

Q3 2011 Earnings Call

Company Participants

- Corporate Participant
- Maytê Souza Dantas de Albuquerque, Investor Relations
- Miguel Amaro, Appointed Vice President of Management Control

Other Participants

- Alexandre Kogake
- Antonio Junqueira
- Tatiana Feldman
- Vinicius Canheu

Presentation

Operator

Good afternoon. Welcome to EDP Energias do Brasil Conference Call to announce the Earnings Release for the Second Quarter of 2011. All participants will be connected in listen-only mode. And later on we are going to open Q&A session, when further instructions for your participation will be provided. [Operator Instructions].

This presentation along with its slides is available simultaneously at the Internet at the website, www.edp.com.br/ri. There, you can also see the earnings release of the company.

Before our proceeding EDP Energias do Brasil clarify that any statement made during this conference call about the company's business outlook, as well as financial and operational projections and targets relative to its growth potential are based on beliefs and assumptions of EDP Energias do Brasil management about its future. These forward-looking statements depend on the country's economic scenario, on the regulation of the electric industry, in addition to other variables and are therefore subjects to change.

Now, I will turn over to Mr. António Pita de Abreu, CEO of EDP Energias do Brasil. Please Mr. Pita, you may begin.

Miguel Amaro {BIO 19148334 <GO>}

Good afternoon, everyone. And this is not Mr. Pita de Abreu, but this is Miguel Amaro. And I would like to thank your attendance to all our conference call to announce the results of the third quarter of 2011, and we are going to slide three, the highlights.

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So, we have the 5.7 growth in energy volume source to final customers, 4.3 from Bandeirante and 8.4 from Escelsa. That was driven by manufacturer, by the distribution segment. In August, it had 7.39 adjustment with 2.97%. Also in distribution, we had another quarter with very good results.

In the segment of generation ANEEL approved the increase of the installed capacity to 73.4 megawatts in Jari. And in our understanding, we are having very good results under final capacity and the assured energy. And there are construction of the Jari's project installation in October. We completed the acquisition of the ECE participation, holding a 90% stake in the concession rights to Jari HPP. So, we still need approval from the authorities.

And so, we have a 95% of the same project already completed. And we expect the complete installation of reservoir. And the beginning of the quarter in July, we completed the secondary offer of share and we reduced our participation and now we have a free float from 49%.

Now, if you could turn to slide number four, where you can see some non-recurring event. So, first of all, we have a global provision for reversion of R\$ 30 million for R\$ 18 million at Escelsa. The constitution has already been set forth before even at the end of last year it has been expanded due to a decision of ANEEL. It was both for Bandeirante and Escelsa, and it was retroactive to September and January '11.

As to our labor cost, we use IAS 19 and in terms of personnel and expenditures and social benefits, we had an amount of 15.9 million with a positive impact on EBITDA. Now, in terms of our shares of Rede Energia to marking-to-market of financial assets in order to complying with CPC 38.

And so, this is the share we have and we are already due to marking-to-market and due to rules of IFRS, there has been a devaluation in next phase of 30% for more than nine months it has undergone some changes. So, this record is booked. And therefore, in this quarter, these are the highlights and they may non-recurring events that impact our results.

Now I'll turn it over to Maytê for a brief summery of everything.

Maytê Souza Dantas de Albuquerque

Good afternoon.

On slide five, we can see a summary of the company's operating performance. In generation there has been a reduction of 3.8% in the volume of sold energy as it reflects the seasonal strategy for sales contract with more allocation in the first semester of this year.

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As was mentioned in our release, the first quarter of 2011. The year-to-date there has been a 4.5% increase. In trading, the increase was 19.6% as a result of more intense sales in the short and mid-term. At the distribution companies, we have seen a consolidated growth of 4.6% driven mainly by the consumption increase in residential and commercial classes, as a result of the increase in families income and the reduction in unemployment.

The company has been making heavier investments in pricing losses and in the third quarter of 2011 spent 9.7 million. So, we can see constant losses at the company's losses and Bandeirante achieved commercial losses below 5.5%.

On slide six, we see the net operating revenue totaling 1.3 billion in the quarter, 5.9% was more in the third quarter of 2010. This result was driven by the increase in volumes that were mentioned, the increase in average sells that Bandeirante and Escelsa and correction of generation contracts according to inflation rates.

In addition, at once for the recurrence of the RGR, the operating revenue would have increased by 8.3%, and to nine months those net revenue grew by 10%. Manageable expenses excluding depreciation have shown a reduction of 3.9%, an impact of the non-recurring effect which was already shared with us by Miguel. Year-to-date manageable expenses have increased by 4.8% according to our objectives.

Manageable expenses and gross margin were 35.5% in the third quarter of 2011 and 33.1% under nine months of 2011, confirming our concern in managing operating expenses. The EBITDA was 362 million in the third quarter and a 14.8 increase. EBITDA was 1.2 billion in the nine months, 10% more than in 2010.

In the next slide, we have the net financial results consolidated, which was negative by 76 million with an increase of 56% in relation to the third quarter of 2010. The financial revenue... there was a reduction in financial investments due to less outstanding and cash and to lower revenues and monitor variation due to the earnings in the third quarter of 2010, which was not seen in the third quarter of 2011.

We should also highlight the negative result in the foreign exchange and foreign currencies in the third quarter the dollar was 1.85, in the third quarter of 2010 it was R\$ 1.69. The company's investment in dollar related to the Pecém Project is protected by hedging operation.

However, the total amount is in reais, according to the tax to the exchange rate at the time and the hedging is registered according to the market, depending on future exchange rates and interest rate. This will change according to periodic variations into that and it will have impact, but with no implication at the company's cash. So, the consolidated net profit of the third quarter was 92.3 million, 26.6% more than the same period last year. The net profit was 409 million, with a 7.1% increase in relation to last year.

On slide number eight, you can see the company's investing in September 30, 2011 at a consolidated gross debt totaled R\$ 3.3 billion, 1.8 above on June 30, 2011. Net debt totaled 2.4 billion in September, and this amount is 5.4% below the second quarter of '11

because of a higher cash balance. Our divestment of being yet 2% obtain the 88% of the total schedule. The average cost of the debt in September was 10% by year, as compared to 9.06 in June 2011.

The increase in the cost in relation through the previous quarter is also a result of the increase of strategic rates of 12% in the period. As to indicated, less than one-third of our gross debt is attached to expect to the CI, whereas a 49% is paid by the TJLP. The ratio, net debt, did quote the semester as 1.5, investments stood 244.4 million in the third quarter, and divided 102.8 million for distribution, 132.9 for generation and 6.7 million other than distribution companies. The amounts are added by the capitalization of the interest rates and deducted from donations and subvention.

In the quarter, investments were allocated, especially for the construction of building, where we invested 97.9 million in the quarter.

I thank you all for your attention. And now we are going to start our Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we are now going to start our questions-and-answer session. [Operator Instructions]. Our first question comes from Mr. Alexandre Kogake from Citigroup.

Q - Alexandre Kogake {BIO 17297554 <GO>}

Good afternoon, Maytê and Miguel. My first question regarding Portugal. Could you tell more to us of your 21% sales in Energias de Portugal, sharing with that your vision about the possible impacts in Energias do Brasil? And also, if you could share with us a little bit about your corporate governance instruments?

The second question, actually I would like you to elaborate on the strong reduction that took place in energy losses. Looking at the details of inspections, investments, residency, any major variations, but anyhow you had very good gains over the past 12 months. So, could you share more details with us about that? Thank you.

A - Corporate Participant

As to your first question, there are few things I would like to say. We have... it is a responsibility of our controlling shareholder. It's good and it's well above the company. So, this is a process that is going on in Portugal.

We have gone through all the phases in the process, and so we don't have much to say about it. It's going on, it's a process that is already taking place and the shareholders will tell it's share or it's interest in our controlling shareholder. We don't like to say anything else about that. And we are not allowed to make any comments about that.

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As to losses, in fact, there have been losses. We've been working intensely in terms of inspection, but we have been saying along this year about this and there is a project we have 100% assurance. It's a set of measures that are associated not only to win better utilization of intelligence and the systems that we have in a better credit and analysis. And so, it's an easy way for us to conduct these inspections thereby increasing an efficiency, also having assets of measure that I am not going to share with you because of the competition.

But, in fact, we have been able to obtain very good results in all the France where we have been working. It's a set of operational measures, but also in terms of the social operation, considering our profile. Of course, it's not just a matter of having a quantitative approach, but we are focusing very much on management.

So, this is basically that and therefore the results are there for you to see whether trend debt should be considered; that's all. And so, but I would ask you to understand that I can't say much about your first question.

As to the second question according to your planning, do you still see any room or any significant room for reduction? How are you doing in relation to the initial targets? Well, the project is evolving well. Obviously as you can see, we have been making major effort at all levels. And obviously, we always tend the targets that Miguel now suggest towards.

And therefore we should work not just in terms socially, but also in terms of the investments in substations so that we may also optimize our network and balance it in the best way if possible and to fight losses, technical losses more specifically. Thank you. But no, you should continue to follow-up and to see what ANEEL imposes to us. Is that clear?

Operator

Our next question is by Mr. Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good afternoon. I have a couple of questions with regard to new project. The first one is Pecém. You have just shown us the project is close to the final stages of investment. So, when do you hope to go into operations? Is it at the beginning of the year, do you have any deadlines for that?

And as for Jari, did you get an approval? You got an approval for ANEEL transfer, but at what stage are you at Jari?

A - Corporate Participant

Well, let me start by the second one. With regards to Jari, the work has started. The funding... the preliminary funding is in place. By June, we will contract the next loan and we'll start working on the funding within the deadline. So, everything is on track.

Of course, we have a loan for the first CapEx disbursement. We are working with BNDES to do everything within the deadline as soon as possible.

With regard to Pecém, we are at the final stages. 95% of the work has been done. And the objective is obviously to have commercial operations by the first quarter. Thank you.

Q - Vinicius Canheu {BIO 6300903 <GO>}

What is our treasury? What is the volume of the loan you are hoping to contract for the main funding of the work?

A - Corporate Participant

Roughly R\$ 700 million.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. Thank you.

Operator

Our next question comes from Ms. Tatiana Feldman from Morgan Stanley.

Q - Tatiana Feldman {BIO 16528278 <GO>}

So, talking about projects that thinking of last auction and it was a very competitive environment. But what have you been thinking? Are you going to try again in the next auction or do you have any other idea in terms of the marketing your project?

A - Corporate Participant

Well, that you have seen in the auction, we had registered our project and Petrobras has talked about gas. And I think that this is clear that it will be very difficult for us to use the same project, Jari project is at 73 megawatts. And we needed to know how much energy ANEEL is going to grant to us.

And there are some other projects that are being approved and to follow the regular and the usual auction proceedings. So as I said before the additional capacity of Jari. Thank you very much.

Operator

Our next question is by Mr. Antonio Junqueira from BTG Pactual.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Good afternoon. My question is about dividends and leveraging.

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During the presentation, we can see the company is reducing its leveraging and focusing on net energy, you are close to 1.4 or 1.5 times the leveraging. What kind of leveraging do you have as a goal before you increase your payout to a 100%? What kind of leveraging company... no other company has 100% of the profit in terms of dividends?

A - Corporate Participant

Well, let me tell you, what I usually tell everyone. Our leveraging targets for the company in consolidated terms, our capital structure, go through the distribution companies and we are trying to optimize that, and optimizing the regulatory framework is not the only way to which you can get funding.

We have managed to reduce our debt cost by taking out as little money as possible from the BNDES. We want to get whatever is best. And in generation, we get project financing with longer terms and lower costs. It's a combination of both which leads to a consolidated capital structure.

Having said that, the target for our capital structure... we don't have a consolidated way of doing that. We have a way to do that per business unit, so that we can optimize our capital structure as best as possible at each business unit. We are very comfortable with the way we are doing things. We would not contract a debt to pay dividends. We will keep the payout with the IRRS.

Results have been better and will continue to be so. Results will have a better distribution. And so, we have decided to keep dividends growing and we hope to do so.

Q - Antonio Junqueira {BIO 15403195 <GO>}

And could you provide us your leveraging targets for distribution?

A - Corporate Participant

Well, the leveraging targets are the ones that you can see today in the regulations WATT. That's what we are trying to obtain. So, you are seeing P40 and this is what we want to have as an objective. So, it could be 50-50, but for generation. And usually, my answer would be as much as possible. But you know that in thermal projects, you may have certain limits for leveraging. It maybe the case for sometimes it's 75, 25 and in that case we have... it's depending on the projects must might be 55, 45, it's something that you can use.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Thank you very much.

Operator

[Operator Instructions]. Excuse me. If there are no more questions, the conference call for the announcement of the results of the third quarter of 2011 of EDP or Energias do Brasil

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is now closed. We thank you all for your participation and have a good afternoon. Thank you very much.

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