
results
2Q19
isa
CTEEP

# Disclaimer

The statements in this report with respect to the outlook for ISA CTEEP's business ("ISA CTEEP", "CTEEP", "Company"), its estimates and its potential for growth constitute mere forecasts and were based on the management's expectations regarding the Company's future. These expectations are closely dependent on changes in the market, the country's overall economic performance, the sector and the international markets, being subject to change.

The financial information has been prepared according to Brazilian Securities and Exchange – CVM and CPC standards and is in compliance with the international accounting standards (IFRS) issued by the International Accounting Standard Board (IASB). The Regulatory results are shown in accordance with accounting practices adopted in Brazil. The purpose of disclosing the Regulatory results is merely to assist in the understanding of ISA CTEEP's business. The total of amounts may differ due to rounding. The Regulatory results are audited at the end of each fiscal year only by the independent auditors.

# 2Q19 Highlights

## Cash Generation of BRL647 million in 2019

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**Financial**

- Regulatory Results: Net Revenue of BRL692 million, Adjusted EBITDA of BRL599 million, with a margin of 79%, and Net Income of BRL240 million
- Cash generation: BRL240 million in 2Q19 and BRL647 million in 1S19

**Projects**

- Organic growth through reinforcements and improvements with associated revenue
- Sustainable growth

**Growth**

- CAPEX in greenfield  projects  of BRL148 million in 2Q19 and BRL219 million in 1S19
- Licenses issued for 4 subsidiaries (Aimorés, Ivaí, Paraguaçú and Aguapeí)

**Regulation**

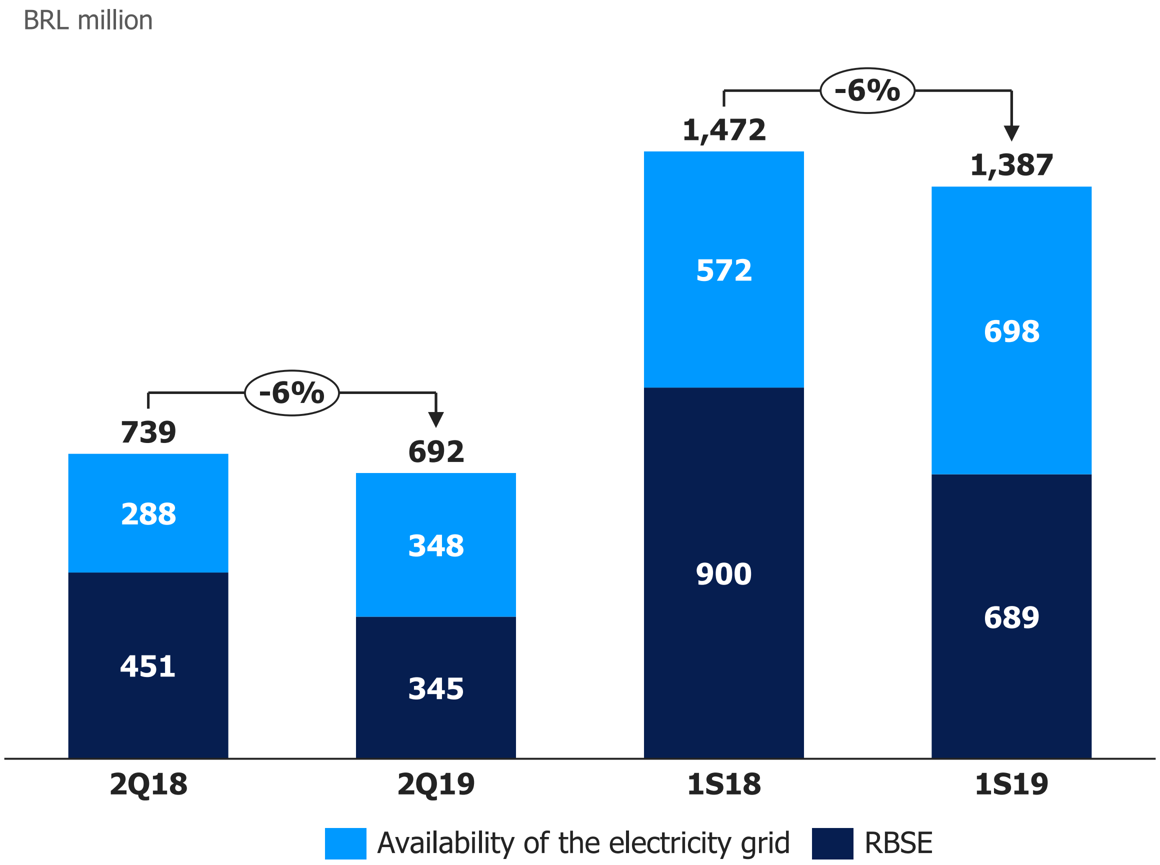
- The tariff reset for the Company (Contract #059) was postponed to 2020 with retroactive effects as of 2018
- Tariff rest for subsidiaries IE Madeira, IE Pinheiros and IESUL
- Resolution #2,565 disclosed establishes 2019/2020 revenue cycle

**Proceeds**

- Distribution of interest on capital to shareholders in the amount of BRL370.4 million (79% payout) with payment on August 19

# Consolidated Regulatory Net Revenue

## Reduction in net revenue due to lower RBSE receivables, partially offset by the inflation adjustment in O&M revenue and start-up of new investments

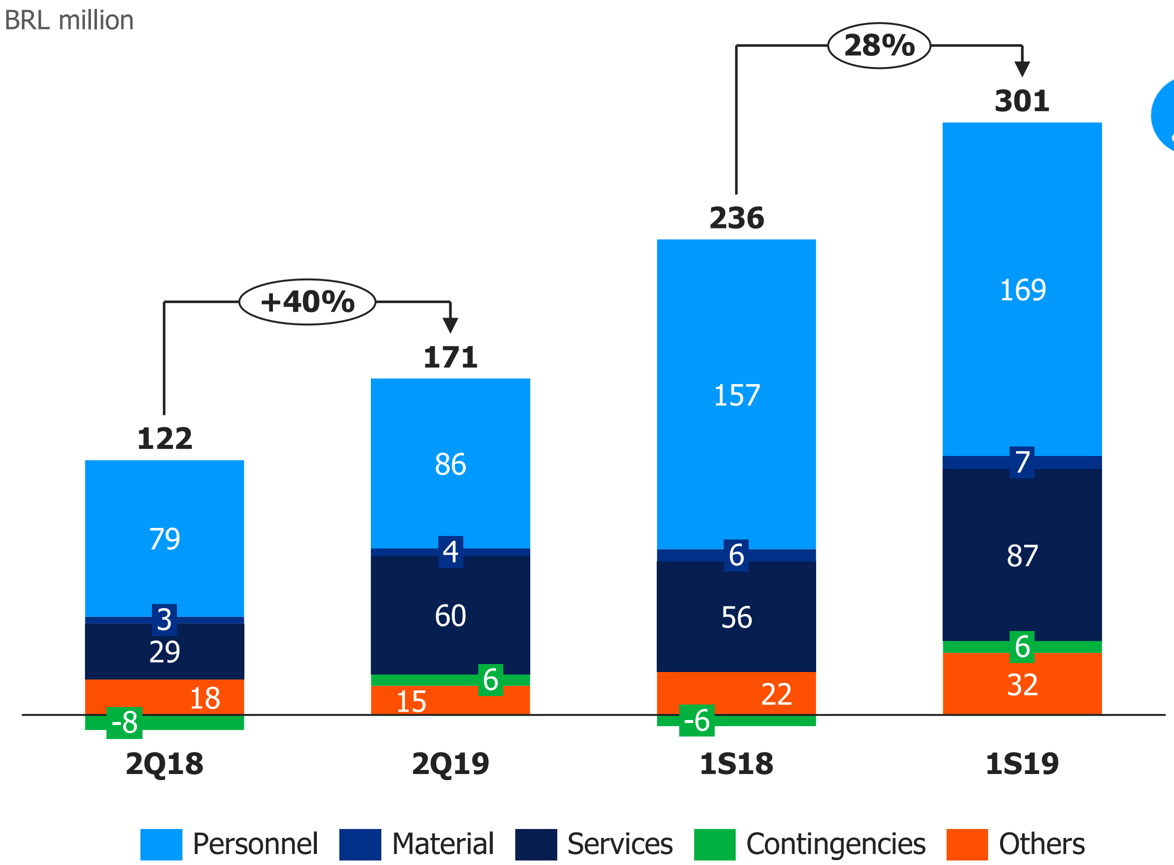



- **RBSE Revenue :** -24% *vs.* 2Q18 due to payment seasonality in the first cycle (2017/2018) and to the linearization in 5 years starting in the 2018/2019 cycle

- **Revenue from the availability of the electricity grid:** +21% *vs.* 2Q18, due to the positive impact of inflation in O&M revenues, the start-up of retrofitting projects and the increase in anticipated revenues in 2Q19

# Consolidated O&M Costs and Expenses ex-depreciation (Regulatory)

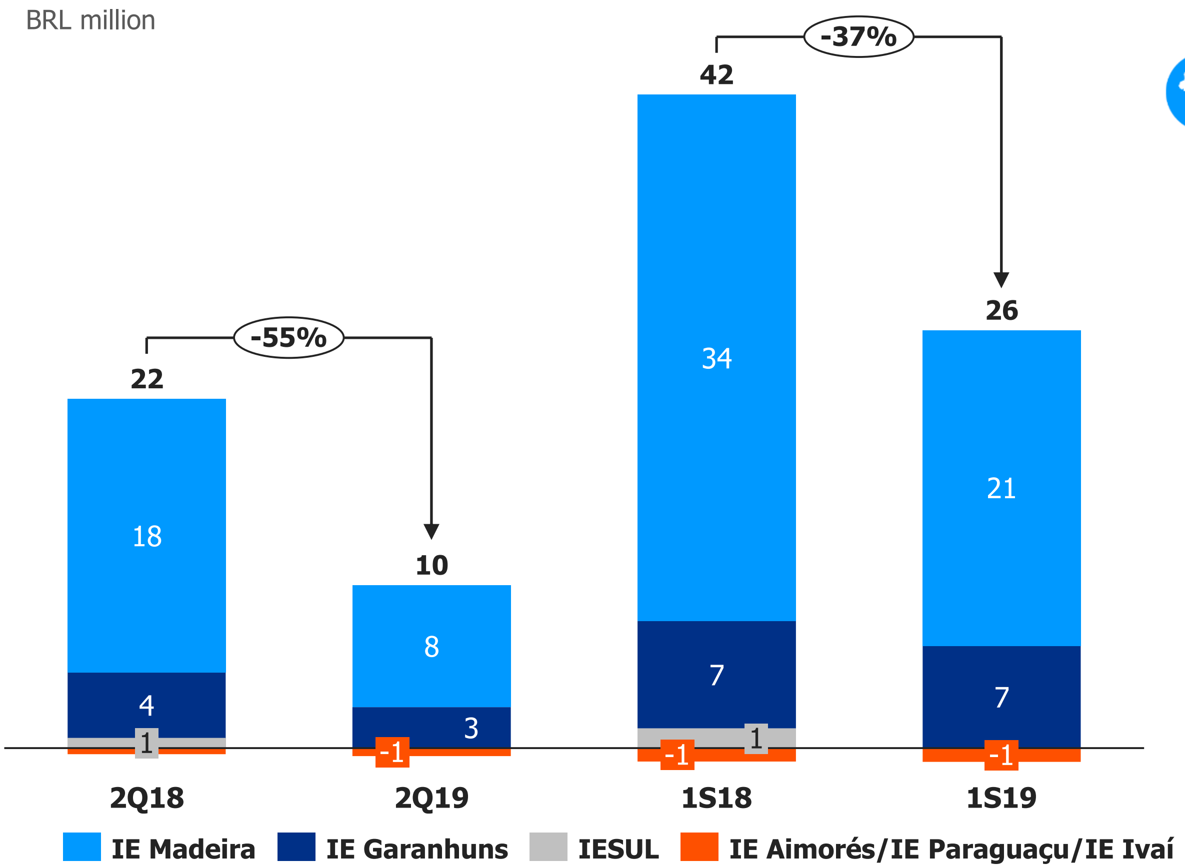
## Increase in costs in 2Q19 due to non-recurring expenses




- **Services:** +BRL 32 million *vs.* 2Q18 mainly due to higher expenses with non-recurring legal fees
- **Contingencies:** +BRL 13 million *vs.* 2Q18 due to reversal of contingencies in 2018, as a result of changes in prognosis and value review
- **Personnel:** +BRL 7 million *vs.* 2Q18 due to the impacts of the collective bargaining agreement effective as of June/18

# Regulatory Equity Income

## Lower result of the IE Madeira subsidiary impacts the equity income of 2Q19




- **IE Madeira:** -BRL 10 million due to the provision of BRL 35 million for contingencies and the impact of the variable parcel
- **IE Garanhuns: -**BRL 1 million due to the impact of the variable parcel
- **IE Sul:** was consolidated in the Company's results starting in September/2018
- **Pre-operational subsidiaries:** administrative expenses in the current phase of the IE Aimorés, IE Paraguaçú and IE Ivaí projects

# Consolidated Regulatory Adjusted EBITDA

## Lower receivables of RBSE impacts EBITDA in 2Q19. Adjusted EBITDA ex RBSE increased 10% in the quarter

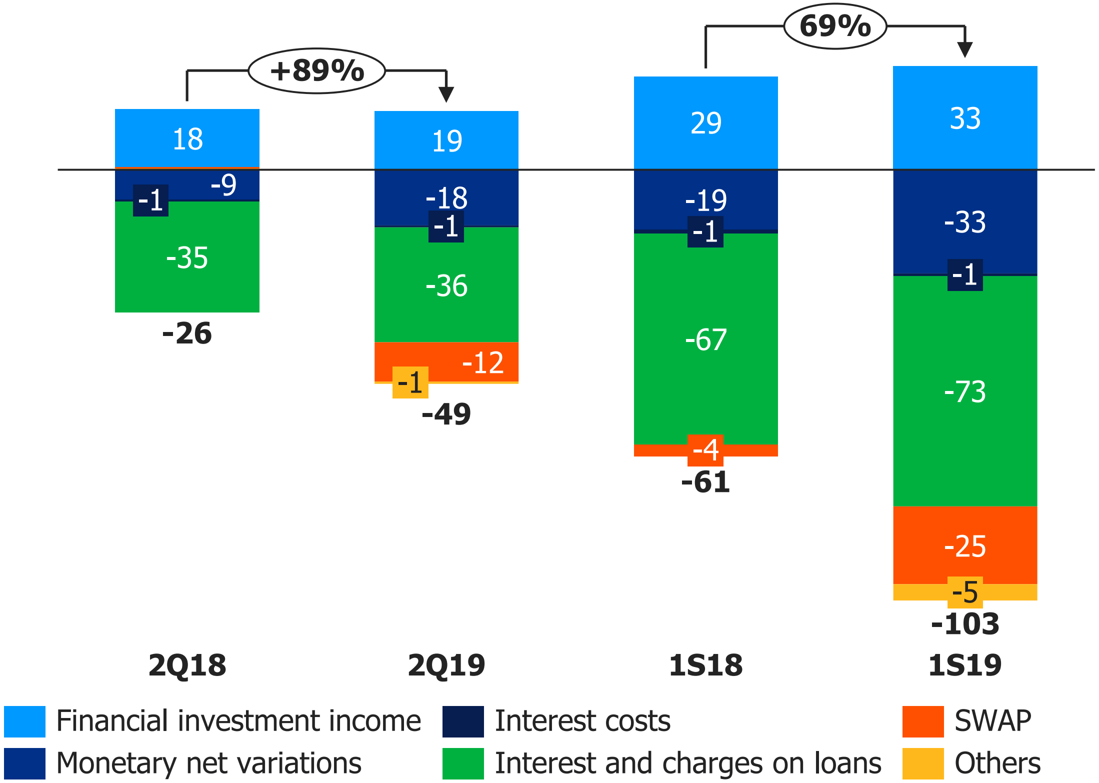
| **EBITDA** (BRL million) | Consolidated **2Q19** | **2Q18** | **Chg (%)** | **1S19** | **1S18** | **Chg (%)** |
|---|---|---|---|---|---|---|
| Net income (losses) | 240.3 | 342.3 | (29.8%) | 474.4 | 647.6 | (26.7%) |
| Income and Social Contribution Taxes (tax over income) | 98.1 | 126.6 | (22.5%) | 235.2 | 282.8 | (16.8%) |
| Net financial result | 49.2 | 25.7 | 91.5% | 103.7 | 61.0 | 70.0% |
| Depreciation and amortization | 145.2 | 145.3 | (0.1%) | 290.7 | 291.7 | (0.3%) |
| **EBITDA ICVM 527/12** | **532.8** | **640.0** | **(16.7%)** | **1,104.1** | **1,283.1** | **(14.0%)** |
| Affiliates EBITDA (weighted by ISA CTEEP's share) | 48.3 | 70.5 | (31.5%) | 108.3 | 140.4 | (22.9%) |
| Equity Income | (10.1) | (22.4) | (54.8%) | (26.4) | (41.8) | (36.8%) |
| Non recurring costs and expenses[1] | 28.0 | (5.2) | (637.7%) | 27.8 | (14.9) | (286.3%) |
| **Adjusted EBITDA** | **599.0** | **682.9** | **-12.3%** | **1,213.7** | **1,366.9** | **-11.2%** |
| **Adjusted EBITDA Margin** | **78.9%** | **83.6%** | **-4.7 b.p** | **73.1%** | **79.4%** | **(6.3) b.p** |
| RBSE | (344.5) | (451.3) | (23.7%) | (689.1) | (899.7) | (23.4%) |
| **Adjusted EBITDA Ex-RBSE** | **254.4** | **231.6** | **9.9%** | **524.7** | **467.2** | **12.3%** |
| **Adjusted EBITDA Ex-RBSE Margin** | **61.3%** | **63.3%** | **-2.0 b.p** | **42.1%** | **43.5%** | **-1.4 b.p** |

[1] Tax compensation (from "IPTU"), expenses with auctions and contingencies success fee

# Regulatory Financial Result

## Increase in financial expenses due to higher debt level (BRL3.1 billion on 6/30/19 vs. BRL2.5 billion on 6/30/18)

BRL million

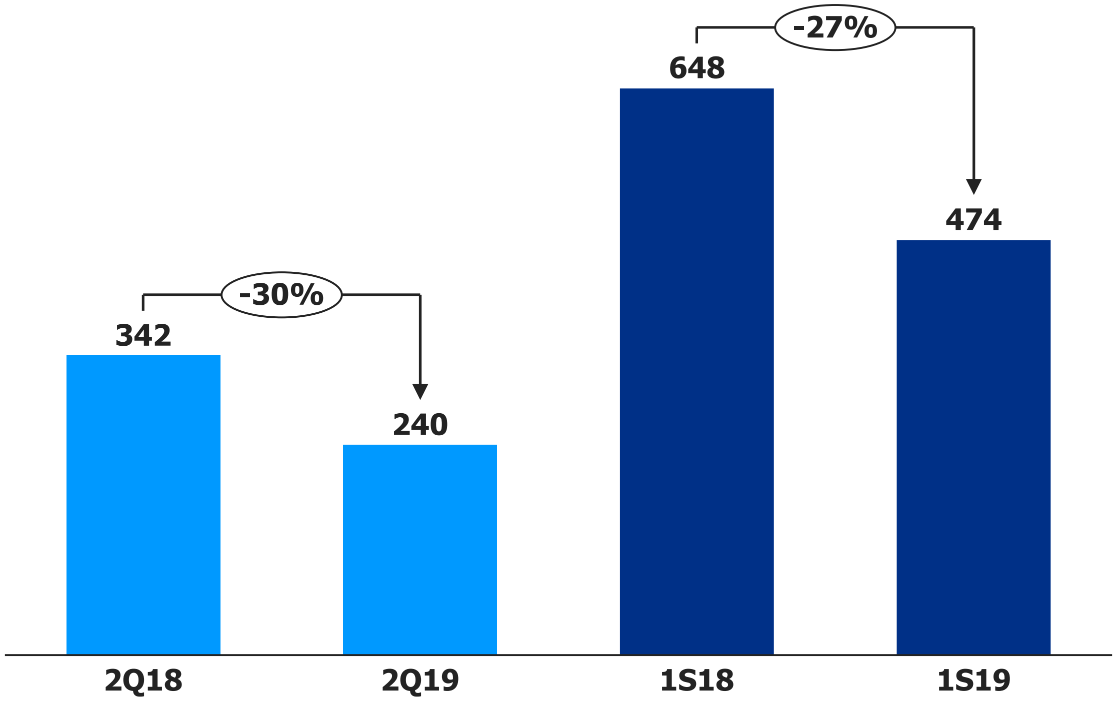



- **Monetary Variations:** increase due to the 7th debentures issuance (BRL 621 million) in 2Q18
- **Swap**: increase due to new funding through Law 4,131

# Regulatory Net Income

## 2Q19 Net Income was impacted by lower RBSE receivables

BRL million




- Lower RBSE receivables
- Increase in non-recurring costs and expenses
- Lower equity income
- Increase in financial expenses

# Cash Flow

## Cash generation of BRL 647 milhões in 2019

BRL million

| Cash Flow | Jun/19 |
|---|---|
| **Initial Cash Balance (Dec/18)** | **698** |
| **Operational activities** | **898** |
| RAP receivables | 1,576 |
| Payment of State Law 4,819/58 | (47) |
| PMTO | (321) |
| Charges | (89) |
| Taxes and fees | (278) |
| Others | 57 |
| **Investment activities** | **(260)** |
| Received Dividends | 5 |
| CAPEX | (265) |
| **Financing activities** | **8** |
| Additional loans | 100 |
| Debt Payment (principal + interest) | (138) |
| Derivative instruments | (10) |
| Transactions of non controlling shareholders | 56 |
| **Final Cash Balance (Jun/19)** | **1,345** |

**RAP receivables:** O&M and RBSE

**SEFAZ – Law 4,819:** amount not reimbursed by SEFAZ

**PMTO:** expenditures with personnel, MSO, executions and court escrow deposits

**Charges:** CDE, Proinfa, R&D and inspection fees

**Taxes:** Income/Social contribution taxes, PIS and COFINS and others

**Others:** sharing of infrastructure and services provided

**Investments:** retrofitting and construction capex in pre-operational subsidiaries

**Financing:** BNDES issuance and fundraising

**Non-controlling shareholders:** jointly controlled subsidiaries that participate in investment funds

# Consolidated Regulatory Debt

## Adequate debt profile with competitive cost

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### Investment Grade by Fitch: AAA (bra)

| Debt<br>BRL (million) | 06/30/2019 | 12/31/2018 | Chg (%) |
|---|---|---|---|
| Gross Debt | 3,093.5 | 3,015.0 | 2.6% |
| Short-term Debt | 353.8 | 357.8 | (1.1%) |
| Long-term Debt | 2,739.7 | 2,657.2 | 3.1% |
| Consolidated Availabilities | 1,344.3 | 697.6 | 92.7% |
| Availabilities of ISA CTEEP and Subsidiaries | 1,057.2 | 466.8 | 126.5% |
| Availabilities of Partially Owned Subsidiaries* | 287.2 | 230.9 | 24.4% |
| **Consolidated Net Debt** | **1,749.1** | **2,317.3** | **-24.5%** |

*The Company's resources are concentrated in exclusive investment funds, which are also used for the subsidiaries and partially owned subsidiaries in a segregated manner, and refer to quotes of the investment funds with high liquidity, conversible in cash, regardless of the expiration of the assets in which they are allocated.

- Increase in cash and cash equivalents due to operating cash generation during the period
- Average cost of debt of 7.7% p.a.
- Established covenants and requirements for all issuances are being fully complied

# Greenfield Projects

## Growth projects are on time and on budget with challenging schedule

- ✓ **97%** of contracting in 10 projects are being executed
- ✓ **46%** of construction work were executed for projects under construction
- ✓ **80%** of projects already have Installation Licenses issued
- ✓ **90%** of Revenue (RAP) under construction



# Proceeds to Shareholders

## Strong Cash Generation allows distribution of Interest on Capital to shareholders

- Proceeds Payment Policy: In June/2018, management announced the **proceeds payment policy** to pay out **at least 75% of regulatory net income**, preferably through Interest on Equity limited to a leverage ceiling of 3.0x Net Debt/EBITDA

- Based on 1S19 net income, the Board of Directors approved the **Interest on Equity** distribution:

**BRL 370.4 million**
**Amount**

**08/19/19**
**Payment date**

**BRL 0.562186**
**Per share**

**08/05/19**
**Record date**

**79% *payout***
**Regulatory net income**

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**INVESTOR RELATIONS**

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