

Q1 2013 Earnings Call

Company Participants

- Eduardo Haiama, Chief Financial Officer

Other Participants

- Henrique Peretti, Analyst

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to Equatorial Energia First 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.

At the 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 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 the 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 first quarter conference call. As per agenda for today, which you can see in slide two, I'll start

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the conference call describing the highlights of this quarter, then I'll comment on operating, financial results, and at the end, I'll talk about our recent corporate events. Then we will open the Q&A session.

Before the highlights, I'd like clarify some procedures regarding the figures presented in the earnings release in this presentation. I'd like to point that consolidated information reflects 100% CEMAR's, 100% of CELPA's and 100% of Equatorial Solucoes, which in turn consolidates a 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 10.6% in this quarter and in CELPA considering both the captive in the free markets, demand grew by 3.9%. By this growth in CEMAR energy losses fell 0.3 percentage points when compared to the first quarter of '12. This total loss is reaching 20.4% of required energy.

As for CELPA, energy losses amounted to 35.9% of required energy. CEMAR's 12 month quality indicators improved by 9.3%, and 7% in terms of DEC and FEC while CELPA, I'd like to stress the three month figures, the quality indicators improved by 24.7% and 22.4%. We're going to comment a little bit further on this later on in this presentation.

Moving on to slide seven, first quarter '13 Equatorial's net revenues almost doubled with consolidated -- the consolidation of CELPA's figures. EBITDA for the quarter totaled R\$59.8 million, a drop of 52% compared to the value present in the first quarter '12, basically due to the thermo plant dispatch in the energy purchase cost. Considering the consolidation, the constitution of net regulatory assets, Equatorial's consolidated EBITDA would have reached \$R170 million.

In this quarter, Equatorial presents a net loss, due to the thermal dispatch, of R\$24.6 million. Also adjusted in these figures by the constitution of the net regulatory assets, net profitable have reached R\$37. Consolidated investments amount to R\$169, and looking specifically to CEMAR's investments, we presented a growth of 5% in the quarter. In April 2013, CELPA's General Meeting, Shareholders General Meeting approved its capital increase, through which Equatorial now holds 96.2% stake in CELPA's total capital as opposed to initial stake of 61%.

Moving on to slide 9, we'll talk about the electricity markets, CEMAR. As you can see, energy demand posted strong 10.6% across the different segments, especially being the result of the economic growth of sales and expansion of its client's base. I would like to highlight the growth in the residential segments, which grew almost 15% in this quarter.

On slide 10, we show the actual loss at CEMAR, they are below the regulatory target for the last year of this cycle or the (inaudible) cycle. In other words, despite this strong demand growth, we are in the first quarter 2013 with non-technical losses of the low voltage markets of 13.4% and in terms of total losses over required energy of 20.4%.

Moving on to slide 11, the quarter indicates awesome progress in the quarter by 9.3% in DEC and 7% in FEC despite this continuous strong demand growth.

Moving on to slide 12, we are highlighting the main measures already taken by us, aim at surplus turnaround. It's important that ever since so far it's on track of to what we have planned. For example, price (inaudible) we have developed a 100-day plan that would be against to which priority measures we'll take once we entered CELPA.

Since we enter in November, we have already elected the new Board of Executives, Officers and also several managers in key areas.

In the first quarter, we have also changed some key position in the third management level. We start to focus on improving collection rates, quality indicators and also continue to grow, minimize the losses, we are going to see in the next slides.

In the second quarter, we implemented Voluntary Layoff Plan, we started hiring, training and purchase equipment to combat energy losses. We'll improve the process, billing, collection and also open a new call center run by the same provider that we use in CEMAR.

All those measures, they will add some improvement in various indicators that we are going to see on the next slides.

Moving on to slide 13, so assuming the both captive and the free markets. The growth in the quarter amount to 3.9% and is it's based to explain my small change in the average temperature during this year and the growth in the energy losses. If you look at CELPA, the growth was much stronger of 8.4% in the first quarter of 2013.

Now moving on slide 14, we can observe energy losses and is at 35.9% as a percent of required energy and 61.1% of non-technical losses of our low voltage market, that's above the current regulatory target of 41.55%. But we would also to highlight that when we analyze the quarterly figures in the first quarter, the level of losses, they were capped at 36.6%, that's slightly below the level presented in the fourth quarter of 37%.

And basically, this shows that the growth in the 12-month average period, they account just (inaudible) occur in 2012 and that the standard of growth has already started in the first quarter 2013.

On slide 15, as you can see, DEC and FEC, they improved by 7% and 9% respectively. And you look on a quarterly basis, the improvement was much stronger amounting to 24.7% at 22.4%. And that's mainly by improving management practice that we haven't mention in the previous slides.

Moving on to slide 17, first quarter EBITDA, reported EBITDA dropped by 52.9%. But it includes the constitution of net regulatory assets in the results, the growth would have

amounted to 80.8%. This difference was explained by the higher energy purchase cost due to the thermal dispatch plants.

It's important to highlight that this cost should be compensated in CEMAR and CELPA's next readjustment overview, which should occur in August for both companies.

On the next slide, we show that the same impact of the thermal dispatch also impacts Equatorial's net results, which resulted in a loss of R\$25 million. Adjusted by this net regulatory assets, net income would have been R\$37 million or improvement of 29% over first quarter of 2012.

Moving on to slide 19, represent the amortization schedule of consolidated gross debt. The consolidated gross debt amounted to R\$3.4 billion, reflects the consolidation of CELPA, which contributed to almost R\$1.9 billion. By the end of the first quarter, on a consolidated basis, Equatorial had R\$1.4 billion of cash position, that's much bigger than our consolidated short-term debt of R\$620 million. I'd also like to highlight that we are excluding Geramar's debt on this year to reflect the change in the consolidation criteria.

Moving on to slide 20, we break down Equatorial's consolidated net debt which amounts to almost R\$1.4 billion, excluding net regulatory assets and consolidated cash position. As a result, net debt per EBITDA amount to 2.9 times ratio. It is important to mention that as per CELPA, we are only including EBITDA starting from November 2012.

If we adjust net debt in proportion to Equatorial's stake in CEMAR of 65% and CELPA of 61% as shown on slide 21, we reached approximately net debt of R\$600 million and that would represent the net debt of 2 times for EBITDA.

Moving on to slide 22, represents our CapEx figures. CEMAR's own CapEx in the quarter amounted to R\$77.5 million or a growth of 5% over the previous years. On the other hand, CELPA's total investment in the quarter represents a reduction of almost 45%, totaling R\$86 million.

Moving on to slide 24, basically to highlight again that CELPA's shareholders general meaning approved its capital increase in April 2013, for the issuance of approximately 1.8 billion new shares, as a consequence of Equatorial's stake in CELPA increased to 96.2% from 61% originally.

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) Our first question comes from Mr. Henrique Peretti with UBS.

Q - Henrique Peretti {BIO 18446440 <GO>}

Hello, everybody. I'd like to ask what is your status of the legal negotiations of the negotiations to acquire Rede Energia?

A - Eduardo Haiama {BIO 7279971 <GO>}

Hi. Basically, we are still in the process of negotiating with liquidators. We need to have the first purchase meeting by the mid of next month, right, in legal -- making the whole -- let's say the recuperation plan. This should be approved on June, mid-July, that will be what I can say about the legal status and regarding negotiation, we're still negotiating with Rede Energia.

Q - Henrique Peretti {BIO 18446440 <GO>}

Okay.

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>}

To sum up, we'd like to reinforce our commitment delivering its first change and appreciation to our shareholders for exceptional financial year results. We'd also like highlights adherence to the highest level of transparency in company dominance and we 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 first quarter conference call and have a good day.

Operator

This concludes 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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