

## Q3 2014 Earnings Call

### Company Participants

- Armando Casado Araujo, head of IR

### Other Participants

- Carolina Coronado, Analyst
- Philip Lowe, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

We remind you that this presentation is at a PowerPoint presentation at the website of investor relations of Eletrobras. So here we're going to talk about some clarifications about the perspectives of businesses of the Company financial methods.

These are beliefs and updated informations from the board of directors of Eletrobras is what we're going to present. They are not insurance of performance, because we have risks and uncertainties. And we cannot foresee them.

Investors should understand that general economical conditions and other economical factors might influence as well. Now, I would like to give the word to Mr. Armando Casado de Araujo, financial director and head of investor relations of Eletrobras. Mr. Armando.

#### Armando Casado Araujo {BIO 16673880 <GO>}

Okay. Good afternoon, ladies and gentlemen. First of all, I would like to thank you for your participation in this teleconference. Regarding the result of Eletrobras at the third trimester quarter of 2014, the final value was influenced by some variables that all the entire market already knows. And that already were in the estimate of your gentlemen. And some other exogenous[ph] character, which I would like to do a small presentation. And thereafter I am free to answer any of the questions that you gentlemen might have, any questions or concerns.

Starting by the slide number 3, Eletrobras presented in the results accumulated in the nine months of 2014 net loss of BRL1.857 million in comparison to the net loss for the same period of 2013, which was BRL787 million. This is due to the result of the EBITDA accumulated the first nine months, which presented an amount of BRL359 million negative against the amount of BRL383 million registered in the same period for the last year, 2013, as is demonstrated on slide number 4.

Now, on the Third Quarter of 2014, Eletrobras presented a net loss of BRL2.738 million in comparison to the net loss of BRL105 million registered in the Second Quarter of 2014. And a net loss of BRL915[ph] million that was for the Third Quarter of 2013.

The loss of BRL2.7 billion registered in the Third Quarter was strongly influenced by variables, some of these variables which are listed on slide number 5, which I would like to make a few comments.

Well the first is regarding the purchase electrical energy for resale, which represented an amount of BRL3.135 million, as while the Second Quarter of 2014 was BRL2 billion. So BRL1.125 billion above the previous quarter, due to the hydroelectrical conditions of the period as another dry[ph].

In the Third Quarter of 2014, we had the provisions regarding the compulsory loan of BRL1.3 million -- billion, especially regards to correction of difference of the monetary correction of the economical plans, which we had in the period of validity of the compulsory loan.

We recorded in the Third Quarter of 2014 an impairment of BRL382 million, regarding the entry depreciations[ph] of the transaction lines with our controlled chefs[ph], which presented a delay in their execution schedule.

And depreciation[ph] for losses in the financial analysis[ph] of BRL197 million regarding the investments done in the generation and transmission of energy, which the concessions were renewed by law 12.783. And which will be reimbursed to the Company.

However, since NEL[ph] hasn't regulated the reimbursement, Eletrobras in a conservative way registers the provision of the values, which, at the closing of the Third Quarter, represented an amount of BRL1.2 billion as you can see on slide number 6.

The negative result of these shares in the amount of BRL790 million, do special ature[ph] the result of the SB moderno electrica[ph], which has 39% of the social capital. And of which I would like to give some clarifications.

Well in regards to this year[ph], we did -- deconcertion[ph] was compromised along with their -- they wanted to anticipate their works[ph]. And there was a large anticipation due to the plan of the building consortium and they could get that anticipation.

Since they anticipated we are in a process of now continuity, the partners resulted an asset, along with a consortium, the asset is in regards to the price of the energy in the short-term market. And the anticipation period of -- and this resulted in the asset of BRL1.4 billion.

There is a discussion in the consortium. And the value should be registered by the market, or the price that is done by the Sofiato parts[ph]. Regarding this question we have a low of BRL280 million in our balance depreciation[ph] of forn of[ph] 39%. And another part of

this is that the board of directors wants to maintain the integrity of this works[ph], even if we did the partial provision.

So the most part of the BRL400 million is the correction regarding the extension that was due to the exposition of the purchase while we were excell[ph] purchasing energy in the market.

And this is why we had this liability. This is an issue that was to be done, most of it discussed at the end of the fiscal year. But we are really paying attention to this issue.

Besides that, given this loss, which was really influenced by this succession of factors, I would like to show some of the variables that influenced in a positive way the results of the trimester.

So we can increase our net revenues, we had our PB&G[ph] our director of client[ph], one of the issue is the operational issue. We had an increase in the net revenues of 35% in regards to the same period of 2013. And in the distribution, the net revenue of supply has an increase of 19% in regards to the 2013.

The role, the net operational revenue, which is BRL6.5 billion, as it's presented in slide number 7, has presented in the Third Quarter of 2014, a reduction of 4% in regards to the Second Quarter of 2014, when we registered the amount of BRL6.8 billion.

However, if we do not consider the revenue from the energy that we -- from the sale of the energy in the short-term markets, CCE[ph]. And the revenue from construction, we can see a role[ph] of liquids[ph] -- net operational revenue that would have a growth of 6.6%, growing from BRL5.2 billion in the Second Quarter of 2014, to BRL5.6 billion in the Third Quarter of 2014.

We are still reverting the values registered in the professions of the liability contracts. And in the Third Quarter of 2014, we had a reversion of BRL480 million, as was displayed in the slide number 8, we decreased in BRL1 billion.

The other point was the net revenue for the exchange variation, which presented a positive number of BRL349 million, which was regarding the typo[ph] issue. Well another point is that we have a program of incentives for people that want to leave the Company. And we did this in all the companies of Eletrobras, except Eletronuclear, which has a reduction in the personnel of 5.7%.

I think the segments of business of Eletrobras our companies in the energy transmission presented in the first nine months of 2014 a net revenue of BRL308[ph] million, against the BRL277 million for the same period of 2013.

We felt in[ph] an EBITDA of BRL1.9 million against an EBITDA of BRL1.6 billion registered for the same period for 2013, as you can see in slide number 9, the same way as it's demonstrated in slide number 10.

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Our companies of energy distribution have presented in the first nine months of 2014 a loss of BRL1.2 billion against BRL942 million for the same period of 2013, resulting in EBITDA of BRL23[ph] million against an EBITDA of BRL224 million registered for the same period, negative, of 4 2013, which is evident of the characteristics of the financial expenses that influenced the results of the distributors of the first nine months of 2014.

On slide 11, we present the opening of the consolidated asset of Eletrobras, of the order of BRL149 billion, with a highlight to our operational assets which represent 54% of DeSoto[ph].

The same way our liabilities is predominately represented by the net assets for the participation of 39%, followed by financials to be paid, 24%, including the liabilities of Eletrobras, along with RGR, for which we registered an asset of the same amount in that I will demonstrate in the following slides, with a demonstration of slide number 12, of our consolidated net debt.

As you can see, we have BRL36.9 billion of the -- BRL37 billion for the total. If we see the expenses is BRL29 billion, BRL8 billion of -- well, we have the financial, the tidepool[ph] in RGR of BRL11 billion. And the net debt with RGR of BRL9.1 billion.

On slide 13, we present the variables that controls the debt of the controller, Eletrobras, in this case we have a loss of BRL10 billion. And on slide 14, we can see that we still have to receive a pay. So these are the sources. And we can show in reals.

And the other item, which is the financial result of the controller, slide 15, where you can see the main accounts that compose our result, the results improved in the participation, the spaceory tidepool[ph] dropped, the assets that had the update of GSM, it jumped to 4.6. We have -- this is showed by the compulsory loan.

When we compared these first nine months of 2013 and '14, we have a net loss of BRL1.8 billion. We have a social capital of BRL8.6 billion, 23 -- so our free flow of the ordinary stuff is 23%. And 6% is represented by the resident[ph] shareholders. And 23% are not related to -- are related to the non-resident shareholders. When we see the total capital, we have 34% which is our free flow.

Before we end this presentation, I would like to comment on some of the two complementary informations. On September 26th of 2014, the AGE and the shareholders of Eletrobras approved the position of the action of the shareholder control of solded[ph] distribution.

This is consolidated in the financial report of Eletrobras, with the exception of the demonstration of the results of the fiscal year, which will end in September 30th, 2014. But for accountable effects, the effective date of the combination of the big business point sides[ph] with a date of Third Quarter of 2014.

So we had an adjustment of the consolidation, we will just have four days to end[ph] the quarter. So we can include all these numbers for the best[ph] presentation of the financial information that the Company preceded and their collectivization[ph] of their demonstration and the results of the period of 2013 presenting the direct costs in this specific field, the demonstration of the result, would present therefore the net revenue. And now, I am free to answer your questions.

## Questions And Answers

### Q - Philip Lowe {BIO 1893259 <GO>}

Good afternoon, this is Philip Lowe, Bank of America Merrill Lynch. Two questions. You were talking about the impact, very negative, of high philology[ph] in the results of the Third Quarter. How do you see the Fourth Quarter with the allocation of energies if we still have a negative -- do you still see a negative impact in the Fourth Quarter?

And the second question, you mentioned the issue of the financial assets for the investments. And -- done in the renewed concessions of the assets which is BRL1.2 billion. I imagine that this is 2013-2014. What is the expectation of that length? When will this be defined as a sector of the government to be considered in the tariffs for this provision?

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

Well thank you for your question. As the asset of BRL1.2 billion, we maintain this registration. It's BRL200 million. Some of the things that are from the problems of generation of energy.

Independently of waiting for the regulations, we already[ph] included the certification for now[ph]. I think that along with the definitives regulation, we will have a position to specify.

But the important cylically[ph] is the following. This analysis will represent something interesting for the concession. Eletrobras has been working for over 30 years. We already renewed 14 concessions. And these reinvestments, we will do these reinvestments for another 30 years.

And this is regulated. And it's part of the normal cash flow of the account. We might not have defined what comes in as revenue. But it's important that we have the adequate revenues.

I believe that the next period will change, we will not have this negative scenario. We still have the reservoirs, they are not recuperating. But there is an expectation that they will last.

I'm still waiting for the numbers for the commercialization chamber, or of the impacts of each of our companies in regards to the hyperelectro[ph] conditions.

### Operator

(Operator Instructions) Next question comes from Mr. Miguel, from Morgan Stanley. Mr. Miguel.

### Q - Unidentified Participant

Good afternoon. I wanted to confirm the issue of the reservoir of profits. Within these reservoirs of BRL24 billion, I understand that only the statutory can be paid from the dividends. So BRL2.1 billion. From then on, we have to deduct the accumulated periods, BRL1.8 billion, before we see the availability of the money for the distribution.

So Eletrobras today will have the possibility of distributing less than BRL300 million in dividends. So we can expect a positive revenue in the Fourth Quarter in the distribution of dividends?

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

I'm going to give a more complete answer to get to the conclusion that you want. What is the reservoir of profit? It has statutory and legal reserves. Statutory reserves, you have the net losses. And all the other assets.

I cannot use those to distribute dividends, just from the losses. The capital reservoir reserve I cannot use it. I can only use it to pay the losses. So what is the order to -- how can I pay the dividends?

First I think that I have to leave the statutory reserves. And in the first order, I have to feed[ph] the losses of the statutory reserve. Today I have a legal reserve of capital, also to pay the losses.

So I have to pay the losses of the statutory reserve first, to there, after I can do the distribution of revenues. This is very clear. If we have BRL2 billion. And we invest BRL1.9 billion, we will have BRL100 million left of statutory reserve.

I could submit the payment of that payment individually. I cannot do another thing, if not use that statutory reserve to the payment of dividends.

### Q - Unidentified Participant

Okay, clear.

### Operator

Next question comes from Mr. Roberto Dimora[ph], shareholder.

### Q - Unidentified Participant

Dr. Armando, well talking about minor shareholder. And what's happening in the electrical sector D, measures that were taken by the government at the end of 2012, practically they broke Eletrobras.

Eletrobras has a billionaire loss. And I ask you the following. What can we do, what can we expect -- the shareholders, what can they expect, the minor shareholders, that were -- that did a lot[ph] by this set of measures that really what you verified that the direction of the Company cannot reverse those losses, those billionaire losses.

So my question is a question of from a minor shareholder issue. And as I believe most of the minor shareholders, I believe, what can we expect from the future?

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

Roberto, what happened when we renewed the concessions? A lot of assets, 40 million gigawatts[ph] of generation. We have 58,000 tradition lights[ph], 14,000 expired.

So we had a loss of BRL8.7 billion, which was a reduction in what we used to do. But as a company, due to the amount and the size of our Company, everything is in an excellent state of conservation.

But we will renew the concession. From the renewal of the concession, there is an adjustment work that has to be done within the Company, in regards to the reduction of costs. And increase of revenues.

To get the increase of revenues, we need more renewed the concession for BRL5 billion, another one for BRL14 billion. We had 5,000 employees that chose to leave.

We are working to the issue of the distributors, which is the fundamental issue. And I think that the distribution companies -- we already hired an adviser. And have a big impact in the results of the Company. And these are adjustments that are necessary.

There is that upside which is interesting, which is the resales that we do that were just renewed. And BRL1.2 billion that we have this volume of investments, we have all the investments regulated.

And those concessions will turn into tariffs, they became quotas. And so they're going to receive a tariff. And this will pay for this investment that we hope to maintain, not just in BRL1.2 billion investment. But everything that we will invest from now on.

At the moment of the renewal of the concession, it was done in 2015, what would have happened with us. We will have to renew the concession. And maintain all the structure of costs that we have, because the structure of costs is in the CMTJ[ph] of the Company.

All of this concession -- and if we didn't have the conditions to renew the concession. And when this did, this concession, the Company wouldn't have the solvency. And we wouldn't be standing.

We have BRL8.2 billion to receive, two of our companies already delivered the number to anel[ph], the number for anel[ph] for Eletrosul[ph], which is BRL540 million. We are

actually asking for BRL1.1[ph] billion. And Eletronorte[ph] it has within that number 1. Times[ph]. So we - structure[ph] is BRL3.47 billion.

We are being conservative in our balance. Well we hired a specialized company, every single part of the companies that are part of Eletrobras are doing this. And we count effectively with the revenues still to receive to maintain our capacity of investment that we are still maintaining.

And this is part of the effort[ph] of energy generation. Within this context, we have our business plan for 2014. When we did the balance of 2013, we did a follow-up to do the complete restructuring of the Company, worrying about these issues.

The other thing that is important, is the issue that is big profit[ph] for five years, this energy showed that the flow of five years is better than selling this energy on the short-term market.

When we did this, we considered the logic of the current PLD[ph]. And as we see, some will be wary of the changes of the vendors[ph] of PLD, of a minimum of 38 and a maximum, I think that here it's larger.

So Roberto, Eletrobras does not have a policy of not paying dividends. We had two years of consecutive losses. We had losses of BRL6 billion. And we even because of that, we did not stop paying the dividends.

But the same policies that we maintain, we are paying the dividend of the preferentials of the base of BRL31 billion, 20% which is BRL6 billion, BRL6 billion as we work with the rates of -- and not in the same base.

We paid another BRL425[ph] million as well. This year we have a probability of not paying the dividends, we have this very strong issue. But this will be a very punctual thing. And we're doing all these adjustments.

So I believe that even with the bad conditions that we had, we didn't stop paying the shareholders, the policy of paying the dividend is a priority. This is a transitional moment. But I believe that with everything that we are doing, the Company will turn around. And we will start paying the dividends as well. Thank you.

## Operator

Next question comes from Ms. Carolina Coronado from Santander.

## Q - Carolina Coronado

Good afternoon. Two questions. First one, in regards to the energy balance for 2015, there are a lot of companies from the sector, specialists that believe that GFS[ph] or the



(inaudible) production will still be elevated, which even with a lower spot which should cause some pressure for most of the companies.

I would like to know if you have an estimate of energy, or the possibility of having energy in the free balance of yours, to work with SGFS[ph], or considering all the bids that you're participating. And trinufecting[ph], maybe this balance is not so significant.

And the second question is in regards to the SPN[ph] data, we know that a consortium where full enough[ph] participation that is relevant, along with now, you're asking the calculation of the penalty.

Do you have an expectation of when and now should take a look at the request of the consortium, given that at the end of the year, we will have a position of anel[ph] in regards to deuce[ph]?

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

Well as to GSR, as I told you, most of the energy has residual values. But that do not compensate the exposition. We will continue and the energy that's available is small in regards to the condition.

As to SPN data, we did the issues with anel[ph]. But as specialist[ph]. We are taking strong decisions to monitor this issue in this Fourth Quarter. But I can't give you a deadline, because this is a process.

But this is a very important issue for us. And I hope that I will have a position at the end of the year, which is very important for us, even due to the issue that we will be facing in 2015.

### **Q - Carolina Coronado**

Okay, thank you.

### **Operator**

So we close the Q&A. We return the words to Mr. Armando Casado Araujo for the closing remarks. Mr. Armando.

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

I would like to thank the questions of Miguel, of Roberto. And Carolina, especially Roberto, that did a brief summary of a situation that is important, that we pay attention in the sense that given the possibility of reverting this result. And compensate this reduction that I tell you.

We can recuperate with the investments in the renewable sources. And this is something that we will do. And this is very relevant for the total capital of the Company.

So finishing, I would like to thank you all. And I would like to tell you that me and the investor relations area, I am at your full disposition, should you have any questions or concerns. Thank you, very much.

## Operator

We are now closing the teleconference of Eletrobras. We thank you for your participation. And have a good afternoon.

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