

Y 2013 Earnings Call

Company Participants

- Eduardo Haiama, Chief Financial Officer, Investor Relations Officer

Other Participants

- Carlos Sequeira, Analyst

Presentation

Operator

Good afternoon, everyone, and thank you for waiting. Welcome to Equatorial Energia's Fourth Quarter 2013 Results Conference Call. With us here today, we have Eduardo Haiama, Chief Financial and Investor Relations Officer. This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Equatorial's remarks, there will be a question-and-answer session; at that time, further instructions will be given. (Operator Instructions).

This event is also being broadcast live via webcast and may be accessed through Equatorial's website at www.equatorialenergia.com.br, 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 on 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's 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 that conditions related to macroeconomic conditions, industry conditions and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

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

Eduardo Haiama {BIO 7279971 <GO>}

Hi, good morning, everyone. First of all, I'd like to thank you all for joining us in our fourth quarter conference call. As per our agenda for today, which you can see on slide two, I'll start the conference call providing describing the highlights of the quarter, then I'll comment our operating and financial results; and finally, we'll open the Q&A session.

FINAL

Before the highlights I would like to clarify some procedures regarding materials present in the earnings release, in this presentation, and I'd like to point out that consolidated information reflects 100% of CEMAR's, 100% CELPA's and 100% of Equatorial Solucoes, which on its turn consolidates 100% for Sol Energias' figures.

With that, moving on to slide six. In this quarter both CEMAR and CELPA post very strong demand growth respectively 13.8% and 14.6% year-on-year. In this quarter, CEMAR total losses fell to 19.2% of the required energy. And as CELPA, total losses amounted 35.5%. Again, represent improvements in both quality indicators DEC and FEC for both companies.

Moving on to slide seven with regard to financial highlights, in the fourth quarter, Equatorial's net revenues reached BRL1.3 billion, already reflecting full financial results of CELPA. So, it was an increase of 15.8% compared to fourth quarter 2012. EBITDA for the quarter reached \$131 million or a decrease of 21.1%, following CEMAR's tariff review and higher costs for (inaudible). In the quarter, Equatorial present a net loss of BRL62 million. After adjusted for net regulatory assets and other non-recurring costs, Equatorial's adjusted net profit would be BRL13 million. Consolidated investment totaled BRL261 million in the quarter or a decrease of 1.1% year-on-year. Finally, we propose payment of BRL17.9 million of dividends, that would represent BRL0.09 per share.

Moving on to slide nine, we'll talk about electricity markets in CEMAR. As you can see, Energia main posted 13.8% growth across the board, being mainly the result of the expansion of the client base, which increased by 4.3% and also an increase of 9% in per capita consumption in this year.

On slide ten, CEMAR total losses reduced to 19.2%, already below the new regulatory targets by ANEEL in the August tariff review of 19.6%. In terms of non-technical losses, which reached 15.1% in the quarter, down from 15.9% defined by ANEEL in the new regulatory targets. In terms of reduction, we have already -- we are currently evaluating our loss commence program and this drop is already a reflection of increased few (inaudible) in the previous two and three quarters.

Moving on to slide 11, in terms of quality indicators, both DEC and FEC improved in the quarter, respectively by 12.8% and 0.7%. And that should allow us to have a reduction at the X Factor in the next tariff fee adjustment in 2014.

Moving on to slide 12, in CELPA energy dispute has grew by 14.6% in the quarter, mainly explained by the beginning of the loss reduction by a higher average temperature in 2013 compared to last quarter of 2012 and also higher activity level in the main industries in the state.

In terms of energy losses on slide 13, Company ended 12-month figures with a total loss of 35.5%. And in terms of non-technical losses, reached 59.5%; it should be note that (inaudible) quarterly figures, the level for losses dropped to 33.2%, which already reflect the acceleration of loss commence program and few of the activities with teams work in a more robust manner than starting in the second half of this year. It's also important to

emphasize that better understand and seasonal effect, the best way to look in terms of losses, you should look at the 12-month period.

Moving on to slide 14, DEC and FEC, CELPA also improved DEC and FEC by 27.7% and 25.4% respectively, reaching a 73.5 hours and 38 times in 2013. It's important to mention that this should reflect a reduction in fines that CELPA would have to pay to consumers from BRL107 million in 2012 to BRL62 in 2013.

Moving on to Slide 16, Equatorial's EBITDA in terms of IFRS would amount to BRL131 million the areas, if we include the constitution of net regulatory asset for both CELPA and CEMAR in this result and also adjust for non-recurring impact, net regulatory EBITDA would have amounted to BRL156 million in the quarter. As for the year, there adjusted regulatory EBITDA would have reached BRL700 million.

Moving on to slide 17, we did an analysis, specifically focused on CELPA and CEMAR. CELPA, the loss of BRL111 million after adjusted by net regulatory assets and also non-recurring items would have reached BRL90 million [ph] of a loss. In the case of CEMAR, net income in the quarter from BRL37 million in terms of IFRS would have reached BRL52 million in terms of adjusted regulatory results. As for the year, CELPA would have posted a loss of BRL93 million and CEMAR would have posted approximately BRL304 million.

Moving on to slide 18, we present our amortization gathered for the Company's gross debt. Equatorial gross debt reached BRL3.2 billion by the end of the year, being 1.5 from CELPA and 1.7 from CEMAR. In terms of cash position, we ended fourth quarter with almost BRL1.6 billion and that's we believe we'll have a very comfortable financial situation for the year.

On slide 19, we present the net debt, consolidated net debt for Equatorial, which amounted to almost BRL1.1 billion after excluding net regulatory asset and consolidated cash position. That would represent a net debt to EBITDA close to 2 times. If we do the net debt in proportion to (inaudible) CEMAR of 65% and CELPA 96%, as shown on slide 20, our net debt would have reached BRL849 million or 2.1 times net debt for EBITDA of last 12 months.

Moving on to slide 21, we present our CapEx figures. In the case of CEMAR, we posted a decrease of almost 42%, reaching BRL113 million. And as for CELPA, we had an increase of 136%, reaching almost BRL148 million in the quarter.

I believe like we can now start the Q&A session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions). Our first question comes from Carlos Sequeira with UBS.

FINAL

Q - Carlos Sequeira {BIO 1798391 <GO>}

Hi. Good afternoon. I would like to have your -- I would like to ask on rationing risks. Do you expect (inaudible) scenario, are you working with that as base case and how would you expect to be -- are you productive right now or would you be affected like 2001?

A - Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Carlos. Regarding the rationing, I believe like we still need to wait for the rain season turn. So, it's going to be in April. So, it's anything that we say could be a wild guess. So I'd rather not think about that. As for the north region, that's we are located, it's important to me that CEMAR although geographically is located in the Northeast, but for the grid, it's located in the north. If you look in terms of the north situation, I mean, today, there's lot of energy. Actually, they had our power plants, they are not producing 100%, because they need to leave some of the water to flow down the river, given their very favorable conditions. So, I believe like in the sense, if there is any problem, they north part of the grid should be more protected in this case.

Q - Carlos Sequeira {BIO 1798391 <GO>}

So, this time because of being in the north, you shouldn't be part of Ecuador and you shouldn't be out of Ecuador, the place in the southeastern region. What about the CELPA and CEMAR, are you contracted or are you exposed to PLD?

A - Eduardo Haiama {BIO 7279971 <GO>}

We like -- our Company is exposed to the spot price, given the very favorable (inaudible) situation in the north part of the country, spot price there on average well below the average price in the other sub-systems of Brazil. So that, any impact will be -- financial impact will be much lower. But, in any case, I believe like all the discussion we are having today is that we should expect and support from the southern government much like what we have been installed 30 for the whole sector. So, that's at least would be my belief.

Q - Carlos Sequeira {BIO 1798391 <GO>}

Sorry, I just wanted to check if I understood right, you are exposed to PLD in CELPA and CEMAR?

A - Eduardo Haiama {BIO 7279971 <GO>}

Yes, we are exposed to the spot price. But, whatever seems there like given the spot price in the north much more than the spot price in the other sub-systems, submarket in Brazil, like in the south our fees, even our fees, the impact -- the financial impact next year's upfront in CEMAR is small. But, in any case, I believe like there will be a solution for the sector as a whole, in terms of CDE much like we had in 2013.

Q - Carlos Sequeira {BIO 1798391 <GO>}

How much is your exposure to PLD asset percentage?

A - Eduardo Haiama {BIO 7279971 <GO>}

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I mean, at the end of the day, it's going to depend how the market is going to evolve our demand growth in CELPA and CEMAR. I'd say that's a ballpark figure, it could be between, I don't know from 10% to 15%.

Q - Carlos Sequeira {BIO 1798391 <GO>}

Okay. Thanks a lot.

Operator

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

A - Eduardo Haiama {BIO 7279971 <GO>}

We'd like to reinforce our commitment delivering our appreciation to our shareholders through exceptional financial and operating results. We'd also like to highlight our adherence to the highest level transparency and corporate governance, and we assure that both me and our Investor Relations team are available to help, should you have any further questions. Thank you all again for taking part in our fourth quarter conference call, and have a good day.

Operator

That does conclude the Equatorial Energia's audio conference call for today. Thank you very much for your participation. And have a good day.

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