

## Q2 2015 Earnings Call

### Company Participants

- Eduardo Haiama, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Henrique Peretti, Analyst

### Presentation

#### Operator

Good morning, everyone and thank you for waiting. Welcome to Equatorial Energia Second Quarter of 2015 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 the 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](http://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 short after this event is concluded. Those following the presentation via the webcast, may be post their questions on our website. They will be answered by the IR team after the conference finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Equatorial's management and on information are 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 relate to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

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

#### **Eduardo Haiama** {BIO 7279971 <GO>}

Good morning, everyone. First of all I'd like to thank you all for joining us in our second quarter conference call. As per 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

operating and financial results, and later some recent events, and finally we will open the Q&A session.

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

Moving on to slide six, in this quarter CEMAR posted a -- good energy posted like a good demand growth 5.2%, while CELPA posted a negative demand reduction of 5.3%. In the quarter, CELPA's total loss increased by 1 percentage point, 31.8, we'll further comment on that, and in the case of CEMAR, loss remained flat. Finally, it's important to mention that again we continue to improve quality indicators significantly in DEC, FEC in CELPA.

Moving onto slide seven, Equatorial's net revenues reached BRL1.7 billion in the quarter or 27% higher than the second quarter 2014, basically due to the approval of regulatory assets, tariff adjustment in the beginning of the tariff flag mechanism. Adjusted EBITDA was BRL253 million or 10% increase year-on-year. And adjusted net income reached BRL135 million or 33% higher than the second quarter 2014. Consolidated CapEx totaled BRL212 million, or 26% decrease.

CELPA long-term debt, we did an NPV of the long-term debt that was restructured in the companies registered recovery, and that severely impacted financial results by BRL407 million. Last quarter also Fitch upgraded CEMAR's credit rating to AA from AA minus. And lastly, in CELPA, the Board of Directors approved capital increase. In CELPA basically the capitalization of credits amounting to BRL597 million. And in August, ANEEL approved CELPA's fourth periodic tariff review.

Moving on to slide nine, we talk about the electricity market CEMAR. In CEMAR, as we can see, demand posted 5.2% growth across different segments, and basically a result of the expiration of their existing clients and also increase in per capita consumption in the period.

On slide 10, CEMAR remained flat in terms of losses at 17.7%, that continues to be below ANEEL's target of 19.4% for this year. And in terms of non-technical losses, we reached 12.4% in the quarter, also below 15.6% if I -- as regulated by ANEEL.

It's important to highlight that, as I've been saying, given the current low and at the loss level, all addressed by CEMAR, it is natural to expect certain volatility kind of accommodation in the short period of time until we reassess the whole program to see what should be the sustainable level going forward.

Let's move to slide 11, in terms of quality indicators. Quality Indicator DEC increased by 3.6% last quarter and that was related to one single currency that lead to this increase, kind of non-recurring, and in the case of FEC, we continue to improve by 10.2% year-on-year.

In terms of demand in CELPA on slide 12, demand decreased by 5.3%, and basically the CELPA was affected by this such worst economic environment that really reflecting the reduction of the consumption in different segments, and also by the increased energy losses in this quarter. As you can see on that slide, the required energy that was running around like a 2% in the first quarter increase, now, in the second quarter, it was increased by 0.5%.

Moving onto slide 13 in terms of energy losses, Equatorial [ph] in the quarter posted 31.8% or 1 percentage point increase from first quarter. And non-technical losses reached 45% or 3 percentage points from first quarter. Like I said, the worsening of these indicators basically a result of the decrease in the billed market due to the economic down-turn in the country, especially the industrial segment normally represent a very low energy loss, that are the segments of clients.

We also were impact given this worse economic environment by a higher resistance in terms of our loss combating measures. And finally, at the end of the first quarter, we changed the Loss Combats department in CELPA, some of the key people there and that's generally to some transition period that we adapt in the second quarter. We believe, like with the change that we -- with it and the change in terms of the proceed, in terms of intensification of the task that are already implemented or another implementation that will be possible to return to a reduction trajectory in the next quarters.

Moving onto slide 14, in terms of quality indicators, like I said, we continue to improve DEC and FEC by 21% and 15%, reaching 45 hours and 27 times. And as you can see in this graph that we showing, since we got control on CELPA, we already improved DEC by 56%, and FEC by 48%. And like we said, in the past we continue to say, quality indicators is one of our core growth since we got control on CELPA.

Moving on to slide 16, EBITDA by IFRS standards reached BRL231 million. It's worth highlighting that, starting this year, we start to accrue fines paid to consumers in the operating expense line in to fourth quarter, this line -- this expense were accrued as financial expense. Adjusted by low recurring facts in the quarter, mainly in the case of CELPA, that we have an adjustment related to assets write-off, and also related to the tariff review. And in the case of CEMAR, we have some adjustments related to fiscal things accrue -- actually it was like -- in terms of deductions, that increased the deducts by BRL20 million on non-recurring. Adjusted by this effect, adjusted regulatory EBITDA would have reached BRL253 million, and in the semester BRL473 million.

Looking at the net income on slide 17, during the same adjustment, in terms of EBITDA, and also some specifically related to CELPA that positively impact net financial revenues. Adjusted regulatory net income would have reached BRL135 million, and in semester BRL154 million.

Moving on to slide 18, represent our gross debt amortization schedule. Gross debt amounted to BRL4.1 billion, being BRL1.9 billion in CELPA and BRL2.2 billion in CEMAR. On a

consolidated basis, Equatorial ended second quarter with almost BRL1.8 billion in cash, that's considered bigger than short-term debt of BRL500 million.

Moving on to slide 19, we break-down consolidated net debt which amounted to BRL1.5 billion. Excluding net regulatory assets, consolidated cash position, CCC and CDE subsidiaries, some Collaterals and Swaps and balance. As a result, net debt to regulatory EBITDA amounted to 1.4 times. We do like to highlight that CELPA's long-term debt from its judicial recovery is adjusted to its present value and that lead in this quarter to an accrual of BRL407 million as financial revenues.

Moving on to slide 20, if I adjust the net debt in proportion for Equatorial's stake in CEMAR of 65% and CELPA 96%, we would have reached BRL1.2 billion of net debt, having the same 1.4 times net debt to EBITDA ratio.

Moving onto slide 21, in terms of the CapEx figures, CEMAR's total CapEx in the quarter amounted to BRL80 million or 50% below year-on-year. In the case of CELPA, total CapEx reached to BRL130 million or 32% decrease.

Finally, moving to slide 23, Fitch upgraded CEMAR and debentures rating to AA from AA minus. In June, CELPA Board of Directors approved BRL597 million in capital increase, and this increase comes basically from the capitalization of inter-company loan in adjacent for future capital increase amounting to BRL306 million. Since this resource were already transferred to CELPA in the previous quarters, there was no money (inaudible) get increasing itself in the quarter.

Again, as I have already mentioned in this presentation, CELPA's long-term debt from the judicial recovery process was adjusted to its present value, affects financial revenue by BRL407 million and deferred tax liability in the amount of BRL137 million. In August, ANEEL approved the CELPA's fourth tariff review results with an average impact and consumers up 7.5%. We highlight the main figures, operating expense of BRL588 million, capital remuneration of BRL405 million, regulatory depreciation of BRL178 million, and the technical loss of 10.15% and non-technical loss in terms of low voltage market set at 34% flat for all the cycle.

Now we can start the Q&A session.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question comes from Henrique Peretti from JP Morgan.

### Q - Henrique Peretti {BIO 18446440 <GO>}

Good afternoon, Haiama. Thanks for the opportunity. I would like to ask about the energy losses at CELPA. We saw that the ratio increased during this quarter. My question is, the

outlook for the macroeconomic remains the same, so the downturn in the economy should continue in the third and the fourth quarter as we estimate here. So energy sales could continue to decline at CELPA in that, according to a release could lead to another increase in non-technical losses at CELPA. I'd like to get some color on what you think will be the trend going forward, if you think you can stanch the increasing non-technical losses if you have a plan to reduce or to avoid further increases in this ratio, and when do you expect to come back to this downward trend? Thank you.

**A - Eduardo Haiama** {BIO 7279971 <GO>}

Thanks, Henrique. Like we said, the bad economic environment is that, that we cannot control. But we can control the micro, let's say, condition of a -- what we're going to do in terms of Loss Combat program, given that we have this -- due to bad economic environment, and that's exactly what it has been like reassessing the second quarter, whether we change our teams in the end of the first quarter. By the time, that market wasn't as bad as it is right now, and throughout the second quarter, we have been reassessed exactly what kind of actions we need to increase to be sure like we go back again to the loss reduction that we have seen in CELPA recently. We believe like some of the action we have like -- doing right now, it's already showing results, so we are confident that we are going to be able. After this, I can say pick up in terms of large increase to go back again and see reduction again.

**Q - Henrique Peretti** {BIO 18446440 <GO>}

Okay. But for the third quarter, do you have any estimates? Do you think you can have a flat number or should it go up or down?

**A - Eduardo Haiama** {BIO 7279971 <GO>}

No, we expect to go down.

**Q - Henrique Peretti** {BIO 18446440 <GO>}

Okay.

**A - Eduardo Haiama** {BIO 7279971 <GO>}

Okay. Because, like I said, we have been like changing some of the procedures and some of the tasks that are -- we performed to do it, specifically we thought better situation that we saw, right -- this change that we have been implementing, we have seen already improvements.

**Q - Henrique Peretti** {BIO 18446440 <GO>}

Okay. Thank you.

**Operator**

(Operator Instructions) This concludes today's 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>}

Sure, Sana. We would like to reinforce our commitment delivering different (inaudible) to our shareholders for exceptional financial and operating results. We also like to highlight, the years, the highest level just balance the corporate governance and reassure that both me and our Investor Relations team are available to help you should have any further questions. Thank you all again for taking part in our second quarter conference call. 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.

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