

## Q4 2014 Earnings Call

### Company Participants

- Armando Casado de Araujo, CFO & IR Officer

### Other Participants

- Bruno Bretas, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Ladies and gentlemen. Good afternoon. Thank you for waiting. Welcome to the teleconference of Eletrobras to talk about the financial statements of the Fourth Quarter of 2014. We inform that all the participants will only listen to the teleconference during the presentation and we will start with the Q&A when you will be given further instructions. This presentation is available in a PowerPoint at the Investor Relations website of Eletrobras. Before we continue, we would like to clarify that whatever statement is given during this teleconference regarding to the perspectives of business of the Company projections, operational goals. And financial goals are beliefs of the Directorship of Eletrobras as well as information that is available to the Company right now. These are not guarantees of performance because they involve risks and maybe losses and of circumstances that may take place or not. The investors must comprehend that general economic conditions and other operational factors can influence in the results of the future.

Now, I would like to give the word to Mr. Armando Casado de Arangujo, Financial Director and Investor Relations of Eletrobras. Mr. Armando, please continue.

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

Good afternoon, ladies and gentlemen. I would like to thank first of all for your participation to be here. The financial demonstration of the results of 2014 were launched on last Friday, March 27, 2015. And as usual we do in the call each quarter, we will describe the main factors that influence the results as well as the Fourth Quarter of the year 2014 and then I will be available for the Q&A session. In 2014 we've observed a challenging scenario for the electric network, especially for Eletrobras because it is the biggest company that generates and transmits energy throughout Brazil. As it is of your knowledge, the (inaudible) of rains and the consequent evolution of the market in generation and distribution of energy had a preponderant result in the results that we just launched last Friday.

FINAL

And some situations where typical situations really influenced in a determinant way our result as you can see on slide number 1. I can show you on slide number 1 Eletrobras recorded in the results for 2014 a net loss of BRL3 billion, which is 51% less than the loss that was registered in 2013, which was BRL6 billion. In the Fourth Quarter of 2014, Eletrobras also had a loss which was BRL1.174 billion, 57% less than the net loss of BRL2.7 billion that was in the Third Quarter of 2014 and 70% less than the net loss of BRL5.4 billion in the Fourth Quarter of 2013. Still in 2014 and still reflecting the new taxes and the new rates and the transaction of the assets which some concessions were renewed under the terms of the law 12.783/2013. We had other variables that are very interesting in slide number 2, positive variables. The supply of energy BRL12 billion, reversion of contracts that were losses BRL1.8 billion.

On slide number 3, we can see that this was a compromise to there was a renewal of the constructions where we had contracts that were giving losses and we had a plan to reduce these onerous contracts. And on this slide, we can see here the consolidated that in 2012 we had BRL5.1 billion of onerous contracts consolidated balance sheet in 2012 and now in 2014 we have BRL1.1 billion, a reduction of BRL4 billion where we still seek the reduction of the onerous contracts until we remove all onerous contracts. We had a constitution of tributary credit just as the rule says as an objective question that you have to show fiscal revenue for at least three exercises and you have to have the projection of future results that gives the possibility of when this happens, you can use the net revenue of the accumulated losses and you can use this as a right in the demonstration of results and this is what happened in (inaudible).

With the same rubric in a negative way along with the loss of credit tributes would suggest. But these questions are not contributed toward this benefit. But subjectively we are working strongly to produce future results as to reuse this fiscal credit in necessarily the companies of (inaudible), they can already use the credit. But when we have three consecutive periods of revenue, you can have the total reversion of these credits. Going back to the positive side, we had the reversion of the provision for the loss of the financial assets, this is BRL792 million. On slide number 4, you can see a highlight with the investment realized under the assets renewed under the law and ANEEL Resolution 643 and you will recognize this investment in the tariff. And therefore on slide number 4, we have reversed BRL792 million in 2013 and we have had an extra BRL407 million in the first nine months of 2014.

But in 2014 we ended, what we recognized is that we have a financial asset that is recognized amount of BRL1.2 billion regarding concessions that are renewed and we should highlight that these are relevant investments more than 50,000 kilometers of transmission lines and almost (14,000) of generation that requires the investment of BRL1 billion and we always have to have the recognition for the reconstitution of the effort. We also had on the positive side of the distributor, the CVA of the distributors. Before we had a part in the demonstrations and now had so much that the statutory balance with the recognition of the CVA condition for the revision of value is BRL740 million of revenue that is recognized for CVA and we can see in slide number 7, BRL740 million.

We also had the reversion of a provision for the loss on investment and this was a reversion of investments in (inaudible), which are being reversed due to the acquisition by

(inaudible) and negatively we have a supply of energy purchased for resale of BRL10.425 billion, provision for contingencies BRL3.6 billion, we have basically a provision for the compulsory loans basically this is compulsory loans, loss of tributary credit BRL2.2 billion already explained when I went through the (inaudible) and we had the program of incentives due to (inaudible) of BRL380 million. The operational consolidated results of Eletrobras as presented in slide number 5 indicates an increment of 26% in the operational revenue in 2014 in regards to the previous year with the highlight due to segments of generation and transmission of energy had a growth of 28% and 29% respectively.

On slide number 6, we present the evolution of the operational provisions that register a reduction of 42% going from BRL3.2 billion to BRL1.8 billion in 2014 with the highlight in 2014 it was a provision of contingency of BRL3.6 billion compulsory loan as I just said. That represented 151% over the provisionary value of 2013. Mainly as I said, these were adjustments we performed on the provision of the processes relating to the compulsory loan. Another highlight that was already mentioned is the registration with the compensation of the variation of value that's slide number 7. And as you know, the program we had in 2014 a reduction in the bill and personnel of 17% as you can see on slide number 8, practically 1.1% of reduction. And here we also can highlight that we are excluding the CELG D extensions that affected only the year of 2014 and we cannot compare it to 2013.

Slide number 9, we presented the consolidated EBITDA of Eletrobras. Considering the combination of all those factors previously mentioned, atypical effect and the recurrent variables of our separation activities resulted in EBITDA today of BRL180 million negative even though it is 95% superior to the EBITDA of the same period for 2013, which was BRL3.6 million. If we consider both exercises for the calculation of EBITDA, that is adjusted some variables such as the previously mentioned onerous contracts impairment, provision of contingency, provision of the loss of the financial assets; we verified an EBITDA that is adjusted to BRL1.463 million in 2014 and 1,784% superior to the value of BRL78 million verified in 2013. In the same way, some of the highlights in EBITDA was our generators and transmissioners and the distribution, an increase of 4,198% in regards to the value verified in 2013.

Of this total of BRL3.6 billion, the companies that generate and transmit the energy had an EBITDA of BRL1.9 billion representing an increase of 32% in regards to the value of BRL1.4 billion that was measured in 2013. Whereas the distributors registered in 2014 an EBITDA of BRL1.8 million, 219% superior to the total EBITDA registered in 2013 in the amount of BRL1.5 billion. Well to close this brief presentation and we can do the Q&A session. This year due to the economic and financial scenario that is very adverse, certainly we are not proposing the payment of dividends to shareholders. We don't have a slide. But the payment of dividend as you know, we had a policy of dividends would pay dividends for preferential customers in their shareholder base for the basis of the social capital of BRL31 billion that is 21% of the preferential would give you BRL6 billion.

Since you have the minimum dividend, we would calculate this \$6 billion that is 6%, that will give you BRL300 million the calculation of the dividend, we had here a total value of BRL424 million. And since the ordinary shares are more than the preferential, we would

FINAL

pay nothing regards to the shareholder base. But on the same amount that we will pay the preferential stock, we would pay the nominal shares. So we would have BRL816 million total. We paid all of this even if we had losses in the previous years in 2012 and 2013 because we have a compromise of even if we had losses, we would use the legal reserves we have. The reservation of capital and statutory since we had the statutory. Even if we had losses, we would use that reserve to make the payment of these two loss years. In the previous years there was up a profit and we removed that policy of payment of the dividend. Just reinforcing in the requisition of profits, it's the statutory and legal reserves.

And if we are using the revenue on the statutory reserve even though if we had losses in BRL6 billion, we are still using it. And we had a reserve of BRL2 billion as I mentioned in the Third Quarter that made that very clear that if we didn't have the reservation that is statutory to pay that we couldn't pay the dividends, ones that I cannot use not the legal reserve or the capital reserves to distribute the dividend. Our rule did not allow and this is not predicted in the contract. Due to the fact that the minimum value of the 6%, minimum % would be (444) multiplied, we would have (inaudible) value of BRL26 million almost 5% of the minimum value today. This value was considered in the requisition and we didn't have a proposal for the payment of this because this was very residual, the BRL26 million. And with all the adjustments in the future, I can report in the Q&A of which we are making work to improve prove the future results and with that, we can continue our policy of dividends.

After all these clarifications, I think the most important part is the Q&A, of which I'm at your full disposal to answer.

And and prior to that and

## Questions And Answers

### Operator

Thank you. We will start now the Q&A session. (Operator Instructions) (inaudible).

### Q - Unidentified Participant

I would like to explore the provision for contingencies and the compulsory loans ratio. I couldn't understand during your explanation, how did you have the formation of these revenues once the value that is placed as compulsory loan, which was significantly less than the previous one?

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

The compulsory loan we have here, the first constitution of the compulsory loan that would give us in the past, it was a loan that came in the budget of the energy that should be positively returned. In regards to some economic plan due to some of them, we had the accounting at the start of the financial correction and the people that held these titles and they wanted the return of these loans. Due to this, we had a great part of the

compulsory loan provision and one of it was the discussion of the credit of the compulsory loan that was what was the final part that we had to recognize.

This part was recognized now in the order of BRL1 billion due to the fact that we had classified this index, this was judged not relevant with the effect of cash and because of this, we decided to do the provision of all the credit of the compulsory loan. This was a typical contingency that we are working very strongly in all centers to mitigate this. In some action that are already adjudged, we have the decision of the judge which is a solidary decision in regards to the compulsory loan and that we are discussing this with our bigger shareholders. I don't know if I could really clarify what you wanted. But this is what happened and unfortunately we had to do this for additional provision for the last quarter.

### Q - Unidentified Participant

I would like to talk about the dividends. What is the (reserve) that you can use for the distribution of dividends?

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

Just a minute, I'm getting the reference here. Article 193 second paragraph, the legal reserve can ensure the instability of the social capital and can only be used to compensate for losses that will increase the capital. This is the second paragraph of the Article 193.

### Q - Unidentified Participant

We have a total accounting value in the balance of BRL9.494 billion and a loss of BRL1.93 billion, there was a difference of (BRL5.5 billion). I'd like to know the provision that you have in regards to the appreciation in regards of these assets and if we can count with an eventual interpretation of dividends in the following months if there is a favorable decision by ANEEL in the sense?

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

Your question is good in the sense of recognizing the interpretations. What we have here our interpretations were given in two settings. The one was BRL14 billion and we have the (inaudible) of RBSE. In regards to transmission, we had accounted (NRG) BRL1.7 billion and we wanted BRL3.7 billion. The consultancy that was (inaudible) we had accounted in generation and transmission (1375). We have BRL10.4 billion to receive and BRL4.8 billion of generation and the rest in transmission. We are still going to submit this report. It is a lot of lines and complex to work and the region where they work is very detailed so it's a lot of work.

And let's also recognize that these were already communicated to the market, it's BRL1.071 billion, the accounted value is (514) so we want a value of the order of BRL1.061 billion, we now already recognize BRL585 million. We are getting with the research to fight for the difference and we are waiting. But the total amount that we want is BRL15 billion in the order of that. And this will have an effect in the balance that is significant in regards to the value that were accounted as I just said. But we don't have that policy of evaluating the

results through the period and make the payment on the dividends. So I can tell you that our disposition is to wait for the result of the yearly exercise so we can go back to continue practicing the policy of dividends that we've worked so far.

## Operator

(Operator Instructions) Bruno Bretas, 3G Radar.

### Q - Bruno Bretas {BIO 19502436 <GO>}

I would like you to explore a little bit more which is the solidary union in regards to the compulsory loan, what is our aid program in your balance? Thank you.

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

Well first of all, Bruno, when I talked about this, there is a compulsory loan that was already judged where the judge determined that the union is solidary wants to do the payment. We cannot have any effect in bonds whereas the action will not be completely done from the fact of the recognition. So in that sense we are strongly working for this. But we are still waiting the final decision. The way that we anticipate the federal government will play and so on so forth. Another question in regards to the relation for the recognition of the balance of any capital gain, we have to define the way that the value is going to be (handled).

Your questions is very important that I wasn't talking about the values when (inaudible) and now, they will be recognized in the result. We will recognize it in the result after the final definition of the value and the payment conditions by ANEEL. So regarding the first branch where we have the recognition of the (inaudible) regulated by the decree and that we would have to have a definition to do the registration. And also in the way of payment if it's cash or the total will control the (inaudible). But for us it's different, Bruno, because it's important for us that we have received an important part that is recognizable and part of the test we can work with other resources and have our indicators go up.

### Q - Bruno Bretas {BIO 19502436 <GO>}

Thank you very much.

## Operator

(Operator Instruction) We close from this moment the Q&A session. We should return the words of the speaker, Mr. Armando Casado de Araujo for the closing session. Mr. Armando?

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

I would like to thank and have the satisfaction of having entered here. For any other questions that you should have, I'm here at your full disposal. But I would also like to highlight that Eletrobras not only because we reduced the losses. But we had very effective actions. But there were big economical issues in 2014 such as (inaudible) did bid

FINAL

and the transmission lines of (inaudible). We have 800 kV of extra tension the compliance programs that we have an compliance program at the Eletrobras that met the requirements of the Brazilian laws which is 12.849, which is the American law FPCA of anti-corruption. We had this in operation of 1 megawatt of capacity installed and Eletrobras fully launched our first business in the international area with the expansion of the Uruguayan (inaudible) and complementary information that is significant the generation and transmission that totaled BRL9.4 billion, BRL995 million that are recognized.

The increase in the capacity of generation of (inaudible) with the acquisition of the concession of the hydroelectric of three (inaudible) with 880 megawatts of installed capacity with renewed concession of the Company that has been growing in the activities of generation and transmission BRL3.6 billion, acquisition of CELG-D with a participation of 50.9% of the ordinary shares of the directorship and regulation with effective results to release and coordinate the actions of Eletrobras companies and what is regarding the regulatory marks, regulatory field. And the recognition of the distributors of BRL140 million of the six distribution companies this year, four we had revenues, the other one that is Amazonas reduced is significantly its negative results on (inaudible) as well. I believe that was the highlights.

And with sales of the last quarter since we acquired (inaudible) in the last quarter and had a result that was positive mainly due to the CVA with a positive result of BRL165 million and I think that we are down the path that is very positive and we continue to wait for the filtration of the removal of the concession of the distributors so we can continue that work. Alternative businesses for distributors and I think that we have a lot to do and Eletrobras starts effectively its recovery with positive points for the Company in the future. With that, I would like to thank you all and once more I am at your full disposal at the center of the market should you have any questions that may arise. Thank you very much to all.

## Operator

We close from this moment on the teleconference call of Eletrobras. We thank you for participation and wish you have a good afternoon. Bye.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*