

## Q1 2012 Earnings Call

### Company Participants

- Miguel Amaro, CFO
- Unidentified Speaker, Unknown

### Other Participants

- Alessandro Congrati, Analyst
- Carolina Carneiro, Analyst
- Christiane Pedrofiser, Analyst
- Marcello Garneye, Analyst
- Sandra Boente, Analyst

### Presentation

#### Operator

Good afternoon. Welcome to EDP Energias do Brasil conference call in which we will discuss the performance of the First Quarter of 2012. All participants are connected in listen only mode and later we'll have a Q&A session, further instructions will be given at the time. (Operator Instructions)

This presentation is presented together with the slides and will be transmitted simultaneously by the internet through the website [www.edppbr.com.br/ri](http://www.edppbr.com.br/ri). At the website, you will also find a release with the Company's results.

Before proceeding, EDP Energias do Brasil would like to clarify that any statements that may be made during this conference call in relation to the business outlook for the Company as well as projections, operating targets and financial targets in relation to its potential growth are assumptions based on the expectations of management in relation to the future of EDP Energias do Brasil.

Those expectations depend on the country's economic scenario, the performance and regulation of the electric sector in addition to other variables and therefore are subject to change.

Now, I hand it over to Mr. Miguel Dias Amaro, VP of Finance and Investor Relations of EDP Energias do Brasil. If you please, Mr. Miguel, you may proceed.

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

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Good afternoon, ladies and gentlemen. thank you for participating in our conference call with the results. I would like to ask you to don't forget the disclaimers that have already been announced and let's move on to slide three dictating distribution where we recorded growth of 1% in consumption as a result of low temperature, higher rainfall and next to stagnant industrial output.

In generation of seasonality and agreement and the increase in traded energy led to a growth of 6% in traded power and energy traded 7.8% more in the period. So revenues went up by 3.9%, growth margin dropped 7% as a result of the cost of the purchase of energy charges and distribution and this was minimized by the contribution of generation and trading.

OpEx rose 6% year-on-year, a little above inflation in relation to the previous quarter, as a consequence EBITDA went down 13% in period and profit went down 24%. Gross debt reached BRL3.6 billion and also during this quarter ANEEL approved the change in the (inaudible) schedule that's 98% completed.

Now I hand it over to (inaudible) who will detail the results for the period.

## Unidentified Speaker

Good afternoon, everyone. We bring your attention to the two non recurring events of the period, the reorganization of distribution with downsize of 119 employees represented a savings of BRL9.3 million and the sale of assets that generated a positive effect of BRL15 million and BRL4.5 million this year.

In slide five we present our summary of operational performance of the Company's generation, we observe an increase of 6.1% in the volume of traded power in the First Quarter of 2012. Compared to this last year, this result is the reflection of seasonality strategy of contracts of energy trade with greater allocation in the first semester of 2012 in commercializing company, the volume of power commercialized increased 7.8% in the quarter. This growth was driven by negotiations and long term if we compare it to the same period 2011 increased 34%.

From distributors we present the consolidated growth of 0.3% in the quarter, drive -- with a growth in residential and commercial classes, the Company continues investing in waste pro and combat against waste and this will be SAIDI (inaudible) BRL7 million from this total. BRL1.4 million were geared to our operational investments and BRL5.5 million for manageable expenditures Bandeirante the levels of commercial losses below 5%.

The indicators of (inaudible) within the established standards by ANEEL with an improvement of 18% of SAIDI and 7.8% in SAIDI (inaudible) shows the focus of the Company geared towards servicing their customers.

In slide six we see net operational revenue which added up to BRL1.4 billion in the quarter, this is 3.9% above the First Quarter of 2011. The main causes of net revenue in an increase of energy volume were an increase of 7% in the sale average price.

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In commercialization, an increase of revenue and availability of the distributions, there's been an increase of revenue deductions, mainly charges of CAGR that in the year 2011 only impacted as of September. This was the Third Quarter, it is important to talk about reverse positioning in the Fourth Quarter of BRL7 million from Bandeirante regarding revenues of penalties for exceeding the demand and energy consumption.

The manageable expenditures increased 14.3%, energy for resale was BRL643 million, this was an increase of 16.2% in addition to readjustment, the manageable expenditures are excluding the depreciation amortization added up to BRL205.9 million with an increase of 6.3% in the First Quarter of 2012 impacted by the non recurring effect.

But what has already been mentioned in addition to the acceleration of inflation and the relative cost of conservation and manageable expenditures in the gross margin were 33.7%. The EBITDA was BRL405 million with a 13.2% reduction compared to the same period last year.

Slide seven, we have the net financial result, consolidated result that was adding up to BRL37.1 million with a reduction of 27.1% in comparison to the same period last year. In financial revenue there was a reduction in financial investments in our investment and we also had an interest rate reductions we -- financial gains in monetary update and legal deposits and financial gains regarding the penalties applied to the generator due to the non generation of energy that was hired and this is due to biomass and lack of availability equal to BRL7.9 million.

Financial expenditure is due to the change of methodology and update of the liabilities that were not accounted annually in our register and on a monthly basis as of the Second Quarter of 2011 and more financial expenditure in the market regarding financial (inaudible) regarding -- or debt is not hedged. The consolidated net profit was BRL142 million, 23.3% below what we had in last year.

In slide eight we represent companies that the gross debt -- consolidated gross debt added up to BRL3.6 million, 0.7% above what we verified at the end of 2011. This result is due mainly to the disbursement of approximately \$40 million for distributors from the European bank of investment and \$56 million to build HPP Jari, net debt added up to BRL2.7 million in March, an increase of 2.3% regarding December 2011, due to low cash balance.

The cost -- the average cost of the debt group was 9.7% a year compared to 10.3% in December. The drop of costs compared to the last quarter is due to the drop of Selic rate 9.75%. The average debt maintained at 4.5% and regarding our indicator, 40% of the growth that is connected to CDI, well 41% is connected to TJLP.

In slide nine the investments added up to BRL105.9 million in the quarter and are divided BRL67.1 million in distribution BRL138.5 million in generation and other BRL350,000 in distributed the others have interest capitalization that add up to BRL1.4 million in Bandeirante and BRL1.3 million in Escelsa. And due to special obligations, BRL3.8 million in Bandeirante and BRL3.1 million in Escelsa.

Generation, the investments were allocated mainly in building projects, 60% in Pecem and 33.5% in Jari.

In the final slide, in relation to Pecem, at the end of the First Quarter the project reached physical progress of 97.7% and among the main achievements of the First Quarter, we have the conclusion of the steam blow -- of the steam circuits of unit one. The completion of the flushing of the oil circuit in turbine of unit one, the energization of the main transformer, the two auxiliary transforms on the unit two. And the installation of high pressure bypass in unit one and the off loading and storage at the plant of three coal ships, totaling around 220,000 tons.

In relation to Jari, the construction works are within schedule and the main achievements were the finalization of driers, finalization of the building of the worksites and in parallel, we have the basic environmental projects. It's worthy to highlight that in January ANEEL offered the same concession term that was extended to 2044 and Jari also obtained a tax exemption of PIS and COFINS through the declaratory act of the revenue service.

Thank you. So much. And I will start with the Q&A.

## Questions And Answers

### Operator

Excuse me, ladies and gentlemen. We will begin now the Q&A session. (Operator Instructions) Excuse me, our first question comes from Mr. Alessandro Congrati [ph] from Citigroup.

### Q - Alessandro Congrati

Good afternoon, Miguel. Good afternoon Meitei [ph]. My question is about costs. We see that in third party services expenses were a little higher in order to improve quality of service and at the sale side [ph] we see that the indicators are slightly worse in this quarter and some losses have been recorded too. So I would like to know were there any climate events or non recurring events during this quarter?

### A - Unidentified Speaker

Alessandro, can you hear me?

### Q - Alessandro Congrati

Yes, I can.

### A - Unidentified Speaker

Okay, let's see, well in terms of costs for services, of course you spend some in the quarter and there's some inertia in the costs that you spend. So if you look at the losses and if you make a comparison between the expenses in different quarters, for example First Quarter against First Quarter, at the sale side you see that qualify of service is not

dependant of ANEEL that was above the previous year but losses dropped from one year to the next.

And in the First Quarter, there was a slight worsening if you compared the costs of the Fourth Quarter to the First Quarter. But the fact is that there were no particular events that could lead to an increase in losses. In the case of the Bandeirante where we had more problems because of the situation of the previous year the focus was given to this issuance. In particular, in terms of duration and interruption frequency.

### **Q - Alessandro Congrati**

Now, a question about PDB. You mention in the release that there was a reversion of BRL2.7 million as a result of the new methodology adopted. I would like know, is this a non recurring issue or is this a new level?

### **A - Unidentified Speaker**

So the provision for doubtful debt. Well we have a certain level. But we are convicted that we have some levels expected by our customers, for example in the banking -- in the banking sector they also increased the provisions for nonperforming loans.

So we are trying to keep abreast of what's going on in the economy as a whole and in our case, we introduced a higher level of risk for the clients. We consider that this is a stable level. But it depends on the economic scenario. So if it continues growing, we should have no reason for concern. But we keep attentive to the level of risk and if there are any changes as a result of the current economic scenario and conditions.

### **Q - Alessandro Congrati**

Thank you. So much.

### **Operator**

Excuse me. (Operator Instructions) Excuse me, our next question is from Mrs. Carolina Carneiro from Santander.

### **Q - Carolina Carneiro**

Good afternoon, everyone and -- let me ask you something, what's your expectation for the calendar year in the preliminary tariff reset for Bandeirante and if it's something that reflects the proposals that we've seen from the beginning of the year. Were there any changes in terms of the expectation of the figures to be provided by ANEEL? Are you also expecting higher pressure and a drop in EBITDA in result to what has already been announced? What are the news in short about what we have seen so far in relation to Bandeirante?

### **A - Unidentified Speaker**

Carolina, in relation to the calendar, well the date is July 1st. I think this answer your question about when. We will have by then the first definitive document by ANEEL about

the tariff reset. And we have been collaborating with a technical staff of ANEEL. We don't foresee any my major changes and if there are any, we believe they will be positive. But there is no reason why we should not continue our collaboration with ANEEL at this moment.

### **Q - Carolina Carneiro**

Thank you. So much.

### **Operator**

Excuse me. (Operator Instructions) Excuse me, our next question comes from Sandra Boente from Deutsche Bank.

### **Q - Sandra Boente** {BIO 1511861 <GO>}

Thank you. Good afternoon, to you all. Miguel and Meitei, my question is about generation. Could you give me a status update about the projects that EDP acquires from Brasines [ph] in 2010? Another question, what are the plans for the power auctions at minus 3 and minus 5?

### **A - Unidentified Speaker**

Alesandra [ph], thank you for your question. In relation to the parking [ph] projects, they are in the back burner because there were some conditions that weren't met and for that reason we couldn't make any progress.

As for the auctions, we are working really hard so that we can participate in the one that will take place on August 5.

### **Q - Sandra Boente** {BIO 1511861 <GO>}

So on minus 5 would it be with your own projects or what's your interest there?

### **A - Unidentified Speaker**

Well we have a particular project that we're developing. It's a partnership we have and its 400 megawatt hydropower project.

### **Q - Sandra Boente** {BIO 1511861 <GO>}

Thank you. So much.

### **Operator**

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

### **Q - Christiane Pedrofiser**

Good afternoon. I would like to have an overview regarding manageable expenditures because in this quarter the growth was greater than revenue. If we can expect measureable expenses as a whole. Would you like to make a comment item by item if we can expect some type of reduction in the upcoming quarter?

### **A - Unidentified Speaker**

Now, regarding manageable expenditure, something that we mentioned last quarter, because inflation was exerting pressure over it and the revenue was positive, regarding contract adjustment, it also exerts pressure on contracts regarding services.

Now, in terms of personal cost, we had a reorganization in the distribution own unit that -- well we had a cost that had mentioned as a subsequent event and the release of the Fourth Quarter and there was a total cost around BRL9 million. Now, obviously this is a cost and we were going to have a payback of in less than one year.

What does this mean that from service hiring point of view these are actions that we will continue to carry out because we don't want these levels be above inflation. Inflation PCA determine the value and with that -- nevertheless, service inflation is always higher than what we estimate.

And in this quarter this happens -- you can see this in this quarter when you compare it to the First Quarter to 2011, will you compare it to the Fourth Quarter of 2011, you can see a drop in all items. Even with personnel and even when we think about downsizing.

### **Q - Christiane Pedrofiser**

Thank you very much (inaudible).

### **A - Unidentified Speaker**

Now, regarding cost, this is a constant exercise to pursue productivity and efficiency. Nevertheless, we cannot exert pressure over certain providers because -- or suppliers in term -- because some time you lose and discount the benefit. But you drop this but you lose quality because they give you discounts and benefits.

### **Operator**

Excuse me. (Operator Instructions) Our next question is from Mr. Marcello Garneye [ph] from Mosiene Investimientos [ph].

### **Q - Marcello Garneye**

Good afternoon, Miguel, Meitei. I have two questions here. The first question here is regarding Pecem. What can we expect in terms of revenue in the Second Quarter and the other question I would like to know how much did you write provision in terms of the Second Quarter Bandeirante.

## A - Unidentified Speaker

Now, regarding your first question Pecem, in the Second Quarter we don't have this revenue, it's very insignificant because we expect that the first machine will be deployed in the Second Quarter and by the end we want to have a full operation. I believe that we will still have marginal contribution.

Now regard the provisioning of the installment or quota for this quarter was BRL57 million and we're expecting a regulatory result.

## Q - Marcello Garneye

If you -- if I can make more questions, the first question regarding market. How do you see the evolution of the market in the Second Quarter. Do you expect deposited evolution in household, commercial segments?

And the other question is regarding allocation of power sales in generation. I would like to confirm that in this quarter you will not sell power in the spot market and if this will continue in the Second Quarter and the second semester of the year if we can expect a reversion, if you will buy for example power in the spot market?

## A - Unidentified Speaker

To buy power there, not very likely as you can see we have the strategy of energy allocation in the First Quarter it was stronger. We have a much more stable allocation that we had last year. So anyhow, there is better allocation of power requested by the customers and distributors. In the First Quarter -- first semester, I believe got into second semester allocation will be lower so I don't believe that we will have significant sales in the spot market. This is your second question.

Now regarding the market, well the first bi-mester we were very weak because of residential area. The month of March, there was an important leak when we compare it to the first two months and also due to rainfalls that limited also agricultural growth and the industrial sector was stagnated. I think the industrial growth was 0.3%. So what do we see?

Now the industrial production with the heat in April, yes, of residential was higher and commercial industrial sector is still slow because, as a matter of fact, it has not been with all the measures that we're taking with a drop in interest rates, we -- it's not visible, the effects in consumption and the industry.

All in all, I believe if the trend continues this way, perhaps industrial will be stable. In the second half of the year it will be a bit better and to absorb the absorbs [ph] that this data's going to encourage residential depends on consumption and temperature and of course if there are more electronics, we will have more customers consuming per capita. We have an expectation that is not different from the First Quarter, perhaps a bit better in the Second Quarter.



## Q - Marcello Garneye

Thank you very much.

## Operator

Excuse me. (Operator Instructions) Excuse me, if there are no more questions, our conference call with the performance of the First Quarter EDP Energias do Brasil is now closed. Any questions received via the web will be answered by our investor relations team later on. Thank you. So much for participating and have a great afternoon. Thank you.

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