

## Q3 2013 Earnings Call

### Company Participants

- Ana Maria Machado Fernandes, Vice Chairman and Chief Executive Officer
- Miguel Dias Amaro, Vice President For Finance and Chief Financial Officer

### Other Participants

- Gabriel Laera, analyst
- Maria Carolina Carneiro, Analyst
- Pedro Luiz Manfredini, Analyst
- Sergio Conti, Analyst

### Presentation

#### Operator

Good afternoon. Welcome to the Conference Call of EDP Energias do Brasil, in which we are going to discuss the Results of the Third Quarter of 2013. All participants are in listen-only mode right now. Later on, we are going to open for Q&A, when further information will be provided. (Operator Instructions)

This presentation together with the slides, just go into the webcast at [www.edpbr.com.br/ri](http://www.edpbr.com.br/ri). In there, you can also have the company's release. If we're going on EDP Energias do Brasil would like to let you know that any forward-looking statements made during this conference call relative to the company's business outlooks, projections, operating and financial goals relative to its potential growth are based on forecasts that based on the expectations of the company in regard to the future of the company.

Forward-looking statements depends on the country's economic status, performance and the regulation of the energy sector in addition to other variables and therefore are subject to change.

Now, I'm going to turn it over to Miguel Dias Amaro, Vice President For Finance and CFO of EDP Energias do Brasil. Please, Mr. Miguel Amaro, you may go on.

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

Good afternoon, everyone. Thank you very much for joining us in this conference call. And going to the presentation on slide three. We are going to talk that operation-wise the company's sales grew by 3.7%, especially with our increase of 11% in total energy. And in Generation, a decrease of 4.8% in this quarter, when compared to the third quarter of 2012. Total energy distributed grew by 3.2%.

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With regard to financial results that was another quarter where we had a very good performance and where we could complement the numbers that we expected to have. In the case of Bandeirante, we have the provision of 238 million regarding to the tariff readjustments, which led to a decrease in non-manageable costs of 10%. And consequently, the gross margin compared to the third quarter of 2012 grew by 64%. Manageable expenses had a decrease due to the sales of Espirito Santo's operation of 53 million due to its strategy of better improvement of our resources.

Our EBITDA have reached 485 million. Net Income was also within expectations. That was the first quarter where we had a positive EBITDA and gross margin is positive in year-to-date. The CapEx also went up 400.8 million in the third quarter, an increase of 211.6 million. Net debt-to-EBITDA ratio of 1.8 times.

Now, I'm going to turn it over to Machado.

### **Ana Maria Machado Fernandes** {BIO 3864955 <GO>}

Well, good afternoon. I'm going to start with slide number four. And in this chart, we see the seasonalization of sales of energy in the segment of Generation. We can see a slight reduction in the third quarter 2013 in relation to the same periods of the previous year. This variation is a result of an increase of allocation of the physical guarantee of generators.

In that chart below, we can see a reduction of 2% in the gross margin of Generation due to an increase in the purchase of energy to recompose the physical guarantee.

In the segment of Commercialization, we can see an increase due to our strategy to seasonalization in the first quarter of the year. Going to Distribution, we have in the table to the right the resources received from CDE through Eletrobras and the year-to-date of 2013.

In the third quarter, Distribution -- distributors recognized 336 million as resource to reduce non-manageable expenses, year-to-date 592 million. This resources and to mitigate the factors described in the table, due to the total and partial coverage of the positive balance of CDE defined in the processes of tariff reviews.

Of the 592.4 million in the CDE resources, 346 million entered the company cash in the second and third quarter. The difference is because of the amounts regarding the tariff readjustment. Below we show the growth of 129% in our gross margin in distributors and 56 year-to-date considering the amounts mentioned above.

On slide five, we show the growth of 133% of EBITDA in the third quarter reaching 632 million. Net operating revenue grew by 9.2, especially because of the growth in Commercialization increases and increase of 12% in sales, and also an increase of prices, up 29.7, non-manageable costs reached the 824 million and represented a reduction of 18%. This does related to CDE resource reimbursed to distributors that decreased cost of energy purchased for resale as mentioned before.

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Manageable costs reached 193 million and were 17.1% lower than the third quarter.

Expenses with personnel increased almost 20% due to salary readjustments. And also the expansion of generation developments, especially in Santo Antonio do Jari and Cachoeira Caldeirao.

And for materials, we also entered the third-party services. We increased them by 10% due to higher expenses in the recovery plan. Also the non-recurrent effect of the change of our head office in Sao Paulo.

In provisions, we have a reduction of 25%. Others, we had a decrease, especially because of the sales of Escelsa that we also mentioned.

It's important to mention that even not considering the CDE amounts we would have 296 million in profits with an increase of 9%. Year-to-date, EBITDA grew 43%, reached 1.4 billion.

On slide six, we see the growth of 189 million in net income in the third quarter of 2013 in relation to the same period of the past year. The results of 199 million is mainly due to the increase of a 133% of EBITDA. We also had an increase in financial expenses of 21 million, because of an expansion of our Generation businesses.

Also, we would highlight the results of Pecem 1 in the negative amount of 21.5 million and the non-recurring effects of 16 million negative in depreciation and amortization due to the inventory adjustments that we had; 38 million for Bandeirante and the rest in Escelsa. Year-to-date, net income reached R\$334 million, an increase of 73% in relation to the nine months of 2012.

On slide seven, we show the company indebtedness. Consolidated gross debt totaled 4.3 billion, an increase of 10% compared to the past year. Net debt, 3.3 billion, 22.2 above June, due to the capture of promissory notes and the disbursement of 38 million in BE net fund for the building of Santo Antonio do Jari and a reduction of 18.8% of the salabilities, because of the payout of dividends.

The average cost of the company's debt had a reduction reaching 7.7% in the end of third quarter due to the reduction of the average CDI and a drop in the TJLP. The average period of consolidated debt decreased to 2.79 years compared to 3.46 in December due to the capture of promissory notes of Lajeado. This promissory note is going to be replaced by an issuance of debentures.

The EBITDA net debt ratio closed the third quarter of 2013 stable at 1.8 times and company in that business is 74% indexed in the CDI and 21% at TJLP.

On slide eight, we show the growth of the UTE availability rate going from 53% in July to 82% in September. We're talking about the stabilization process the company is going through. The third quarter was the first with EBITDA positive since we started operations

with both generating units in operation and without having to buy energy. That plant is still impacted by inviolability in this quarter, the amounts added up to 13.8 million.

On the next slides, we show some information about our constructions, especially Jari with an investment of 160 million in the quarter. We are going to start operations in January 2015.

You can see some pictures of the construction here. In Cachoeira Caldeirao, we've started construction in August after our installation permits. In the third quarter, the company invested R\$130 million, especially to buy equipment. Startup is expected for January 2017 and our wind energy plant Baixa do Feijao is supposed to start construction in the beginning of next year. Well, we're still waiting for our license.

I thank you very much for your -- joining us today, and we are going to open for Q&A.

## Questions And Answers

### Operator

Ladies and gentlemen, we are now starting the Q&A session. (Operator Instructions) Our first question comes from Pedro Manfredini from Credit Suisse.

#### Q - Pedro Luiz Manfredini {BIO 16314973 <GO>}

Hello. Good morning, Miguel. I have two questions very fast. We have been following the commercial losses in low voltage in Bandeirante and Escelsa. And since we have been monitoring that, we have seen substantial increase of losses, especially in Escelsa. I know you have a very interesting plan to fight the losses in Escelsa. I would like you to comment on that, what is being done? And what kind of target you have to reduce losses in both Escelsa and Bandeirante, since the loss reduction curve has to be very steep?

The second question is about trading. What do you think is going to be recurrence for results in the trading? Do you have any range to give, what's EBITDA in the trading company for the future, what can we use as amounts?

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

Hi, Pedro. Well, as for losses, I don't think they have been increasing substantially in Escelsa, in December, 2012, was 18.7, 16.94 and now it's increased, but it's not that significantly. But we have a very ambitious goal and we do want to reduce losses. The company should work very hard to reduce losses. We had an event with our Commercial Director of Distribution Mr. Pedro, reinforced that, we have on our website a loss prevention plan working with the communities and our employees, working with energy efficiency, a series of measures that have to be followed.

Of course, some of these measures are not going to yield results in the short-term, but a nearest target is our targets, we have to pursue that. It is more difficult in Escelsa than in

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Bandeirante. But in Bande we went up this quarter, but it is relatively more stable. So if you refer to our release on page 25, if I'm not mistaken, you have a table with our losses in the year since December '12 through today. And there is a set of measures that have to be in constant attention. So fighting frauds, having educational measures, working with our service providers, so all that will lead to better results from now on.

As for trading, we generally do not give guidance in trading. Generally, when we have more volatility we have better results, not only when increasing price but the higher volatility of the market. But in the past five years; in 2008, we had a second half of the year better than the first. Perhaps in 2013, we are going to have even a higher effect. So I think that we went to have a better results with new clients and also with a better presence, both in our concession areas as well as outsides of them, especially in the provision of services.

**Q - Pedro Luiz Manfredini** {BIO 16314973 <GO>}

Okay, Miguel. Thank you very much.

## Operator

Our next question comes from Gabriel Laera from Itau BBA.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

Well, hello. Thank you very much for taking my question. Congratulations on your results. I would like to know your investments schedule for the next years, for Generation projects as well as for your investments in the Distribution company? And how those investments can increase the company's net indebtedness? How do you see your net debt-to-EBITDA ratio for the future?

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

Well, we have in our release, all the investment to be made in Jari and Cachoeira. They are going to be kept in the beginning of the year, generally, use more cash, the second year; second and third years are also very intensive with 35%, 40% of investments. And we have been following that, especially in Jari, Cachoeira has started in this year. Since August to December, we have the disbursement out of the total, that's 1.1 billion and Jari 1.4 billion. And the curve of disbursement is very similar.

In the case of Distribution, investments are between 300 million and 350 million, this numbers can fluctuate due to the needs of growth in the markets, to have new clients, to fight losses and now that the needs of the company to provide services to the markets and also to see to any problems that can happen in the future.

For the coming years, Jari will start operation in January 2015, Cachoeira in January 2017. And we need just make investments to complete those large investments.

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Now, as for our investments and debt profile, we have Lajeado that we had just finished. Baixa, that is to finish by the end of 2015. So there is some debt that we have in our balance sheet that is not directly connected to projects. And so, with the optimization of the structure of Lajeado we have now the promissory notes and the debentures in progress and with this cash we are not going only to have equity for projects, but also to optimize and decrease the best that we have.

So we want keep a debt profile that is very cautious. We see our results and if we compare 2012 to 2013, we have a very high fluctuation, we had to buy too much energy and now we are kind of offsetting this problem. So, it's now time to rebalance our balance and to have a structure that will enable us to continue growing, but also paying dividends to our shareholders.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

Okay. So that 1.4 and 1.1 that you estimated, do you have any estimates that you are going to increase the numbers so far?

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

No, the numbers are to be maintained. So I don't have to consider inflation on this amount, no. This amount is a nominal amount.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

Okay. And the payout of shareholders, the dividend per share like the previous year, are you going to maintain it?

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

Yes, we will.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

Okay. Thank you very much.

**Operator**

Our next question comes from Carolina Carneiro from Santander.

**Q - Maria Carolina Carneiro** {BIO 16342681 <GO>}

Good afternoon, everyone. I have two questions. The first is that, I now realized the technical notes -- starting negotiations for the next tariff review. I would like, Miguel, for you to comment on that. We saw some characteristics that were very positive, especially for the definition of benchmark for losses, I think, Jari was the companies that are considered efficient. I would like to know your opinion about the general lines that we're introducing the first discussion for the tariff readjustment of distribution companies for 2015?

Second question, we saw that your results were impacted for the program that you have with (Foreign Language). I would like to now, for the fourth quarter, we are going to have a similar impact and in the next quarter, what we can expect to see in the company regarding to your improvement program? Thank you very much.

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

Well, as far the technical notes and strategies, well, we have been working with the regulatory agency to try to improve the processes and the tariff readjustments for the fourth cycle. Of course, you mentioned that there are positive effect, this is a reality for companies in the EDP Group, but also of other companies in terms of quality of services, pricing frauds, so the level of efficacy is being very -- the demand for higher efficacy is increasing. Of course, that we have also to take into consideration the reality of the different companies and the different regions of the country.

And so, we have been following the discussion closely. We still think it's very early to say what is going to happen, but we are sure that everyone is working to improve the services that we provide to the population to improve our efficiency. But taking into consideration our realities.

Your second question has to do with the deck down. Our program should lower and improve any kinds of the quality indexes. We had some additional costs in the programs. And so, we've reached the goal of -- this is something that is going to happen. And the idea is to continue with the program, at least, until the end of this year.

Numbers from October show that we are having a very good performance. Summer is coming now in Brazil, but this is something that always affects the grids, especially in Espirito Santo and (inaudible). And we are going to continue with our program until the end of the year.

**Q - Maria Carolina Carneiro** {BIO 16342681 <GO>}

Okay. Thank you very much, Miguel.

**Operator**

(Operator Instructions) Our next question comes from Sergio Conti from Goldman Sachs.

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

Good afternoon, Miguel. I have a quick question about disbursements for 2014. What is your forecast for BNDES disbursements for your main project in 2014 in terms of amounts? The second question, just for you to confirm to me, what you expect in terms of CDE resources in the fourth quarter?

Now that we had the numbers for the third quarter, I would just like to check what is going to happen for the fourth quarter. And also what is still to come into the company's cash in

the fourth quarter? So what is missing for the fourth quarter results and what do you still have to enter the cash?

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

Look, I'm going to start with the last question. The CDE investments for the fourth quarter are going to be recurrent and those from Escelsa in the third quarter bear fruits from the tariff readjustments. Bandeirante, as I mentioned, is being the release is provisions of the readjustment process and the disbursement is 10 days after the tariff readjustment that was October 23. So it should happen in the first week of November. And then we have just the recurrent investments.

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

So I can work with the same level that you had along the third quarter, perhaps a bit less?

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

I didn't get your question.

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

So in the recurrence amounts, do you have any reference? What's the number you are working for the fourth quarter?

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

It will depend on rainfall, so it's very difficult to look into the past and make a projection for the future. But if we have a situation that is similar to the third quarter, we should be considering very similar amounts.

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

But sir, of course, that will depend on some factors that we cannot control?

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

As for your first question about the BNDES reimbursements in Jari, we had already 57% of the 683 million. So we still have about 300 million of disbursement that should happen between the fourth and the beginning of 2014. In Cachoeira Caldeirao, the agreements with BNDES is still under discussion, so we do not have the right amounts. But we do have these amounts for the beginning of 2014, for the projects that we already have.

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

Okay. Thank you very much.

**Operator**

(Operator Instructions)



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

Since there are no more questions the conference call on the results of the third quarter of 2013 of EDP Energias do Brasil is now closed. Questions taken on the web are going to be answered by the IR team directly to our clients. Have a good afternoon, and thank you.

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