

Q3 2015 Earnings Call

Company Participants

- Armando Casado de Araujo, CFO

Other Participants

- Bruno Bretas, Analyst
- Fabiano Custodio, Analyst
- Felipe Leal, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the teleconference of Eletrobras to talk about the results of the Third Quarter of 2015. (technical difficulty) inform you that all participants will only listen to the teleconference and then we will start the Q&A.

Now, I would like to give the word to Mr. Armando Casado De Araujo, Financial Director and Investor Relations of Eletrobras. Mr. Armando.

Armando Casado de Araujo {BIO 16673880 <GO>}

(technical difficulty) of 4.1 that goes to 1.8. And in the next slide, I will detail the variables that influenced our results. But just as a highlight, I would like to give you a little bit about the operational provisions that really determined the period of the Third Quarter.

As you know, the issue of the rains and the evolution of the distribution and generation of energy market had a preponderant role in the results of the Company. In the Third Quarter, we had an effect of GSF of -- in nine months of BRL2.7 billion. However, other variables influenced our results. Now, the supply of distribution is influenced by the tariff flags and you have a proportional impact in the deductions of the operational revenue.

The amount of energy sold plus 7.2 terawatts/hour to 7.4 in the Third Quarter. And on slide number six, I will demonstrate the evolution of CVA, a little bit about that. The reserve contingencies have a deduction in regards to the Second Quarter, that was significant. (inaudible) on slide number eight. But mainly due to the change in the discount rate in the calculation of impairment of Angra 3 [ph], we have an impairment to BRL3.4 billion for Eletrobras and (inaudible) slide number four, we are demonstrating the provisions for the onerous contracts and that we are doing the evolution every quarter and we can perceive that we had in 2012 BRL5.1 billion and our and are reducing that every year and in the last

quarter, we have about BRL894 million in onerous contracts. And slide number five, I present the evolution of CVA, which was BRL663 million in the first nine months of 2015 and just in the Third Quarter, it was BRL110 million in the Third Quarter.

Slide number 6, I present the gross operational income. We have an increase of 1.8% facing [ph] the previous quarter, going from BRL10.5 billion to BRL10.7 billion in the Third Quarter. The generation revenue had a reduction of BRL3.6 billion going from BRL5.1 billion to BRL4.9 billion, contributor to the reduction is less selling in the short-term market that went from BRL157 million to BRL376 million, due to the reduction in settlement differences. The total volume of energy sold by Eletrobras was 62 terawatt hour in the Second Quarter 2015 to 54 terawatt hour in the Third Quarter. The transmission revenues had an increase of 10% going from BRL1.2 billion to BRL 1.3 billion in the Second Quarter of 2015.

In the revenue of distribution, we had an increase of 10.3% going from BRL3.7 billion to BRL4.1 billion in the Third Quarter of 2015. The supply of energy had an increase of 4.6%, BRL3.3 billion to BRL3.8 billion, influenced by the increase of the tariff and the application of the tariff flags that were already mentioned. And there is the proportional deduction of the operating income, recognition of the values of the CVA and other components has a reduction of BRL232 million in the Second Quarter to BRL103 million at the end of Third Quarter. The amount of energy sold was 7.2 to 7.4 terawatt hour from second to Third Quarter in 2015. Now, we have the evaluation of the variation of the personnel, materials and services. The sum of this PMS is an increase of 24.7%, growing from BRL2 billion to BRL2.5 billion in the Third Quarter. This is an increase of 30% in personnel, BRL1.3 billion to BRL1.7 billion, mainly due to the collective bargain salaries paid retroactively to May 2015. These services account grew 17%, 717 billion [ph] to BRL788 million and the materials was a reduction in 11% from BRL90 million to BRL80 million. The variation of this was due to the program stoppage at Angra 1 and the relative expenses.

Now, we have the operating provisions that passed from BRL900 million to BRL4 billion in the Third Quarter. As I was talking in the last teleconference, the highlights of the Second Quarter was the reserve for contingencies for BRL848 million with a provision for the relative to the compulsory loans and the judicial processes for Fornett & Sheff [ph]. We have a provision of liquidation that was doubtful and provision for doubtful receivables and refills of BRL151 million. And now we are going to talk about the internal deficit of Eletrobras. There was an elevation of 1% in the discount rate that was 4.1 to 5.4 and this is influenced due to the update of the EBITDA of R&D [ph] calculation model. We calculated the EBITDA of the comparable companies and according to the ANEEL technical note 381 and 20 from 2012, the adduction [ph] of this calculation of better (inaudible) that no company for energy generation of open capital has assets of nuclear energy contrary should be companies that use the calculation for the EBITDA of ANEEL that has; or the American companies that have at least two nuclear plants for generation of energy.

Now with slide 9, we have the evaluation of EBITDA, BRL2.3 billion to BRL3.1 billion in the Third Quarter. This was influenced by the (technical difficulty) provision of impairment that was BRL3.4 billion or if presented [ph] without considering this event, our EBITDA would be positive. Third quarter 2015, the sum of EBITDA of the companies controlled by Eletrobras by the same measure [ph] negative BRL4.2 billion with EBITDA of BRL77 million

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in the Second Quarter of 2015. In the nine months of 2015, the EBITDA of the companies controlled by the Eletrobras (inaudible) BRL1 billion negative facing [ph] an EBITDA of BRL1.9 billion registered in the same period in the previous year. Slide 10, we have the consolidated debt of BRL16.1 billion, comes from the financials that has to be paid of BRL49 billion, including a net amount BRL6.2 billion related to RGR which has a value of the asset in another company in the deduction of the net losses, we have the application of the cash in the financial applications of BRL9.3 billion. The financial to be received BRL15.8 billion including Itaipu, BRL1.2 billion for getting back from Itaipu which we're reducing -- regulating, which has the debt of BRL12.6 billion. When we control (inaudible) we have a debt of BRL31 billion with cash in banks of BRL4.3 billion, financials to receive BRL32 billion. And recess of Itaipu, we have a negative debt of BRL12.6 billion.

With this brief exposition of the main components of the results of the Third Quarter, I finish my presentation and I am open to questions.

Questions And Answers

Operator

We will start now the Q&A. You can ask questions in English and we will translate them into Portuguese (Operator Instructions)

Felipe Leal, Bank of America.

A - Armando Casado de Araujo {BIO 16673880 <GO>}

Mr. Felipe Leal. Good morning -- good afternoon.

Q - Felipe Leal {BIO 2015017 <GO>}

I would like to ask about the RFTE [ph] of the transmission. There was a discussion in regards to the Company (inaudible) of this value will impact the results of 2015 or you just have an impact in 2015?

A - Armando Casado de Araujo {BIO 16673880 <GO>}

The good news, Felipe, is that we have the recognition of Eletrosul. We've recognized BRL1.07 billion in (inaudible) recognized by the superintendency (inaudible) of 10.6. We actually got recognized BRL9 billion, it's very close to the reports that we submitted. Our expectation is the company [ph] along with the other agents. The publication of the Ministry of Energy of the ways of payment and the way that is going to be paid. I think that this is still going to happen within this month. I believe that it will impact in 2016. Our expectation is we have the elements to account for this now.

Q - Felipe Leal {BIO 2015017 <GO>}

Thank you.

Operator

(Operator Instructions) Fabiano Custodio, Itau Asset.

Q - Fabiano Custodio {BIO 19222185 <GO>}

Thank you for the call. My question is still with the issue of (inaudible) we have an accumulation [ph] of BRL4.1 billion and then you have the possibility of recognizing the result (inaudible). My question is -- I mean, there must be tax on top of this. And my second question. But the dividends of the Company in the past, last year, just to remind you. Eletrobras has a lot in this fiscal year. They basically had a reserve of profit they paid and in the last year, there was a loss. But there was no reserve and the Company didn't pay. So my question is, what should we wait for this year, maybe we will go back to the normal dividend policy of the Company. How do you see this? You have a recognition of the profit. But is it possible that the entrance [ph] to this cash flow, we don't know what the conditions are. So I just wanted to understand what is this issue of having the formality of having to pay dividends by having the cash getting in regarding the profit that you recognize?

A - Armando Casado de Araujo {BIO 16673880 <GO>}

Well first of all, a detail. We paid as we promised even when we didn't have the reserve of profit, we paid dividends even at a loss. We had a residual value, we used it for preferentials. As to the payment of dividends, the Company getting profits will pay for the dividends and the amount of consolidation [ph] is being discussed at (inaudible) and of course out of all the players, we've asked the inclusion of the (inaudible) to contemplate a liquid indemnization (inaudible) which is the one that is being recognized by ANEEL [ph].

Q - Fabiano Custodio {BIO 19222185 <GO>}

Then, how do you see this issue of the -- well, I recognize the results, I have to pay a dividend. But (inaudible) it is in 30 years (inaudible) comfortable as a company with this or do you see companies announcing dividends and they are retained as it was in the past.

A - Armando Casado de Araujo {BIO 16673880 <GO>}

As you now, in the past the dividends were retained. We don't have the intention of retaining this dividend. Our intention is that these dividends are receivable, very important for the Company. I think that we can pay dividends independently of this. So last question. If you have an account, you can contact (inaudible) given by the directors of ANEEL and if you don't recognize this in this fiscal year, with the accumulated loss of (inaudible) it is very difficult to generate profit. So it's where you're talking in the call, you exaggerated the profits, you paid dividend. So are we expecting the payment of dividend in the Ministry of Law and this doesn't generate profits. Is this correct? Yes. It is correct. (inaudible) is correct (inaudible).

Operator

(inaudible).

Q - Unidentified Participant

Just in regards to RBSE [ph], what is the deadline for (inaudible). We are trying to understand the time for the homologation of the values and also in the way of payment and (inaudible) of payments. First, a discussion in regards to deadline for payments. We had interactions that are constant and the Ministry in the ANEEL and there is this question with regards to this deadline. Should we use the remaining deadline for 30 years or do you use my spend of the assets. Do we have an update in that sense?

A - Armando Casado de Araujo {BIO 16673880 <GO>}

First of all, our expectation is that we have a report of everything until the end of the year. In the case of Eletronorte, there was a report presented, then a small review in the report and based on this review we started to count long-term, that is still within the fiscal year. So I hope that everything will be pushed in the end of the year (inaudible) if you're going to pay our fee and let's say that the asset has 30 years and you have 22 running, I have eight because it is depreciated and you would pay over this year, these eight [ph] years or would you pay for the remaining period of the construction? I think that this leveraging goes through the tariff issue and how can this get into the tariff, there is a consideration of the taxes over the amount of the indemnization and there is an analysis (inaudible) to the company. I will really like it to be for that this leveraging will be for the remaining time of the constructions, including all the taxes that we have. But it's exogenous (inaudible) if there was an update because I think that this is the issue that has been mostly discussed and as they're full-time working with this. And it has been given the relevance of decentralization [ph] for Eletrobras. When you consider the indemnization for the generation and transmission, we have to receive something around BRL26.4 billion, which is what is being pushed [ph] by us and this is by December 2012. So there is still a correction from 2012 to the effective recognition -- this is a discussion without considering the first installment that we are finishing of BRL14 billion up until the end of this year. So the concession is 27 years. The assets would give you eight years of leverage, yes, what remains for the Company (inaudible) an example on average if you have eight years, this is very average.

Q - Unidentified Participant

Yes. That's it. Thanks, Armando.

Operator

(Operator Instructions) (inaudible), Santander.

Q - Unidentified Participant

Good afternoon, Armando. Thank you for the teleconference. My question is regarding GSF. I wanted to know what is the GSF accumulated for 2015, nine months. And if you can solve the discussion of MK [ph] until the end of the year?

A - Armando Casado de Araujo {BIO 16673880 <GO>}

BRL2.7 billion in the accumulated nine months of this year. We are working full-time to examine this issue. It's reported all the financial activity costs and if you can call us, I can

give you the information on the follow-up. What was the other question? (inaudible) involved in the discussions with the ministry, ANEEL, with the discussion of DSF and MK. We are through our regulatory directors. We are discussing full-time this.

Q - Unidentified Participant

Thank you, ladies and gentlemen [ph].

Operator

(Operator Instructions) Bruno Bretas, 3G Radar.

Q - Bruno Bretas {BIO 19502436 <GO>}

Armando, in regards [ph] to the previous question, do you have a number of the impact of this BRL2.7 billion of the subsidiaries, what is the impact of GSF? What would be this amount at (inaudible)?

A - Armando Casado de Araujo {BIO 16673880 <GO>}

It is around BRL500 million and a proportion of our capital.

Operator

So now, we close the Q&A session. We return the word to the speaker, Mr. Armando, for the final considerations. Mr. Armando.

A - Armando Casado de Araujo {BIO 16673880 <GO>}

I wanted to thank everyone and thank the questions. We are at your disposal should you have any questions and we can clarify them permanently through the teleconference. We also have some issues, the indemnization that was asked about, the issue of the renewal of distributors is we are doing the process for the analysis and (inaudible) assembly the renewal. We are doing a renewal associated to selling sometimes of (inaudible) strongly to work with all these issues at the Company, working well in the next period. Thank you very much.

Operator

We close now the teleconference (inaudible).

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