



# Corporate Restructuring

November 2007



**EQTL11**  
**NÍVEL 2**  
BOVESPA BRASIL

# Agenda

**Corporate Restructuring**

**Light**

**PCP**

# Agenda

Corporate Restructuring

Light

PCP

# Corporate Restructuring

- **Corporate Restructuring**
  - **Step # 1: Increase in the Controlling Interest of Equatorial and CEMAR**
  - **Step # 2: Merger of PCP Energia by Equatorial**
  - **Step # 3: Listing on the *Novo Mercado***
- **Exchange Ratios Analysis**
- **Post-Restructuring Strategy**

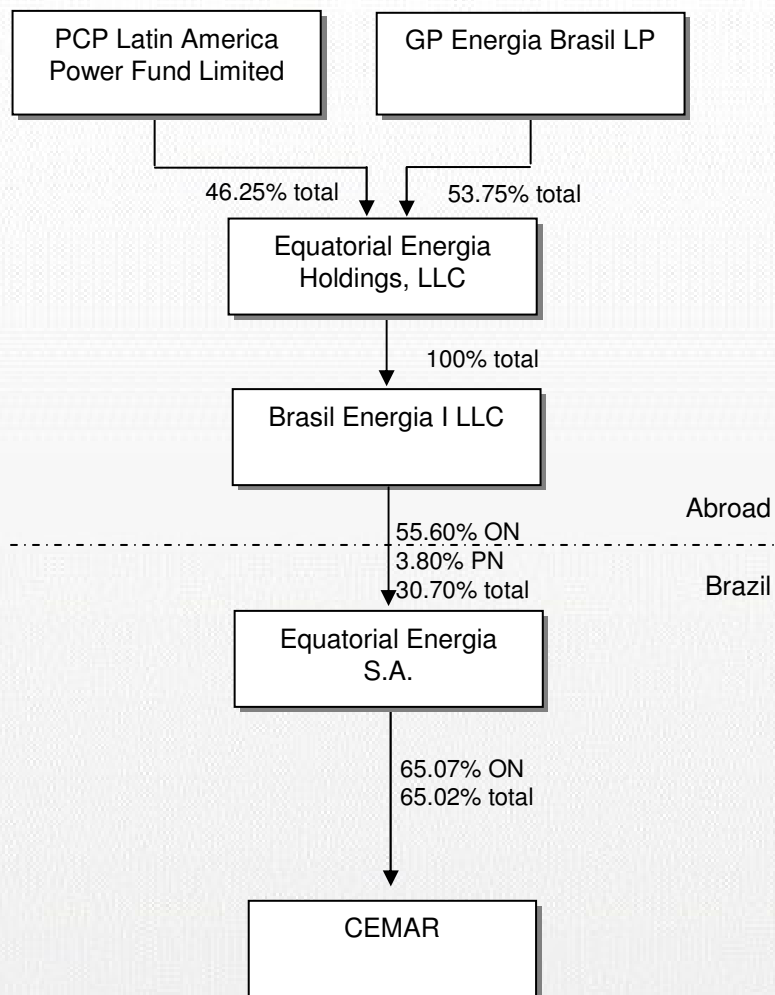


# 1. Increase in the Controlling Interest of Equatorial and CEMAR

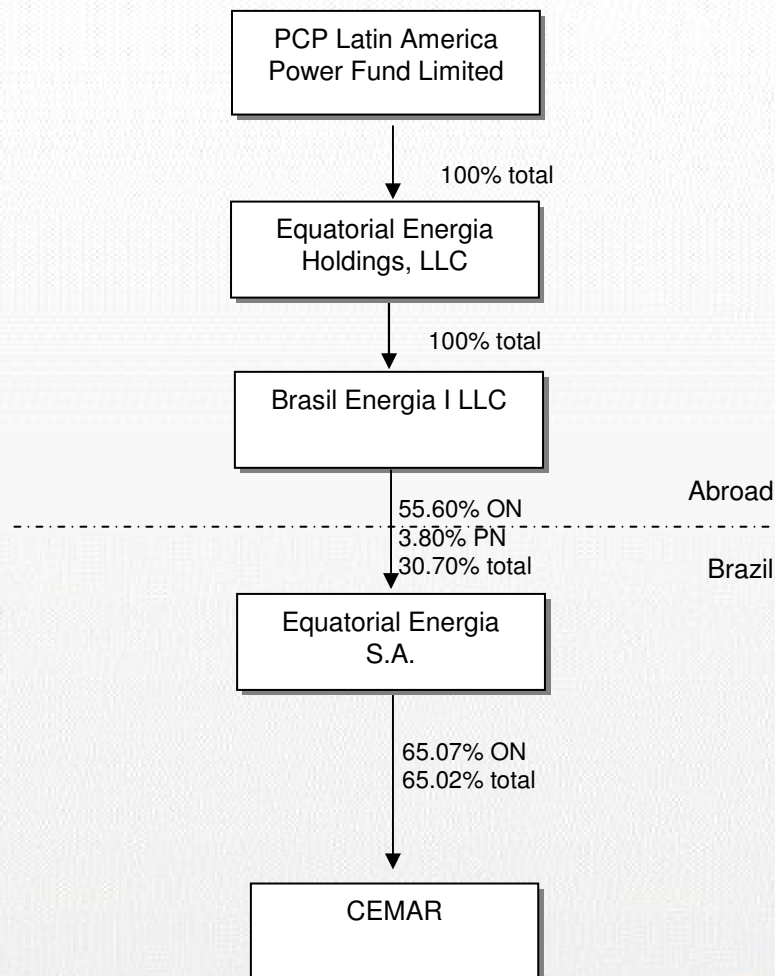
- 💡 On November 5, GP Energia and PCP Latin America Power Fund entered into an agreement to transfer the total ownership interest held by GP Energia in Equatorial Energia Holdings, LLC, a company that indirectly controls Equatorial and CEMAR, to PCP Latin America Power Fund
- 💡 The amount to be paid to GP Energia in reference to the transfer is R\$203.8 million, implying a price of R\$18.64/Unit
- 💡 The transaction is contingent upon the prior consent by ANEEL and will only be implemented if and when this consent is obtained
- 💡 On conclusion of the transaction, corporate control of Equatorial and CEMAR will be held solely by PCP Latin America Power Fund

# 1. Increase in the Controlling Interest of Equatorial and CEMAR

- **Current Structure**



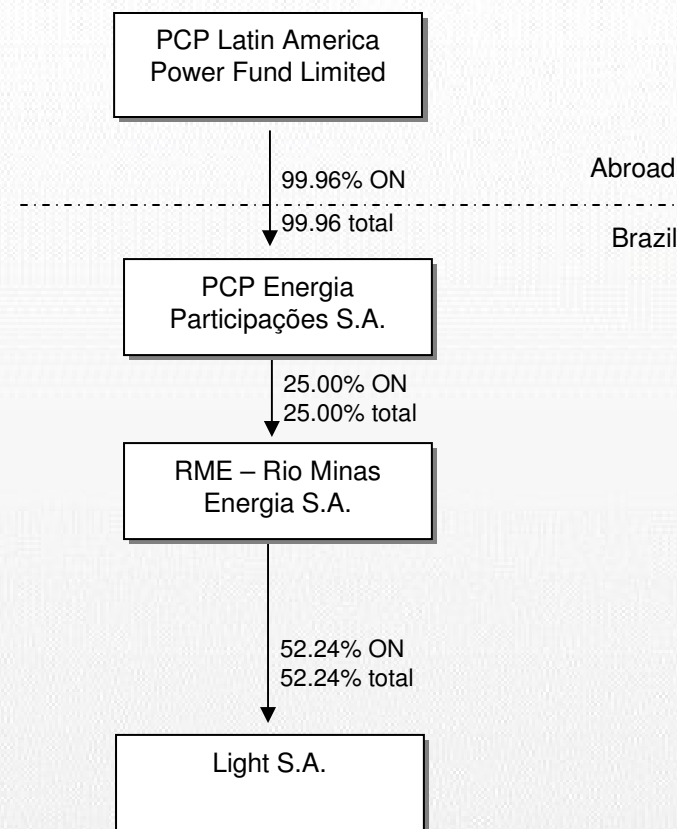
- **Structure after Increase in Controlling Interest**



## 2. Merger of PCP Energia by Equatorial

- After the increase in controlling interest, PCP Latin America Power Fund will aim to consolidate its investments in the energy sector
- The proposal is to merge PCP Energia by Equatorial
- PCP Energia indirectly holds 13.06% of Light through RME and shares its corporate control through a shareholders' agreement

- Structure of Interest in Light S.A.



## 2. Merger of PCP Energia by Equatorial

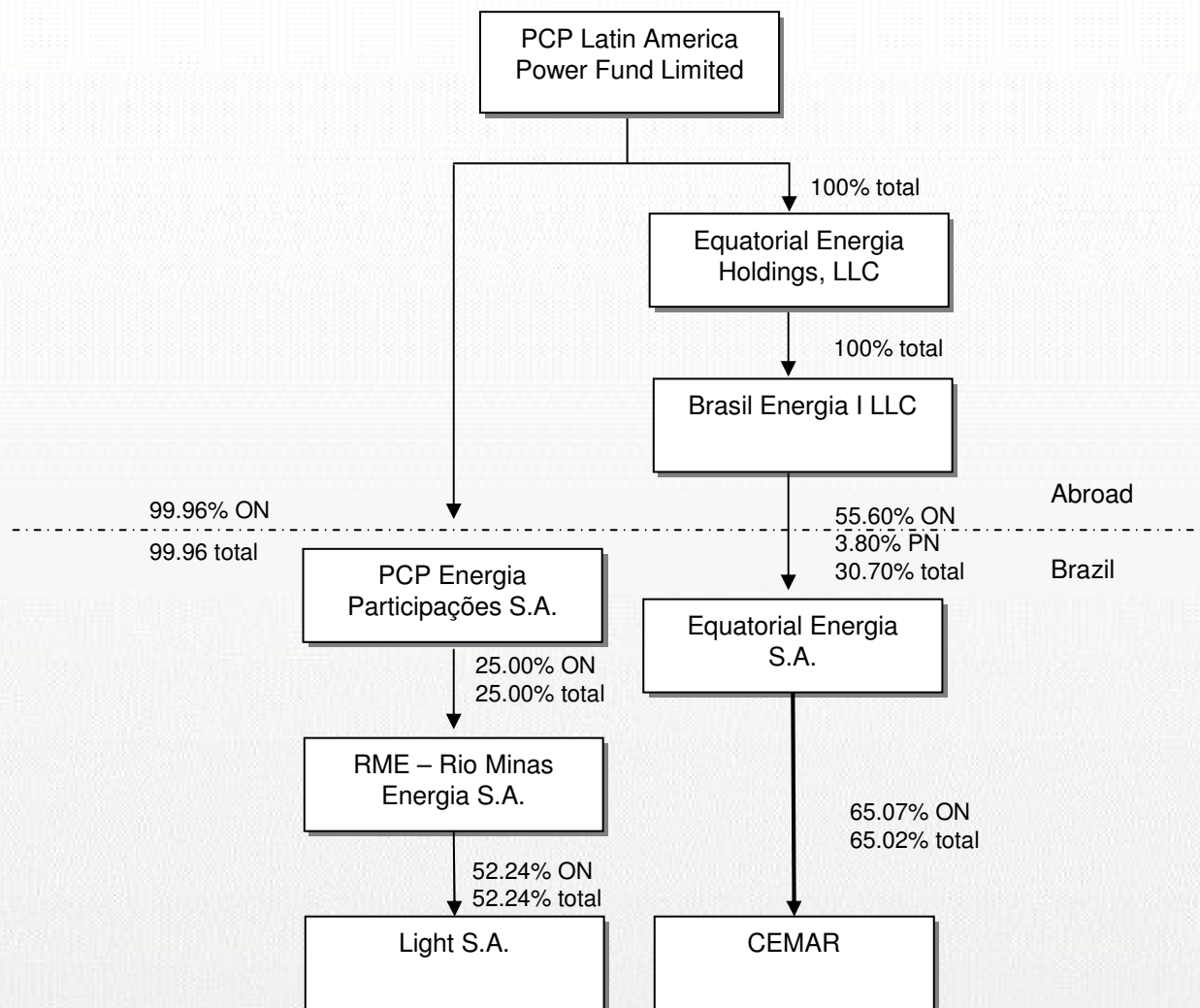
- ❗ On November 5, 2007, the Board of Directors of Equatorial approved the execution of a protocol establishing the terms and conditions for the merger of PCP Energia into Equatorial
- ❗ The protocol establishes an exchange ratio between Equatorial and PCP Energia shares based on the weighted average of the quoted value of Equatorial Units (EQTL11) and Light common shares (LIGT3) during the last 90 Bovespa trading sessions until November 5, 2007
- ❗ The average price for EQTL11 was R\$19.31/Unit and for LIGT3 was R\$27.85/thousand shares, equivalent to an exchange ratio of 0.6934 Equatorial Unit per thousand Light common shares
- ❗ Equatorial will hire an independent specialized company to prepare an appraisal report of Equatorial and PCP Energia to provide additional information in regard to the value of the companies
- ❗ The merger will only be implemented upon the conclusion of the transfer of GP Energia's interest to PCP Latin America Power Fund and the transaction's approval by a general shareholders' meeting, where holders of preferred shares will have the same voting rights as holders of common shares





## 2. Merger of PCP Energia by Equatorial

### Structure after the Increase in Controlling Interest



## 2. Merger of PCP Energia by Equatorial

### Calculation of the Equity Value of Equatorial Energia and PCP Energia Participações

Stake(%)			PCP Energia Part.	25,0%
Stake (R\$)				R\$ 740.036.708,96
			↑	
Stake (%)			RME / Lidil	52,24%
Stake (R\$)				R\$ 2.960.146.835,85
			↑	
			EQTL11 (R\$/Unit)	LIGT3 (R\$/000 shares)
Weighted Average Price*	R\$	19,31 (1)	R\$	27,85 (2)
Number of Units /Shares		66.218.483		203.462.739.012
Market Cap	R\$	1.278.678.900,29	R\$	5.666.437.281,48
Implicit Exchange Ratio (1)/(2)				0,6934
* 90 trading days				

### Calculation of the Exchange Ratio between Equatorial Energia and PCP Energia Participações

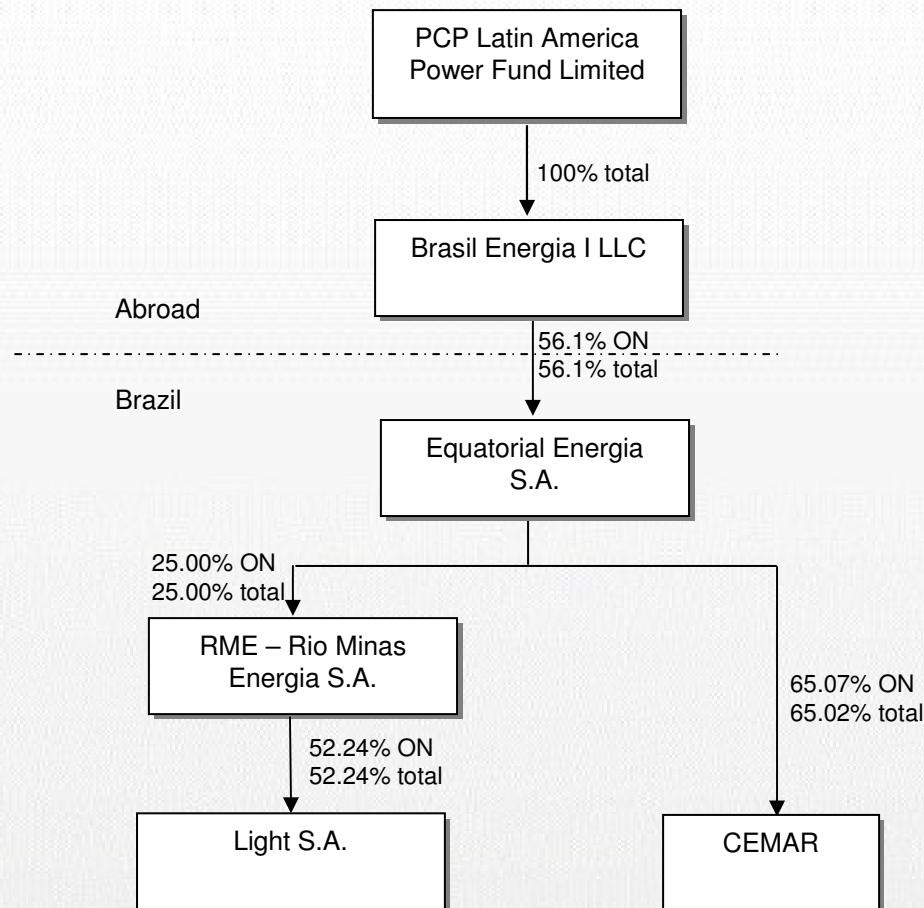
	Equatorial Energia	PCP Energia Part.
Equity Value	R\$ 1.278.678.900,29	R\$ 740.036.708,96
Number of shares	198.655.448	179.831.100
Price per Share	R\$ 6,44 (1)	R\$ 4,12 (2)
Exchange Ratio (2)/(1)		0,6393
.50% Common Shares Issue		
		0,3197
.50% Preferred Shares Issue		
		0,3197

### 3. Listing on the *Novo Mercado*

- **After the merger, Equatorial shareholders will deliberate the following matters:**
  - **The conversion of all preferred shares into common shares in the proportion of 1 common share for each preferred share**
  - **A reverse stock split in the proportion of 1 common share for each 3 common shares**
  - **An amendment to the By-Laws in order to comply with the highest corporate governance standards**
  - **The listing of Equatorial shares on the Bovespa's *Novo Mercado***
  
- **The conversion of all preferred shares into common shares will not dilute those shares representing more than 50% of Equatorial's voting capital. These shares shall continue to be held by a single shareholder**

### 3. Listing on the *Novo Mercado*

#### Structure after Increase in Controlling Interest , Merger of PCP Energia and Listing on the *Novo Mercado*



# Exchange Ratios Analysis

Exchange Ratios Analysis	LIGT3	EQTL11
Price per 1,000 Shares/Unit	27.85	19.31
# Units / Shares	203,462,739,012	66,218,483
Equity Value (R\$MM)	5,666	1,279
Gross Debt	1,776	474
Cash	(559)	(325)
Net Debt	1,217	149
Pension Fund Debt	873	
Net Regulatory Asset	(363)	(58)
Adj. Net Debt	1,727	91
Firm Value (FV)	7,393	1,370
EBITDA (TTM)	1,398	243
Adj. EBITDA (TTM)	1,235	243
<b>FV/EBITDA</b>	<b>5.3</b>	<b>5.6</b>
<b>FV/Adj. EBITDA</b>	<b>6.0</b>	<b>5.6</b>
Billed Volume (TTM MWh)	18,465	3,080
<b>FV/MWh (R\$/MWh)</b>	<b>400</b>	<b>445</b>

# Exchange Ratios Analysis

Light - Generation	Scenario 1	Scenario 2
Assured Capacity (MW)	537	537
<b>FV/MW Ass. (R\$ 000's)</b>	<b>2,500</b>	<b>4,500</b>
Firm Value (R\$MM)	1,343	2,417
(--) Net Debt (R\$MM)	-	-
(=) Equity Value (R\$MM)	1,343	2,417
# Shares	203,462,739,012	203,462,739,012
<b>Price/1,000 Shares (R\$)</b>	<b>6.60</b>	<b>11.88</b>

Light - Distribution	Scenario 1	Scenario 2
Price per 1,000 Shares	21.25	15.97
# Shares	203,462,739,012	203,462,739,012
Equity Value (R\$MM)	4,324	3,250
Gross Debt (R\$MM)	1,776	1,776
Cash (R\$MM)	(559)	(559)
Net Debt (R\$MM)	1,217	1,217
Pension Fund Debt (R\$MM)	873	873
Net Regulatory Asset (R\$MM)	(363)	(363)
Adj. Net Debt (R\$MM)	1,727	1,727
Firm Value (FV) (R\$MM)	6,051	4,977
EBITDA (TTM) (R\$MM)	1,227	1,227
Adj. EBITDA (TTM) (R\$MM)	1,064	1,064
<b>FV/EBITDA (x)</b>	<b>4.9</b>	<b>4.1</b>
<b>FV/Adj. EBITDA (x)</b>	<b>5.7</b>	<b>4.7</b>
Billed Volume (TTM MWh)	18,465	18,465
<b>FV/MWh (R\$/MWh)</b>	<b>328</b>	<b>270</b>



# Exchange Ratios Analysis

Analysis w/ EQTL @11/26/07	LIGT3	EQTL11	Light - Distribution	Scenario 1	Scenario 2
Exchange Ratio		0.6934			
Price per 1,000 Shares/Unit	23.03	15.97	Price per 1,000 Shares/Unit	16.43	11.15
# Shares / Units	203,462,739,012	66,218,483	# Shares	203,462,739,012	203,462,739,012
Equity Value (R\$MM)	4,686	1,058	Equity Value (R\$MM)	3,344	2,270
Gross Debt (R\$MM)	1,776	474	Gross Debt (R\$MM)	1,776	1,776
Cash (R\$MM)	(559)	(325)	Cash (R\$MM)	(559)	(559)
Net Debt (R\$MM)	1,217	149	Net Debt (R\$MM)	1,217	1,217
Pension Fund Debt (R\$MM)	873		Pension Fund Debt (R\$MM)	873	873
Net Regulatory Asset (R\$MM)	(363)	(58)	Net Regulatory Asset (R\$MM)	(363)	(363)
Adj. Net Debt (R\$MM)	1,727	91	Adj. Net Debt (R\$MM)	1,727	1,727
Firm Value (FV) (R\$MM)	6,413	1,149	Firm Value (FV) (R\$MM)	5,071	3,997
EBITDA (TTM)	1,398	243	EBITDA (TTM)	1,227	1,227
Adj. EBITDA (TTM)	1,235	243	Adj. EBITDA (TTM)	1,064	1,064
<b>FV/EBITDA (x)</b>	<b>4.6</b>	<b>4.7</b>	<b>FV/EBITDA (x)</b>	<b>4.1</b>	<b>3.3</b>
<b>FV/Adj. EBITDA (x)</b>	<b>5.2</b>	<b>4.7</b>	<b>FV/Adj. EBITDA (x)</b>	<b>4.8</b>	<b>3.8</b>
Billed Volume (TTM MWh)	18,465	3,080	Billed Volume (TTM MWh)	18,465	18,465
<b>FV/MWh (R\$/MWh)</b>	<b>347</b>	<b>373</b>	<b>FV/MWh (R\$/MWh)</b>	<b>275</b>	<b>216</b>



# Post-Restructuring Strategy

**Cemar and Light:  
outstanding returns  
through above-average  
operational and financial  
performance**

**Consolidation of  
distributors in Brazil and  
in Latin America**

**Investments in  
Generation and  
Transmission**

- 💡 **Continue the restructuring process at Cemar and Light aiming to capture additional efficiency gains, decrease operating expenses and reduce commercial losses**
- 💡 **Acquisition of control, independently or jointly**
- 💡 **Add value through operational and financial restructuring, synergy gains and reduced energy losses**
- 💡 **Heavy investments in generation will be required over the next years in Brazil**
- 💡 **This scenario will generate attractive investment and co-investment opportunities for Equatorial**



The main consequences of the proposed restructuring are:

- elimination of geographical restrictions on Equatorial's growth strategy
- exchange of best practices between the controlled companies
- better governance standards through listing on the *Novo Mercado*
- concentration of the controlling shareholder's energy sector investments in a single asset

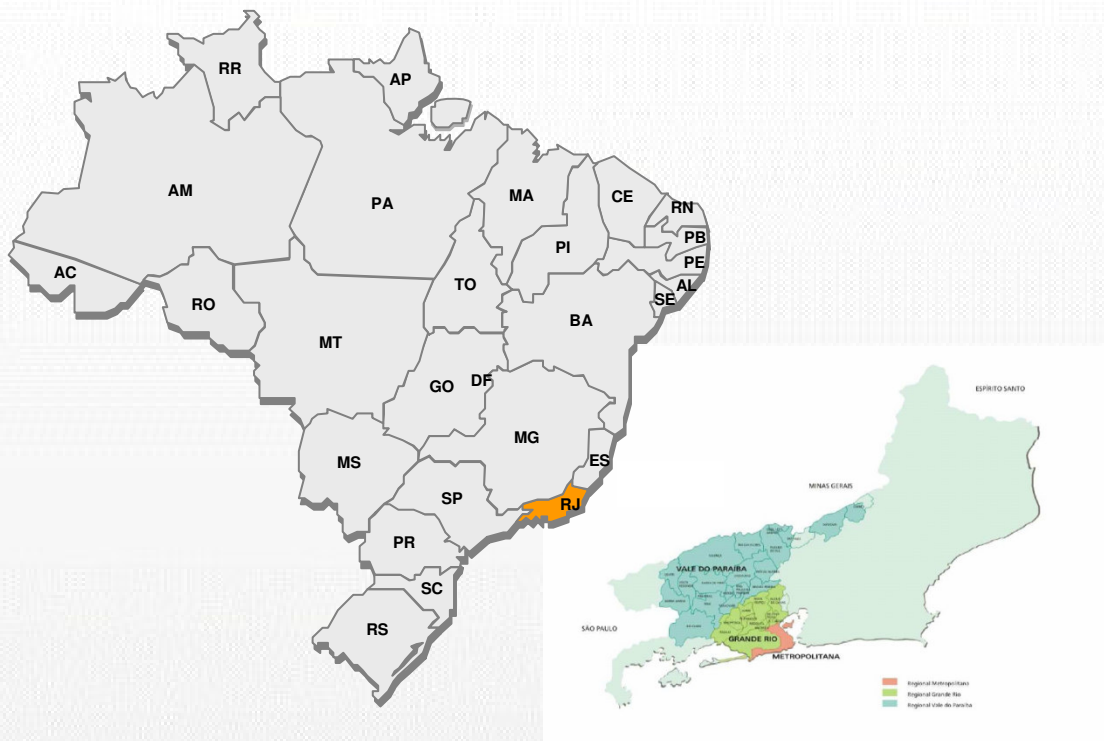
# Agenda

Corporate Restructuring

Light

PCP

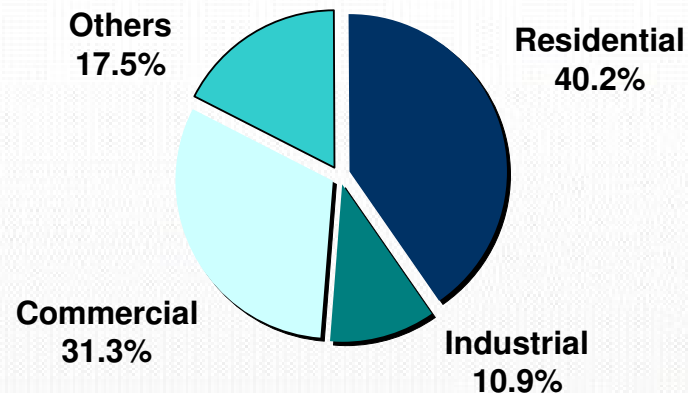
# Light S.A. – Highlights



- Holding with presence in distribution, generation and trading
- 3<sup>rd</sup> largest distributor in Brazil in terms of energy sales\*
- 4<sup>th</sup> largest customer base in Brazil\*
- Plants with 852 MW of installed capacity
- Over R\$6 billion in gross revenue in the 9M07

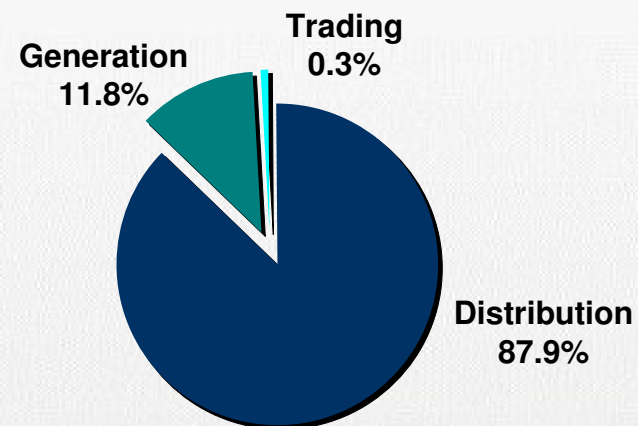
Source: ABRADÉE and Light; \* 2006

## Energy Sales – 9M07 (Captive)



**13,753 GWh**

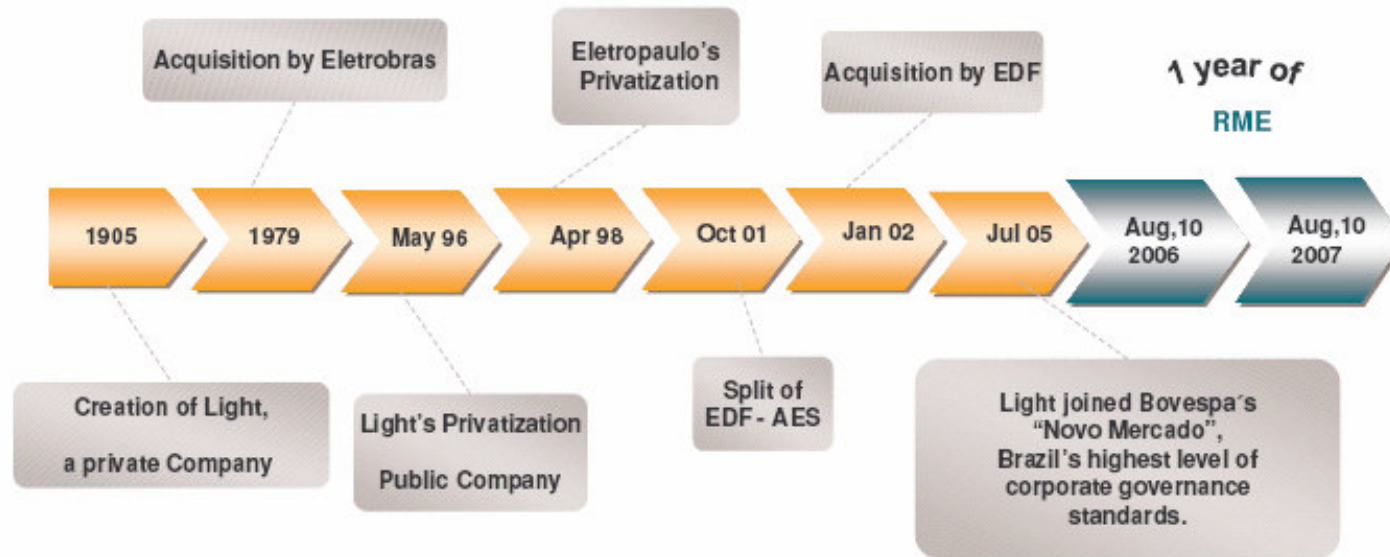
## EBITDA by Segment – 9M07



**R\$1,032 Million**

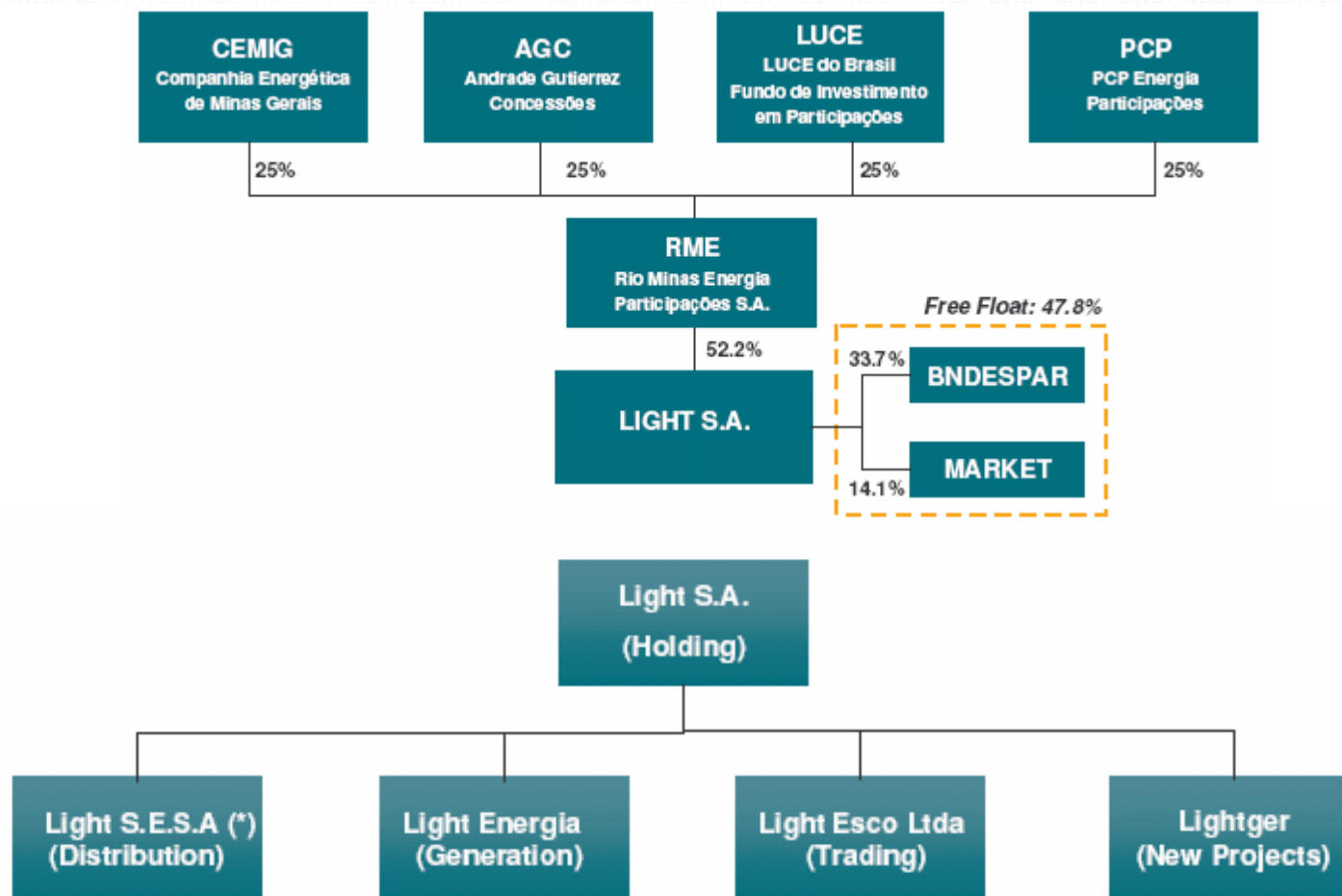


# Light S.A. – Ownership History



- After a negative result in its 2003 tariff revision process and poor management, Light became insolvent and was forced to renegotiate its debt with creditors
- In March 2006, a consortium formed by PCP, Cemig, AG Concessões and Luce Fund (RME) won a competitive bidding process for the acquisition of a controlling stake at Light
- The consortium acquired 79.39% of Light's total and voting capital for US\$320 MM
- After fulfilling a series of prerequisites, including the approval of regulatory authorities in Brazil and France, the consortium effectively took over the company in August 2006

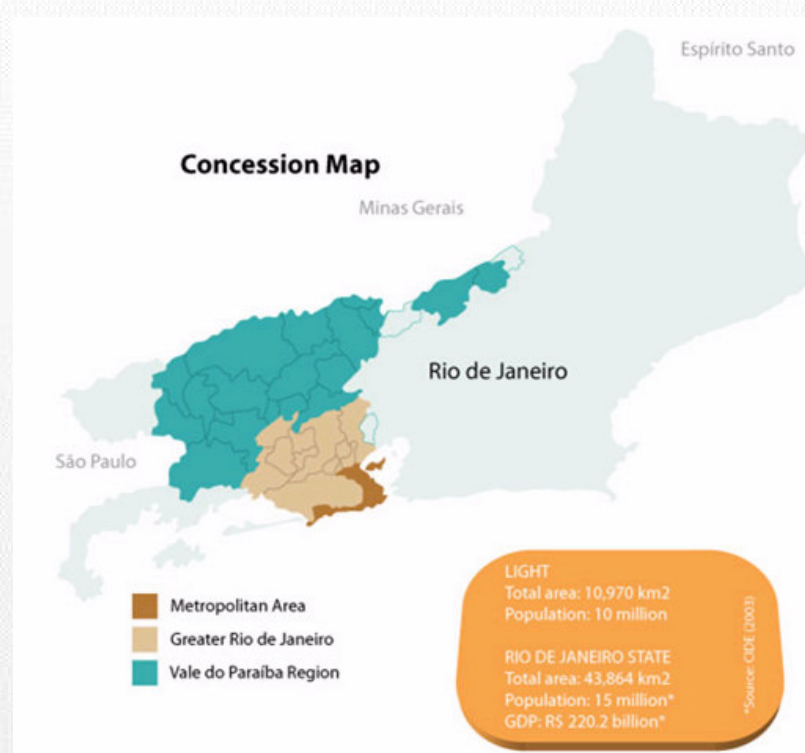
# Light S.A. – Ownership Structure



## Light S.A. – Distribution

- **3.8 million customers in 31 municipalities in Rio de Janeiro, covering 25% of the state with total coverage area of 10,970 km<sup>2</sup>**
- **Energy sales reached 18,324 GWh in the last 12 months ended September 2007, and accounted for approximately 75% of all electricity consumed in the state**
- **Service quality among the highest in Brazil. In the LTM, FEC index reached 6.24x and DEC index 8.38h**
- **Collection rate improved significantly after the change in control, increasing from 91% in the 3Q06 to 99% in the 3Q07**
- **Energy losses represent a challenge in the concession area, at 26.5% in the 3Q07**
- **Tariff readjustments occur every November, with next tariff revision expected in November 2008**

Distribution	2005	2006	9M07
Net Revenues (R\$ MM)	4.875	5.212	3.742
PMSO (R\$MM)	511	588	425
Provisions (R\$MM)	479	732	237
EBITDA (R\$MM)	751	599	911
Consumers Avg. (000's)	3.732	3.788	3.828
PMSO (R\$) / Consumer	137	155	111
EBITDA (R\$) / Consumer	201	158	238



# Light S.A. – Generation

- **Light owns and operates 5 hydro power plants and two water pumping stations**
- **The 5 plants are located in three generation regions: Santa Branca, Lages and Ilha dos Pombos**
- **Total installed capacity of 852 MW, for assured energy of 537 MW**
- **Light Generation has average contract selling price of R\$60/MWh, with the bulk of contracts expiring in 2012 and 2013**
- **3 new hydro power plants currently being developed: SHP Paracambi (25 MW installed capacity) and SHP Lages in the Lages complex and HPP Itaocara on the Paraíba do Sul River (195 MW installed capacity)**

Generation	2005	2006	9M07
Net Revenues (R\$ MM)	20	253	197
PMSO (R\$MM)	3	41	29
Provisions (R\$MM)	-	6	-
EBITDA (R\$MM)	14	147	122
Assured Capacity (MW Avg.)	537	537	537
EBITDA / Assured Cap. (kw)	26	274	227



## Light S.A. – Trading

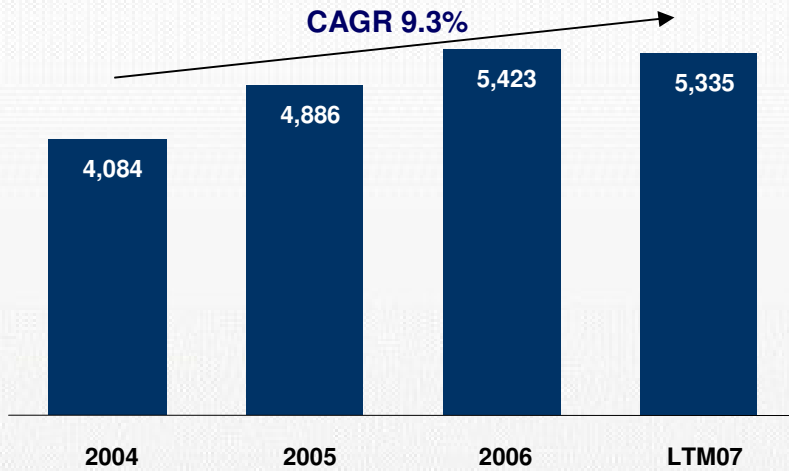
- Through its subsidiary Light Esco, Light acts as a trader and broker for free consumers
- In its trading activities, Light has 19 clients with total energy sales of 278 GWh in the 9M07
- Clients include Unilever and InBev
- As a broker, Light has 9 clients and traded 892 GWh in the 9M07
- Over 10 clients, including TV Globo and Gerdau Steel

Trading	2005	2006	9M07
Net Revenues (R\$ MM)	-	-	24
PMSO (R\$MM)	-	-	8
Provisions (R\$MM)	-	-	-
EBITDA (R\$MM)	-	-	3

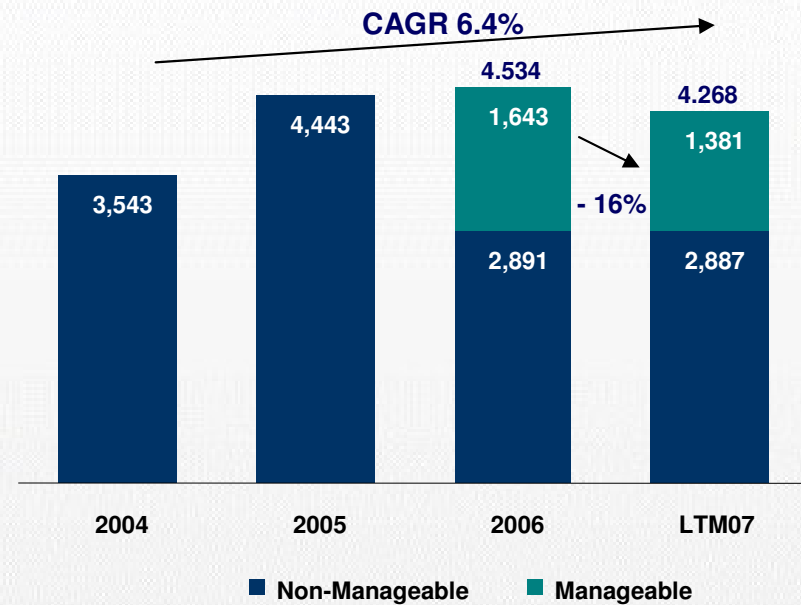


# Light S.A. – Financials

**Net Revenue**  
(R\$MM)

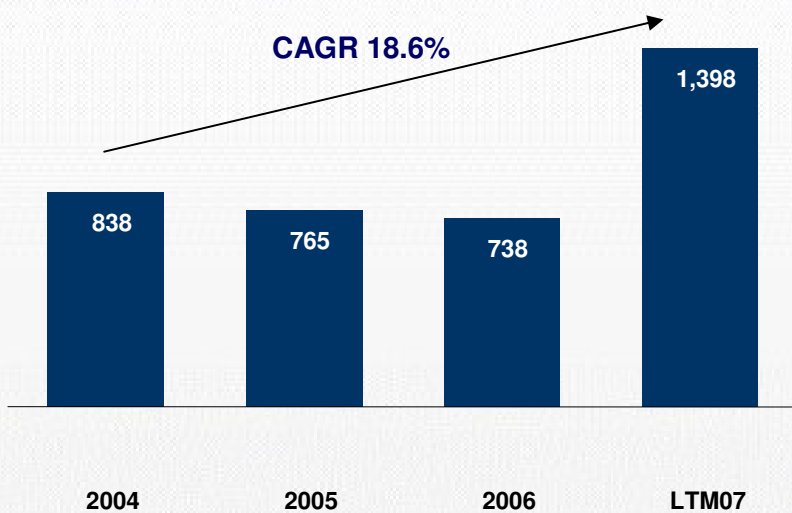


**Operating Costs**  
(R\$MM)

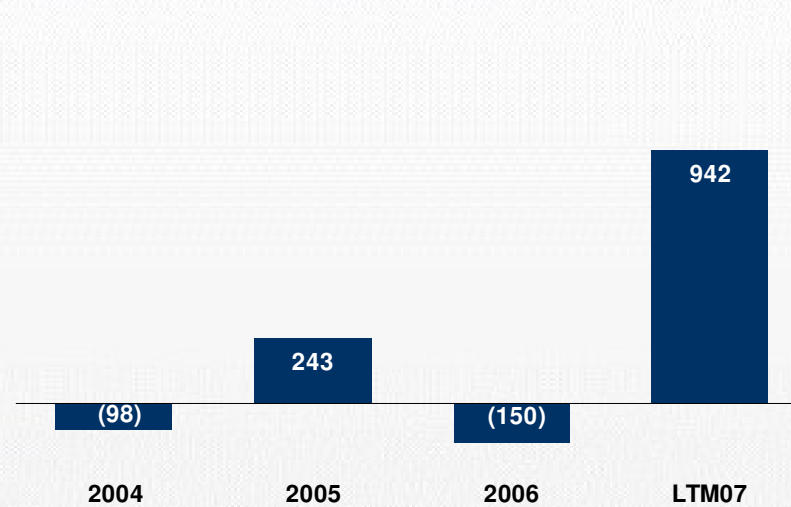


# Light S.A. – Financials

## EBITDA (R\$MM)

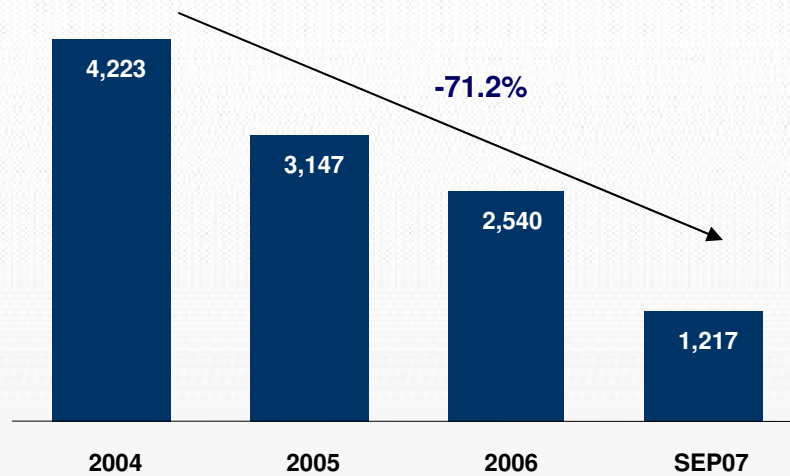


## Net Income (R\$MM)

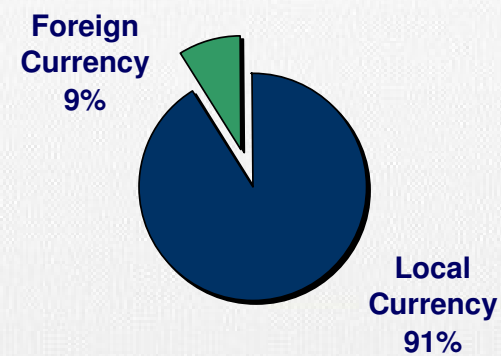
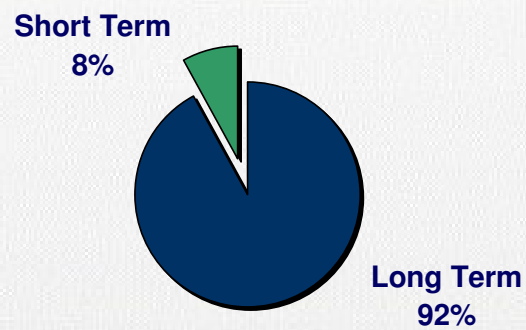


# Light S.A. – Financials

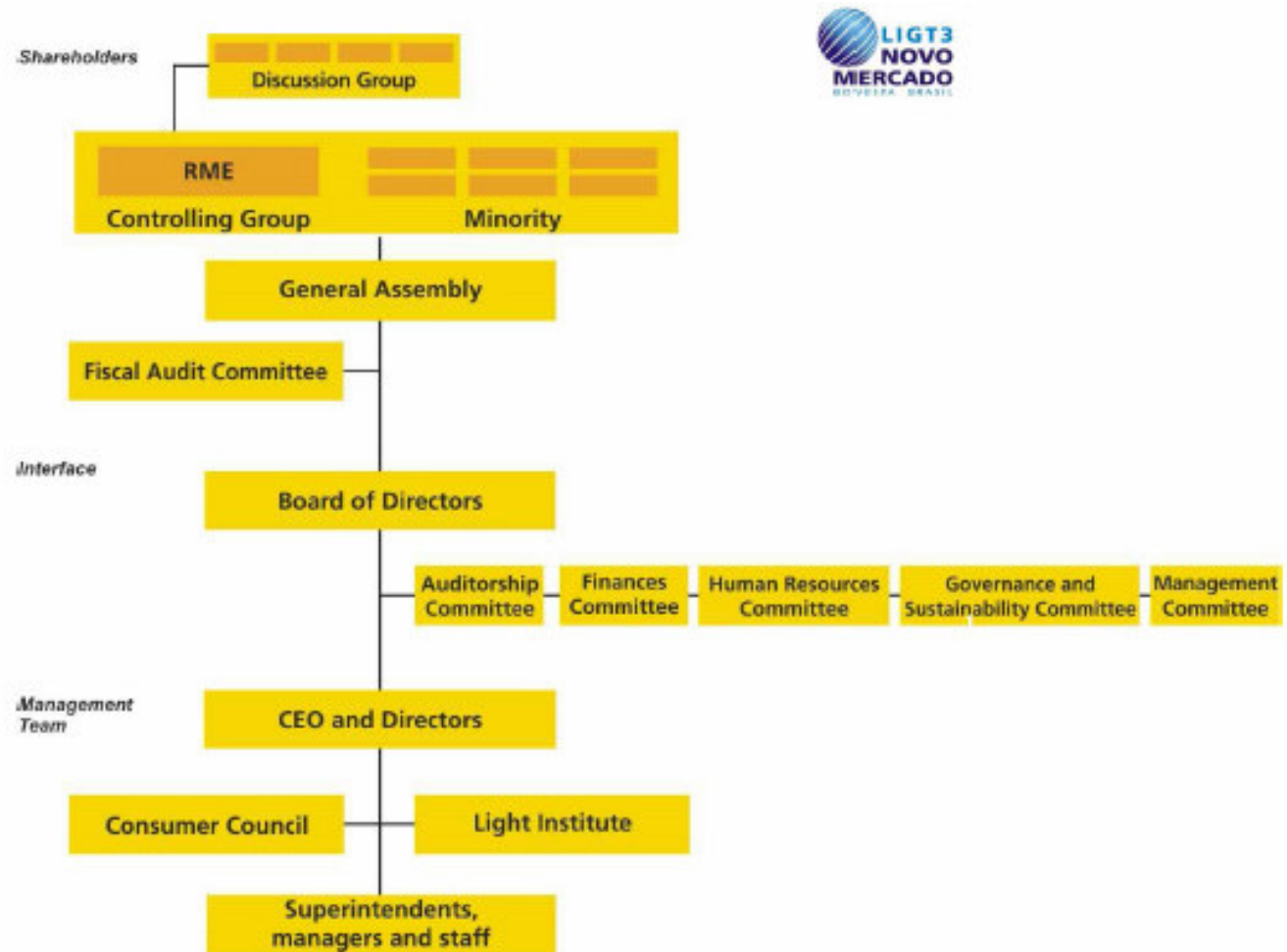
**Net Debt**  
(R\$MM)



**Rated  
Investment Grade  
(S&P)  
brA-**



# Light S.A. – Corporate Governance



# Light S.A. – Value Creation

## Growth

- New generation projects
- Renewal of initial energy contracts
- Energy trading
- Significant investment in Rio de Janeiro state

## Efficiency Gains

- Cost cutting
- Loss prevention strategy
- Increase in collection rates
- Outsourcing of all non-core activities
- Sale of non-core assets

## Return for Shareholders

- Strong cash flow generation
- Dividend distribution policy

## Commitment to the Future

- Improve customer relationships
- Recovery of Light's institutional image

# Agenda

Corporate Restructuring

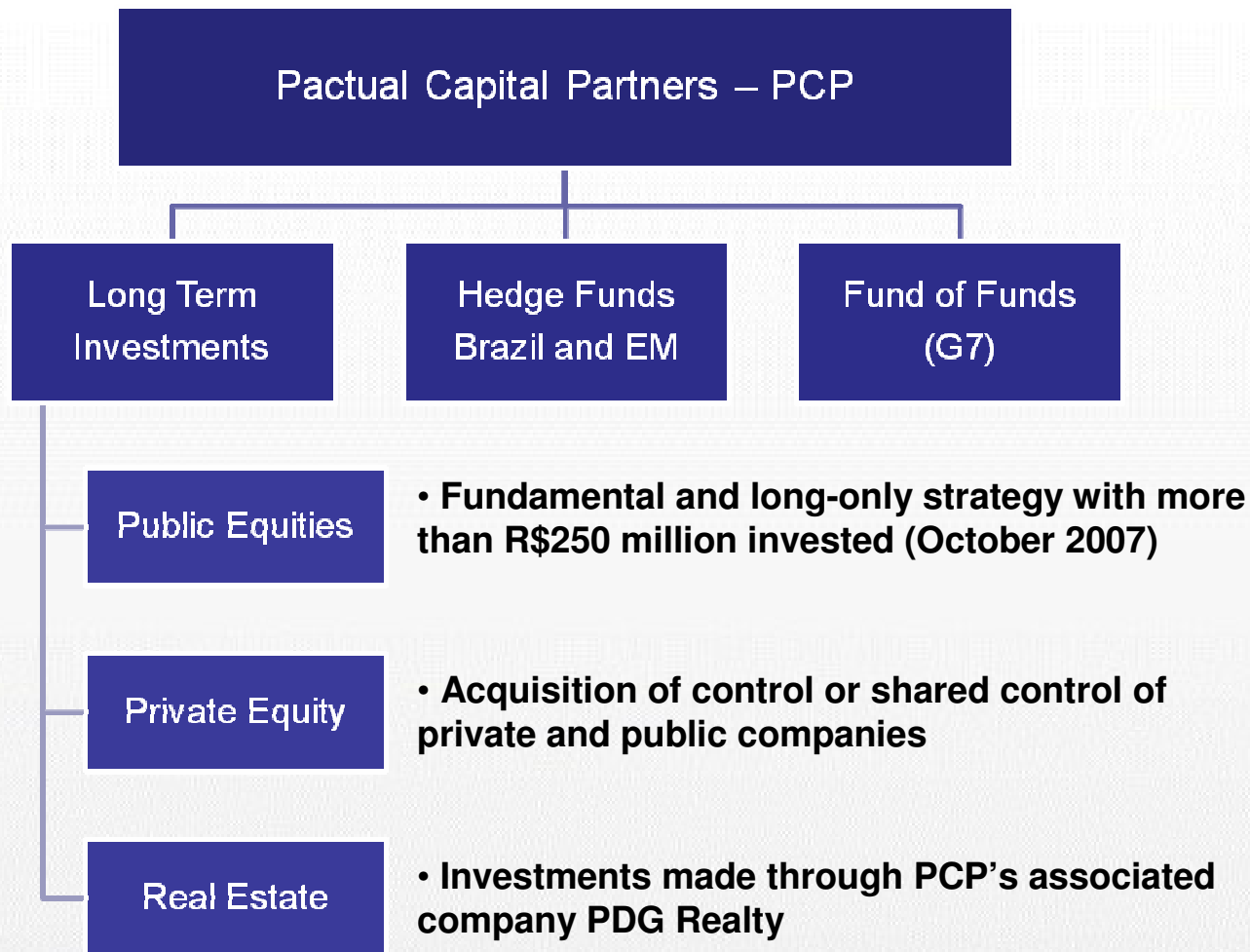
Light

PCP

## PCP – History

- 💡 In 2001, Banco Pactual, the leading Brazilian investment bank, created a Principal Investment Unit with the objective of managing the partnership's excess capital and diversifying its investments
- 💡 In 2006, with the sale of Banco Pactual to UBS, part of the proceeds from the sale was reinvested in the Principal Investment Unit, which was renamed UBS Pactual Alternative Investments
- 💡 Today, UBS Pactual Alternative Investments manages the capital of Pactual's former partners through a major fund of funds named PCP, which invests in Brazil and abroad in specific funds based on various investment strategies
- 💡 Today, PCP has over US\$3 billion under management with investments in fund-of-funds, hedge-funds, public equities, private equity and real estate

# PCP – Investment Structure





## PCP – Selected Investment Cases

### Iven

- In 1995, Pactual participated in the privatization of Escelsa (disco for Espírito Santo state), the first privatization in Brazil's electricity sector, through Iven, a company controlled by financial and institutional investors. In 1996, Escelsa acquired Enersul, disco for Mato Grosso do Sul state. In 1999, the investment at Iven was sold to the Portuguese group EDP

### Equatorial Energia

- In March 2006, PCP invested R\$87.5 million in Equatorial Energia, the controlling shareholder of Cemar, the disco for Maranhão state, and obtained shared control together with GP Investments. In May 2006, Equatorial Energia went public

### Light

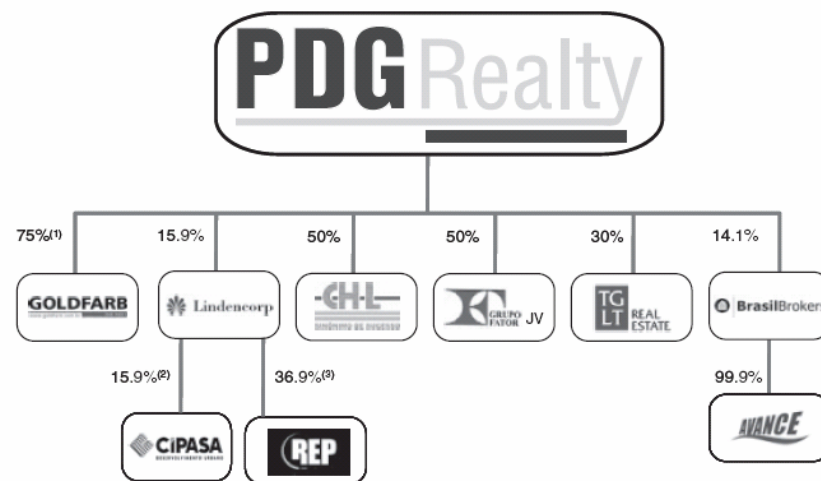
- In March 2006, a consortium formed by PCP, Cemig, Andrade Gutierrez Concessões and Luce Fund won a competitive bidding process for the acquisition of a controlling stake in Light S.A., an energy holding company with generation, distribution and trading activities

### PDG Realty

- PCP started to participate in real estate developments in 2002. In January 2007, PDG Realty concluded its IPO and formally became PCP's real estate arm. PDG Realty concentrates all present and future PCP investments in the sector

# PCP – PDG Realty

- Investment company focused on Brazil's real estate market, managing direct and indirect investments in real estate developments through its subsidiaries
- One of the largest real estate developers on the BOVESPA, with market capitalization over R\$3.6 billion. One of the largest companies in Brazil's residential real estate development industry, with focus on mid-low segment
- As of September 2007, participated in the launch of more than 100 real estate developments
- Raised R\$630 million through an IPO in January 2007, and R\$500 million through a follow-on offering in October 2007
- Management mostly former partners in Pactual, with vast experience in the real estate, private equity and corporate finance industries
- FIP PDG I, a private equity fund controlled indirectly by PCP, currently owns 46.5% of the Company (interest worth more than R\$1.4 billion)



## OPERATIONS



# PCP – Why the Electricity Sector?

- 💡 **PCP has a long track record and remarkable expertise in the sector**
  - Electricity sector in Brazil is complex and heavily regulated
  - Sector in which leverage on this expertise is highly valuable
- 💡 **Sector still highly fragmented**
  - Sector expected to consolidate, with fewer players
  - PCP's ability to evaluate and quickly exploit opportunities with very rigid capital discipline is key in this scenario
- 💡 **Leveraged on economic growth**
- 💡 **Distribution well suited for implementing PCP's rigid cost discipline and financial skills**
  - Regulated sector where companies compete against a "reference company"
  - Competition in sales and purchase price is limited
  - Optimal capital structure key to enhancing returns

# Contact

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