

Q2 2013 Earnings Call

Company Participants

- Eduardo Haiama, Chief Financial Officer and Investor Relations Officer

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to Equatorial Energia Second Quarter of 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-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 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 Eduardo Haiama. Mr. Eduardo, you may begin your presentation.

Eduardo Haiama {BIO 7279971 <GO>}

Hi, good morning, everyone. Thank you all for joining us in our second quarter conference call. As per agenda for today, which you can see in slide 2, I'll start the conference call describing the highlights of this quarter, then I'll comment our operating financial results, and at the end, I'll talk about our recent corporate events. Then finally, we will the open the Q&A session.

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Before the highlights, I'd like to clarify some procedures regarding the figures presented in earnings in this presentation. I'd like to point out that 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. It's important to note that as of this quarter, Geramar's figures are no longer being consolidated on an Equatorial due to change in accounting rules. Its results are now being registered only on the net income line in Equatorial's consolidated figures.

So moving on to slide six, we continue to post strong demand growth in CEMAR of 4.2% in this quarter, and in CELPA considering the both captive in the free markets, demand grew by 6.4%. In this quarter, CEMAR total energy losses amounted 21.1% or an increase of 0.7% over the quarter of last year.

And CELPA, and it's relevant to energy losses amounted 36.4%, we're going to talk about it little bit further specific about this energy losses. CEMAR's 12 month quality indicators that in fact improved by 7.7% and 5.6%, while in CELPA, analyze the three month figures, the quality indicators improved by 28.1% and 17.3%.

Moving on to slide seven. Net revenue is almost doubled in Equatorial basically by the consolidation of CELPA's figures.

Consolidated EBITDA, reported consolidated EBITDA totaled R\$64 or a drop-off 46% compared to last quarter of last year, second quarter of last year. Considering the approval off-net regulatory assets Equatorial consolidated EBITDA should have been R\$153 million or an increase of almost 74% over the second quarter of 2012.

In the quarter, Equatorial presented the net loss of R\$44 million. And doing the same kind of adjustments of regulatory assets, net income would have been R\$31 million or an increase of 25%. Consolidated investment amount to R\$156 million in the quarter or 13% growth compared to the quarter of last year, basically with the consolidation of CELPA.

In August 2013, Equatorial is yet another R\$50 million in future gap increasing in CELPA, and also in August, anyhow the regulator approved 9.18% increase in CELPA indicate of CEMAR the final tariff review should become published by the end of this month.

Moving on to slide 9. We'll talk about the electricity markets in CEMAR. In CEMAR, as you can see demand posted 4.2% growth, basically a result of the addition of clients that will led to an increase in the residential segments that almost grew by 8% demand in the quarter.

Moving on to Slide 10, we show the loss in CEMAR that ended second quarter of 21.1% of total losses. It's important to mention there we have been currently updating our annual loss program. So that we should expect a decrease in the next quarter regarding this total losses. And as soon as we have the final fuse of the tariff review, we're going to update, what's going to be the new regulatory targets pointed to losses.

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Moving on to slide 11 in terms of quality indicators, CEMAR improved both DEC and FEC by 7.7% DEC and 5.6% FEC. It's important to mention that as of this year, the decrease you might have in these quality indicators should help us to have an additional tariff by next year. So it's important for us to give improving quality indicators, in other words, decrease in these two indicators for next year there are adjustments.

Moving on to slide 12. We showed that both captive and improved markets grew by 6.4% led by especially the reservation and the commercial clients in this quarter and it's also we highlight that (inaudible) and it's grew by 9.6% year-over-year.

Moving on to slide 13. Looking at CELPA's losses, as we can see the 12 month periods increased from 35.9% in the first quarter to 36.4%, but that's basically because of the moving average effects. In real it's what we have been doing is since fourth quarter, if you look in on our quarterly basis, we have been reducing gradually and at the losses, it was 37% in the fourth quarter, 36.6% in the first quarter and now is 36.3% in the second quarter. It's also important to mention that we have started to implement our loss commence program in the second quarter and you should expect improvements by the end of third quarter and most of it would be consolidated in the fourth quarter on.

Moving onto slide 14. We showed banking effect in CELPA that continues to reduce on a 12 month basis of by 18% to 13% that in fact respectively. And specifically if you look at in terms of a quarterly basis, we have reduced banking effect by and 28% to 17% respectively.

Moving on to slide 16. We show our EBITDA in IFRS standard that dropped almost 46%. When we adjust by net regulatory assets in the quarter, actually regulatory EBITDA would have posted -- amounted to R\$3 million, or an increase of 74% compared to last year of second quarter. It's important to mention that we are currently analyzing some of the regulatory asset in the second quarter that were not recorded in the second quarter, but we recorded in the third quarter that would increase our regulatory EBITDA, if you look in terms of second quarter percent by about R\$40 million to R\$50 million. So, we are sure analyzing this, but there should be some additional adjustments to compare regulatory EBITDA.

In terms of net income, the reported net income would be a loss of R\$44 million, when you adjust by regulatory net assets, it would have been R\$31 million or an increase of 26% compared to second quarter of last year. Again this adjustment that we are currently analyzing regarding some net regulatory assets that were not recorded in the second quarter, that should be recorded in the third quarter, should also improve this R\$31 million, by R\$40 million to R\$50 million.

Looking at slide 18, represents (inaudible) of company's consolidated gross debt. Equatorial growth debt amounted to R\$3.1 billion, reflecting CELPA's consolidation, which contributed with approximately R\$1.5 billion. By the end of the second quarter, Equatorial had almost R\$1.5 billion as cash position. And that's why we believe like we do have a very comfortable debt amortization schedule.

Moving on to Slide 19, we break the Equatorial's consolidated net debt, that ended second quarter with roughly R\$1 billion excluding net regulatory assets and consolidated cash position. As a result net debt to EBITDA amount to around 2.3 times. If you adjust net debt in proportion Equatorial's stake in CEMAR 61% and CELPA 96% as shown in slide 2, we reach R\$630 million of net debt that would lead to our net debt per EBITDA of 2.4 times.

Moving on to slide 21, we present our CapEx figures, CEMAR's total CapEx in the quarter amounted to R\$61 million or a decrease of 55%. As for CELPA, total CapEx amounted to R\$95 million, being 90% of own CapEx and R\$5 million relates to Light For All Program.

Finally, moving onto slide 22. In August this year, the regulatory approved self-austerity adjustment of 7.35% that would have an impact to (inaudible) of about 9.18% increase. And additionally, on top of this 9.18%, the company should receive about R\$125 million for (inaudible) BES Group. It's important to mention that's CEMAR's final tariff review figures should have been published by the end of this month. And so far, what we have is only the regulatory asset base approved by ANEEL.

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

A - Eduardo Haiama {BIO 7279971 <GO>}

To sign out with light reinforce our commitment and delivering its proceed and to franchise the prestige to our shareholders for exceptional financial operating results. I'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, you should have any further questions. Thank you all again for taking part in our second 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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