

Y 2014 Earnings Call

Company Participants

- Miguel Dias Amaro, Vice President of Finance and Investor Relations
- Miguel Nuno Simoes Nunes Ferreira Setas, Chief Executive Officer

Other Participants

- Bruno Bretas, Analyst
- Lilyanna Yang, Analyst
- Maria Carolina Carneiro, Analyst
- Paulo Ferreira, Analyst

Presentation

Operator

Good afternoon and welcome to (inaudible) Conference of EDP Energias do Brasil in which we will discuss the results of the Fourth Quarter 2014. All participants are connected in listen-only mode. Later on, we are going to start the Q&A session when further instructions for participation will be provided. (Operator Instructions) This presentation together with its slides will be simultaneously webcast on the website, www.edpbr.com.br/ri. And there, you will also be able to obtain the release of the company's results.

Before going on I'd like to say that 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 projections, operating, and financial goals relative to its potential growth are based on assumptions and forecasts, based on the company's management with regard to the future of EDP Energias do Brasil. Forward-looking statements depends on the country's economic scenario, performance, and regulation of the electric sector, in addition to other variables, and therefore, are subject to changes.

Now, we will turn the call over to Miguel Setas, CEO of EDP Energias do Brasil, that who will start the call. Please, Mr. Setas, you may go on.

Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Good afternoon, everyone. I'd like to welcome you to this conference call of EDP Energias do Brasil regarding the fourth quarter and the year of 2014. Today with us are, myself, Miguel Amaro, our CFO.

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And the year of 2014 was the year that from the beginning was very challenging as we all know the energy context and we have been talking about that in all calls and you all know that very well. That requested a very proactive action of the company and I would like to mention four pillars that will characterize the year of 2014.

If you go to page three of our presentation, you're going to see the four different items. First is a clear strategic focus for our investment, the year of 2014 was a year in which we established a partnership with the Chinese company CTG, which translated in joint investments of three plants that are under construction and also we signed a Memorandum of Understanding to plough our stake at EDP Renovaveis Brasil, therefore showing our intention of leaving the segment of renewable energy and focus on hydro and thermoelectric plants in which we have expertise, (Technical Difficulty) also announced to the market was the acquisition of 50% of the thermoelectric plant of Pecem that is still ongoing and depends on the approval of creditors and judicial re-composition adjusters. So the strategic focus of our investments would be the first point.

The second point I would like to mention is the delivery of our investment commitments. It was a year that we delivered a hydropower plant, 3.5 months before its deadline as you know Santo Antonio do Jari has started commercial operations at the month of September, target should have been the January 1 of 2015, such that's the gross targeted implications to company's results.

Second, in terms of investment commitments is the evolution of the second plant that is under construction, Cachoeira Caldeirao that finishes at the year of 2014 with a high level of accomplishment and we are going to show you complete numbers on this project.

And finally the size of our third plant, Sao Manoel in August 2014 and that so far are following their deadline. So the second point of 2014 is this, a very focused commitment in completing and our investment within the planned budget.

Third point I would like to mention, our operational results. Our team calls it as consistent results and why is that? Because basically, they have been showing positive evolutions on a well going basis along these recent quarters. I'm talking about a very strict control of costs, the quality of services that our distributors provide. I'm talking about the level of availability of our hydro and thermal power plant and also our performance in commercialization with a very good strategic position and is hitting record results.

And finally the fourth point I would like to mention in regards to 2014 is a very strict approach in terms of mitigation of risk factors. And I would like to mention three points there. First, with our caution in managing our cash position. So we are talking about FX, we're talking about a context that demand those caution. Also as you know, our leverage level has been very cautious, very conservative. We ended the year with net debt EBITDA ratio of 1.3 times only.

And finally, what we consider as a contingency plan, hedging measures of the current energy scenario. So in these three, four points I believe that we have to address our

investments, our commitments with consistent results, strategic focus and mitigation of risk factor.

Now, sectors, I am sorry. Now we are going to the next page where we show a summarized analysis of the five priorities of 2014 and of course we are here today also to render accounts of our commitments and achievements in despite dimension.

The first dimension on page four is with regard a proactive management of the energy scenario and regulatory scenario as well. And here, I'm going to talk about the main energy indicators of the markets. You know what is that I'm going to focus on the results of the company and I would like to highlight that along the year we've benefited from BRL937 million of extra tariff investments, which were important to cover the tariff (inaudible) were accumulated along the year and also in previous years.

The second point that I would like to mention is the accounting entry of 601 million relative to the regulatory assets accumulated from the distribution companies. Of course, this is an expressive amount and has an impact on the consolidated EBITDA of 2014.

Another point I would like to mention in the first dimension, the tariff readjustments of EDP Escelsa that were granted in August 2014 of 26.5% and EDP Bandeirante of approximately 22% in October, 2014. In 2015, we are working with the possibility of already committed of having a extraordinary tariff readjustment of about 32% in Bandeirante and 33% in Escelsa as well as publicly announced. So the first dimension the regulatory and energy scenario, these are the positive advances that we had along the year of 2014.

As for the next dimension, what we call cost control and cash management, I would say that the main highlight here was a very strict control of costs that enabled us in a year of high inflation, we have CCEE levels close to 6.5% in year of high inflation but the company had a reduction of PMTO of almost 3% nominal reduction in its PMTO.

So I would like to emphasize that this is a result of a strict cost control and very intensive effort of our team in terms of control and management throughout the company. And materials, external services, internal services was very confident just so through the back. Obviously in a year that we had the demands of cash we had a very large activity and we had issuing of lending of BRL2.4 billion, 1.2 billion to the housing and distribution companies and 1.2 billion to projects under construction. That enabled as to fund the activity of the company and have prudent cash distributions, so I think this is very important. And the final results is that we ended the year with a very conservative distribution, but with our net debt to EBITDA ratio of 1.3.

The third dimension in the end of this page four would be one of our priorities, which is gross and again I already mentioned that in a nutshell in the beginning of my speech that we had the start-up of Santo Antonio do Jari 3.5 months ahead of schedule. And then next generation units until last year, last day of the year. And for you not to think this is extraordinary. I would say that in the context that we had in Brazilian structure this is really a highlight that should be mentioned. So, I really would like to draw your attention after

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company's capacity of production with this target ahead of sign and also with investments in Cachoeira Caldeirao and Sao Manoel, that are completely within an optimizing schedule.

Cachoeira Caldeirao has been under construction for a year and a half and in the end of 2014, it had 68.7% accomplished. And it has two years to go to finish it's scheduled for completion of the construction. So we are working very hard on Cachoeira Caldeirao to again and deliver ahead of time. And in Sao Manoel I don't have much news to mention, but that is started in the year of 2014 and is following a schedule as expected. So, also this is a crucial covenant for us to think about results for 2014.

If we go to page five, I would like to talk about our customer satisfactions and our Pecem thermal plant. While root [ph] of an organic growth of the distributors, we increased 100,000 customers in our installed customer base in the distribution market. And those customers added to a base of 3.1 customers to which we will provide services whose quality indicators with the most traditional ones like (inaudible) in compliance with Aneel's regulatory target, some of them with positive evolutions compared to previous years.

And in other words that I would like to mention and I think that Mr. Amaro is going to talk about that as well. It was a very important project in the distribution area. You know that this is something that almost changes the paradigm of distribution of our distribution company with an integration of our technical and commercial activities. In the past, we're separately, but that's of the project date will work under a single coordinator, so Bandeirante, Sao Paulo and Escelsa in CDI center are fully integrated technically and commercially and so far we had the optimization of synergy between these two organizations.

Finally a word about the Pecem thermal plant. This is a very important investment of the company. And I would like to say that in the end of the year, we started with an average availability index of 66%, slightly below the goal that we had established up 88%. And unfortunately, we're not able to reach this goal, because we have an extraordinary downtime of approximately three months of generating unit one. It starts on August 26th, resumes operations on November the 20th and since it resumed operation it has had a performance level that was very close to those reached by generating unit 2 and completely in compliance with Aneel's target.

So the message here is that we have still entered an operational consolidation and the past month showed that the company -- the plant is more stable operationally wise. We are already in the first months of 25, essentially staying with an accumulated average availability of 95% and so it seems that everything, another thing that I've mentioned already, but anyway I'm going to mention again. Our intention of acquiring the 50% additional stake of Pecem I that today belongs to our partner Eneva and we made the decision of acquiring that 50%.

So that was the same mind, colleague Mr. Amaro is also going to give you further detail. But I would like to give you the news that we have that so far have been very positive both in terms of operations of resuming to consistent levels and financially wise,

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regulatory wise we have been making relevant adjustment. So these were the main highlights that I would like to introduce and in the end of the conference call, I'm coming to come back for my final comments, but now I'd like to turn it to over to Mr. Amaro.

Miguel Dias Amaro {BIO 19148334 <GO>}

Hello, good afternoon. Also thank you for joining us. I'm going to talk about gross margin. On page six, we have the impact of the cannibalization [ph] of the regulatory assets of (inaudible), 351 Bandeirante and 348 [ph] Escelsa. And altogether 310 in Bandeirante and 627 of Escelsa. As for our gross margins in 2014, they had an impact of the average GSF of 90.6% in generation, that's a growth in terms of energy volume and commercialization of 5.3%, so 33% in the year.

If we look at the number without the regulatory assets, EDP Escelsa would have a reversal of 110 million and that shows well the year of 2014, and of course the response that we had to give to a very adverse scenario with several policies that were defined to support the sector that was still not clear.

And finally, I would like to mention the manageable costs. You have to see that we have been focusing on our lines with a reduction of 3.7 in the quarter and approximately 10% in the year. That means an optimization focus on productivity, control of services provided and renegotiation of contract. And all of that improves our results. One word [ph] to mention about the distribution centers, we are focusing on integrating our technical and commercial teams, which will probably improve our results in terms of speed of responding to our customers' needs, being more effective, more efficient to service our clients to see to occurrences and also to support our activities to have a better level of service. So in terms of consolidations, we had an increase of 9% in the -- better reduction on 9% a year. If you compare to the evolution of inflation, I think that we can say that we had a very good performance. In terms of EBITDA, we suffered with this effect of the year as a whole, but we had a positive impact of ours sales 50% in Santo Antonio do Jari, Cachoeira Caldeirao and with that we had an increase to 1.9 million.

On slide nine we see the evolution of net income that had an increase of 317 for the year which had the negative impact of Pecem, but also partially mitigated by the sale of Jari. So altogether, 317 of net income in the fourth quarter of '14.

And here in the bottom part of this slide, you see the net income for both PC 1, Pecem 1 and Jari. And you see that Pecem II had a positive record in our EBITDA. And all that have to do with our share of 50%. As for Jari, you see that we had net income of BRL43 million for the fourth quarter of '14.

In terms of CapEx, it is very interesting for us to see we had 10 issuances along the year, 2.4 million, 1.2 million for distributors and housing and 2.2 for the projects under construction along the year of 2014. We have been very efficient in rolling over that. We have our periods of 18 to 36 months and cost bearing from 0.72 to 1.50% [ph] in the end of the year, we closed a negotiation with BNDES at some -- to finish Cachoeira Caldeirao

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in the amounts of 300 million. And Bandeirante has an average periods of 2.3 years and Escelsa 2.5 years.

As for projects under construction, we closed, we had the first disbursement in Cachoeira Caldeirao, a contract of 300 million in December '14 and in October, 295. With all that we have the longer term funding up the project. In the case of Sao Manoel, we are also having a contract with BNDES with a smaller one of 45 million and the debentures of 532 million. And the idea is to finish the project by 2015. As Miguel mentioned, we had EBITDA net ratio of 1.3 times, basically steady compared to the previous year.

On slide 11 we have availability of Pecem with an index of 97% in December after it started in operating, 98% in January and 94% in February. That shows our operational effort. And as I mentioned, the result was positively impacted by our recovery of past penalties, but we also had the provision of reimbursement. So we have a debt of 23 million with an EBITDA of 53 million. This accounts to 50% of our stake.

In the case of Pecem as we mentioned, we announced that we have the intention of signing an agreement for the acquisition of 50% that we are still waiting to the approval of the competent authority.

In 2015, Aneel already issued a favorable decision in terms to the request for reconsideration of compensation for unavailability calculation. Remember that the calculation was based on power capacity of 720, those recalculation is going to be retroactive to the entry into operation in May 2013 and the amounts are being analyzed.

As for Jari on slide 12, we know that started commercial operation in September, starting providing energy in the end of August. Basically it started up its commercial operation in September and we are now in 100% operations on the 31st of December 2014. So with that we had CapEx of 1.2 billion.

And in terms of Cachoeira Caldeirao and Sao Manoel on slide 13. Cachoeira Caldeirao is on time with almost 69% completion on December 2014. we invested 51% of the investments, we still have about 40% to grow. And as the speed of construction was good, we invested a bit more and we already have a very valid entry level of execution. And as I told you our long-term funds are already agreed on. And in Sao Manoel we started in the month of August. We just finished the river diversion, the cofferdam closing on the first phase.

And finally to complete on slide 14, the highlight is the evolution of our quality indexes that were in compliance with the target. EDP Bandeirante from 7.54 in the first quarter to 7.62 in the final quarter of the year. And Escelsa with 10.37. So we are very much in line with previous years. In terms of size in EDP Bandeirante, we have 5.34, Escelsa 6.44. As for losses, in terms of non-technical losses, we had a bit above the annual target, especially because in the end of the year was flat in the state of (inaudible).

We closed the year with 17.8. We have a new program now for 2015, focusing on the (inaudible) of our facilities in low voltage unit with 245 facilities and a higher level of

inspections in low voltage consumer unit. So assets [ph] of action for us to improve our non-technical losses. The installation of the internal kit, that are more efficient, so all of these measures show our greater focus on decreasing our technical losses and the idea is to have two percentage points below in terms of technical losses compared to 2014.

With that, I get back to Mr. Setas.

Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Thank you, Amaro. Well, I think that's basically were our results. Sorry, the highlights for 2014. Once again in a very challenging year, the company was able to identify a set of measures that were implemented along the year and that will let us to close the year with a historical EBITDA net income, one of the best in many years for the company. Of course, there is an important component here of our regulatory assets that were part of a great efforts of EDP and the whole of the industry to make changes in Concession Agreement and to have this recognition of the right of the company to enter regulatory assets in its books.

Therefore, for 2015 we start the year as we all know with an energy scenario that is quite complex. We know that it's going to be a year that is perhaps as difficult as 2014.

On page 15, we'll summarize what we consider the main priorities of the company for the year as a whole.

Here is the highlights, again, is the energy and regulatory scenarios, we are working very hard with regards to protect the company cash and fulfill the value of our operations and therefore we are going to have a very proactive management of the scenario.

As for cost control and cash management, the idea is to (inaudible) our cost below inflation level. This is something that we were able to do in the past, not only we controlled inflation, but we had a decrease of 3% in our costs, we want to continue optimizing our cost structure and maintaining that Brazilian [ph] inflation this continues to be our target for 2015 and also protect cash management.

It is in this context that I would like you to understand this decision of our Board of Directors to reduce the payout of dividend to a payout of approximately 25% of our net income. This is again to protect company cash in a context that is still very uncertain to our results. So obviously when the Board of Directors views a different scenario the decision can be changed or reversed for the coming quarters.

Also in terms of growth to continue what we have been doing to deliver Cachoeira Caldeirao as soon on possible within budget, within schedule continue with the construction of Sao Manoel within budget and schedule and also conclude the sale of EDP Renovaveis Brasil, which will get us the important funds to fund the acquisition of the 50% of Pecem 1.

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As for customer satisfaction it is where I believe that the model was very clear. Our greatest challenge is really to enhance the convergence of our commercial losses, you saw that in Bandeirante. We are close to a level of 20%, close to the regulatory target, the company was very effective in converging Bandeirante [ph] losses as we started this presentation, backing ourselves [ph] we were not able to complete or to seal those gap. So, we are focusing on our effort to ensure that this happens as soon as possible. And in terms of customers also, we have to continue improving our operational indicators from customer satisfaction level.

Finally, with regard to Pecem, we are in the process of completing the acquisition of the remaining 50% of the company. This transaction still depends on external approval. We hope to complete it in this first half of the year and the idea is to restructure the Pecem company operationally speaking with very good results you see in the final levels with availability levels above 90%, so operation, financial and regulatory. So we have our plan of restructuring for Pecem to make this asset more and more positive in the company's bottom line. You see that this is the first year that we had a positive EBITDA, although we still have a negative income in the end of 2014.

So we would like to tell you that we closed the 2014, we are pleased with the results we have. It was a very difficult year. We are aware of that. We know that we still have a lot to improve in company management that we do have a clear focused strategy for the year of 2015. We believe this is the right movement for the time that we are experiencing in the energy scenario as a whole.

With that, I thank you very much for your attention and I close my presentation. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we are now going to start the Q&A session. (Operator Instructions) We would like to draw your attention that any questions asked in English are going to be answered in Portuguese and translated into English simultaneously. Our first question comes from Paulo Ferreira from Bradesco.

Q - Paulo Ferreira {BIO 18941383 <GO>}

Good afternoon, gentlemen. My question is with regard to Pecem, the acquisition of 50% (inaudible), in addition to the 300 million that you pay, would you need to invest in the company for 2015 as well.

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

This is a Amaro speaking. Well, at first, well, let me rephrase that. We are going to have the acquisition for 300 million as announced and also we will invest approximately 8 million. So we are renegotiating with any financial commitments and we want to avoid extra investments. We are not going to constitute a reserve account, it was already

constituted in the three months throughout the BNDES, but we agreed with BNDES that still have this reserve account in just one year from now. And with that we have a cash relief of approximately BRL100 million and with that the level of investments in Pecem for the year of 2015 is going to be minimal.

Q - Paulo Ferreira {BIO 18941383 <GO>}

Okay, thank you very much.

Operator

(Operator Instructions) Our next question comes from Carolina Carneiro from Santander.

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

Good afternoon, everyone. I would like to know if you have an update about the discussion on the next stages for the methodology of the tariff readjustments, especially of how you're going to calculate losses, starting point, what we can see in terms of news and when we are going to have news about the details and the aspects of the methodology to be used? Thank you very much.

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

Hello Carolina, this is Amaro. We have no news compared to what we all know today. We has a public hearing in Aneel, we do have some results. We know that the regulatory work is probably going to be 8.09, this is the most recent news as for the trajectory of lawsuits. This is something that is not completed yet. It will depend on the complexity of each company in terms of the population served and everything. So we have no updates if there were and we don't know if there were any changes or not.

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

Okay, thank you very much.

Operator

Our next question comes from Lilyanna Yang from UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thanks for taking my question. I would like to know what is your expectation in terms of growth of demand? And if you think that the level of rain that we've had so far is enough for us to avoid rationing? And in terms of generations that you have any hedge against GSF, did you buy energy in the short term? And could you tell us a bit of the thing availability in February, in January it was about 19%.

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

The growth for demand, this is your first question, is that correct. Well, what we have seen, namely, in the first and second months of the year. In January, we had growth in

residential and commercial classes, basically because of the warm weather. The industry was very much depressed, especially in the state of Sao Paulo, but all-in-all, the growth in January, which is probably not a proxy seeking [ph], but anyway it was a growth of approximately 2% in Bandeirante. And improved consumption about minus 2.5% that was flat year-on-year.

So what we could expect eventually is a drop, especially based on the industrial performance in Bandeirante, but the growth in Espirito Santo in the first quarter in the year, Bandeirante should be practically stable compared to the previous year and it's also bit less than 2%, but that again does not consider any kind of response in terms of carried readjustments that are to be implemented as of today and of course, the increases of flag related to tariff re-adjustments.

So we do not have a history of analysis in terms of elasticity of demand versus a significant increase in tariff that we are going to have now and we also have to exclude the seasonal effects, Carnival this year was February last year was March. So all that said, if we had a normal situation, we would have a very small, close to zero growth in the state of Sao Paulo, in Bandeirante, a bit less than 2% and in Espirito Santo with some activities related to exports are bit stronger. But this data that does not include the electricity that we still have with the increase in TRX [ph], that we're going to have in the month of March. So that answers your question in terms of growth. As for hedge we have approximately 5.4% of hedge. In Energias Renovaveis [ph] of course, it can cover GSF clauses till what was last year, but it minimizes the impact that we've had this years as well, such that because we expect the similar scenario. So it's not enough to cover everything but its hedge level that it's similar to last year.

As for looking at Pecem, in terms of availability in February, this is in our presentation. It was 94%.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you very much.

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

So, again this is a preliminary amount, but we do have that in our note that we can say that December, January and February. It was above our availability agreed on, that was 90.14. So until February we have an average of 95% higher rate. So very reduced, so operational stability is going to continue and our attention and it's going to be our priority is that (inaudible) actually.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay, thank you very much.

Operator

(Operator Instructions) Our next question comes from Bruno Bretas from 3G Radar.

Q - Bruno Bretas {BIO 19502436 <GO>}

Hello, good afternoon. I would like to know with your (inaudible) your expectations with regard to the sale of EDP Renovaveis in terms of time.

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

Hi, Bruno, this is Amaro speaking. Well, we are practically closing the agreement, we want to complete the transaction in the first quarter that is until the end of March.

Q - Bruno Bretas {BIO 19502436 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Lilyanna Yang from UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Just a follow-on about the Pecem, since you have been yielding [ph] the insurance against potential operational problems in terms of electricity for this year and next year and how does it work?

A - Miguel Nuno Simoes Nunes Ferreira Setas {BIO 15901389 <GO>}

Well, obviously the plants cannot be without insurance. So the policies were not to manage directly by EDP in the past, somewhat directly managed by Pecem and we are in the scope of Eneva. So we are still negotiating the best cost benefit for renewal when the policies mature, but we are going to renew all of them. They are still in effect, so we haven't started negotiations yet.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay, thank you very much.

Operator

There are no further questions. And therefore the conference call on the earnings of the fourth quarter 2014 of EDP Energias do Brasil is now closed. Questions taken on the webcast are going to be later on answered by our IR team. We thank you very much for joining us and have a good day.

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