

Q2 2012 Earnings Call

Company Participants

- Luis Otavio Asis Henrique, VP Generation and Trading
- Miguel Dias Amaro, Finance VP and IR Director
- Unidentified Speaker

Other Participants

- Alessandro Congrati, Analyst
- Marcos Severine, Analyst
- Mariana Coelho, Analyst
- Tatiana Taugman, Analyst
- Willi Luveti, Analyst

Presentation

Operator

Good afternoon. Welcome to the EDP Energias do Brasil teleconference where we'll discuss the results for the Second Quarter of 2012.

(Operator Instructions)

This presentation, together with the slides, will be simultaneously broadcast via the Internet through www.edbcr.com.br/ri. There you can also find the release on the results of the Company.

Before going on, EDP Energias do Brasil, would like to clarify that any statements made during this teleconference relative to the Company's business perspective, as well as projections, financial and operating targets relative to its potential for growth, are forecasts based on the administration's expectations relative to EDP Energias do Brasil's future. They rely on the economic scenario of the country, the regulation of the electric industry. And other variables, be, therefore, subject to change.

Now I'd like to give the floor to Miguel Dias Amaro, Finance Vice President and Officer of RI for EDP Energias do Brasil. You have the floor.

Miguel Dias Amaro {BIO 19148334 <GO>}

Good afternoon. Thank you very much for participating in our audio conference for Q2 '12.

FINAL

Bloomberg Transcript

Now, going straight to slide four where you have the period highlights. As we saw in the guidance, the energy sold to distributors' final customers grew 5.4% compared to 2Q '11. Commercialized energy increased 2% in the same period.

So the net consolidated operating value, excluding construction revenue, reached BRL1.4 billion and the greatest highlight was 31.1% in non-manageable expenditures, which led to a drop in the consolidated EBITDA of 5%. And this was not enough to compensate the drop in EBITDA.

If we consider the tariffs and other items, EBITDA would be the same in the same period.

We had positive results. But, however, we could not have a drop of 7.4%.

We also will discuss the work of Pecem. Now we'll give the word to (inaudible), who is going to give you other details.

Unidentified Speaker

Slide number five will show you the non-recurring impact in EBITDA and the Company for the Second Quarter of 2012. Adjusting by the events -- non-recurring events and other items, EBITDA would be BRL413 million in the Second Quarter.

We also have to talk about EDP Bandeirante's retroactive return and, from October 2011 to June 2012, since on June 19th, 2012, a decision reestablished a new regulating norm, stipulating that such revenues be provisioned. The probability of losing such action is very remote. And has not accounting impact, no impact in the cash of the Company. It's only an accounting impact.

Another highlight is the workers' accident insurance. Even reducing the retroactive measures, this was superior due to PLD in consequence, more dispatch from fraternal companies.

In slide number six, we have the operating result of the Company. In generation we have an increase of 2.2% of the volume relative to the same period of the previous volume. And the accumulated -- the growth was 4.1%. The results reflect the strategy of seasonality in the contracts for sale of energy, with greater allocation of the first semester of 2012.

In the commercial part, the energy increased 1.9% in the semester, 4.7% in the semester. This growth was pushed on by the long-term negotiations. The distributors had an increase of 2.7% for the quarter, pushed mainly by the increase in the commercial growth.

In the semester, the growth was 1.5%. The Company is still investing in combating losses, which had a fall of BRL7.8 million, of which an amount was for operating expenses. And BRL4 million for managed expenses.

Bandeirante had the commercial losses below 4%.

The indicators were within the standards established by ANEEL, with improvement of 23% in DEC and 26% in FEC (inaudible), showing the quality and service to the customers.

Slide number seven we have the financial performance, BRL1.43 in the quarter, excluding the construction expenses, an amount that was 7.4% above last semester. In addition to an increase of the volume, we had 29% increase of the average price for commercialization. And 15% for generation, BRL23.7 million increase for short-term energy sales due to the PLD in the period. And a reduction in the non-billed distribution.

In addition, to (inaudible) provision of BRL26 million relative to the surpassing of demand and accident energy.

The non-manageable expenses should be highlighted in this quarter, 31% higher than the previous quarter.

Energy power bought for resale had an increase of 31%, mainly due to the adjustment due to the purchasing price, an increase of 29% in Itaipu due to the dollar valuation appreciation and higher PLD due to the PLD increase. Distributors have regulating assets of BRL78 trillion that will be adjusted for the future.

Manageable expenses, in addition to depreciation, amortization. And construction costs, have decreased 5% in the Second Quarter. In the semester, the manageable expenses valued 0.4% showing the focus of the Company in efficiency and productivity and maintaining cost below inflation.

Total EBITDA totaled BRL310 million in the semester, a reduction of 26% relative to the previous year.

In slide number eight, we show the financial results, consolidated negative totaling BRL80.5 million, with a reduction of 70% relative to 2011. Financial results showed a reduction in financial applications due to less cash and reduction of interest rates and net foreign exchange results.

In financial results, the main variations were the non-recurring effect of BRL52 million for the Second Quarter 2011 for Bandeirante due to the monetary updating of what my team's litigation, lower financial expenses due to the debt due to (inaudible) and more charges for the debt in the period.

The dollar finished the Second Quarter in -- at a different level, appreciation of 29%, reducing the financial or the exchange results.

Slide number nine shows that the net income totaled BRL39 million, 59% below the same period last year.

FINAL

Slide number 10, we show the debt of the Company. The gross consolidated debt was 3.9% above the First Quarter in 2011 due to issuing BRL190 in debenture, then the additional disbursement for (inaudible) now the net debt is BRL3 billion in June 2012, an increase of 11%, regarding margin, reflecting a lower cash balance.

The average cost of the Group's debt was 9.4% compared to 9.7% in March. The drop of the cost regarding the former quarter resulted substantially in the drop of the (inaudible) weight in this period. And the average period of consolidated went 4.8 years in June.

In slide 11, you can see that in the indicators regarding 42% of the gross debt is connected to CDI, while 44% is PJLP that currently is 5.5% [ph] (inaudible). This is a result of the increase of the debt. But this is due to the drop of the EBITDA.

On slide 12 we see that gross investment, in total, lies at BRL219 million are divided in BRL64 million in distribution and BRL150 million in generation. In the distribution, the value of that, without capitalization of interest were BRL1.4 million in Bandeirante, BRL1.3 million in Escelsa.

Now in the period, there was a new decree, the special obligations. So Bandeirante that reached BRL32.3 million due to the retroactive accounting of 27 October 2011. This is when the tariff was due and this is due to penalties, a special obligation.

Now, on the generation investments were in construction projects, 163% [ph] in Pecem and 32% [ph] in Jari.

In slide 13, we will talk about Pecem and Jari.

Regarding Pecem at the end of the quarter, the project reached progress of 98.2%. We're in the final stages of building. We concluded the boiler number one and we are constructing boiler number two in its final stage. Now also the activities of commissioning the turbine have been affected due to problems that we had during which we delayed the operation because we had to correct failures that were found, together with the supplier.

Now, according it was mentioned by Miguel and communicated to the market, we signed an agreement to continue with Pecem through MABE, together with MPX, because we found problems that put in risk our project, the correction of failures detected in turbines and during that run, we expect to finish. In the Third Quarter of 2012 we will carry out tests by -- operational tests.

Unit two, after the finalization of the boiler, we'll carry out tests in the turbine generator and we'll see the operational service and we expect three months after we commission.

Jari, we had the finalization of excavation and we will complete our workforce and the implementation of industrial work area. We have a transmission line in to a substation.

(inaudible) would like to thank everybody for your attention and we will start Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will initiate our Q&A session. (Operator Instructions) Our first question from Mr. Marcos Severine, Itau BBA.

Q - Marcos Severine {BIO 3322666 <GO>}

Good afternoon, to everyone. Well I would like to focus on Pecem project.

I see the pipeline that you're following. I believe that the second unit will be commissioned in December or at the end of November this year. But the matter is the following, the agreement that was signed with the former EPC employees, the amount of the resources that were contributed are enough to finalize this project.

Will these resources cover a part of the fixed revenue that you will not receive any more? What kind of impact do you bear in mind that you will have regarding the first year of operation that was a bit damaged?

Just so, will you be -- do you anticipate any losses, or if these resources will be enough to finalize your project?

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

Well Marcos, Miguel. I say I believe it is a matter that is highly relevant. So Luis Otavio, he led all this process.

A - Luis Otavio Asis Henrique {BIO 19879017 <GO>}

Now, regarding the project and the acquisition of MABE, of course, we did this because we want to guarantee the contract, the stability, from the EPC and the financing contract to guarantee that the project and the conclusion of the construction work would follow our pipeline.

Therefore, now answering your question, from investment it is what you can find in our communication and we naturally not only cash investment. But also guarantees to (inaudible), the guarantees that we had regarding performance and contingency guarantees. And also we expect to -- at the end, to have BRL250 million in CapEx for Pecem.

One part of this CapEx, naturally, is within the values that were communicated and I believe that we will have a global amount that will be around BRL80 million of the BRL150 million that will be 50/50, that will be a contribution from the partner.

Q - Marcos Severine {BIO 3322666 <GO>}

Okay. So from the BRL250 million to finalize your CapEx, you have BRL80 million that have already been encompassed by your agreement?

A - Luis Otavio Asis Henrique {BIO 19879017 <GO>}

No. The other way around. BRL170 were considered, BRL80 million would be additional contribution from partners.

Q - Marcos Severine {BIO 3322666 <GO>}

And regarding, for example, invoicing, your revenue is 100% out of this?

A - Luis Otavio Asis Henrique {BIO 19879017 <GO>}

Yes. If it's not commissioned, we cannot verify any type of revenue, because the unit hasn't been commissioned yet.

Q - Marcos Severine {BIO 3322666 <GO>}

But is there a clause that guarantees some kind of settlement if there is a delay in your construction site. So you believe that this revenue has been lost?

A - Luis Otavio Asis Henrique {BIO 19879017 <GO>}

This is Luis Otavio. You're talking about non-received revenue, yes, the revenue that we did not receive, this is something lost. One part of the -- one part of it, yes. One part of it we will receive. There are a number of claims within the construction site that will be finalized at the end of the whole process. So there are revenues that are still being debated with the operation plant.

Why aren't we going to discuss this? We have suppliers. We have the EPC employees that they gave us guarantees. Then they said that if -- there is a bond. Now, in this moment, we're really not seeing this. When we decided to replace, to buy the MABE consortium, I believe that this was a decision for the construction work site to work in this -- so, because otherwise, we would put our project in risk. So we carried out a financial agreement with values and dates and deadlines.

Now, there is -- now, what happened, this will be a claim object that we will debate subsequently. But we are working with BRL250 million, BRL170 million that come from MABE, BRL80 million are new contributions. So let's continue with our construction site.

I would just like to clarify. So we don't have these types of problems, in terms of construction, both machines have been built. Okay, machine one has -- it's conditioning has already been carried out about six week ago, this machine, when it was connected to the electric grid, the manufacturer detected a problem inside the bearing. But this is from Siemens. Now, the machine is going back to Siemens so that Siemens can fix the bearing.

We do not want to run any risk and we are carrying out the respect repairs in the bearing that are the part of the turbine so in the upcoming weeks we're able to connect it to the electrical system.

Machine two, the part of construction has been finalized and what we call the first ignition, that would be the boiler ignition that is a landmark within the conditioning, I believe, should be carried out in the upcoming two weeks. And with this, we will go for the Fourth Quarter, I believe, we will commission this machine totally.

Q - Marcos Severine {BIO 3322666 <GO>}

Okay. Just one last point. I believe that ANEEL had given you a waiver of power delivery until July 23rd. The deadline has exceeded already. So you would have to have some exposure on the spot market.

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

We have no exposition in the spot market. We have already bought 100% of the power. (inaudible) and EDP have already bought this power and we are discussing, together with ANEEL how they will reimburse this energy to us.

Q - Marcos Severine {BIO 3322666 <GO>}

So this energy, you bought it until the end of the year following your pipeline to date?

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

We bought this power following the pipeline that we had previously established, as I mentioned in the beginning.

Q - Marcos Severine {BIO 3322666 <GO>}

Perfect. Thank you very much.

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

And just to give all our partners a bit of piece of mind, to reassure you, we have a purchase option for one or two months, because I believe that we're talking about construction. So we still have an option of buying more power, if it is necessary.

Q - Marcos Severine {BIO 3322666 <GO>}

Can you give us an idea of the price of this contract?

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

We have a confidentiality agreement. I cannot give you this figure. We have an NDA. I can't tell you from whom we're buying power and the value. But it will be made public when ANEEL makes public the reimbursement or the not reimbursement, we will have to disclose this contract together with ANEEL and I believe that the board of ANEEL will make it public.

But as a purchaser, we cannot tell you anything. Only the regulating agency will be able to disclose this type of information.

Q - Marcos Severine {BIO 3322666 <GO>}

Thank you.

Operator

Our next question comes from Alessandro Congrati [ph] from Citigroup.

Q - Alessandro Congrati

Good afternoon, Miguel, (inaudible).

The first question I have refers to the quarter's results. I'd like to understand a bit better the 15% growth in terms of generation price. You said that part of this is a result of new contracts. Can you tell me about how representative these new contracts are vis-a-vis the portfolio that you have today? Because my understanding is that your position, the re-contracts, are very (inaudible). So I'd like to know this exposure, what it is. And what is the other motivation for this increase in price, a significant increase in price?

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

Basically, we have not only seasonality. But we also have some new energy, some machines with false [ph] capacity went from 450 to 428 megawatts. So lower energy purchase. Part of this energy was used for our own consumption. So whatever is surplused is sold. And so we have an adjustment in contract seasonality, an increase of capacity. And price.

Q - Alessandro Congrati

We've seen this increase also in Lajeado. And Energias. So if you could be more specific? Is there anything else?

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

No. It's basically the seasonality. I'm sorry, may I just add that we had a volatility in PLD price that was very significant for the period. The PLD in the half of the year oscillated between BRL25, BRL32, BRL200. So we made the best use of the seasonality and the short-term contracts for the period.

Q - Alessandro Congrati

Just to confirm, the figures you have in your release, does it take into consideration the PLD price and volume?

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

Yes. The short-term power. Yes.

Q - Alessandro Congrati

Also volume?

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

Yes. Also the volume.

Q - Alessandro Congrati

The second question refers to the tariff review for Bandeirante. It's been a few weeks that ANEEL disclosed the technical note to be discussed in a hearing. I would like to know whether your regulating department has already given you a preliminary perspective? I know there are some items that will have to be negotiated. But I know that there are some items where you can identify some mistakes in terms of calculations or anything of the kind.

Do you have any initial information that could share with us?

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

The initial view we, of course, have. But we cannot share it right now, because the process is for public hearing. So we have a technical discussion with ANEEL. ANEEL followed its regulating model. So the discussion is at the technical level. So we have to show our perspective, our take, in terms of performance and the socioeconomic reality. So it wouldn't be appropriate to talk about anything more specific in terms of tariff reviews at this point.

Of course, we have the preliminary figures and I think this is the starting point that was set by ANEEL. Of course, there will always be discussions about specific items. But this is our starting point. It's, of course, a challenge as it was already known in terms of the introduction of this new model. It's a very challenging work. There is risk for productivity and fighting losses and we have to comply with this, of course.

Operator

(Operator Instructions) Our next question comes from Mariana Coelho Itau BBA.

Q - Mariana Coelho {BIO 16262980 <GO>}

Good afternoon, everybody. My question refers to dividends. You never had any commitment in terms of payout. But you now commit to have dividends per share in absolute terms. In gross figures last year, you paid BRLO.70 per share. So I'd like to know whether we could expect something higher than that for this year and if you could give us a guidance in terms of this increase, I would appreciate it?

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

I always say in terms of dividends that the policy is the policy that we have defined, 50% of the minimum adjusted profit. In terms of payout, we always try to pay our shareholders

FINAL

Bloomberg Transcript

FINAL

adequately. But there must be a balance between the challenges and the opportunities for growth we see, the healthy state of the Company's balance sheet. And, of course, the adequate payout to the shareholders.

Having said that, of course, you've seen that the growth in non-manageable expenditures, buying much more expensive energy and other external factors, have put pressure on our cash. And the payment of dividends will have a certain net result for the period. But we need, also, to bear in mind the cash generation. And this is a challenge.

Having said that, we're going to try and maintain the same commitment. But it is the challenge we have ahead of us.

Q - Mariana Coelho {BIO 16262980 <GO>}

Thank you very much.

Operator

(Operator Instructions) Our next question comes from Willi Luveti [ph] from Santander.

Q - Willi Luveti

Good afternoon. My question refers to the results. I really don't understand what led to their index or rates. I'd like to know what happened and what we should expect from now on? Will be it maintained at this level? Will it be the IR rate that hiked to 38%?

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

As you see in the release, there is a difference between deferred taxes -- you see this on page 12 -- and the adoption of an accounting regulation in line with CCM.

So the rate should return to the levels, average levels, that the Company has always had. This is just a one-off situation.

Operator

(Operator Instructions) Our next question comes from Tatiana Taugman [ph], Terrell Capital [ph].

Q - Tatiana Taugman

I would like to understand how you see the decision made yesterday about the sale and what would be the impact on other auctions this year, if you have any expectations to have a new project in auction or whether it will be left for the year after? How do you see the market, the scenario, until the end of this year?

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

Bloomberg Transcript

FINAL

In terms of the (inaudible) Group, I am -- I don't think I will have anything to say about the auctions. Depending on the demand expectations, vis-a-vis the consumption that we see in our areas of concession. And you have seen that there has been an increase in the commercial and residential factors. And it's different, depending on the different regions, the industrial consumption is weaker in Sao Paulo than in Espirito Santo, for example. So should this be an indicator and looking at what the consumption of energy in Brazil is, of course, we'll act according to the demand and there will be an auction or not, depending on these factors.

So it's decided that there is something for the end of the year, there is a joint venture we would like to enter. If this event occurs, it may or may not impact the demand, supply and demand. But it's not decided, as I've said.

We have a 400-megawatt project we would like to participate, always preserving the profitability of the business.

Q - Tatiana Taugman

Thank you very much.

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

Now our earnings conference call of the Second Quarter 2012 of EDP has come to an end. The questions received through the webcast will be subsequently answered by our Investor Relationship people. We would like to thank everyone and good afternoon.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.