

Q2 2012 Earnings Call

Company Participants

- Eduardo Haiama, CFO, IRO

Presentation

Operator

Good afternoon, everyone, and thank you for waiting. Welcome to Equatorial Energia's Second Quarter 2012 Results Conference Call. With us here today we have Mr. 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 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'll turn the conference over to Mr. Eduardo Haiama. Please, sir, you may begin your presentation.

Eduardo Haiama {BIO 7279971 <GO>}

Hi. Good morning, everyone. First of all, I'd like to thank you all for joining us in our Second Quarter conference call. As for 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 our operating and financial results, and lastly 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 turn consolidates 100% of Sol Energias' figures.

So moving onto slide six. We continued to post strong energy demand growth of 12.5% this quarter. And despite this growth, energy losses fell 1percentage point when compared to Second Quarter '11, with total losses reaching 20.4% of required energy.

Quality indicators that can in fact rose 10.6% and 0.2%, respectively, in CEMAR. Basically is to a reflection of First Quarter quality indicators.

In June, we published a Material Fact, commenting on the proposal made by Equatorial to acquire controlling stake of CELPA, which is a process still under negotiation. We would like to clarify that the completion of this potential acquisition is subject to some precedent conditions and once we have any more information we will provide to the markets.

Moving on to slide seven. In Second Quarter, Equatorial's net revenues grew 22.1%, fueled by CEMAR's 19.7% revenues growth as a result of the strong demand growth. Adjusted EBITDA reached BRL115 million, or 4.3% year-on-year. And basically, there are some one-offs that I should comment later on that negatively impacted our energy purchase in this quarter.

Adjusted net income totaled BRL38.8 million in the quarter, down by 11.6%, also affected by the same one-off events that negatively impacted our energy purchase.

Consolidated investments amounted to BRL138 million and basically CEMAR, at Geramar we have only now maintenance CapEx. And this BRL138 million is 24.8% higher than the same quarter of last year. In June of this year, CEMAR concluded the issuance of its fourth debentures, raising BRL280 million with the final maturity in 2020.

Moving on to slide nine, we basically show the breakdown of CEMAR's electricity market. As you can see, energy demand posted a strong growth of 12.5%, spread across the different segments. And basically, that's a continuation of the strong economic growth in the states. And in this quarter, the climatic factors had a lower impact as opposed to the First Quarter. It's also important to mention in this slide that total losses remain at controlled level despite the high growth that CEMAR is posting.

Moving on to slide 10, when we show the breakdown of total losses and non-technical losses at CEMAR, you can see that we continue to post actual losses below regulatory targets for the first three years the tariff cycle. In other words, despite the market that was mentioned, the strong demand growth, we continue to post non-technical losses that is below the regulatory targets.

Passing on to slide 11, we can observe CEMAR's quality indicators that in fact, rose by 10.6% and 0.2%, respectively. And again, this is basically due to the First Quarter that was

impacted by the high CapEx program, which happened simultaneously to the rainy season in Maranhao state when the amount of occurrence increased.

Moving on to slide 13, we show adjusted EBITDA that reached BRL115.2 million, and that's under IFRS accounting. And it's important to mention that in this quarter we had some known recurring events that negatively impacted energy purchase that, according to our calculation, would represent something between BRL20 million to BRL25 million in the quarter.

The main explanation for this impact is that the Company, CEMAR, was exposed to the spot markets due to some thermal plants that delayed the beginning of its operations in the quarter so that CEMAR would -- had to buy energy at the spot price, at a higher price than is implied in the contracts. But also, because some of the -- lots of the thermal plants dispatched by the ONS, the National System Operator, that also increased in its costs in the quarter. These additional costs, according to regulation, should be reimbursed over the next tariff readjustments.

Moving on to slide 14, we show the adjusted net income. Again, that's under IFRS accounting, but the same adjustments showed to EBITDA that I mentioned that would be between BRL20 million to BRL25 million in the quarter. Then I forgot to mention something that in the first half you would have some adjustment of about BRL35 million considering the First Quarter results. The same adjustments that I mentioned, EBITDA, would have here in net income if we used regulatory accounting.

Moving on to slide 15, represents our amortization schedule of the Company's gross debt. Equatorial's gross debt amounts to almost BRL1.6 billion. In our view, we have a very comfortable debt amortization schedule. In June, CEMAR concluded the issuance of BRL280 million in debentures, with the final maturity in 2020. These results should be used to fund the Company's stronger CapEx and working capital during this year and also the amortization of the third debenture issuance that matures in March of 2013.

Moving on to slide 16, we show the breakdown of Equatorial's consolidated net debt, which amounts to BRL1.1 billion, and excluding net regulatory assets and consolidated cash position. As a result, net debt to EBITDA amounted to 2.2 times. And if you adjust the net debt in proportion to Equatorial's stake in CEMAR's 65%, Geramar's 25%, as shown on slide 17, our consolidated net debt would reach BRL751 million, representing the same 2.2 times net debt to EBITDA.

Moving on to slide 18, we present our CapEx figures. And again, as we posted in the First Quarter, CapEx grew year-on-year by around like 60%, especially in the own CapEx. In the case of Geramar, we have only maintenance CapEx, so it's very, very marginal, the CapEx we have to Geramar. And we continue to -- through our targets conclude most of the CapEx for this tariff revision cycle by early 2013.

With that, we conclude our presentation. We can pass on to the Q&A session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) Excuse me, this concludes today's question-and-answer session. I would like to advise Mr. Eduardo Haiama to proceed with his closing statements. Please go ahead, sir.

A - Eduardo Haiama {BIO 7279971 <GO>}

(Sum up), we would like to reinforce our commitment in delivering a (differentiated appreciation) to our shareholders for exceptional financial and operating results. We'd also like to highlight our adherence to the highest level of transparency and corporate governance, and we assure that both me and our Investor Relations team are available to help you should you have any further questions.

Thank you, all again for taking part of our Second Quarter results 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.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.