter in terms of what we have been doing, there are some variables that are influenced by the macroeconomic scenario. We know that in this quarter what we could observe is that our default rates with more than 30 days of the delay in the payment of accounts, which always a warning sign that can lead to a higher provision of bad debt. And we saw an increase in January and February, this is the trend the Brazilian market generally shows that.

But in March, we were to the periods that we were in December. So our provision for that is a focus of attention, we had a decrease of 10% compared to the previous quarter, that is still quite expected for this year.

Going now to slide number 11, we have a presentation of our net revenues, to -- and to the right we have our EBITDA with growth as Miguel mentioned of 18.1%, not considering non-recurring events of Pecem and Pantanal of -- as for our net revenue. So our net revenues went from 65 million to 135 million and we have a drop in our financial result. This year -- this quarter it was 147.7, a drop in our debt on the one hand and also a drop in that investors which enabled us to have this growth.

Finally, just for you to understand our debt profile, on slide 12, we have said that in those different charts, we closed the quarter with BRL5.6 billion and net debt of BRL3,582 million, basically the same position that we had in the end of 2016. Our net debt EBITDA ratio increases to 1.8 times, because EBITDA of the last 12 months is no longer capturing the recurring effect of the first three months of 2016, and therefore we have an increase of debt.

Our debt maturity schedule is about 2.8 to three years average time. For this year we have about BRL1 billion of maturity. This has been monitored and is according to plans. And also to be highlighted that we also mentioned in the highlight that the debt market are already in April has BRL390 million, that started at 112% and then we closed at 108.5, because people were really looking for buying our paper. So I'm going to getting back to Miguel.

## Miguel Setas

And -- well, I'm not -- this is Miguel here. I'm not going to do this last slide of this presentation. Now that we had a call just before this auction, and this slide is just a summary of what we announced in our material fact call.

I would just like to close this call to say that this quarter makes us especially satisfied because we see the result of a continued work of three years controlling losses and costs, optimizing our operations in Pecem, keeping the construction of our electric plants such as Jari, Cachoeira Caldeirao and Sao Manoel. Now within plants we've controlled (inaudible) and therefore we come to the end of this three year period from '14 to the third quarter of '17, reaping the fruits of this work.

So this first quarter it's showing itself clean without surprises and we believe this is the outcome of the three long period. With this auction in transmission and with the investment commitments that we engage, it's in this new bid we start a new phase of the company with growth in its segment and this is extra motivation for the whole of the company. We are all are very concentrated on that now and this is a very positive phase of our history.

And therefore, I would like to thank you very much for joining us in this call. And we are going to open immediately for your questions.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from Carolina Carneiro from Santander.

### Q - Carolina Carneiro

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Good afternoon, everyone. Thanks for the call. I have two questions. The first is with regards to market. You mentioned that the financial impact of over contracting got reduced basically because of this offending growth that you show there and I would like to know if you have any update in terms of expectations for over contracting levels in Bandeirante after the close of the quarter and also market projections in terms of consumption. For Bandeirante and Escelsa, for the whole of 2017, if you have any change in terms of expectations after the data that you got from the first quarter?

And also I would like to ask about provision for bad credit, of course, you've talked about the money amounts that are not as high in the year-on-year comparison it went down, but in terms of the percentage of revenues, is it go up? So, I would like to ask you, if you expect in the coming quarters the provisions to continue at this slightly higher level or if this number is influenced by the impacts of the crisis specifically in Espirito Santo and the problems that you had in departing [ph] the first quarter? And therefore this level of provision over revenues would not be recurrent. So, I would like to know what ratio you would believe more recurrence for the year of 2017? Thank you very much.

### A - Miguel Setas

Hi, Carol, thanks you for your question. Well, the first part of your question, when you talked about the market. Our expectation for Bandeirante, in this case the new EDP Sao Paulo is (inaudible) to be around 115%, 120% of over-contracting. Of course, the current scenario is a more beneficial scenario to us. We still do not know whether those volumes will or not be considered as involuntary over contracting.

And spot prices are at BRL557 [ph] per megawatt hour. So, this scenario is a lot better than what it was last year, but that's our expectation for EDP Espirito Santo is to keep at 105. And in there we don't believe we're going to have major variations with regard to this limit level.

As for the market, as you saw, we have an evolution, a marginal evolution in the beginning of the year of 0.2% of the increase of energy cost, a bit more in Sao Paulo, a bit less in Espirito Santo.

Our expectation are, so there not should be much changed along the year. In the case of Espirito Santo, more concretely speaking, there is something that can determine a relevant operation here, which is (inaudible) and restarting its operations probably in the second half of the year. So that maybe a change.

Sao Paulo, I would say marginal between 0% to 1% and Espirito Santo it depends unlocked whether (inaudible) is going to resume its activities or not.

### Q - Carolina Carneiro

Okay. Thank you very much.

### A - Miguel Setas

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As for the provisions for bad credit, we believe -- don't know, we continue to think that this year we should have some pressure. We are increasing our intelligence regards to variables. There are many accounts below BRL250, when you segment according to the different markets, the larger accounts are quite well controlled, the smaller accounts below BRL150 have more counter measures that are in (inaudible), so we believe that the macroeconomic is pressured. We are controlling numbers from close and it's true that we have the drop in this quarter, but in terms of percentage it goes up.

We just have to take caution with that analysis of percentages, because for instance what we have in terms of invoice of Sao Paulo is 30 days or more of every year. So the prices do not have the increase of tariff. So sometimes numbers can be misleading because of that. But sit down and trying to answer your questions, last year we had about 0.9% of provision over revenues and our expectation is to have this number below 1% now. This quarter it was above 1%, but we want it to be kept below 1%. We are working for that every day and that's what we want to have in terms of level for provision for bad credit over revenues ratio. We have a lot of uncertainty, but this is the number that we want to get.

### **Q - Carolina Carneiro**

Okay. Thank you very much.

### **Operator**

Our next question comes from Marcelo Brito from Citigroup.

### **Q - Marcelo Brito** {BIO 3261897 <GO>}

Hello, Miguel, everyone. I would like to ask a question about Pecem 1. And the measures taken by the Government of Ceara with regards to company. Has the company gave -- give enough challenging the burdens from the government of Ceara. Do you think that when the hydrological situation improves in the state, the government no longer will charge these rates or what do you expect in terms of government charges there?

### **A - Miguel Setas**

Thank you, Marcelo, for your question. As you know, we have been trying to optimize the charging of this burden first, we started talking to the regulatory agency and with the government of Ceara. At a given point we thought it was necessary to have appealed to the court and right now the situation is the following.

As we mentioned, we had a reduction of the initial charge from one to three times, so that's the impact that we have now, quite lower amounts that has been established at first and we haven't given up passing on this charge to our carriers. This is the lawsuits that is still in progress in Brasilia. And we are waiting for decisions relative to this lawsuit. So we are now in a situation that is there or that in beginning that the story has not finished yet.

### **Q - Marcelo Brito** {BIO 3261897 <GO>}



So, are you still challenging the state, I understand the regulatory lawsuit in Brasilia to pass on cost to this area, but how about the payments to the state. Are you, in court, challenging the payment? Or you accepting this new level of 3.8 million in charges?

## A - Miguel Setas

Your question is very clear. We have two lawsuits in progress, one in the State of Ceara and the other in Brasilia. In the State of Ceara, we had an injunction and with that the negotiation with the state government was possible to be optimized. And in Brasilia, the lawsuits continues. So we have two lawsuits, one is finished and the other is still ongoing.

## Q - Marcelo Brito {BIO 3261897 <GO>}

Okay. Thank you very much for your clarification.

## Operator

(Operator Instructions) Since there are no further questions, the conference call of the first quarter 2017 of EDP Energias do Brasil is now closed. The questions taken on the webcast are going to be answered by IR team. We thank you very much for joining us and wish you a good afternoon. Thank you.

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