

## Q2 2014 Earnings Call

### Company Participants

- Mayte Souza Dantas de Albuquerque, Financial Manager and Investor Relations Officer
- Miguel Dias Amaro, Chief Financial Officer
- Miguel Nuno Simoes Nunes Ferreira Setas, Chief Executive Officer

### Other Participants

- Unidentified Participant

### Presentation

#### Operator

Good afternoon and welcome to EDP Energias do Brasil conference call to discuss the earnings of the second quarter 2014. All participants are in listen-only mode right now. Later on, we are going to open for Q&A, when further instructions will be provided. (Operator Instructions).

This presentation as well as its slides will be simultaneously webcast at [www.edpbr.com.br/ri](http://www.edpbr.com.br/ri). In there, you will also have the company's press release.

Before going on, EDP Energias do Brasil would like to let you know that any statements made in this conference call relative to the company's business outlook, projections, operating and financial goals relative to its potential growth are based on the assumptions and beliefs of the company about the future of EDP Energias do Brasil. Forward-looking statements depend on the country's economic scenario, performance, and regulation of the electric sector, and other variables, and therefore, are subject to change.

Now I'm going to turn it over to Miguel Setas, CEO of EDP Energias do Brasil, to start the call. Please Mr. Setas, you may go on.

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

Good afternoon, everyone. I would like to thank you in this conference call (inaudible) regarding the first semester and second quarter 2014. In this call are myself; Miguel Amaro, our CFO; and Mayte Albuquerque, our Investor Relations Officer and Finance Manager. I'd like to say that similar to the previous quarter, the second quarter had a very challenging regulatory and industrial compacts [ph]. Therefore, it's important to say that the company in whatever is manageable was able to present positive numbers and close

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the second quarter with consistent results that somehow offset the effects of the current scenario.

So I would like you to take a look on slide three. And just I would like to remind you that our priorities and our commitments are basically focused on this five lines; the first is managing the energy and regulatory scenario, as I mentioned; the second optimize cost and protect companies cash; third, improve the performance of thermal center Pecem 1; focus on our growth is number four; and five, improve our customer experience. These were the five topics that we chose as our priorities. And I would like to give you some highlights about them in the first quarter of -- in the second quarter of 2014 and year-to-date.

So let's go to slide number four and here our highlights are the following. First thing I would like to talk about the energy regulatory scenario. We all know that in the first six months of the year, we had a very unfavorable water level rainfalls and therefore a low level of reservoir and increase [ph] in spot prices that had BRL782 per megawatt hours, BRL682, sorry.

Of course, the price of the energy impacted the tariff levels of the company, but we, however, offset by investments of 591 million resulting some the ACR account, that account for 6% of our tariff deficit in the first semester of 2014 we had 591 million, that offset deficits generated in this period. Also GSF was 93.8, which shows that in terms of generation, we just have some impact on margin as well that we are going to clarify at my talk.

The second topic, cash and costs; I think it's important to mention the following aspect. First, that the company was able to show in the second quarter of 2014 a nominal reduction of 2% of its manageable cost. And this reduction continues a path that we had followed in the first quarter of 2014. I'd like to remind you that we made the commitment of maintaining costs evolution below inflation, and therefore, in the first two quarters, and consequently the first semester of 2014, we are sticking to our commitment.

Next I would like to -- it's important to mention the level of loans that we were able to raise this quarter, more than BRL1 billion that were necessary to keep up with company's investments, needs in working capital and all the financial obligations that the holding had and will have in the next months. This means that we closed the quarter with BRL1.56 billion in our cash. And as I mentioned, this cash is necessary to meet the obligations taken by the company.

Also as highlights, I would like to say that on June 27, 2014, we are able to complete negotiations that the beginning of China Three Gorges and the social facts of HPPs, managing the projects of Santo Antonio do Jari and Cachoeira Caldeirao. This sale of 50% led us to an increase of BRL420 million in the first semester of 2014. So you see that in whatever is manageable and controllable by the company, particularly when you're talking about costs and cash, everything that was possible to be done was done. And this is a message that I wanted to keep very clear, whatever is within our range to minimize the impacts of the scenario is being done.

Slide three talks about Pecem thermal center, a plant [ph]. Here what is nice to highlight is that in the first semester of 2014, we had an operating turnaround of the company. You will remember well that we closed the year of 2013 with an availability of about 72% and in the end of the first quarter those availability increased 20 percentage points, that is 82% in the end of June, 2014. So this improvement of 20 percentage points in plant availability also brought confidences to the economic performance of this asset. And you certainly saw in our release that we went from EBITDA of minus BRL32 billion in the second quarter of 2013, plus -- to plus BRL16 million in the first quarter of 2014 -- second quarter, sorry. So a fantastic turnaround for the Pecem power plant.

Next I would like to talk about our growth and we are very clear in the past call to reinforce that our priority relative to hydro projects were to execute the three projects that we have in hands right now: Santo Antonio do Jari is with 95.4% of completion; Cachoeira Caldeirao, 22.2% of completion; and Sao Manoel, that hasn't started civil construction yet, it will be started in the second semester of 2014, but the schedule for all milestones is being met even with some advances compared to our initial expectations. So with regards to our growth, what I would like to mention is that all projects in which EDP Energias do Brasil is engaged are within budget, budgets that was approved by the company and within the expected schedule. So the projects are being managed to meet not only budgets, but also deadlines.

And finally, my fifth topic would be basically the followings. The main indicators of service quality in our distribution companies, Bandeirante in Sao Paulo and Escelsa in Espirito Santo are for the first semester of 2014, increasing a lot compared to the previous years. And this improvement is going to be detailed in the presentation next to mine. And that has an impact in customer satisfaction and those companies represent in their customer satisfaction levels rates of more than 80%. So this five points in (inaudible) summarize our history of the first semester. That was based on execution on improving whatever is manageable by the company to minimize and offset the impacts that we have in the energy and regulatory scenario, which is complex and unfavorable.

So now we are going to page four. And on page four -- page five, I'm sorry. On page five, we have a summary in bullets of the main economic financial variables of the first semester of 2014 that are part of our release. The first is that we have an increase of 12% in our consolidated net revenue with growth in the three business segments. Obviously, this growth of 12% in revenues was signaled by a larger growth 51% of our non-manageable costs again associated to the purchase of energy and that were negatively impacted by a GSF of 93.8% and tariff deficits. Those impacts obviously reduces our gross margin of about 53% in the second quarter of 2014. When we combine this effect with the reduction of 2% in manageable costs and the accounting effects of the investment of 408 million relative to our sale of Santo do Jari and Cachoeira Caldeirao, we have an EBITDA of BRL484 million, which is an increase of 32% compared to the previous year, and net income of BRL184 million, an increase of 312% in the second quarter 2013.

Also, we had a very conservative position of not entering in the semester accounts, the investments relative to May and June in the ACF account -- ACR account, sorry. If they were entered, we would have an EBITDA of BRL584 million and net income of more than BRL200 million. So again, numbers that are different from what we are showing.

And finally, a word about our debt profile. (inaudible) with a conservative position with net debt-EBITDA ratio of 1.2 times on 30th of June 2014. Well, basically in short [ph], this is what I had to tell you.

And now I'm going to turn over to our Financial Manager, Investor Relations Manager, Mayte Albuquerque for more details.

## **Mayte Souza Dantas de Albuquerque**

We'll go in to page six. This was a quarter where the industrial compacts was very challenging. We had spot prices high 680 on average, GSF 93.8 and the action by the end of April did not meet the needs of distributors, because there was not sufficient offer or supply to eliminate the involuntary exposures. So despite investments of 591 million, generated regulatory assets reached 355 million in the semester. Since distributors could not enter the amounts relative to ACR in May and June, the results were negative relative to the purchase of energy and grew 32 -- 20% (inaudible) with drop in gross margin of 32 and 86 respectively.

On slide eight, we show the impact of GSF, which affected to the results of our operations by BRL64 million because of thermal dispatch and high spot prices. The company continues to try to hold costs, especially in distribution. And although personnel impacted the costs about BRL7 million for the second semester -- quarter in a row to decrease costs below inflation. There was a struggle to fight to default [ph] rates and hold material and service costs.

On slide ten, we raised loans of BRL1 billion for our operations and working capital extended our debt profile and assures our funds needs. In addition to the sale of our stake in Jari and Cachoeira, that increased our cash to 1.5 billion. So net debt was 2 billion, 1.2 times net debt-EBITDA ratio. In July, we had the bridge loan for Sao Manoel of 532 million, paying the 45 we had loans for this project start up.

On slide 11, we have the evolution of EBITDA, a growth of 32%, 6% in the semester impacted by non-manageable costs, especially purchasing energy, which was mitigated for the sale of 50% of Jari and Cachoeira.

Slide 12, we show our net income growth of 110 in the semester with a financial result, that was stable in the semester. When we think of May and June, if we had accounted for the amounts related to them, evolution of EBITDA would have been 22% and profit of 172%.

On slide 13, with the Pecem 1 with positive numbers in terms of availability, 81%, a dropping failure rate and EBITDA 41 million regarding 50% of our stake. It's important to mention that we continue with our negotiations of -- which are now relative to a dump and we're going to have the annual maintenance of medicine two in August, after two years -- I'm sorry, after 14 months.

On slide 14, we have our construction projects. Jari is more with -- more than 95% completion. We have already sent [ph] those generating units and turbines and we are

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going to start commissioning. Cachoeira is off as planned and highlight is that we settled to the main structures with concrete and manufactured electromechanical equipment. In Sao Manoel we continue procedures at a very good price, signed the concession contracts, having the public utilities certificate, and implementing rate and raising our bridge loan.

In terms of distribution, we had an improvement in the quality of services, particularly because in the months of June and July we had the World Cup and we had very high level of services in this event. As for losses, although we had a slight improvement in Bandeirante, our challenge continues especially with non-technical losses that increased in Espirito Santo.

Thank you very much for your attention and we should now go to the Q&A.

## Questions And Answers

### Operator

Ladies and gentlemen, we'll now start the Q&A session. (Operator Instructions). Our first question comes from Citigroup, (inaudible).

### Q - Unidentified Participant

Good afternoon, everyone, and thanks for the call. I have a question about Jari, you should start to now in August in terms of commissioning, when do you think you're going to start your commercial operations there?

And the second question about losses, they were slightly higher this quarter, what should we expect for the remainder of the year for Escelsa and Bandeirante?

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

Hello, Kaik [ph], this is Miguel Amaro. As for as Jari, we have to know how things evolve this quarter. And I think it's still a bit early to talk about the commercial operation. We are going to start fast and then based on the results, then we can have a clearer view. Of course, if things go smoothly, we should be announcing the fact as soon as possible, because this is very interesting for the company.

As for losses, the second half of the year is going to focus on fighting losses, specifically with the Espirito Santo, which is a bit harder from the regulatory targets. In case of Bandeirante, I think we're just going to continue to control our losses and monitoring the actions that we have been doing. We have a program to fight losses. We had a specific presentation on that as Mayte mentioned the first half of the year, especially because of the events in the World Cup were basically to sustain and keep the quality of services, which was accomplished during the second half of the year and on -- our focus is to be to fight losses. In Bandeirante, I think that we are going to continue to reduce numbers, especially in technical, non-technical and we are going to be very close. Now in the case of

the Escelsa, we are not going to meet announced target, because there is still a long way to go, but at least we want to close the year close to what we had the year before.

## Q - Unidentified Participant

Thank you very much.

## Operator

(Operator Instructions) We will now turn the call to Miguel Setas for his final considerations.

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

Well, thank you. I would just like to finish by thanking you for joining us in this conference call and say that the company will continue committed to its priorities to the five priorities I mentioned in the beginning of this call. It is a pro-active manner of coping with energy and regulatory scenario, controlling costs, protecting our cash, improving our economic financial operating performance, especially what's the saying, really sticking to our deadlines in the implementation of the three plants. And possibly, even advancing our schedule, and finally, focusing and paying close attention to our customers, as a company like EDP Energias do Brasil should have in terms of customer satisfaction.

These are our priorities. We are going to continue to work on them in the second half of 2014. And in the end of the third quarter, we'll continue to talk about these five topics. Thank you very much and have a good afternoon.

## Operator

EDP Energias do Brasil conference call to discuss the earnings of 2014 is now closed. Questions taken on the webcast are going to be later answered by the IR team. Thank you very much for joining us and have a good afternoon.

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