

Q3 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's Third 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 accessed through the 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 in a [ph] 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 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>}

Good morning, everyone. First of all, I'd like to thank you all for joining us in our third 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 our operating and financial results; and finally, we'll open the Q&A session.

Before the highlights, I'd like to clarify some procedures regarding the figures presented in the earnings release 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 its turn consolidates 100% of Sol Energias' figures. It's important to note that since first quarter, Geramar's figures are no longer being consolidated on the Equatorial due to a change in the accounting rules. Its results are now being registered only on the defs [ph] income line in Equatorial's consolidated figures.

Moving onto slide six. In this quarter, both CEMAR and CELPA posted a very strong energy demand growth respectively of 12.3% and 9.1% year-on-year. In this quarter, energy losses in CEMAR fell to 20.3% of the required energy. And as per CELPA, it registered 36.5%.

CEMAR's quality indicators that in fact improved by 10.7% and 6.4% respectively. While in CELPA, when you look at this only for the three-month figures, the quality indicators improved by 17.9% and 32% year-on-year.

So moving on to slide seven. In third quarter, our Equatorial's net revenue is almost doubled fueled by the beginning of consolidation of CELPA's figures. EBITDA for the quarter totaled R\$331 million, influenced by the CDE revenue recognition following CEMAR's and CELPA's tariff review readjustment respectively. The regulatory EBITDA grew by 22% in the third quarter.

In the quarter, Equatorial presented a net profit of R\$200 million, also influenced by the CDE recognition. Just to the regulatory figure, net income would have amount to R\$167 million. Consolidated investment totaled R\$161 million or a decrease of 3% year-on-year -- decrease year-on-year.

In August 2013, as we have already mentioned in our last quarter, Equatorial transferred another R\$50 millions in Future Capital increase in CELPA.

Moving on to slide nine, talking about the electricity markets in CEMAR. As you can see, our energy demand grew by 12.3% mainly fueled by the expansion of the client base increase in the consumption per capita. I'd like to highlight the growth in the residential segment, that grew almost 17% in this quarter.

In slide 10, CEMAR highlight the losses. They reduced to 20.3%, slightly above the new regulatory targets set by ANEEL in the August tariff review of 19.6%. They increased showing the non-technical losses in this quarter, basically happens because of the restart of the technical losses that decreased from 12.42% to 9.9% following the company's tariff review. We are already reassessing CEMAR's last commitment and (inaudible) in order to achieve the new loss targets for this cycle.

Moving on to slide 11, in terms of quality indicators both DEC and FEC improved in the quarter respectively by 10.7% and 6.4% amounting to 19.2 hours and 10.6 times in the third quarter.

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Moving on to slide 12, considering both the captive and the free markets demand grew by 9.1% in CELPA, basically explained by the growth within our consumers and the increase also in the per capita average consumption. If you look at CELPA's required energy, the growth was slightly stronger amounting to 10.2% in the third quarter.

Moving on to slide 13, we can see CELPA's energy losses increased to 36.5% on a 12-month base over the required energy and registered 63.2% when we look at non-technical losses over low-voltage markets. It's important to note that when I highlight the quarterly figures, energy losses decreased, opportunity decreased to 36.1%, slightly below the level presented in the last three quarters.

In our view, this shows that the growths in the 12-month average accounts (inaudible) seen during the 2012 in how that the strength has already stopped, in 2013 it starts to decline.

Moving on to slide 14, CELPA's quality indicators that in fact improved by 19% and 18.7% respectively, basically through better management practice.

Moving on to slide 16. Third quarter EBITDA by IFRS standards amounted to R\$331 million. Energy include the constitution of net regulatory assets for both CELPA and CEMAR in the results and adjusted by non-recurring impact in this quarter, regulatory EBITDA would amount to R\$228 million or a 22.6% growth.

In the next slide, we do the same analysis for Equatorial's net results, which was the reported amount of R\$200 million net profits and revenue adjusted by the net regulatory assets in the recurring items, net income would have been R\$167 million or an improvement of 28%.

In slide 18, we present the debt amortization sched of the company's gross debt.

Equatorial gross debt amounted to R\$3.1 billion, reflecting CELPA's consolidation which contributed with almost R\$1.5 billion. By the end of the quarter, on a consolidated basis, Equatorial has almost R\$1.6 billion of cash position, much bigger than our consolidated short-term debt of R\$550 million.

It's important to mention that we are not considering Geramar's debt from this period as of first quarter reflecting the change in the consolidation criteria. In terms of net debt, in slide 19, Equatorial's consolidated net debt amounted to R\$1.1 billion, excluding net regulatory assets and consolidated cash position. As a result, net debt-to-EBITDA amount to 1.6 times. If we adjust net debt, the proportion (inaudible) taking CEMAR of 65% and CELPA 96%.

As shown in slide 20, we've reached a net debt of R\$738 million and it represents a 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\$68 million or 60% decrease. As per CELPA, total CapEx amounted to R\$94

million, being R\$78 million of its own CapEx and R\$16 million related to Light for All Program.

Now, 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 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 reinforce our commitment delivering -- differentiated the (inaudible) shareholders for exceptional financial and operating results. We'd also like to highlight our adherence to the highest level transparency and corporate governance and reassure that both me and our Investor Relations team are available to help, if you should have any further questions. Thank you all again for taking part 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, and have a good day.

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