

Y 2013 Earnings Call

Company Participants

- Miguel Amaro, Chief Financial Officer
- Miguel Setas, Chief Executive Officer

Other Participants

- Felipe Leal, Analyst
- Sandra Boente, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, and welcome to the conference call of EDP Energias do Brasil in which we are going to discuss the company earnings in the fourth quarter and year of 2013. All participants are right now connected in the listen-only mode. Later on, we are going to start with Q&A session and further instructions will be provided. (Operator Instructions)

This presentation as well its slides will be simultaneously webcast on the website, www.edpbr.com.br/ri. There, you can also find the company's earnings release. Before we start, EDP Energias do Brasil would like to let you know that any statements made during this conference call relative to the company's business outlook as well as projections, operating and financial goals relative to its potential growth are based on the company's expectations with regard to the future of the company in Brazil. Forward-looking statements depend on the country's macro-economic scenario, performance and regulation in the electric industry, in addition to other variables and therefore are subject to changes.

Now, we are going to turn the call over to Mr. Miguel Setas, CEO of EDP Energias do Brasil who will start the call. Later on we are going to hear Mr. Miguel Dias Amaro. Please, Mr. Setas, you may go on.

Miguel Setas

Good afternoon, everyone. I would like to start by thanking you all for attending our conference call to announce the earnings of the fourth quarter 2013 and the year of 2013 as a whole. Before we start the presentation, I would like to comment about some changes that we had in our management and board of directors.

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As you know, Ana Maria Fernandes, previous CEO of the company was appointed as Chairman of our Board. This change is basically aimed at reinforcing traditional [ph] representation in Brazil that now has a Chair of the Board of Directors that resides in the country. With the appointment of Ana Maria Fernandes for the board, I was appointed as CEO for the term between 2014 to 2017. The remainder of team was basically maintained. Miguel Amaro, our CFO, will remain in his position as well as accumulating Distribution VP. Luiz Otavio, our Generation VP and Carlos Andrade, our Trading and Business Development VP remain in their position.

Well, past this brief introduction about the changes in our management and board of directors, I'm going to briefly comment on the company's highlights for the fourth quarter 2013 and year 2013. I'd like to start by talking about the company's resilience to overcome the challenges that were imposed by the energy sector and to be able to continue its growth.

In generation, the year 2013 was marked by the start up of power transmission unit and by the development of the construction of Jari, Cachoeira Caldeirao hydropower companies and also for being awarded generation plant in the auction A minus 5.

In distribution, the results of our third cycle of tariff review of the EDP Escelsa and annual readjustment of EDP Bandeirante were positive. Both companies Bandeirante and Escelsa had good evolution in terms of technical, commercial quality as well as non-technical losses. Finally, I cannot fail to mention the strong performance of our trading company that had this year the best results ever.

Well, after the brief introduction, I would like you to turn to slide number three where I'm going to make some comments, very brief comments about the highlights of the fourth quarter. I'd like to start by highlighting that the volume of distributed energy in the quarter grew by 5.6%. And if we think of accumulated growth, we have 3.8 in 2013 over 2012.

Gross margin, we had an increase of 1.9 due to large margins in the segments of generation and trading. When we think of the whole of the year 2013, we see that there was a positive variation of 23%.

As for manageable costs, well, they grew by 204 million because of non-recurrent effect that justified 85% of this variation. If we were to exclude this non-recurrent effect, expenses in the fourth quarter would have been flat as compared to the fourth quarter 2012. As a consequence, we observed a reduction of 43.3% in the quarter, but again if you think of the whole of the year, we can see that EBITDA grew by 17% compared to previous year. We closed the year with an EBITDA of BRL1.656 billion. As a consequence of this result, our earnings per share of the year gets just a positive variation of 9% compared to the previous year and that the debt ratio closed the year at 1.4 times. That was the final bottom line of the year of 2013.

As for events for the fourth quarter, there are three events I would like to mention. First is that in October EDP Bandeirante had a tariff repositioning, because it got 10.36% increase over the average effect received by consumers, captive consumers of 5.83%. In

December, we signed a partnership with CTG, a Chinese company for investments in the Brazilian energy market. That translated into sale of 50% share in the plants of Santo Antonio do Jari and Cachoeira Caldeirao.

Finally, still in the month of December, we were awarded the Sao Manoel hydropower plant in A minus 5 auction that added 700 megawatts to our generation portfolio. Our focus now for the year of 2014, now that we have completed successfully, these auctions of Sao Manoel and Cachoeira Caldeirao, our focus and this has to be very clear, is to really carry on with our construction projects within the established times and budget.

Finally, I would like to highlight two events that are subsequent events to the end of the year, but that deserves mentioning. The first is that the federal court granted an interim relief to suspend the costs of unavailability and therefore costs of the power transmission plant of Pecem. The second highlight in this area for this period is the divestiture of 33% in our share of Sao Manoel to China's regard in CTG by means of its affiliates in Brazil CWEL.

With that I turn the call over to our CFO, Miguel Amaro, to complete the information about the earnings of the fourth quarter and year 2013.

Miguel Amaro {BIO 19148334 <GO>}

Well, we are going to start on slide four showing evolution EBITDA and gross EBITDA in 2013 reached 1.7 billion, 17% above the previous year. EBITDA margin an increase of 1.7 percentage points, reaching 24.5%. Contribution between businesses were relatively identical between generation and distribution with trading accounting for approximately 5%. As a result, it (inaudible) of an increase of 23% in gross margin reflecting the positive evolution of our businesses, especially the contribution of trading by means of an increasing volume, spread and portfolio rotation as well as distribution and the natural evolution of generation with the allocation of energy along the year.

OpEx excluding depreciation amortization reaching 958 million, 36.6 above 2012, reflecting non-recurring events that were positive 2012. The sale of Evrecy, the agreement with Ampla as Miguel mentioned and some negatives that we had as the change of our electricity in the country. With that, in addition to an increase that we had in amortization, net income totaled 376 million in 2013, 9% above the previous year. In addition to the effect mentioned above, net income was impacted by the increase of financial expenses, increase of debt and consequently financial burdens.

Also, we had an impact that was negative over the results of Pecem with a loss of 150 -- 141 million [ph] although its performance improved in the second half of 2013.

On slide five, we have the evolution of our balance sheet. Our gross debt was 3.2, an increase of 33%. Our net debt to EBITDA ratio remained constant in relation to previous periods throughout the year, 1.4 times. The year raised 2.8 billion and rose BRL800 million, 450 million regarding the first issuance of the debentures in Lajeado that we mentioned.

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We've had some options already not optimized and 350 million in the second issuance of debenture in Jari because we had the consolidation of Jari and Lajeado they were deconsolidated, so the results is not showing in our numbers. The average time was 2.45 years. Considering the proportion of 50% in our share in Pecem and 100% of Cachoeira Caldeirao and Jari, the net debt to EBITDA ratio would be 2.7 and average time 3.46 years with average cost 7.79%

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On slide six, we show the evolution of Pecem. Pecem availability rate is on the left relative to other ventures in Europe especially UTE SINES of EDP Portugal and we can see the availability of the first year of operation, although the generating unit itself has not completed a year of operation, it's started in May. Unit 2 had performance in line, but unit 1 had a lower performance. Altogether, we had 61% in the year, and this will improve gradually.

To the right, we see the evolution of EBITDA and as of the third quarter of 2013, we have seen positive results, especially because of the start-up of unit 2 and no longer we have mandatory obligation of buying energy to recompose our energy. On January 24, we had the interim relief as mentioned and this is very important for us for Pecem. So now we no longer have an average of six months in effective availability.

On slide seven, we show our projects under completion. Jari, we are at approximately 89% of the construction and we are probably going to start up operations in January 2015. As we announced when we started the project as a whole, civil work is about to finish. We have the assembly of equipment and substation. We have already invested 84% of operational CapEx, 487 million and already disbursed 70% of the NDS [ph] financing.

Cachoeira Caldeirao, we started work in August 2013 already invested 236, 174 million for the manufacturing of electromechanical equipment and others. In 2014, we are going to invest 40% of the total CapEx and long-term debt with the NDS is being structured.

On slide 8, we talk a bit about distribution. We see that quality indicators in our service reached better levels than in the past and were within the standard established by the regulatory agencies, reflecting old investments that we had in the expansion, modernization and automation of our equipments. Bandeirante recorded 8.08 hours and Escelsa 9.67 hours. In Escelsa, the indicators were positive despite higher volumes and severity of occurrences in the month of December, especially because of the rains in Espirito Santo. We had really the worst weather in the history of the state.

Also, we invested in fighting losses. We had a reduction 0.3 percentage points in Bandeirante and 0.5 in Escelsa compared to December 2012. Our distribution companies invested 60 million in programs to fight losses. Of the total resources, 30 million for operational investments and 30 million for manageable expenses, really strong efforts to try to reduce losses, especially commercial losses.

Now I turn back to Mr. Setas to complete the presentation and talk a bit about our priorities for 2014.

Miguel Setas

Well, I'd like to highlight five immediate priorities for 2014. And they are that both that concentrate our energy. First priority is the stabilization of Pecem. When we mean stabilization we mean we want stable operations and a stable financial status. Operation-wise we want availability rate of the plants should be compatible to international references and the best practices in the industry. So we are going to focus very much on improving the plant.

Financially-wise, it is what was mentioned in this call. This has to do with supporting the interim relief that we had no more penalties because of the availability of this penalty. On the 24th of January this year we had the interim relief and we want to keep it.

Second priority is the work of the three hydroelectric plants that we have that are being built. We want to work within times and budgets approved. So we are talking about the completion of Santo Antonio do Jari, evolution of work at Cachoeira Caldeirao and the beginning of the construction of Sao Manoel, all on time and on cost. So this is our second priority.

Third priority is to protect company cash as we say. This is as important or even more so when we know that various deficits in the industry will have an impact on company cash. So our priority is with this regards, to find a solution to make our cash stable, to protect and also use the advantage of having volatile prices because this can bring more margin to the trading and generation business.

Fourth priority, we would like to talk about costs and we want to optimize our costs, assuring operational excellence. So, in the end of the day what we want is that company evolution of cost is below inflation and that we are able to continue improving our operating performance, especially in distribution to improve our technical and commercial rates and in generation improving operation rates, especially plant availability and failure rates.

Finally, I could not fail to mention that for us it's very important now to advance with projects in partnership with other players, with other companies. This is very important for us to consolidate partnerships in our activities to consolidate government's models, projects that are being implemented.

And finally in a very brief summarized way, these are our five priorities for 2014. Stabilization of Pecem, to work with the construction of the plants on time and cost, protect our cash, optimize costs ensuring operational excellence and consolidating the partnerships that we have today to be able to make our projects and work through. I think it's very important to mention that we do have this five priorities for you to understand the focus of Energias do Brasil management team for 2014.

With that we are going to close our presentation.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from (inaudible) from Itau BBA.

Q - Unidentified Participant

Hello, Miguel. Good afternoon. I have two questions. The first is with regard to Pecem. I would like to know if it's now the time for the turning point. So in a nutshell what are the problems that you are having with Pecem and how long do we need to see this problem settled? This is the first question.

The second question I have is the following. You mentioned that one of the priorities is the completion of the work you are conducting. Do you mean that you are going to be more focused on execution and you are not going to start new projects? Can I understand what you said in this way? These are much two questions.

A - Miguel Setas

Well, let's start by your first question with regard to Pecem. Well, we closed the year of 2013 with availability close to 60%. That means that we were short, the references of industry that should leave us to a level of approximately 70%. So obviously in the first year our operation Pecem was below expectation. What we have today moving on is a plan to optimize operating variables of Pecem. The idea is to address set of initiatives that will justify investments of BRL65 million. With this investment in these initiatives we want to increase company availability from 60% to more than 80%. These levels would be more consistent, will be more in line with the benchmark that we have considered in the industry.

Well, all that said what we have to do is that we have to do a daily monitoring of what is going in Pecem. I myself together with Generation VP, Luiz and Andrade are really focusing on company operation. Today, our management checked the history of the previous week, so we are watching it from close. For you to have an idea, between 15 and 21st of December, we had availability of 73%. So we are working better, we pay attention to that, we are closely monitoring it, but we believe that we are consolidating the operating performance of Pecem.

As you know, unit one was in the past months under maintenance, annual maintenance. It is back to operation and we will have planned maintenance for units to between April and May of this year. But we today believe that we can increase the performance of the plant close to the benchmark of the market. This is our objective. We want to work towards that and we hope it works out.

As for your second question, I will be very clear in my answer. Today, we have three projects under construction, three plants. One almost under completion, Jari. Another one that has 40% of its CapEx. Therefore execution in 2014, so a very intensive year and Sao

Manoel, that is going to start up in -- it's going to be ramped up in 2014. So our focus is on these three projects and we want to be perfect in terms of budget, in terms of schedule. That does not mean that the company will not and its management team will not constantly seek the opportunities in the business. The market is always open for new opportunities, but our focus is going to be the execution of these three projects.

Q - Unidentified Participant

Okay, thank you very much. I appreciated your answer. Thank you.

Operator

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

Q - Unidentified Participant

Hi, Miguel. Once again I have two more questions.

A - Miguel Setas

Go ahead.

Q - Unidentified Participant

One is more related to the industry. I would like to understand from you the issue of cash amounts at distribution companies. If you think that we are going to have a solution in the short-term for the month of March. This is the first question. And the second one is a concern of our -- in generation of GHF below one. How do you see this hydrologic risk for the year of 2014?

A - Miguel Amaro {BIO 19148334 <GO>}

Okay, Juliano, this is Miguel Amaro speaking. As far as cash volumes, we have taken all the due measures that's the idea of the company, but we know that we are going to have pressures. We have insurances this year, we are trying to raise funds and the idea is also to extend our debt in terms of time. So we are going to have a pressure and we need a solution. We know that our summer was much drier than last year and therefore we have implications in that. So we need a solution. This is not a matter of one company or the other, but for the whole of the industry. It's a different situation than we had last year for example.

As GSF, it is below one. Well, that happened last year as well. Of course conditions were slightly different. Last year we had slightly different scenario, but the conditions are quite similar. So we are paying attention to evolutions and our concern is because the scenario demands some concern. So we have to monitor on day-to-day basis how things are developing. There are things that are under the responsibility of the company and it is what Miguel mentioned. We have to focus on efficiency, on execution, and we have to continue to do so and there are things that depend on other players and we are constantly talking to them to try to settle things as well as possible.

Q - Unidentified Participant

Okay, thank you very much.

Operator

Our next question comes from Sandra Boente from HSBC.

Q - Sandra Boente {BIO 1511861 <GO>}

Good morning. Thanks for the opportunity. I have two questions. One about Pecem. When do you expect to generate positive cash and positive income and plants. And the second is about priority number three that you described about protecting company cash and the uncertainty of the industry in the country and distribution costs, subsidies, CDE and et cetera. We were surprised by the amount of dividends that the company paid. With this amount, how do you relate this to the objectives of protecting your cash?

A - Miguel Setas

Okay. We are going start with the second one. Well, we haven't paid out dividends yet. It is going to be proposed for the General Shareholders' Meeting. We have to have the approval of the meeting first, but obviously until the end of the year if approved, we are going to have the dividend payouts. And of course this has to do paying attention to the company's generation of cash as a whole. If the scenario changes, the company obviously will make changes. So this is your question about dividend.

About Pecem, well, if we get to the stability close to what we consider suitable, 90%, 95%, and if we have no surprises, Pecem has all the means to get a positive net income this year and therefore generate in this cash enough to meet its obligations. It is not to going to be here for us to payout dividends in Pecem because we have lots of obligations in our contracts itself. Sorry, go ahead.

Q - Sandra Boente {BIO 1511861 <GO>}

I was just wondering if that would be for the second half of 2014, or if you are thinking since the beginning?

A - Miguel Setas

We think of the business for the whole of the year. So if we think that the first equipment was under maintenance for the whole January and we had to advance the plant maintenance that we had for April, because we had a problem in reservoirs and we had to have a test between two reservoirs in the state of Ceara. We had lack of water for the three units and the plants. So we decided to take advantage of the opportunity.

And if you take a look of the performance of unit 2, we were close to 90% and now unit 1 is back since the first week of February and we are still between 90, 92, 93 even above that. So if Pecem is stable, if there are no surprise, Pecem has all the possibilities to have excellent performance in the year of meeting the availability it should.

Q - Sandra Boente {BIO 1511861 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Carlos Olvera [ph] from UBS.

Q - Unidentified Participant

Hello, good afternoon. I would like to have a bit more color about what is to come. That is, how are you getting ready for an eventual rationing of energy and also your affiliates and partners. Could you talk a bit about that?

A - Miguel Setas

Well, obviously the company is designing contingency plans. You know that all generation energy is already contracted in a scenario that is extreme if we replicate what happened in 2001. There are affiliations [ph] in the reduction of consumption, redemption of distribution companies, contract reductions and all that, obviously we'll have an impact sometimes almost that cannot be measured for the whole of the industry and for the whole of the economy. Of course, we are prepared for that. So we have contingency plans, but the impact is huge.

Anyway in distribution companies because of the frustration of the auction that we had that was already with problems in energy process in the redistribution of quotas, Bandeirante was a bit above 100%, but along the year because of the load system this over-contracting de-settled. In the case of ourself, we have 10%. So this is going to be a bit more impacted. And generating units. Well, it is what I mentioned all our energy is already contracted, 99%.

Q - Unidentified Participant

And what is your GSF level for the system?

A - Miguel Setas

I'm sorry, what was your question?

Q - Unidentified Participant

Do you have a number projected for the GSF of the system?

A - Miguel Setas

Well, as for projection, today the GSF was 98% to-date until the years is 96.5, but the issue is what is the expectation of rain and how much rainfall we are going to have in the year. We probably are going to start to have some rain in some of the regions, but we still really don't know. We expect GSF to go up which is below one. And between 95 and 1, I think this is an amount that we have to live with.

Q - Unidentified Participant

Okay, Miguel. Thank you very much.

Operator

Our next question comes from Felipe Leal from Bank of America.

Q - Felipe Leal {BIO 2015017 <GO>}

Good afternoon everyone. As for the partnership with CTG, when do you expect to close the transaction and start to receive payments?

A - Miguel Setas

Well, recently and now approved the transactions of Jari and Cachoeira Caldeirao. Now we have to provide all information to financial units and we expect that still in the first half of 2013 to complete those transactions. The second transaction, which was the payoff half of our share in Sao Manoel. This is going to take a little longer. And we estimate it to be completed in the second half of 2014. But these are just attempted schedules that we are protecting. If there are any changes, we are going to announce that, but we think that the first transaction is going to be completed in the first half -- in the second half.

Q - Felipe Leal {BIO 2015017 <GO>}

Okay, thank you very much.

Operator

Our next question comes from (inaudible)

Q - Unidentified Participant

Yes, hi, I'm just looking at the upcoming construction plans for Jari, Caldeirao as well as now for Pecem and I'm trying to understand the degree of certainty that you have already confirmed in the funding plan for the remainder of the construction. And then second, I would like to understand that for the parent company, the holding company, after the sale to CTG, what will be the new debt ratios, the key debt ratios that would result both from the sell down as well as from the new CapEx requirements for both for the third plant which is Manoel. So I would like to as possible understand the debt metrics in terms of the metrics that you have shown on slide five. So thank you very much. Hello?

A - Miguel Amaro {BIO 19148334 <GO>}

Our bridge loan was taking over for long-term financing for the NGS [ph] so it's BRL738 million which 70% was already disbursed. So this is the evolution of the financing for Jari. Regarding Cachoeira Caldeirao, we have 650 million of bridge loan of which we have spent possibly 108 million. So the long-term financing is being structured with NPS for takeover of this bridge loan I mentioned. So this is the funding part.

After the sale, which you already seen in the balance sheet that we have shown, the growth in debt levels are already without the consolidation of Cachoeira Caldeirao, Jari and of course Pecem due to the factor that IFRS 10 was already implemented in the beginning of the year 2013. So you don't see the debt to equity or to EBITDA ratio on the consolidated debt already. So if you put together the Pecem debt, Cachoeira Caldeirao and Jari, the net debt ratio would be 2.8, 2.7 times.

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Q - Unidentified Participant

Got it. Thank you very much.

Operator

(Operator Instructions) Our next question comes from Sandra Boente from HSBC.

Q - Sandra Boente {BIO 1511861 <GO>}

Hello once again. Just one more question, if you allow me. It was about Pecem and penalties that ANEEL was charging because of unavailability. The understanding that all regulated contracts will only be penalized if we have an average of 60 days but ANEEL was imposing penalties for Pecem in a different way. I understand that wind plants have different demands or requirements. My question is how does ANEEL or what is ANEEL's rationale to impose the penalties it imposed to Pecem because contracts say are established different roles. What do they say? Why have they decided to charge on an hourly basis?

A - Miguel Setas

Well, I think this the question you have to ask ANEEL. What is important is that when we signed the auction of 2008 contract, we knew that unavailability was to be calculated on an average of 60 days. There were meetings before and after we signed the contract about availability and about penalties on that. And I think that it makes no sense to have penalties charged on an hourly basis for a thermal plant or even in hydroelectric plants. I think this is the main point here.

Of course if we charge on an hourly basis, we are just considering all other hours of the same day and that's exactly why we have appealed. We want to reach 90% availability on an average, but regardless of any penalties that may happen or may exist in the country, we want to be above that. We want to have more availability than any limits or transroads [ph]that we can have.

Q - Sandra Boente {BIO 1511861 <GO>}

So, if I understood you correctly in all the contracts that you have, you were talking about 60 days, this is clear in your contracts?

A - Miguel Setas

Yes. For Pecem it is 60 days. This is how it is for Pecem and for the other contract it's not. We don't have any other thermal plants.

Q - Sandra Boente {BIO 1511861 <GO>}

Okay, I understand. Thank you very much.

Operator

Well, we now close the Q&A. I would like to turn the call to Miguel Setas for your final considerations. Please, you may go on.

A - Miguel Setas

Well, I'd like to close by thanking you all for joining us in our earnings release and I would like to once again tell you about our focus for 2014. I think I was very clear about them. And I would like to leave them at our takeaway message. Stabilization of the Pecem in terms of operations and finance, execution of the work for the three plants that we have under construction, Jari, Cachoeira Caldeirao and Sao Manoel, protection of our cash, optimization of costs and continue to focus on operating excellence, both in distribution and generation. And finally consolidation of the partnerships that we already have in generation for the construction of the three ongoing projects.

So if I had to say three words to summarize the year of 2014, they are execution first, discipline in costs and investments and solid cash. These are the main points of concern for the whole of the industry. So these are the lines of action and the focus of our strength for 2014 and we hope that it is as successful as 2013. Thank you very much.

Operator

EDP Energias do Brasil conference call is now closed. We thank you very much for attending and have a good afternoon.

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