

## Q4 2012 Earnings Call

### Company Participants

- Eduardo Haiama, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Unidentified Participant

### Presentation

#### Operator

Good morning, everyone and thank you, for waiting. Welcome to Equatorial Energia's Fourth Quarter of 2012 Results Conference Call. With us here today, we have Mr. Edouardo Haiama, Chief Financial and Industrial 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 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](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 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 in the future. Investors and analysts should understand the conditions related to macro-economic 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 Mr. Eduardo Haiama. Mr. Eduardo, you may begin your presentation.

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

Thanks, good morning everyone. First of all, I'd like to thank you all for joining us in our fourth quarter conference call. As per 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 operating financial results and at the end, I will talk about our recent corporate events and finally, we'll have the Q&A session.

Before the highlights, I would like to clarify some procedures regarding figures presented in the earnings release and in this presentation. It's important to note that for the first time, we are consolidating Celpa's figures under Equatorial. In terms of income statements, that was consolidated and represents only two months; November and December. I'd like to point that, consolidated information reflects 100% of CEMAR's, a 100% of Celpa's, 25% of Geramar's and 100% of Equatorial Solucoes, which in history consolidated a 100% of Sol Energias' figures.

So, moving to slide six, we continue to post strong energy demand growth in CEMAR, of 9.2% in the quarter. In Celpa, considering both the captive and free markets, demand grew by only 2.6% and that's mainly because of higher energy losses. Despite the growth in CEMAR, energy losses fell 0.3 percentage points when compared to fourth quarter '11, with total losses reaching 20.7% of required energy. And for Celpa, energy losses amounted to 30.5% of required energy. CEMAR's quality indicators, DEC and FEC amounted to 21.7 hours and 11 times, while in Celpa, these same indicators were much higher being a 100 hours and 51 times respectively.

Moving on to slide seven, Equatorial's net revenues more than doubled in the quarter, fueled by CEMAR's 20.6% revenues growth and the beginning of consolidation of Celpa's figures. EBITDA for the quarter totaled R\$167 million, an increase of 18% compared to the adjusted value presented in the fourth quarter of '11. Also in the quarter, Equatorial presented a net loss of R\$8.8 million and that's basically because of the consolidation of Celpa's figures.

Consolidated CapEx amounted to R\$258 million, and looking specifically in CEMAR, the investment grew by 6.3% in the quarter. In December, we concluded our follow on, that resulted in our net capital increase of approximately R\$1.15 billion for the issuance of new shares priced at R\$16.

On top of that, we also concluded another capital increase in Equatorial in January, for the capitalization of debts held by BNDES against the company. So that now the company's capital is represented by 198 million common shares. Finally, we are proposing a minimal dividend pay out of 25%, that represents R\$33 million or R\$0.17 per share.

Moving on to slide nine, we'll talk about the electricity market in our concessionaires. As you can see, CEMAR's demand growth posted a 9.2% growth across all segments especially because of our economic growth and also the expansion of our client base. In terms of required energy, CEMAR grew by 8.6%, less than the energy sold [ph], which means the less energy losses year-on-year.

In Celpa, it happened after this, so considering the captive and the free markets, volume sold represented a growth of 2.6%, but required energy grew by 8.6% and our debts related to the higher end of the losses in Celpa.

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Moving on to slide 10, which shows the actual losses in CEMAR, that continues to be below the regulatory target for the second quarter of this year. In other words, despite the strong market growth, we ended fourth quarter 2012 with non-technical losses of over low-voltage markets of 14% and total losses over energy required ended at 20.7%.

Moving on to slide 11, we can see that Celpa ended fourth quarter 2012 with a 35% total losses over required energy and 58.4% of non-technical losses over a low-voltage market. That's above the current regulatory target of 41.55% [ph]. And as loss in terms of quality indicator we can see on slide -- on the next slide, the two main factors of improvement, that current levels pursued by Celpa's new management. So back on to slide 12, in terms of quality indicators CEMAR's DEC amounted to 21.7 hours by the end of 2012, while Celpa represent 101 hours for the same period. As for the FEC indicator, CEMAR's figures amount to 11 times during 2012, that's below Brazilian average while Celpa represented 51 times of low voltage.

Moving on to slide 14, reported EBITDA grew by 18% and when you look at the breakdown by company, CEMAR contributed with R\$147 million and Celpa was R\$21 million. We'd also like to remind you that we're consolidating Celpa's income statement only starting from November 1st, not the full year of 2012.

to the next slide, Equatorial net profit was a loss, actually of R\$8.8 million for the quarter and this result was basically impacted by the consolidation of Celpa's results in the quarter, that negatively contributed the proportionate net loss of R\$98 million.

Moving on to slide 16, we present the more business case of the company, gross debt. Equatorial gross debt reached R\$3.6 billion at the end of 2012, reflects the beginning of Celpa's consolidation. Debt maturity was approximately R\$1.9 billion. Given Celpa's current -- recent financial restructuring under the judicial reorganization process, we believe that we have a comfortable debt amortization profile. By the end of 2012 on a consolidated basis, Equatorial has almost R\$1.6 billion of cash position, that's much bigger than our consolidated short term debt of R\$880 million.

Moving to slide 17, we break down Equatorial's consolidated net debt which amounted to R\$1.8 billion excluding net regulatory assets and consolidated cash position. As a result, net debt to EBITDA of the last 12 months amounted to 3.1 times ratio, which means that they only reflect the consolidation of Celpa starting November and December.

If you adjust net debt in proportion to Equatorial's statement on slide 18, taking CEMAR of 65%, Celpa 61%, and Geramar 25%, that's from slide 18, we reach almost R\$900 million of net debt, representing 2.4 times net debt to EBITDA ratio.

Moving on to slide 19, represent our CapEx figures. So for CEMAR, CapEx amounted to almost R\$200 million, considering the R\$45 million from the Light for All Program. And that represents basically a growth of 2.1% year-on-year and in terms of the full year investment totaled almost a growth of 24.5%. As for Celpa, the investments represented a drop of almost 58% year-on-year in the quarter and for the full year, a drop of almost 25% in the period.

Moving on to the slide 21, we would like to highlight again the conclusion of our follow-on transaction that resulted in an issuance of almost 75 million shares, new shares priced at R\$16 and that represents a cash inflow of roughly R\$1.1 billion. Of that cash, we already deployed R\$351 million into Celpa as a capital increase in December and another R\$44 million in February. And the remaining of this cash should not only be used for our future cash transactions with Celpa, but also for the potential M&A transactions in the future.

Also in December 2012, we published the Material Fact informing the signing of an Investment, Purchase and Sale of Shares' Commitment targeted acquisition of the remaining comps of Rede Energia, along with CPFL. There are still some pending conditions that have to conclude this deal and we should keep you posted once it have any other information to release.

In January 2013, we also concluded another capital increase in CEMAR to capitalize R\$234 million in debt held by BNDES against the company. So that now, Equatorial's capital structure represented by 198 million shares. So now, with that we conclude our presentation. We can pass on to the Q&A session. Thank you.

## Questions And Answers

### Operator

(Operator Instruction). Our first question comes from Clara John CN investment[ph].

### Q - Unidentified Participant

Hello.

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

Yes

### Q - Unidentified Participant

Yes. Can you hear me?

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

Yeah.

### Q - Unidentified Participant

Okay. So my first -- thank you taking my question. My first question is regarding your energy loss percentage in Q4 in Celpa being higher than the previous quarter. Can you talk to us about it?

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

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Well, we just got control of the company in November 1st. I actually -- or you choose to have any kind of energy loss program, it'll take some time. So basically when you look at the trend, I don't know if you have the press release of Equatorial in your hand, but if you look at the trend of energy losses in Celpa, it was growing consistently in the first quarter of 2011, right? And it kind of accelerated in 2012. So basically like, what we need to do now is like get a some kind of point of reflection, right? So that we start converging losses more effectively. But with only two months and given that the first two months were more really like getting to understand about the company. It was such that we could not do anything to stop the growth by that time.

### **Q - Unidentified Participant**

Okay, so when shall we expect to see the energy loss percentage decreasing with Equatorial's management?

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

Yeah, I believe like throughout 2013, we should see some measures taking effect. But probably this full effect we'll only going to see in 2014 when you have the rollover of the measure that we're going to take over the year.

### **Q - Unidentified Participant**

Perfect. My second question is regarding your CapEx and in Celpa decreasing by 58%. Can you explain about the CapEx plans of Celpa and why in Q4 last year it was actually decreasing?

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

Yeah, like I said, I mean, we got to construct the company in November. So our main concern was the cash burn that the company was going through by that time in our -- the first measure that we did like okay, let's stop all the CapEx that's not really emerging kind of CapEx, right, that is for (inaudible) and let's get it -- better understand what's going on. So it's not like the CapEx that is going to be low. But it's more like -- lot more like kind of a break that we have to say. We need to understand data before deploying cash like that. That was being deployed until we got control of the company.

So for 2013, probably should expect an increase in terms of CapEx, so that we can attack not only losses but also that's growing market that are stressed in the presentation. When I compare then it so in the required energy, that it had a huge gap in terms of required energy meaning that like a loss of 500 GWh [ph] lost through is lost as energy losses. And I believe like, (inaudible) CapEx to connect these potential clients, right?

### **Q - Unidentified Participant**

Yes and also my last question is regarding the Grupo Rede Energia, the acquisition. Could you give us any update on when the potential acquisition is going to complete?

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

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Well, it's a negotiating process. What happened right now, until today was like that we signed like an investment, sales purchase agreement with them. And now we need to discuss with (inaudible) that we can find a solution to restructure the financial situation of the group, right? The group is under what you call here, will be an equivalent to chapter XI, right? And we need to negotiate with (inaudible) to see, if we can find out a good solution for everyone. So I'd say, like it's going to take some months for us to conclude and that's why I'd rather not given any forecast regarding the timing because I mean, it's going to depend on how it's going evolve our negotiation.

### **Q - Unidentified Participant**

Okay, thank you very much for help.

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

No problem.

### **Operator**

(Operator Instruction). 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 in delivering appreciation to our shareholders for exceptional financial and operating results. We also like to highlight that our adherence to the highest level of transparency in corporate governance and we assure that both me and our Investor Relations team that are available to help if you should have any further questions.

Thanking all of you in for taking part in our fourth 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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