

## Q4 2012 Earnings Call

### Company Participants

- Luiz Otavio, VP
- Miguel Dias Amaro, CFO, IR
- Unidentified Speaker

### Other Participants

- Christiane Pedrofiser, Analyst
- Marcio Prado, Analyst
- Sergio Conti, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Welcome to the EDP Energias do Brasil audio conference to discuss the result for the Fourth Quarter of 2012. At this time, participants are in a listen-only mode. Later, we'll open for questions when further instructions will be given. (Operator Instructions)

This audio conference and its slides will also be transmitted simultaneously by internet at [www.edp.com.br/ir](http://www.edp.com.br/ir). There you will also find a release relative to the Company's results.

Before proceeding, EDP Energias do Brasil would like to clarify that any forward-looking statements regarding the Company's business perspective, as well as projections about the operating and financial targets and the Company's growth are projections based on management's expectations regarding the future of EDP Energias do Brasil.

Results will be contingent upon Brazil's economic environment, performance and regulations of the electric industry, as well as other variables, therefore subject to change.

I now will turn the call over to Miguel Dias Amaro, Finance and IR VP at EDP Energias do Brasil. Mr. Amaro, you may proceed.

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

Thank you. Good afternoon. Thank you for coming to our call for the Fourth Quarter of 2012. In addition to the disclaimer that has already been read, I would like you ask you to go to slide number four.

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Our net revenue has increased 40%, comparing to the previous quarter, 17%, YOY, we reached BRL6.331 billion, non-manageable expenditures reached BRL1,457.8 million, a result of the thermal dispatch and especially this year. Consequently our gross margin increased 15% of the year.

The contention effort associated to the new value of reposition enabled EBITDA to increase 19% over the quarter, though we could not refer it to a drop of 15% for the year due to the non-manageable expenditures. Our objective is to maintain OpEx below inflation. And we have done that. The indicators for distribution have also improved, compared to previous year. And losses were under control.

The sales of overseas and agreements and other events that were disclosed through the year led to an increase of 30% in our profit. Our board approved the forwarding of the dividends into the interest on our equity. So we are going to have a remuneration similar to the previous year.

We also talked about the Cachoeira Caldeirao project. When we started the first machine for our business, the second machine has already started synchronization and tests this year. Subsequent events, our share seeking part of the Bovespa index, with the participation of 0.645%. Now, I'd like to turn it over to my team [ph]. I would like to congratulate Carlos [ph] (inaudible) who is now appointed to VP in Commercialization.

## Unidentified Speaker

Good afternoon, everybody. On slide number four, we see a summary of the Company's operating performance generation. Considering the volume of energy sold, due to availability of facing 1 TPP, we had an increase of 24.6% against 4Q11, total for the year amount to 9,450 gigawatts/hours, an increase of 12.7% YOY.

Commercialized energy volume increased 32.7% in the quarter, 13.7% YOY. This increase was pushed by the long-term negotiations and by the 13th adjustment option. Distribution, consolidated consumption increased 3.5% in 4Q12, pushed by residential, commercial and rural customers, reflecting weather conditions and income increase. Annual upturn was 1.5%.

The Company keeps investing in programs to fight losses, having dispersed BRL15.9 million in the quarter, from this total, BRL10 million for operations, BRL5.7 million for manageable expenses. DEC and FEC indicators were within the standards established ANEEL with improvements both Bandeirante and Escelsa showing the Company's focus to improve quality to customers.

Slide number five, operating performance, totaling BRL1.9 billion in the quarter, excluding construction revenues, this amount being 39% over 4Q11. The main highlights being 36% increase to the average price of commercialized energy, 15% for generation, average increase of 14% on EDP Escelsa tariff due to the terms of adjustments introduced in August 2012, 5.6% on EDP Bandeirante's tariff, due to the tariff review and adjustment process announced on October 23rd, 2012.

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Additionally, revenue from the BRL114 million from the balanced purchase from Pecem 1 and the revenues which started in December 2012, when Unit 1 started its commercial operations. Additionally Bandeirante positions surpassing demand amounted to BRL11.9 million, relative to revenue from surpassing demand and consumption of exceeding reactive energy, with no impact on the Company's cash.

YOY, our net operating value was BRL6.3 billion, 17.2% above 2011. Non-manageable expenditures are to be highlighted, 80.7% over the same period in 2011. Purchase for resale totaled BRL1.2 billion, 95.8% over 4Q11, chiefly due to thermal dispatch, buying prices adjusted for inflation, purchase for a TPP Pecem 1, operating procedures and starting supply for two new products for new markets -- to meet market shares.

As was the case with the First Quarter of 2012, PLD remained at a high level, reaching an average of BRL304.4 megawatts/hour in 4Q12, reflecting more dispatch of thermal plants for the period. Thermal dispatch impacts energy costs paid by distributors in addition to the thermal dispatched increased up energy security, paid when TPPs are dispatch out of merit order.

Manageable expenditures excluding depreciation, amortization and construction costs totaled BRL83 million, down 66.9% against 4Q11. These expenditures referred to personnel, material, also service, provisions and other things. As Miguel said, this drop refers basically to sales of Evrecy Participacoes concluded in December, the end of the legal dispute between EDP Comercializadora and Ampla Energia in relation to the arbitration decision issues by FGV Conciliation and Arbitration Chamber.

The new repositioning value of distribution of assets, now indemnified in accordance with the new repositioning value, which is also used in the energy distribution possession tariff provision processes determining the regulatory revenue remuneration base was a value used to constitute the new financial assets, referred to the underappreciated percentage of the assets until the end of the concession.

For 2012, manageable expenditures totaled BRL722 million, down 16.1% while inflation for the period was 7.8% IGPM, 5.8% IPCA. EBITDA totaled BRL553 million, up 18% year on end. And the accumulated, it reached BRL1.313 billion, a 14% down on 2011. Net consolidated financial results for 4Q12 was negative BRL58 million, 27% improvement over 4Q11, when a negative result of BRL79 million was posted.

In terms of the financial revenue reduction in income from financial investments due to lower cash and cash equivalents, accompanied by the decline in interest rates, increase on federal taxes and contributions, financial expenditures. Reduction related to monetary restitution of the fines and interests associated with REFIS, reduction in interest expenditures due to the decline TJLP and Selic, reduction in mark to market and adjustment to present value expenditures chiefly due to the rollover of percentage.

Also the dollar closed 2012 at BRL2.04 versus BRL1.88 in 2011, thereby improving the results. Net income for 4Q12 totaled BRL150.7 million, up 84.2% over 4Q11, mainly due to

the above-mentioned impact on EBITDA. Indebtedness, consolidated grossed at BRL4.3 billion, in line with September 2012.

Slide number eight, we see the gross net debt. Rather, the consolidated gross debt, BRL4.3 billion and the net debt BRL3.7 billion, 11% over September 2012, reflecting the increased indebtedness due to the 37.2% reduction in the cash balance and availability. The average price of the consolidated debt was 4.5 years in December, the net debt EBITDA ratio ended the year at 2.8 times. As to the other indicators, 60% of the gross debt is linked to CDI while 35% is linked to TJLP.

Investments totaled BRL354 million in 4Q '12, allocated at BRL86 million for distribution, generation BRL264 million and other, BRL3.6 million. For the distributors, we had in 4Q '12 BRL100 million, 45% to expansion of lines substations and grids, 22% to improvement of grid and equipment, obsolete and depreciated meters. 3.5% to urban and rural universalization proficiating customers' connection to access of energy, 28% to telecom, IT and other activities, such as infrastructure, commercial projects and loss fighting. In generation segments were mostly to construction projects, 17% to Pecem, 66% of Jari.

Slide number 10, we see that Pecem 1 HPP has at the end of 4Q12 has reached a physical progress of 99.3%, a quarter marked by the beginning of commercial operations of Unit 1, on December 1st. Unit 2 on February 2013, we started a synchronization with the SIM and the sync and the tests are now on the way to the declaration of commercial operations. Due to delay in the commercial startup, Pecem had to acquire energy in the free market to meet its supply commitments until effective commercial operations begin.

Given existing precedents, Pecem's revenue were calculated based on costs pass through in accordance with the cost benefits index, ICB. Therefore for 4Q12, Pecem incurred in energy acquisition costs of BRL168 million with BRL114 million in revenue and that, BRL13 million from beginning of operations at Unit 1.

In terms of Jari, the work is according to schedule. The most important highlights were the concreting of the power house and the assembly area, building of the left bank coffer dams, excavation of diversionary structures, excavation of the secondary power house. And continuing brush clearance. The first disbursement on the long-term loan to the amount of BRL300 million in December 2012.

Thank you very much for your attention. We'll now start a Q&A session.

## Questions And Answers

### Operator

Ladies and gentlemen, we'll start now the Q&A session. (Operator Instructions)

The first question comes from Marcio Prado from Santander.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Good afternoon. Thank you for the call. I would like to ask a question about the commercialization area, regarding how you see the free markets right now? Do you see liquidity? Do you think prices are rising? Do you have mid-term contracts? I would like to understand a bit how you see the market. Could you elaborate on that? Thank you.

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

Marcio, this is Miguel. I'm going to give the floor to Luiz Otavio, our VP in Generation and Commercialization until yesterday. And he is more knowledgeable, he'll give you a better idea, a better perspective.

**A - Luiz Otavio** {BIO 15977792 <GO>}

The EDP commercializer has been working with mid and long-term. We do have short-term operations but the support is given by mid and long-term contracts. Of course the short-term impact with the changes in price that we have seen or that we are seeing right now has led to a decrease in the number of operations.

In spite of that, the volumes of business in financial terms has exceeded our expectations for a very simple reason. We have our position to be long or short, according to the market. So in a difficult moment that is the one right now, we are operating on long. So we maintain our long-term portfolio and it complies with what our customers say, consider to be long-term. Some are two, some are four years.

As to future prices, this is the very touchy moment. Part of our strategy is to know about the future prices. But in a moment of volatility, we, I mean we have a strategy that is being very well led. And if I now tell you about the future prices, we'll lose competitiveness. But we are very much alerted to the signals that have been issued ever since the end of last year.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Thank you very much.

**Operator**

(Operator Instructions) Our next question comes from Christiane Pedrofiser [ph] from Jerrason Fatoro [ph].

**Q - Christiane Pedrofiser**

Would you give us an idea about the seasonality in energy contracts for 2013, especially for the first half of the year?

**A - Unidentified Speaker**

Seasonalization of our contract meets the need for strategy within the Comercializadora and generation and distribution. We want to add value to the business so we have a year

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that's slightly inverted.

Usually, we have lower prices in the first half of the year. And a little higher prices in the second one. So following those trends, we have increased our seasonality for the first half of the year, in keeping with the strategy of no values in view of the volatility of the market, protecting the three areas of the business, commercialization, distribution and generation.

## Q - Christiane Pedrofiser

Thank you very much.

## Operator

Our next question comes from Carolina Menezes, Goldman Sachs.

## Q - Sergio Conti {BIO 3441214 <GO>}

This is Sergio Conti, Miguel. A short question. Looking at your balance sheet, you ended 2012 with a leverage level of 2.8 times net debt EBITDA. Let me understand what I can expect in terms of additional disbursements for the First Quarter of the year, in terms of the projects that you are developing. And what is your expectation vis-a-vis this indicator for 2013. This is my first question.

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

Hi, Sergio. I didn't hear the second half of the question. The first one is about the disbursements for the projects, right?

## Q - Sergio Conti {BIO 3441214 <GO>}

Yes. And the second one, what do you expect in terms of net debt, EBITDA, for 2013, as a whole?

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

Well in terms of disbursements, we are going to have something about Jari but let me say that we are going to make some issues here to protect or rather to meet the costs of energy purchase, right? So the redistribution of quotas, this is something that occurred to the industry as a whole but didn't. And these were also were sub-contracted. And they must face this, a strategy of seasonalization will protect the three areas of the business, as has been said.

Now we expect to close the year a little bit above what we recorded in 2012, a little bit above 2.8 times. We're very much aware of the conditions of the market, financial market. And the industry market. And the solutions that are currently being discussed with all the institutions and with the government, in regard to the situation of high energy prices, continuity of operation, a return of dispatch, longer, right, along the whole year. And the involuntary subcontracting.

## Q - Sergio Conti {BIO 3441214 <GO>}

I think everything is connected. But following up, in 2012, you met the target in terms of guidance for the dividend, BRL70 million. So a stable dividend per share. In terms of 2013, do you think that could work with the same figures, or is it going to be a little bit tougher due to the challenges posed by 2013?

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

2013 is a very challenging year. I was called a pessimist when I was looking at our budget, that was being prepared in October. We expected a GDP below the market, what the market was protecting and today, they call me an optimist. So this, in addition to the weather conditions, higher consumption, considering all those, as I've stated, we should be around 13, 13.5 [ph].

And also considering the mining industry and the exports, all of it will lead to revenues, already considering the figures for itself in October. But the wrench is this year we're going to have a review from Ascelsor [ph] and the energy cost, the cost of buying energy which is very high. Of course, we'll keep on with the strategy to protect the three businesses. But when we talk something between BRL270 million and BRL350 million, we have problems from the cash perspective.

In the, all the evolution of business and of the industry, the evolution, we want to keep our, at the same payment for dividend per share.

## Q - Sergio Conti {BIO 3441214 <GO>}

What about the CapEx for 2013? Could you give us a perspective?

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

CapEx should grow more or less in line with what happened this year. This year, we were BRL7 billion, we should be around BRL1 billion CapEx. We'll be basically for Jari, second half of the year, we're going to have (inaudible) Calderon [ph]. The amount was BRL1.12 billion, 16%, 17% of which should be disbursed in the first year. And then everything else will be maintenance regeneration. So I would say it would fluctuate around these figures, something around these figures.

Now, distribution usually has a consumption between BRL250 million, BRL300 million. Of course, with bearings last year, we had to import some investments in terms of information systems. We upgraded our SAP, we introduced a GRC system. We also had some projects in line with the ANEEL regulation resolutions that also consumed a little CapEx. But all in all, BRL1 billion is, the figure that I expect to have in terms of CapEx for 2013.

## Operator

Our next question comes from (inaudible) from Banco Espirito Santos.

## Q - Unidentified Participant

My question has already been answered. Thank you.

## Operator

(Operator Instructions) We now close the Q&A session. I turn over to Miguel Dias Amaro for his final words.

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

Well basically, I'd like to thank you for participating in the call. I hope we have clarified all your questions.

2012 was a difficult year. 2013 has started with challenges. And we're here to try and face them. Thank you very much.

## Operator

The teleconference for EDP Energias do Brasil now comes to an end. Questions received via webcast will be later answered by the IR team. Thank you very much for participating. And have a good afternoon. Thank you.

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