

Q3 2012 Earnings Call

Company Participants

- Eduardo Haiama, CFO, IRO

Other Participants

- Gabriel Laera, Analyst

Presentation

Operator

Good afternoon, and thank you for waiting. Welcome to Equatorial Energia's Third Quarter 2012 Results Conference Call. With us here today, we have Edouardo Haiama, Chief Financial and Industrial Relations Officer.

This event is being recorded and all participants will be on listen-only mode during the Company's presentation. After Equatorial's remarks, there will be a question-and-answer session, and 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 replaying will be available shortly after 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 finished.

Before proceeding, let me mention that forward statements are based on 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 the forward depends on the circumstances that may or may not occur.

Investors and analysts should understand that conditions related to macro economic conditions, industry and other sectors could cause the result to differ materially from those expressed in such forward-looking statements.

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

Eduardo Haiama {BIO 7279971 <GO>}

FINAL

Good morning, everyone. First of all, I would like to thank you all for joining us in our Third Quarter conference call. As to our agenda for today, which you can see on slide two, I'll start the conference call describing the highlights of this quarter, then I'll comment on our operating and financial results. In the end, I'll talk about our recent material facts concerning (staff) and Rede Group, and then we will open the Q&A session.

Before the highlights, I would like to clarify some procedures regarding the figures presented in the earnings release in this presentation. I would like to point that consolidated information reflects 100% of CEMAR, 25% of Geramar and 100% of Equatorial Solucoes, which in its turn, consolidates 100% of Sol Energias' figures.

As per the material facts disclosed yesterday, Equatorial applied an IMBIMA, a request to register a public primary and possibly secondary offering of shares issued by the Company. In accordance with the Brazilian legislation, we are in a quiet period, and will not comment about any aspects related to the offering in this call, focus our discussions considerably on the Third Quarter results.

Moving on to slide six, we continue to post a strong energy demand, growth of 5.8% this quarter. And despite this growth, energy losses fell 0.4percentage points, when compared to Third Quarter '11, for its total losses reaching 20.8% of required energy. Quality indicators rose 3.8% and 0.1% respectively in CEMAR.

On September 25th, we published some material facts stating that the Company signed a Sale and Purchase agreement for the acquisition of 61.37% of CELPA's capital stock. However, the conclusion of this operation is subject to certain proceeding conditions described in the contract.

On October 11th, Equatorial signed jointly with CPFL in the controlling shareholder of Grupo Rede a memorandum of understanding that allows the first two parties to evaluate with exclusivity rights, all of the companies controlled by Grupo Rede which could result in the acquisition of a controlling stake of the latter in the end.

Moving on to slide seven, in the Third Quarter, net revenues grew at 30.4%, fuelled by CEMAR's 23.6% growth and the beginning of consolidation of Sol Energias. EBITDA in the quarter reached BRL141.5 million, an increase of 7.5% compared to the adjusted EBIT presented in the Third Quarter '11. Net income was 57.5% (sic; see presentation slides), up 13.4% compared to an adjusted amount for the same quarter of the previous year.

Consolidated investments amount to BRL166 million in the quarter, or 45.5% higher than the same quarter of last year. It's important also to mention we were able to extend the SUDENE fiscal benefits that would expire in 2016, and it allows CEMAR to have a reduction of 75% in its income tax. And now, we have extended this fiscal benefit until 2021.

Moving on to slide nine, we talk about the electricity markets and CEMAR. As you can see, energy demand was a strong 5.8% growth, across the different segments. As a result of the economic growth of the state and also an extension base of the client base. It's

important to highlight two of the classes, consumer classes, residential and the commercial, that (CEPISA) post strong figures.

Moving on slide 10, we show actual losses continue to be below the regulatory target for the First Quarter of the third cycle. In other words, despite the market growth, when the Third Quarter is non-technical losses over Low Voltage market of 14.1% and total losses over (inaudible) of 20.8%. It is important to highlight that we reviewed the calculation method of the percentage for non-technical losses on the Low Voltage market, which also changed the historic values disclosed by the Company.

Passing on to slide 11, we can observe that CEMAR's quarter indicators that in fact rose by 3.8% and 0.1% respectively in the quarter, but when you see the evolution over this quarter in this year, we have been closing the gap that started in the First Quarter, and Second Quarter, and we expect to conclude this year that is more or less the same level 2011.

Moving on to slide 13, EBITDA grew by 7.5% over the Third Quarter, adjusted EBITDA. In the Third Quarter '11, we had just BRL5.5 million regarding an accounting entry in CEMAR, no cash effect, in RGR expenses referring to the first half of 2011.

In the next slide, the adjusted net income for the quarter grew 13.4%, over the adjusted net income -- over the same quarter last year amounting to BRL57.5 million. Here, we also adjust the same RGR expense that remained in the EBITDA line.

Moving on to slide 15, we present the amortization schedule of gross debt. In our view, we do have a comfortable debt amortization, and although you can see BRL403 million of short-term debt, it is important to highlight that the Company ended this quarter with almost BRL500 million in cash, so it's bigger than the short-term debt amortization.

Moving on to slide 16, we break down Equatorials' consolidated net debt, which amount to almost BRL1 billion, excluding the regulatory assets and consolidated cash position, and as a result, net debt to EBITDA amount to 1.9 times. (Ratio to) net debt, the proportion to Equatorial's stake in CEMAR, 65.1%, and Geramar, 25%, (showing) like 17%. We reached a net debt of BRL714 million, representing 2 times net debt to EBITDA ratio.

Moving on to slide 18, we presents our CapEx figures. Equatorial consolidated CapEx amounts to BRL116 million, or up 45.5%, year-on-year. Going forward, we expect CEMAR's demand growth should continue to post strong figures, in the large part, we expect implementation for large industrial projects in the state. To support this growth scenario in the concession area, we are expect (in the Q) strong CapEx for the two year cycle of 2011/2012, to include installed capacity and improve the quality of the service provided to its clients.

Moving on to slide 20, at the end of September, we announced the signing of an SPA concerning CELPA shares. CELPA is a distribution company covering the state of Para is currently under chapter 11, Brazilian Chapter 11. For the contract, Equatorial is acquiring 61% of CELPA's total stock, which is still up before the regulatory authority.

Also in October we announced the signing of an MoU with the controlling shareholder of Grupo Rede and of CPFL which granted us Equatorial CPFL exclusivity rights pursuant with valuation of all entities controlled by Grupo Rede, which in the end could result in the acquisition of the whole group.

We still have some important steps to go over, such as approval by applicable public authorities, creditors, investors, result of the due diligence process Group Rede's assets, ANEEL's approval in respect to operating Restructuring Plan to be presented concerning each dis co currently under intervention, and Grupo Rede's creditors' agreement in respect to the financial restructuring proposal to be presented further.

With that, I'll conclude my presentation and I believe like we can start the Q&A session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions)

Our first question comes from Mr. Gabriel Laera, Espirito Santo.

Q - Gabriel Laera {BIO 15686582 <GO>}

Hello Edouardo. I just wanted to make sure I understood that the restructuring plan for Grupo Rede has yet to be approved, right, by the regulator?

A - Eduardo Haiama {BIO 7279971 <GO>}

That would be regarding the provisional measure 579.

Q - Gabriel Laera {BIO 15686582 <GO>}

Okay.

A - Eduardo Haiama {BIO 7279971 <GO>}

577, sorry. That the company -- the concessionaires they need to present a restructuring plan to ANEEL. So they have a 60 day period to present this restructuring plan, so that's why -- at least you have the time to do that and then the regulators should approve that.

Q - Gabriel Laera {BIO 15686582 <GO>}

Okay. And my next question is, I did get into (CVM local sec) website and I found a -- I don't know if sketch or a proposal, or if it's indeed the restructuring plan that's being talked about that considers a BRL773 million equity investment to be done by the new controlling shareholder or shareholders. In the case, if it's a joint venture, that's buying it.

I'd just like to know if, I don't know, maybe you're restricted on that, but I'd just like to know if you could confirm that amount or not?

A - Eduardo Haiama {BIO 7279971 <GO>}

No. I cannot confirm. I don't know which documents you are mentioning.

Q - Gabriel Laera {BIO 15686582 <GO>}

Okay. No worry, thanks.

Operator

(Operator Instructions)

This concludes question and answer session. I would like to invite Mr. Eduardo to proceed with his closing statements. Please, go ahead, sir.

A - Eduardo Haiama {BIO 7279971 <GO>}

To sum up, we'd like to reinforce our commitment in delivering appreciation to our shareholders, for exceptional financial operating results. We would like to highlight over the year, to the highest level of transparency and corporate governance and reassure that both me and our investment relations team are available to help you, should you have any further questions.

Thank you, all again for participating in our Third Quarter conference call, and have a good day.

Operator

That does conclude the Equatorial Energia's audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.

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