

Q1 2017 Earnings Call

Company Participants

- Wilson Ferreira Junior, President

Other Participants

- Miguel Rodrigues, Analyst

Presentation

Operator

Ladies and gentlemen. Good afternoon. And thank you for waiting. Please be welcomed to the teleconference of Eletrobras to talk about the budget of the First Quarter of 2017. All the participants will only listen to the presentation. Thereafter, we will start with a Q&A and you will receive further instructions. We remind you that this presentation is available via PowerPoint at the website of Investor Relations of Electrobras.

Before we continue, any detailing that might be done in this teleconference in regards to the perspective of business of the Company, they are premises [ph] of the Directorship of Electrobras and they are based on information that is available to the Company as of now. We have uncertainties and risks and therefore these might influence the result.

The investors must understand that general economic conditions and other operational factors might as well influence the results in the future. Now, I would like to give the word to Mr. Wilson Ferreira Junior, the President of Electrobras. Mr. Wilson? Good afternoon. Thank you. You may proceed.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Thank you, all, to all the investors, the analysts, I would like to thank you for your presence in our teleconference. I'm going to start talking about the budget of the First Quarter of 2017, which you received on page 3, where we have a set of the highlights in this First Quarter.

In the operational area we have Belo Monte, some machines that were added where we added over 100 megawatts of our installed capacity. The transmission line, another 115 km and this is due to the conclusion of delayed projects of Chesf and capital investments we got BRL34 million. In the operational issue, these are the three highlights.

Now the financial highlights, the growth of the operational -- net operational budget revenue is 32% higher than the previous quarter of -- pervious First Quarter of last year.

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This was important to, I think, the EBITDA; BRL4 billion, as you can see higher than the last quarter of last year -- First Quarter of last year.

And in the last presentation, we had to take a look at the results from the Company. And we got to BRL1.43 billion higher than last year. I highlight our net revenue, which you can see is a 136% higher than the one of the First Quarter of last year. And here are the three main effects that we observed on our results: CELG in February, determination; the payment of RBSE, BRL1,500 million; and the impact of loss effect to distributors of BRL1,086 million.

We have to remind you that the distributors, since we opened the bid for the private sector, we did not review the tariff. We have a new buyer. One has been odd in an extraordinary way. And we don't have the weightage for the regulatory EBITDA and we still have losses. But it is important that we did not have the extraordinary review of tariff and these are elements in our data room; the recognition of the incremental base over the last years. And the basis of the EBITDA, on which we base our evaluation.

In company terms, we will talk more about this in the future. In the beginning of May, we did the transfers of the sectorial funds, which you can see there, to Chamber of Commercialization of Electric Energy. The focus of the policy of Eletrobras will be followed by the privatization of the sectors. And we have -- while it's said in the press, the ANEEL has investigated Amazonas Energia and Eletrobras and Amazonas Distribution did delivery, within the 15-days established by ANEEL, the agency that regulates the market. The result was a bit contradictory. But we are awaiting a final decision.

Page 4, we have a summary of these results in the reported value and the managerial value. We have a growth in revenue of 33% in reported. As you can see, if you exclude the building and CELG D and RBSE, we would had BRL6,780 million [ph], a growth of 7%.

Second line, PMSO, the reporter value is a growth of 3%. It is positive considering the inflation in the period. And now, if we look at the marginal module, which excludes expenditure for the [ph] investigation and operational cost, we would have a drop of 0.5% in the expenses.

Other cost and operational expenses, purchasing of fuel, value reported 32%. We only increased 1%. We also have the results of the societary participation. This is due to the selling of CELG D. You can see what was reported. But in the managerial module, if you exclude the effect, we will have a good performance, a BRL180 million to over BRL300 million, a growth of 65%. This makes the EBITDA, which is reported, will have a regression to BRL4.4 billion. And in the managerial module, we will have 77%.

A little bit about the financial result; stable result, managerial. And in the taxes, due to the higher EBITDA in the reported and the managerial module in such a way we can see that the data that we have reported today is a reduction of the losses -- net liabilities, which is higher than last year; we have a revenue which is higher than last year; we have smaller losses due to the revision in the Company. We have a diminishing and over 50% of the net losses in regards to First Quarter of last year.

Page five gives you the summary per segment. As we said, we have the results being reported in the First Quarter of 2016 and below is the First Quarter of 2017; generation, transmission and distribution of energy.

Highlights in generation; growth 14%. As you can see, these are the concessions for exploration; a growth of 18%; EBITDA 463%; net revenue of 156%, a reduction in regards to last year prices. The net revenue is same one as this year transmission. We have the operational revenue. As you can see, this is due to the regularization and this increased the EBITDA and the net revenue has grown 336%, 82% [ph] in revenues.

So when we are talking about the segment, they naturally is affected in a very important way due to the consolidation issues and distribution, the market that is slightly negative. In terms of sales, we have 1% of increase in the net recuperation due to the tariffs. But the EBITDA has dropped a 123% due to the almost -- complete lacking of regulatory EBITDA of the fixed assets. There was no territory we vision, we view and the values are lower than what we have found out in our evaluations. And net losses, net liabilities in regards to the previous revenues is a loss of BRL1 billion.

Now page 6, we can see the increase of the gross revenue, it comes from BRL8.34 billion to over BRL10 billion in this year. And we have here recognized the growth, BRL54 million, 11% more the revenues of the generation. Once again, we are -- this is the exploration regimen. And the growth with renewable sources is 18%, as you can see. Same thing, transmission, we have a growth of 200%. But we highlight that BRL1.553 billion is exactly RBSE, we have the maintenance of the revenues therefore.

BRL127 billion in the exploration regime, this was due to direct interference distribution, a growth as well. Revenues in building, we have a negative value. We have a reduction in the investments, in the volume of investments; you can see BRL190 million drop.

We can now see Page 7, EBITDA of the First Quarter. Here, we are telling the story of negative BRL2 billion of the last EBITDA to a positive EBITDA of over BRL4 billion. The net operational revenue has an important value, grows 32%. The effects of these proprietary [ph] participations grows, we can see and reminding you that we have important effects on the payment of RBSE so on and so forth; purchased energy growth of 20%; and the use of the system itself; and here we have a reduction of 98% of the fuel for production; and personnel growth of 13%; material, drop of 8%; services, an increase of 14%; and in paybacks, drop of 7%.

Other expenses; we have a growth of BRL9 billion -- over BRL9 billion. That was a drop of 76% in regards to this value in such a way to address the growth of our revenues and highlighting that mainly, the selling of CELG and the expiration of payment of RBSE, we have the result.

On page 8, we have here some evidence of the management of personnel materials and services. Personnel we grew 13%, as was mentioned in reported values. Nonetheless, we have agreements with Eletronorte, the consolidation of one month of CELG in the First Quarter of 2017. Adjust the effect of CELG, we would have 10.5%. If we move the effects

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of the law agreements, we will have a value, inferior to that, close to the inflation, which was the readjustment for our personnel materials.

We have a diminishing in expenses due to the reduction of materials in the South, drop of 8%; services, increase of 14%; also with the reduction of the investigation services. Here it is important to say that the services, we also had a consolidation of one month of CELG in the First Quarter, BRL40 billion. If we remove this effect, BRL40 million, I'm sorry, we have a growth of 5.6%, therefore below the inflation of the period.

And finally, in the other expenses, reduction and contributions and donations and we have the losses -- due to the losses in Amazonas Energia, I understand that in effect we have a growth reported of 3% and if we eliminate some non-recurring effects, we'll have a drop of 0.5%. So I believe this is a positive sign in regards to the effective control of operational expenses of the Electrobras Group.

Page 9, we have the provisions, operational provisions. And we highlight the contingencies; much more than the last year, the First Quarter of last year, we have a provision for a compulsory loan of over BRL2 billion. This makes that number very high and this year we had a reversion of -- there you can see. So a drop in 2017. But deactivation by the end of 2016 was much higher. We did, we have Angra and transmission of Chesf; two elements that you can see the values and in the contracts BRL220 million. So you can see here. We can see of the total reduction of the additional provisions of BRL3 billion in regards to last year; we have a drop of 88%.

Page 10, just a clarification in regards to CLEG D, the revenues of the shares is a BRL1,065 million. We also had the sale of the shares for the employees, the total revenue was BRL1,148 million. And here the reduction of the liabilities found up until 2017, you can see the number and the realization of the other results BRL16,3 million. So the net result of this operation is over \$1 billion, taking into account the taxes. The net revenue therefore of the elimination post taxes is BRL1,087 million. Here, it is very important the result, not only of the transaction. But the results of these proprietary participations, reminding you that if we excluded that effect we would go from BRL182 million in the First Quarter to BRL300 million in the results of the First Quarter of this year. This gives a demonstration of the process of operational -- regaining of operations of the electrical system here in Brazil.

When we go to the financial results, page 11, we are talking about comparing the revenues -- financial revenues, the reduction of 53.9% [ph] and the net result is stable, 345 [ph] First Quarter last year 338 [ph] First Quarter this year. Therefore, we have being impacted by the liability exchange rate and the compulsory loans. This is the main grade that we had here that is appearing here to -- about which you can read.

The other things are due to the exchange rates showing that we're controlling our expenses and we have a balance in our Company that we have a good domain over the result -- financial total results. This is the most important part.

Page 12, to show you the profile of the deadline of our gross liabilities, which you can see there, the value, it went to BRL4.5 billion -- it's going to grow to BRL4.5 billion next year.

The values post 2022 will get to BRL11 billion. The indexed debt, indexed on the local currency and we have the foreign currency, you can see here dollar. It's the main index. These are values of RGR, which are indexed according to the inflation.

I would say that, the most important thing is that, page 13, where we have the revision of the net liabilities of the Electrobras Group. We've experienced since the Second Quarter of last year, a reduction of deleveraging level of about eight months. Getting to this quarter, we observe here, if we compare to the end of last year, a slight reduction of the losses. But an increase of our managerial EBITDA, the retirement of our gross debt BRL45 billion financing to prepay BRL42 million. And available cash flow finances to be received RGR, the Itaipu will make the difference and that is BRL23,136 million. Therefore, we were in March of 2017 way the [ph] levels leveraging that is below to the one that we had, it really started grow in December of 2015.

Next, we only have a report of the ratios of PMSO managerial over the net managerial of revenue, variation of 38% to 35% in the First Quarter of this year. And an increase of EBITDA on the managerial which we can see the growth of the managerial EBITDA. And the margin of 13.2% to 20.8%. So the numbers demonstrate that. It seems that we are starting to get into a situation that is controllable.

In regard to the investments, we have on page 15, we were talking about the 100 extra megawatts of capacity that we got through 31% of transmission in Brazil; transmission, we have 46%; and consumers of our distributors, we have 83,000 new consumers. So we got to a set of six concessionary to 4,341,000 in 483 cities.

Now in this quarter, we got to BRL1,215 billion of investment over the First Quarter, which is basically 13% of our budget of 2017, which is BRL8,900 million. This is a realization that is slightly lower. But we believe that this is the First Quarter, we are deferring (inaudible) so on and so forth.

Now I will take the next two pages only to do a summary of the moment. In regards to our Director plan, our strategic plan for 2017-2021, I believe that the first thing that is important is to talk about the restructuring. We are overcoming our goals with a reduction of 33% in the managerial positions from 2,220 to 1,542. There is a reduction of 600, over 600. Our goal is 20% and we already reached 32%. Here we highlight the termination of over 15% of people that work as manager. And in the annual basis, with this additional set of reductions we should get to 133 [ph] of the annual basis.

We are on May 22; we are close to our retirement -- special retirement plan, where we will have the first important movement of cost reduction. We hope to have an important set of people that might adhere to this program and we continue with our work based in the shared services. The first installation is here in Rio de Janeiro and in the Second Quarter of this year, from August on, we will have the implementation already in Rio de Janeiro.

We've talked about the net losses with the adjusted EBITDA, we got to 5.7 [ph] and I wanted to finish our presentation with page 17. We did a filing of our 20F in 2016. In our filing, we had a reduction of the material losses from 6 to 4, reduction that was higher. It

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was significant in terms of percentage. And I think that we're effectively working on the causes, improving processes we have here at the final hiring of an independent auditor, we did a change in our structure and governance. So besides our internal auditing, which are connected to the managerial councils, we also have the -- all the auditing will be interconnected by the work of this independent private channel. We've just started to do with providers that are at a risky position or a critical position. We are mapping these service providers and we are starting to do the due diligence since May 2017 on.

We already created, according to the law, the internal permission that approves the people in the segments regarding -- that are explicit in the law. And we have here towards the end of last year, in April, the elections for the fiscal committees and so on. So forth and state responsibilities. So I wanted to observe the maintenance of Elena Landau. She is the President of the managerial control. And we had the entrance of new members. I wanted to highlight Joao Guimaraes Monforte, former President of the BGC, very important at this moment. He will make our governance more robust, as well as the compliance, the maintenance of (inaudible) and Carlos Eduardo. And Esteves from the Planning Ministry, substitution of Ana Paula by (inaudible) by Edvaldo Luis Risso and we have in our Fiscal Council, Aragao, Barreto, Vital Nunes Pereira, Patricia Valente and Ronaldo. We have two additions in the Fiscal Council.

Basically, this is it. This is what I wanted to share with you. It's been over a month. So it was natural that the results were quicker and I will remain at your service for any clarification. Thank you very much.

Questions And Answers

Operator

Well we will do now a Q&A session. (Operator Instructions) Miguel Rodrigues, Morgan Stanley.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Good afternoon, Wilson. Thank you for the call. I wanted to start by asking you what is your expectation in regards to the credit recognition of CDE, Amazonas, the new petition with Aneel and should the final decision of Aneel is not different than the diagnosis? Therefore, we will have a debt to the fund, what are the measures that the Company will take? Is there any other thing that you can do with Aneel or in legal terms anything else and how can you -- how can this affect the privatization of Amazonas?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

I am sorry, I forgot your name.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Miguel.

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Miguel, our evaluation we've done a great work in regards to Amazonas. But not only Amazonas but the other three concessionaries with the (inaudible). We organized an effective workforce to organize this subject and in forecast we didn't have this. I am very comfortable therefore, the work that was done by our team from the fund, from engineering, from Electrobras or our concessionaries. The work was done with a lot of work as we've talked about very compassionately, I cannot advance. But it's certain that in our evaluation we conclude against what the agency concluded and we had the argument.

And even things related to -- there was mandatory purchasing of fuel with different prices, volumes in terms of quantity where we had the machines on -- I'm just giving you the panorama and we're talking about an area that has dozens of fuel consumers and from 2009 on it's natural that the agency should do the inquiry and the company as well. There are differences and I imagine that taking a look at the current schedule, we delivered it over 15 days ago. I think that we should get a result this month of May. Now being very sincere, the material of the inquiry and the contradictory, I believe that there are elements to get a reconsideration. This is what we expect that the work should be done.

And if we do this, throughout this May, in month of May, this will be an important decision to allow the recognition of Amazonas 80% of the volume of the resources used and we will have the conditions of getting quickly to an agreement with Petrobras. And due to that we will do the physicalization of Amazonas GT and we will maintain the schedule of the privatization. And this ideally should happen in May, beginning of June. And in June is when we will have, well up until the end of the month, the valuation and modeling.

We are working with this past case, understanding the time hasn't really worked with Eletrobras, we opened our space for a positive exchange of information. And finally, this is well organized. And we will be able to do the adequate defense. If this doesn't happen, we will have a managerial legal work.

In the past, we have decisions being made and the agency has to consider them. So taking into consideration that this process should be concluded, my opinion is that the agency and the Company are working indelibly to solve this at the managerial level without any sort of legal proceeding. But the proceeding is light and sometimes we edit an obligation depending on what legal findings are and I am certain that this might cause problems for the privatization schedule. This is why I hope that this is a process that will be expedited. So we can, at the managerial field, we can talk to the agency and the agency can conclude this process as quickly as possible.

Operator

(Operator Instructions) So we close from this moment on the Q&A. Therefore, we return the word to the speaker, Mr. President, Mr. Wilson Ferreira Junior for the final consideration. Mr. President?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

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Well thank you. Thank you, all for being here. Once again, I wanted to highlight that we are -- have ongoing a program of restructuring of Eletrobras based on these three pillars, that you know. It's important to say that from this month on we have a set of decisions -- important decisions in the efficiency area and as well the financial discipline. As I've told you before the most important offering is the retirement offering that will start on the 22nd of next month. We will hire the IRP. So that on the second semester we can increment and offer the voluntary dismissal to the collaborators of the managerial area due to the improvement of the processes, we have an excess of these employees.

Beyond the privatization itself, this month we hired a financial advisor and in this First Quarter of the year, we have an important work, holding Eletrobras along with any of our controllers, controllership, we are still negotiating direct debts of Furnas, Chesf, Eletronorte and Eletrosul with Eletrobras and this has been done in a way of reducing liabilities within the companies and as the yields will be evaluated by our Company. And we will have the responsibility in the Second Quarter to have a new model so we can solve the problems with the wind and transmission lines that we're going to get as an exchange for that. This is important that we will have structures that are more efficient from the standpoint of sales with the specialists of this area, not only financial specialists. But legal specialists that will assist us. This work will be very important in the Second Quarter so that on the Second Quarter we can also benefit from the sales of these assets with the models that we can fit [ph]. This was an important moment for the Company. The other two pillars, operational efficiency and financial discipline, we have a very important pillar. And we have the opportunity to report this to the next meeting of the next teleconference for the shareholders.

This is it. Thank you for your attention and thank you for keeping up for the next steps of a Eletrobras. Thank you very much.

Operator

At this moment we close the teleconference of Eletrobras. We thank you for your participation. And have a nice excellent afternoon. Thank you.

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