

## Q2 2013 Earnings Call

### Company Participants

- Ana Maria Machado Fernandes, Vice Chairman and Chief Executive Officer
- Miguel Dias Amaro, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Carolina Cameros, Analyst
- Felipe Leal, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good afternoon, and welcome to the Conference Call for EDP Energias do Brazil, where we'll be discussing the results for the Second Quarter 2013. All participants are now connected in listen-only mode. Later on we'll have a Q&A session, when further information will be provided for participation. (Operator Instructions)

This presentation along with the slides will be broadcast simultaneously over the Internet on the website [www.edpbr.com.br/ri](http://www.edpbr.com.br/ri). There you will be able to find the release for the results of the company.

If we're moving on EDP Energias do Brazil would like to state that statements made during the teleconference concerning the company's outlook, as well as projections, operational targets and financial goals concerning the company's potential growth are based on expectations of the company's management, concerning the future of the company here in Brazil.

Those expectations depend on the economic condition of the country on the performance and on the regulation of the sector and also on other variables and which therefore are subject to change.

I now would like to turn the conference over to Mr. Miguel Dias Amaro, our CFO and IRO of EDP Energias do Brazil. Please, Mr. Amaro, you have the floor.

#### **Miguel Dias Amaro** {BIO 19148334 <GO>}

Good afternoon to you all. Thank you for your presence in our results conference call for the second quarter. Going directly to the presentation on slide number three, we have the

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highlights of the period.

It was a quarter with some volatility in terms of regulatory and legislative resolutions, plus an economy that has not yet given clear signs of recovery.

Measures such as rising interest rates, control inflation are showing some signs of effectiveness.

Our revenue was up 9% driven by commercialization and distribution with no manageable expenses rising 5%. And as a consequence, any wise of the gross margin for 17% in the quarter. Standing out in this item are the contribution from CDE and increases in volume and spread.

In terms of generation due to the seasonality strategy, which was adopted and which concentrated more energy in the first quarter, the short-term contribution was lower when compared to the second quarter of 2012 and hence, the slight decrease in the period.

The OpEx showed an increase of 32% largely due to non-recurring items in both periods, and as I highlight in this quarter we have provisions for contingencies expenses with moving and storage and strategic consulting despite both those effects, EBITDA was up 7%. The contribution remained negative for Pecem 1 which now has both generating units with this year, but it was minimized by the positive contribution from minority interest, which led to profits to rise 12% in the quarter.

There were contributions from the net debt-to-EBITDA ratio remained at stable at 1.8 times in the ratings of the company and subsidiaries have been maintained.

I'll now turn the conference over to Machado, so she gives more color on the results of the period.

**Ana Maria Machado Fernandes** {BIO 3864955 <GO>}

Good afternoon to you all. On slide number four, a short summary of the company's operating performance. In generation, the volume of energy sold reached 1.971 gigawatt hour, a decrease of 5% compared to the second quarter of 2012, reflecting greater allocation of assured energy in the first quarter, as a result of the seasonality strategy adopted for the year 2013.

Considering the volume of energy sold by the availability of Pecem I, the volume reached 2.663 gigawatt hour in 2013, the first quarter, second quarter.

The accumulated volume of energy sold in the first half totaled 4.3 gigawatt, an increase of 3% over the same period of 2012.

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In terms of commercialization, the volume of energy sold amounted to 3.112 gigawatt hours, an increase of 50% compared to the second quarter of last year, reflected the strategy of long and short-term negotiations. In the first half, the volume of electricity sold amounted to 6.034 gigawatt hour, an increase of 16 compared to the first half of last year.

In terms of distribution, the consolidated consumption grew 3% the first quarter, driven by consumption in the residential and commercial classes, reflecting an increase in income and also reduction in unemployment figures.

Accumulated consolidated consumption grew by 3%. The company continues to invest in programs to curb losses, disbursing a total of 9.2 million in the quarter. Of the total funds allocated to these programs, 3.6 million reais were for the operating investments and 5.6 million for manageable expenses.

During the period, our company's conducted approximately 44,000 inspections, 51,000 illegal connections were removed and 6,000 illegal connections were made regular, which resulted in the recovery of revenues of some 9.1 million reais.

Non-technical losses increased by 0.10 percentage points, for EDP Bandeirante dropped 0.7 percentage points for sales compared to the first quarter 2013.

At EDP Bandeirante there was an increase of 0.03 points in technical losses and 0.01 in Escelsa. The site for Bandeirante was below the regulatory target established by ANEEL at 9.24 hours in the quarter. DEC [ph] for Escelsa was 10.69 hours in the second quarter, impacted by unfavorable weather conditions in the concessionaire, which will add to a greater response time.

As of this quarter, EDP has also created a program to recover site levels that aims at reducing the indicator to the levels required by ANEEL. Site for both distributors remained within the quality standards established by ANEEL and at the same levels recorded last year. EDP Energias do Brasil will remain committed to reducing the level of site through investments in the distribution network, in order to increase the quality of services provided to its customers.

On slide five, we present the impact of the seasonality strategy on the gross margin. As always, the evolution of the PLD and the impact of the ESS prorating for both generation and commercialization.

Considering the unfavorable hydrological situation of the country in the early months of 2013, EDP Energias do Brasil has prioritized the allocation of the physical guarantee of its plans in the first quarter of the year, in order to hedge against a possible reduction in the level of energy allocated as per the energy allocation mechanism and to protect the company from exposure to high PLDs.

For the second quarter, there was an average reduction of 0.3% over the energy allocated in relation to the physical guarantee resulting in the short-term purchase of

approximately 2.4 million reais. Additionally, the company purchased energy to offset the high allocation level in the first quarter of 2013.

The PLD remained at higher levels reflecting a less favorable hydrological condition and increased thermal dispatches, which affected the distribution segment as well as generation and commercialization.

Additionally, gross margins for generation and commercialization were also impacted by the ESS providing effect in the amount of 10.3 million reais, 9.9 million of which were related to generation and 0.4 million relating to commercialization. Associations including (inaudible) number sale obtained in junctions that suspend the payment of the charges as provided by resolution CMP is roughly, the company however chose to maintain the provision for site charge.

On slide six, we show the positive impact of CDE in the gross margin of the distributors, tariff discounts for subsidized tariffs are no longer funded through distribution tariffs, allowing for the average tariff reduction of approximately 20% to be achieved.

ANEEL approved the amount of CDE funds to be transferred by Eletrobras to each distributor to cover the discounts mentioned above. Thus an amount of 39 million was provisioned, which has positively impacted other operating revenues.

Besides concerning non-manageable expenses, the distributors accounted for 122.4 million reais from the CDE to meet the following expenses. Voluntary exposure to PLD caused by insufficient quarters of fiscal guarantee, the ESS energy safety charges, the coverage for costs of hydrological risk on top of the disbursement to be made ten days after the celsius periodic tariff review process in August 2013, according to Resolution 549/2013.

For the full-year, the company's results were impacted by 256.5 million reais from the CDE funds, a 166.6 million of which have already been settled impacting the company's cash with the balance expected to occur in August.

Considering the effects of the CDE, the gross margin for distribution reached 353 million reais in the second quarter, 58% higher than the second quarter of last year.

On slide seven, we present the EBITDA, which reached 327 million reais in the second quarter, an increase of 7% of the same period of last year. Net operating revenue totaled 1.6 billion in the quarter, excluding revenues from construction, this value being 9% higher than in 2012 with the following major impacts, a 20% increase in the average sale price of commercialization and 16% in generation and the subsidies coming from the CDEs as mentioned in the previous slide.

The non-manageable expenditures totaled 991 million reais, an increase of 5% in the quarter compared to the same period of last year. Electricity purchased for resale totaled 894 million reais, an increase of 17% compared to the second quarter of last year due to

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an increase in the average purchase price of energy adjusted to reflect IPCA and IGP-M inflation variations and also the increase of PLD, which reflects a less favorable hydrological condition, an increase thermo dispatches affecting the distribution as our generation and commercialization.

Manageable expenditures excluding construction cost, depreciation and amortization totaled 257 million reais, an increase of 32% in the second quarter. These expenses are related to personnel expenses, materials, third-party services and other provisions.

It's worth mentioning the following non-recurring items. In the personnel expenses account, there was a non-recurring effect in the second quarter of 2012 of 4 million,

concerning the credit for the work related action insurance at Escelsa.

Prior to the third-party services account, total non-recurring items are 4.9 million in the second quarter due to the renovation works and moving expenses for the Sao Paulo office and also higher consulting expenses.

Under provisions, there was a provision of 21.5 million reais from the agreement between the Union and the Escelsa concerning a collective suite in which the parties claim damages on account of changes in the plan for jobs and wages from 2002 to 2006.

In the others account, the inventory of Energias was retaking in the second quarter of last year. And in the second quarter of this year due to the move in Sao Paulo rent payment of old and new facilities were made.

Excluding the non-recurring effect of the semester, manageable expenses in this half rose 10% in the year-to-date for 2013, EBITDA reached 789 million reais, an increase of 9.5% over the same period of last year.

On slide eight, we see that the consolidated net income for the second quarter totaled for 44 million, a 11.8% higher than the same period the last year. In addition for the effect shown for the EBITDA, the income was also impacted by the effect of the financial results, income tax, social contribution plus minority interests, which suffered a non-recurring positive effect in the quarter, reflecting the distribution of the investment reserve from Lajeado.

Additionally, net income was impacted by income from equity investment is minus 45 million, due to the equity accounting of income for the UTE Pecem I. For the full- year, net income reached 135 million reais, down 26% on the same page.

On slide nine, we show investments which totaled 201 million reais, breakdown by 68.8 million in distribution, 129 million in generation and 2.7 million reais in others.

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The increased investments in the quarter and the year reflects mainly investments made for the construction of generation project namely Santo Antonio do Jari and Cachoeira Caldeirao.

As for distributing companies 6% were allocated for the expansion of lines, substations and distribution networks for the connection of new clients and installation of metering systems, 25% to the improvement of the network and replacement of equipment, old and obsolete meters, 5% to deliver universalization of service, providing the connection access to consumers of our energy services,

and 11% allocated to telecommunications, IT and other activities such as infrastructure and commercial projects.

In terms of generation, investments were allocated mainly in the construction, as I said before of Santo Antonio do Jari and in the purchase of the equipment for the construction at Cachoeira Caldeirao 12.3%.

On slide ten, we show the company's indebtedness level and gross debt. Consolidated gross debt totaled 3.9 billion in June, an increase of 9% as compared to March 2013.

The net debt reached 2.7 billion in June, an increase of 3% as compared to March, reflecting an increase of 25.5% and in cash-on-cash equivalents resulting from the disbursement of debentures for ADP and an increase in cash for distributors resulting from the inflow from the city.

The average cost of the debt was stable in 2013 in June 8% a year and net debt over EBITDA ratio closed the quarter at 1.8 times and in what concerns indicator 70% of the gross debt is connected back to the CDI, whereas 24% is linked to TJLP.

In slide 11, we talk about the start-up of Pecem I on May 10 and the completion of the enterprise.

The second unit adds a 180 megawatts to the total power of the Group. And in this quarter we reached 2197 megawatts. Net revenue for the plant in the second quarter reached 113.5 million, resulting from revenue -- fixed revenue from units I and II, variable revenue from dispatches on units I and II, and also the purchase of balance for unit II.

Non-manageable expenses reached 100 million, reflecting the delay in the beginning of the commercial operation of the unit II. Additionally, expenses were also reflecting inputs for the dispatches.

Gross margin for the plant was positive in the quarter 113.5 million. Manageable expenditures were impacted by 37.5 million for reimbursement.

Finally on slide 12, we present some information on construction projects in Santo Antonio do Jari. We began construction in August 2012 and up till now we have invested 974 million reais, the works is within the deadline.

And the works for Cachoeira Caldeirao and WPP Baixa do Feijao will be started in the second half of 2013. For the construction of Cachoeira Caldeirao the company has already managing bridge loan and for the Baixa do Feijao within the phase of restructuring the financing.

Thank you all for your attention. We'll now start the Q&A session. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Excuse me, our first question comes from Ms. Carolina Cameros from Santander.

### Q - Carolina Cameros

Good afternoon to you all. I'd like you for you to give us more color on the program to recover the site levels. And also potentially plans that you may have or which are already been implemented in terms of K-PAX to recover losses vis-a-vis the target that you have established with ANEEL, I'd like to know measures you've been implementing. And also a little bit of break down in terms of investments for that. Thank you.

### A - Ana Maria Machado Fernandes {BIO 3864955 <GO>}

Hello, Carolina. Of course, the recovery plan for site for Bandeirante and Escelsa and special with Escelsa which suffered significantly with weather conditions in the first half. That plan was based in a very detailed analysis made inside, internally. We took into account all the factors contributing to the variation of site.

And then we decided which were the main actions which should be undertaken, so that we can reach a good level of site, in other words below established line for ANEEL.

I can forward the different measures, but basically the problem arises because of weather problems and what we are looking at, we are expecting to spend 5 million this year and that would be enough to bring the site levels to below the level required by ANEEL.

### Q - Carolina Cameros

Okay. Very good. And concerning investments that you may already be doing to reduce losses, Miguel?

### A - Miguel Dias Amaro {BIO 19148334 <GO>}

What concerns losses, we are now going through the tariff review process for Escelsa, which is a very challenging topic, in the face of what we have in terms of methodology. So we'll have to estimate very precisely what we need, so we can continue on this trend in what concerns a low voltage losses.

We have been successful in this process. We do not manage to keep the same trend in all semesters and from two years on, from the last two years we've been managing to do it.

But we need to work on different fronts, as you know we need to include new clients and so on. We have more remote clients now and we have to be able to get a precise measurement at the (inaudible) you know, that's a difficult process, but we're working on it.

### **Q - Carolina Cameros**

Okay. One final question concerning the auctions. We had this Tuesday, if I'm not wrong ANEEL announced the price for some plans, which would be participating the A minus 5 auction. I'd like to hear from you if you have an opinion concerning those prices and a possibility of participating or not?

### **A - Miguel Dias Amaro {BIO 19148334 <GO>}**

Concerning the prices, we will not make any comment now. Right now we have no intention of project. We are working on so many well as you know, so we have for now -- we wouldn't have a position concerning that particular auction.

### **Q - Carolina Cameros**

Okay. Thank you.

### **Operator**

Excuse me. The next question comes from Mr. Felipe Leal from Merrill Lynch.

### **Q - Felipe Leal {BIO 2015017 <GO>}**

Good afternoon to you all. My question concerns the Pecem plant, now it has started operations. I'd just like to be sure all penalties and fines for delay have all been accounted for and if there is some ongoing discussion concerning their recalculation of the amount of those fines, some kind of reimbursement using some kind of insurance or something.

### **A - Miguel Dias Amaro {BIO 19148334 <GO>}**

Okay. Good afternoon, yes. Everything has been accounted for in what concerns penalties and fines. What we are discussing right now with ANEEL is the difference between what is in our agreements and what has been done by ANEEL.



Well, I can give you more details on that later, but at the moment we're working on an amount which is not significant. But to answer your first question, everything has been accounted for, yes.

**Q - Felipe Leal** {BIO 2015017 <GO>}

Okay. Thank you.

**Operator**

(Operator Instructions) Excuse me, our next question comes from (inaudible) from BTG Pactual.

**Q - Unidentified Participant**

Good afternoon to you all. Going back to Felipe's question concerning Pecem, depending on the energy delivered you are being charged in two different ways if I understand by the PDL, CDE difference or by physical guarantee, is there a chance you might be negotiating with ANEEL the non-collection of at least one of those factors because as is you're being double charged. How is that moving along, do you have any forecast as to when this will be discussed?

**A - Miguel Dias Amaro** {BIO 19148334 <GO>}

We are not discussing with ANEEL, the fact the amounts we've been charged for the lack all availability. For the whole year the amount has been flat around a 140 million, around that 140 million. This is moving along, we are discussing it with ANEEL, and we expect to have an outcome for that throughout or by the end of the third quarter.

**Q - Unidentified Participant**

Okay. Thank you.

**Operator**

(Operator Instructions) Excuse me, I think there are no more questions, I'd like to give the conference over to Mr. Amaro for his final remarks.

**A - Miguel Dias Amaro** {BIO 19148334 <GO>}

Basically, I'd like to thank you for participating in our call. Any questions you may still have, please feel free to reach our IR team. Thank you. Have a nice afternoon.

**Operator**

EDP Energias do Brasil conference call is now over. Thank you for participating. Have a nice afternoon and thank you.

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