

Q1 2013 Earnings Call

Company Participants

- Mayte Souza Dantas de Albuquerque, Investor Relations Officer
- Miguel Amaro, Chief Financial Officer

Other Participants

- Carolina Cameros, Analyst
- Marcello Staff, Analyst
- Oswal Ofilio, Analyst
- Sandra Poenchi, Analyst

Presentation

Operator

Good afternoon and welcome to the conference call of EDP Energias do Brasil to discuss the results of the First Quarter of 2013. As of now, all participants are connected in listen-only mode and later we will open the Q&A session when further instructions will be given. (Operator Instructions)

This presentation, along with the slides is being simultaneously broadcast over through internet at www.edpbr.com.br/ir. You will also be obtain the release of the company. Before proceeding, EDP Energias do Brasil clarifies that any forward-looking statements that may be made during this conference call relating to the company's business outlook and as well as projections, financial and operational target relating to its potential growth are based on assumption, based on the management expectations relative to EDP Energias do Brasil and its future. These expectations depend on the economic scenario of the country, on the performance and on the regulation of the power sector in addition to other variables and are subject to change.

I now pass the floor to Mr. Miguel Amaro, IRO and CFO of EDP Energias do Brasil.

Miguel Amaro {BIO 19148334 <GO>}

Good afternoon. Thank you very much for attending our call.

And moving on to the presentation, I would like to go slide three where we see the highlights for the period. First, highlights have to do with the implementation of IFRS 11 in Brazil as of January and therefore, I would say, Pecem I is now considered under the equity method in our consolidated financial statement. In terms of business, the net revenue grew 28% year-on-year because of implementation of energy, the updating of

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contracts, and the decrease of charges to consumers in distribution. The distributed energy grew 0.7% in the Porto do Pecem with an increment in the residential and commercial sectors and it was maintained in the industrial sector, especially in some towns. Commercial losses dropped especially in local. Non-manageable expenditures grew 39% because of the higher volume of purchase in the commercialization, and the company had regulatory assets of 43 million in the quarter. Manageable expenditures grew 16% and OpEx grew 5%. This complies with our objective of heading below inflation. As for the financial results, they were up 49% because of the Acquario [ph] report and the lower revenue from financial investments, the net income dropped 37% year-on-year because of the consolidation of the Pocem ED [ph] equity method.

Net EBITDA was 1.9 times and the general shareholder meeting has approved a dividend for 2012 and the meeting of shareholders have approved that covenants of the distributors by incorporating the regulatory asset and liability.

I'll now pass the floor to Mayte, who is going to give you more details about the results.

Mayte Souza Dantas de Albuquerque

Good afternoon. On slide four, we see a summary of the company's operational performance. In generation, the volume of energy sold was 2,354 GWh, a 12% increase relative to the first quarter of 2012, because of the greater allocation of assured energy in Q1 because of the seasonality for the year. Considering the volume of energy sold according to the availability of Pecem I, the volume in Q1 was 3,029 GWh. In the trading company, the energy sold was 2,922 GW in Q1, a 16.3% increase year-on- year. This reflects the long term negotiation strategy and the seasonality in the first quarter.

In distribution, consolidated consumption grew 2.8% in the quarter driven by the consumption of residential, commercial and rural classes due to weather conditions and increase in income. The company continues to invest in programs despite losses and has disbursed R\$8 million in the first quarter. Of these resources, 0.2 million were for operational investment and 5.8 million for manageable expenses. In the period, our concessions has carried out 51,000 constructions, removed 35,000 illegal hookups and regularized 6,000 connection, which allowed us to recover R\$5 million revenue.

Non-technical losses were reduced by 0.04% points EDP Bandeirante and 0.3% points in EDP Escelsa, relative to Q4 2012. In EDP Bandeirante, there was 0.01% reduction in technical losses because of increase in charge in Espirito Santo. As regards to quality indicators, FEC in both distributors was in compliance with ANEEL and DEC increased comparatively in both distributors companies; and in Bandeirante, the increase was by 0.62 per hour and Escelsa by 0.11 per hour. This has to do with the severity of the weather, especially in March, which took more time to re-establish the connection. At EDP in the issue of debt, we continue to reduce the level of debt, to improve the quality provided to clients.

On slide five, we present the net operating revenue, which totaled 1.8 billion in the quarter excluding the construction revenue, 27.6% above the first quarter of 2012. This

was due to our 68.7% increase in the average price of commercialization and 23.8% increase in generation. There was also a 1% increase in the tariff of EDP Escelsa and 1.1% increase in the tariff of EDP Bandeirante.

This resulted in a 20% increase of the tariff of electrical energy according to the government measure. There was also an increase in R\$140 million of other operating revenues which have to do with the penalties received by the distributors. The non manageable expenses increased 39% year-on-year. The electrical energy purchase for resale totaled 1 billion, a 63% increase year-on-year because of the readjustment by inflation of the purchase prices and increase in the spot price, greater thermal dispatch, and a supply of three new products to meet the growth in the market. Just as in the last months of 2012, the spot price has been high and reached R\$326.30 per MWh.

This reflects the higher dispatch of the thermal plant and also the increasing charges for security in energy when the thermal are dispatched outside the order of merit. This cost was mitigated by the relief of funding by CDE, and this funding were also used to cover hydrology risks and the involuntary exposure for the spot price, which was caused by the insufficient amount of quotas for physical guarantee. If we consider the values already disclosed on May 6, the told amount of contribution was R\$153 million, and these will be adjusted in the results of the next quarter. In generation, when there is high thermal generation, there is reduction of hydraulic generation.

In Q1, this deficit was caused by the operational procedure in the short term which preventively dispatches thermal to increase the level of reservoirs. To mitigate the losses associated with this risk, we allocate to the greater amount of fiscal guarantee in January and February, 2013. This protection was only possible because we decided to buy energy for all the year, 2013, and we maintained a contractors surplus. We had surpluses of 4.1% relative to its physical guarantee. The impact was the operational procedure in the short term was of R\$34 million.

As regard to the manageable cost, excluding the cost of construction, depreciation and amortization, these expenditures were R\$233.8 million, a 15% increase year-on-year. This expenditures have to do with expenses in personnel, material, third party services, provisions and others, and has to do with the provision for losses from receivables under the program Luz para Todos, a provision for delinquent clients, court orders and CG administration with outstanding bills. These expenses with Personnel, material, and third party services below the inflation for the period.

On slide six, we see that EBITDA was 462 million year-on-year driven by generation and commercialization. The net financial result in the quarter was negative, and totaled R\$60 million, 49% above the result of the first quarter of 2012. As regard to the financial revenue, there was a reduction in the revenue from financial investment. There was also a reduction from other financial results because of the lower exchange rate variation relative to energy bought in the time frame.

Under financial expense, the main impact were an increase in the expense of end use of the public goods in Peixe Angical and Investco due to inflation adjustment and an increase

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in the expenses with post job benefit. We see also on slide seven that the consolidated net revenue totaled R\$90.3 million, 36.6% below the income of last year in the same period. There was a negative result of R\$62 million in UTE Pecem under the equity method.

On slide eight, we see the company's debt. Consolidated growth debt was R\$3.6 billion in March, a 16% increase relative to December 2012 already excluding the debts of Pecem OM. The net debt was 2.6 billion in March, a 5% increase relative to December, which reflects a 53.9% increase in the cash position and has to do with the first disbursement of 168 million for the bridge loan of Cachoeira Caldeirao. There was a reduction related to the previous quarter in the cost of that and this has to do with the reduction in the selling rates. The average term of the consolidated debt was 3.1 year in March 2013. Net debt over EBITDA closed at 1.9 times.

On slide nine, you see that the investments totaled a 140 million in Q1 and 46 million went to distribution, 93 million to generation and 1.3 million others. In the distributors, 67% were channeled to expand line, sub-station distribution network and installation of measurement system, 21% were channeled to the replacement of equipments and or depreciated meters, 6% were dedicated to Universalization Program and 5.5% were invested in telecommunication, IT and other activities such as infrastructure and fighting losses. Under generation, the investments were allocated in the construction of Santo Antonio do Jari and in the purchase of equipment for the works of Cachoeira Caldeirao.

On slide ten, we show information on a UTE Pecem I which was almost completed at the end of Q1 and the stake of EDP Energias do Brasil in Pecem totaled R\$35.6 million excluding the capitalized interest of 8.9 million. The quarter was marked by the synchronization of Units to the Interconnected National System and these tests are very important for the declaration of commercial operation.

On page 19 of the release, you see the result of the plant, which according to IFRS 11, as of the first quarter, Pecem I is under the equity method. The net revenue for the quarter was a 103.8 million, which include the revenue from the Unit I, and the variable revenue relating to the dispatch of Unit I for 20.9 million and the transfer of the cost benefit index for the purchase of reserve for the Unit II for R\$51.5 million. The manageable cost for the plant created a R\$114.4 million because of the delay in the commercial operation of the company. The manageable expenditures were impacted by the refund due to unavailability of Unit I for 30.7 million, and this refund is the difference between the actual dispatch of the generating unit and it power adjusted by 50, Unit I of the same produced on average 255MW average in Q1 and the EBITDA of Pecem I was negative by R\$71.7 million.

As regards to Jari, the works are within the schedule, and in this quarter we completed the power house. We also worked on the diversion structures and on the stairway. In Q1, we disbursed R\$80 million from the long-term funding with the NBS [ph] and a total of R\$380 million have been disbursed, which accounts for 52% of the total funding.

We will now begin the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question comes from Mr. Marcello Staff from Brazil Gerdau.

Q - Marcello Staff

Good afternoon to all. I have a question that has to do with the growth plans of the company, and what are the opportunities you envisage for the next auction? Is there any coal project for the A-5? Do you have any wind project for an I-3 auction or for a reserved auction?

A - Mayte Souza Dantas de Albuquerque

As regards to opportunity, regarding coal, no, we are not thinking about that. These are not included in our radar. As regard to wind project, we do have some projects that might be ready to participate, but we don't have the timeline for that. We don't have much capacity to participate in the auction. As regards to the second part of your question, yes, we do have some projects that we can participate.

Operator

Our next question comes from Ms. Carolina Cameros from Santander.

Q - Carolina Cameros

Good afternoon. This question has to do with the tariff review, the preliminary one about Escelsa, ANEEL has released a technical note on their site which includes some date, which have been established in the last meeting focusing on the review. Can you make any comments about that? We know what happened at the beginning of the year with CEMIG's base. What about net remuneration base in the technical note, is subject to the auditing of a ANEEL or is it already a result of an audit?

A - Miguel Amaro {BIO 19148334 <GO>}

No, this figure will have to be audited by ANEEL.

Q - Carolina Cameros

Okay. Thank you.

Operator

(Operator instructions). Our next question comes from Ms. Carolina Cameros from Santander.

Q - Carolina Cameros

And it seems there were no other questions, I would like you give us a little bit more color about the price scenario for the next few year. What about the commercialization company, have you seen any move of stronger contract in the free market between 3 and 5 years? And what about 2015, is there any interest in purchasing energy? What is the price you've been seeing in the market?

A - Mayte Souza Dantas de Albuquerque

The price in the commercialization is the key. Yes, we have seen an upward pressure. The quarter was marked not only by a rise in the spot but also by a lots of volatility. It slowed down a little bit with, so to speak, regularization of the CBE [ph], but the hydrological level is better than in the beginning of the year, but it is far from ideal. Thermal dispatch will continue, and this of course would pressure on the prices and push the prices upwards. As for three years, that's a long-term for the commercialization business. There will be a slight increase relative to some customers and the demand of some customers, but there is still a lot of volatility. Yes, but there is upward pressure.

Q - Carolina Cameros

Thank you very much.

Operator

Our next question comes from Sandra Poenchi from HSBC.

Q - Sandra Poenchi

Good afternoon to all. This is a slightly technical question. What about your tax rates in the quarter, it was very high, the effective tax rate. Can you explain why? Is this tax rate to continue to remain like that? It was the highest in the company's history, wasn't it?

A - Miguel Amaro {BIO 19148334 <GO>}

You calculate the implicit tax rate, the consolidated tax rate includes all the different taxes that we pay and since we took the same according to the equity method, when you look to earnings before taxes, this looks lower but then when you do the consolidation it's higher. If you take out that effect, you will have tax rates that are in line with the previous periods. Was that clear? Is it clear?

Q - Sandra Poenchi

Yes. Thank you very much.

A - Miguel Amaro {BIO 19148334 <GO>}

Because of the equity method for Pecem.

Q - Sandra Poenchi

Perfect. Okay. Thank you.

Operator

Our next question comes from Marcello Staff from Brazil Gerdau.

Q - Marcello Staff

I would like to ask something, I don't know if there is a discussion going on with the Regulatory Agency or not, but as regard to the measure that ANEEL has released the generators and commercialization companies are going to pay for part of the thermal dispatch, are the commercialization companies taking measures against it? Is there any chance of these measure being reversed going forward?

A - Miguel Amaro {BIO 19148334 <GO>}

Marcello, obviously, we have to look at what is defined under the contract, the generation contract provide for an increase for some type of effect on the generating companies, there is going to be a possibility of the prices is being passed on and that's what ANEEL [ph] is working on. The resolution is there. It's being analyzed from all points of view, from a commercial, legal point of view but the associations are working so that we can establish a dialog with ANEEL in that respect.

Q - Marcello Staff

Can you give us more specific comments about the commercialization companies?

A - Miguel Amaro {BIO 19148334 <GO>}

For the generators, this was not included under the contract but for the distributors the generators have a larger margins, so they can absorb that, but in the trading companies I'm bit worried about the trading companies having to pay for that and has to do with the contract, if the charges are passed over under the contract, that is what's going to happen because we comply with the contract irrespective of the commercialization or the generation business.

Q - Marcello Staff

Thank you very much.

Operator

Our next question comes from Oswal Ofilio from Banco Espirito Santo.

Q - Oswal Ofilio

Good afternoon to all. My question has to do with the second turbine of Pecem. In your release, it's not clear what the status of this turbine is.

A - Mayte Souza Dantas de Albuquerque

I'm going to give you an update, Miguel just communicated that. I don't know if it was clear in his speech, but the second turbine, we requested that the decoration of

commercialization this week and we depend on the administrative proceedings for that. The machine that stopped for maintenance is now back.

Q - Oswal Ofilio

So, at any time this turbine is going to begin its commercial operations, right?

A - Mayte Souza Dantas de Albuquerque

Yes. It depends on the administrative transactions and operation, but, yes, but anytime now.

Operator

Since there are no further questions, I would like to turn the floor over to Mr. Miguel Amaro for his final remarks.

A - Miguel Amaro {BIO 19148334 <GO>}

I would like to thank you all for attending. This quarter was a little bit more dynamic, so to speak, there were some changes from an operating point of view. I think, we have been able to address the issues as regard to control of operational cost and the allocation of energy. And once again thank you very much for attending. EDP do Brasil's conference call to announce the results of the first quarter is now closed. Questions sent via webcast will be answered by the IR Team. Thank you very much for participating and have a good afternoon. Thank you.

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