

Q2 2015 Earnings Call

Company Participants

- Armando Casado de Araujo, CFO, IR Officer

Other Participants

- Bruno Bretas, Analyst
- Carolina Carneiro, Analyst
- Lee Yang, Analyst
- Marcello Bank, Analyst

Presentation

Operator

Ladies and gentlemen, welcome. Good afternoon. And thank you for waiting. Welcome to the audio conference of Eletrobras to talk about the results we have reached in the second trimester of 2015.

You will only listen to the presentation and then we'll do the Q&A afterwards. Let me remind you that this presentation is available in a PowerPoint file at the website of the Investor Relations of Eletrobras.

Before we continue, we would like to clarify that anything that's stated in this teleconference regarding the perspective of business of the Company, provisions. And operational and financial goals are the ideas of the Board of Directors of Eletrobras. This is based on the information that is available to the Company.

Future considerations are not insurance or guarantees of performance because we have imponderable things that might happen. The investors might have to take into account that several economic and political expenses might influence the future of the Company.

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

Armando Casado de Araujo {BIO 16673880 <GO>}

Good afternoon, ladies and gentlemen. First of all, I would like to thank you for your presence here so we can talk about the results of the second trimester of 2015.

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The result was published on Friday, the 14th, when we made available the announcement of these results by the inform that we gave to the investors as well as expression in English and now the market letter.

We'll be very quick. And here are the accounts that influenced this result. I will be at your disposal at the section of the Q&A. These announcements were submitted by our direct courier and are available for download at our Investor Relations website, as well as CMV BOVESPA and NYSE.

Here we have the second slide. We are presenting our results, comparing in terms -- the results in terms of trimester and semester. Second Q 2015, Eletrobras with a loss, a liquid loss, attributed to the controllers of BRL1,358 million and a liquid net gain attributed to the controllers of BRL1,255 million in the first trimester of 2015.

In terms of the accumulated in the first trimester 2015, 1F 2015, Eletrobras presented a net loss to the controllers of around BRL103 million. And imbursement to the net revenue of BRL925 million registered in the first semester of 2014.

Well in slide number three, I will present some of the highlights of the second semester of 2015. As is known by the analysts, the range and the evolution of the generation and distribution of energy had a preponderant role in the results of the Company.

However, other things influenced in a very determined way our results. And we can highlight the pass-on of Itaipu, which reflects in the indexes of the American prices, the commercial price that we have [ph] struggled with. The provision for the distribution is also influenced mainly by the application of the tax bans and the impact and the deductions of the operational revenue.

The amount of energy sold passed from 7.1 terawatts in the first semester of 2015 to 7.2 terawatts in the second trimester; the evolution of CVA, as I will show you up ahead in the slide number six.

The energy bought in the resale was influenced by the application of these territory bans or flags, as well as the effect of the seasonality of the first trimester and the delays in the transmission lines that connect the Amazon estate.

The provisions for the contingencies presented significant growth, which I will detail on slide number nine.

The PCLD, mainly for the segment for the distribution, presented an increase of 48.5% due to the change in the criteria of the accounting of the PCLD adopted by all distributors. The passed contracts are still being reverted. And I will detail this in the next slide.

The exchange variation due to the exposure of our assets was beneficial in the first trimester and caused us loss in the second trimester of about 3%.

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The indemnization has been presenting a function of receipt in the first tranche due to the indemnization. The increase of this debt is due to the -- the increase in the net loss is due mainly to the index, elite [ph] and others. And we've updated the debt of the distributors and providers that comes from a reimbursement effected on the fund, CTC, with a delay that we haven't done yet.

On slide number four, we can recognize a reduction in the second trimester of BRL976 million. And we have registered a provision of BRL5,156 million. And this is to complement the values that were recognized in 2014. I have to say that this was not recognized in the transitory [ph] relations.

On slide number six, we show the evolution of the recognized under the CVA of our energy distributors. We pass on from BRL10.6 million to BRL10.5 million.

So for the generation of energy, we passed on from BRL5.5 million to BRL5.2 million. So the revenues presented had a reduction of 6.9%, passing from BRL5,596 million in the first trimester to BRL5,210 million in the second trimester. The contributor to the reduction in the net revenue had a short term CCE from BRL887 million to BRL 737 [ph] million.

The net revenues on transmission have presented a growth from 12.1% from BRL1.1 million in the first trimester to BRL1.2 million in the second trimester.

The revenues in the distribution presented an increase of 6%, passing from BRL3.5 million in the first trimester to BRL3.7 million in the second semester, which was influenced mainly by the application of the territory flags with a proportional impact in the deduction of the operational revenue.

The recognition of the values of the CVA and other financial components presented a small reduction, passing from BRL282 million in the first T to BRL272 million in the second trimester.

And the amount of energy that was sold, as I commented, was 7.1 terawatts to 7.2 terawatts in the second trimester.

In the expenses of materials and services and personnel, slide seven, in the second trimester the sum of these accounts had a growth of 3.5%, passing from BRL2,000 million or BRL2 billion in the first trimester to BRL2.073 million in the second trimester.

The personnel account had a reduction of 1%. And the accounts of the services grew by 8.5%, passing from BRL618 million to BRL770 (sic -- see presentation BRL670) million. And the account of the materials went from BRL61 million to BRL90 million in the second trimester. The increase in these accounts is due to the expenses that are related to the stoppage in Angra 1, the nuclear power plant.

On slide number eight, we present the operational provisions that passed from BRL327 million to BRL901 million from the first trimester to the second trimester.

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We highlight -- the provisions for the contingencies are related to BRL842 million, with a highlight to the provisions related to the compulsory loan and adjusted to the values of judicial processes of Fornett & Sheff [ph], by the provision of the credit and the doubtful liquidation of the consumers. And result on the value of BRL151 million, influenced by the - - mainly the revision of the PLCD criteria. And the provisions were partially compensated by the reversion of onerous contracts in the amount of BRL80 million.

So on slide number nine, we see the evolution of EBITDA. That totaled BRL917 million in the first semester of 2015. And BRL464 million in the second trimester of 2015.

In the second trimester of 2015, the sum of the EBITDA of the companies controlled by Eletrobras was negative in the value of BRL77 million, which represented a reduction of 104% of EBITDA from BRL1,806 million in the first trimester of 2015.

And in the first semester, the companies controlled by Eletrobras summed BRL1.7 billion. And represent a reduction of 43% regarding the EBITDA and of BRL3,017 million in the first semester of 2014.

On slide 10, we present our position of the net liquid debt consolidated by Eletrobras of BRL13 billion that comes from the finance of BRL43 billion. And this is the amount regarding the BRL6.9 negative billion of the account of RGR, which registers the same asset for the value of the company.

So in the deductions of the net debt, we have a net flow and the allocation of the financial cash of BRL8.5 billion. And the financing to receive, without the influence of RGR, in the amount of BRL12 billion.

And the final sum is related to the recognition of Itaipu in the amount of BRL2.9 billion, which the amount of the resource is still being consolidated.

There is an audit by KPMG regarding the second trimester of 2015, as it happened in the first trimester, which maintained the impossibility of knowing the possible effects that might come from the financial demonstrations of the Company after the conclusion of the investigation work that has been done by the office of Hogan Lovells.

In this respect, it must be clarified that, due to the news talked in the press involving the companies, also on the services for two of the societies specifically for Eletronorte Energy Brazil, in which Eletrobras has a minor shareholder participation, as well as the control of (foreign language) in 2015, we'll open three commissions of correction to see the excess of the hiring of the building companies by the referred companies.

Still, we are concluding and the commission -- the works of the commission show were not closed. The works of the commission of (foreign language) were considered the scope and the limitation of the investigation. And do not find anything that might damage the Company.

However, the report of the two commissions recognized the possibility of the deepening of the litigation done by (foreign language) and the scope, as well as the use of other tools not available by the internal commissions to identify future any eventual points that might be considered important.

And we should highlight that the investigation depends on the higher [ph] company, as mentioned. And this will profound [ph] the exam instead once the hired parties use tools that are to support that specific expertise.

The ensure the fairness of the investigation demanded by the council of management of Eletrobras at July 31st, 2015, the council approved the creation of an independent committee over all investigation that will supervise the work of the investigation and the work of Hogan Lovells.

We want to be as transparent as we can. And as we said, there was the approval of the council for the commission of -- for an independent commission for the management of this investigation that will be supervised, once again, by Hogan Lovells.

For such, the council approved the indication of Dr. Ellen Gracie Northfleet and Durval Jose Soledade, which respectively are the former minister for an affiliate tribunal -- Supreme Tribune and the former Director of the Commission of Real Estate. And they are ongoing with the internal procedures necessary for the hiring of both.

Last Friday we approved the third member of this commission, who is Jeremias Leite Caldas, the financial council -- fiscal council of the Company, which will represent the minor shareholders.

As we talk about the work in investigation, the company -- the independent company will produce information on the data that is sufficient for the -- so that the Company will evaluate it and the legislation -- according to the legislation of Brazil and the United States and the possible impact on the financial intermediate information. If there is or there will be anything, it will be said. It will be commented for you.

As related to the investigation and still that its ongoing, the Company recognizes a loss of the -- the Company recognizes a reduction on the impairment up until June 30th, 2015 in the amount of BRL1 billion according to CPC 01 IAS, the reduction of the recoverable assets.

Now we will start the Q&A.

Questions And Answers

Operator

(Operator instructions) Carolina Carneiro, Santander Bank.

Q - Carolina Carneiro

Good afternoon. I have a couple questions. The first question is regarding the RBSCE. We have information that ANEEL submitted something to the ministry recommending that the payment of the RCBSE for Eletrosul would be done via wrap [ph]. I would just like to know if the Company obtained any direct answer from ANEEL or M&E in regards to this request. And what would be your expectation in regards to the schedule, the answer of M&E so we can have effectively the payment of the amount for Eletrosul?

And my second question is in regards to the provision that you had for contingency in regards to the discussion of ANEEL. In regards of responsibility for transmission hours, you said -- you mentioned the results. I wanted to know why did you decide to do this provision now while we know that this discussion is still happening with ANEEL as well as other discussions. Including GFS [ph], there are some companies that are -- have -- well, we wanted to know your decision for doing this provision this semester, your motivation.

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

Well we advanced and we got this in the ministry because the value of Eletrosul is recognized at BRL1.06 billion of these values, the first one that is ready. So since the Ministry of Mines and Energy will establish the form or establish the size, the cost, the way that we should pay this. And how we're going to include the taxes. So this was a (inaudible) determining.

And we are following this up. I don't have any date for this. But I know that it is soon. We'll ask a reference for the other payments that are coming out. But I don't have a date.

And last week we were talking about this issue. But this is being studied. But we are very quick in regards to this. I hope that this works as quickly as we can. And my expectation is that in the next trimester we have the platform already defined.

This didn't impact in the result of the exercise of this trimester as we count it. Just when we have this defined, we can see the results in the Company in regards to the provision.

While we have the independent auditor Ernst & Young, they are looking at SVE. That's why I don't know how to clearly answer your question, how it was done, the analysis there. We just received the result.

Q - Carolina Carneiro

So I just have another question. We know that there will be another discussion about -- with the federal government, the agency. And the companies that generate about the effects and the possibility of the limitation of GFS [ph] and the impact of the companies.

So we had some legal predicaments that would protect us against the future impacts. And we don't even know if the Group, Eletrobras, will seek to try and defend themselves legally, or are you waiting for that discussion with the ANEEL and these other ones instead of taking a decision of trying to get legal action or not?

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

Everyone got in with a legal action. Eletronorte, Furnas, Chesf. And Eletrosul, all of them are working with the legal proceedings.

Q - Carolina Carneiro

Thank you.

Operator

(Operator instructions) Bruno Bretas, 3G Radar.

Q - Bruno Bretas {BIO 19502436 <GO>}

Two questions, one still relating to RBC. It's clear for -- let's assume you're awaiting the position of the Ministry of Mines and Energy in regards to payment. But I wanted an update in the other. Do you have a technical form for Chesf and Furnas so we can give you a preliminary number to know what is the state in which this is? Do you have any number, I would say, for the future?

And the second question in regards to the legal proceedings. Basically how many generators got the legal procedures to limit the GFS? Well I see two. One is to limit 45% and the other one is for the indexing. Well from what I understand in the rule was you limit 95%. But all the other agents can get the same legal proceeding. Then you're going to have an open account and your account will not be paid. And then it will be rated with the other agents. So this is innocuous. Is there that understanding, or can I get a legal proceeding to -- of 95%? Are you protected from the nonpayment and rating?

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

Well what we ask, it has the same focus we guided so we could avoid the GFS risk, which is a natural risk of the power plant. These are the legal proceedings that we have to be able to not pay.

Unfortunately, we have -- Eletronorte could not get a legal proceeding for GFS. They could get it. But they could not get it for the -- in the sufficient at the correct date.

We can even suspend the insurance in regard -- with a value of 5%. Here the difference of the GSP and the Ministry study, the commissioning of me presenting a proposal for the solution of the GSR.

In regards to RBS 1, our prediction -- qualitative analysis is that the Eletronorte insurance will happen in September. That's our expectation. And Eletronorte was a little delayed in the last trimester. Our expectation was the last one on the transmission.

And it's a total asset of BRL20 million, BRL3.5 billion from Eletronorte, BRL5.6 billion from Chesf. And BRL10.7 billion from Furnas. And BRL1 billion from Eletrosul just from the assets of transmission.

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Q - Bruno Bretas {BIO 19502436 <GO>}

Just a question, since you have the final way of payment from Eletrosul, you could say the results of Eletrosul. And since the payment form will be the same one for all the other companies, is there an accounting impact for all of those for Chesf?

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

If you got Eletronorte has BRL1.7 billion of book value and the BRL3.5 billion which we are pledging, then with the other company we are trying to get BRL5.6 billion. Furnas, we wanted to get BRL10.7 billion. Eletronorte we recognized BRL1.09 billion and BRL6 billion.

Q - Bruno Bretas {BIO 19502436 <GO>}

And to impact the accounting, we are -- you are awaiting the wage paid?

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

Yes. The concession, the correction. And what we have done in looking at the validation, we are following on the first payment. And we will finish it by the end of this year.

Q - Bruno Bretas {BIO 19502436 <GO>}

Okay. Thanks, Armando.

Operator

Lee Yang [ph], UBS.

Q - Lee Yang {BIO 2001647 <GO>}

I wanted to ask you about the liabilities of the distributors. What is the schedule that we can work for next year? And if you can, just talk a little bit more about how is the pledge for the generators in regards to the 7-9?

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

What is the second question?

Q - Lee Yang {BIO 2001647 <GO>}

The compensation for generation for the MP 579, because we are talking about RBSE. But there is also the potential receivables for generation.

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

And in the case of Shell, we have an agenda that is November this year. It is what is in the schedule. And the manager of this process did the hiring in the case of our distributor companies.

We are waiting for the renewal of the concession so we can do the bidding of all of them. And as soon as you have the renewal, you will do this movement for the distributors.

But for the combination of the generation, we have Chesf. It has BRL15 billion in the book. And has the pleasure of BRL4.8 [ph] billion. And this is for the men in (foreign language) power plant. And we had a concession of the river.

And actually, when you consider the concession of the power plant when it received the 7-9, it was 19 years old and working. So we did this work which is the higher auditor. And in the case of Furnas, the generation part is still being elaborated.

But in this case for RBSE, we have a deadline of 150 days. So I wouldn't have a way to give you a perspective on that. We have a weekly follow up on this and we are doing the analysis of the reports. But we don't have a date coming out to talk about this generation. That's why I highlight RBSE that will close.

Q - Lee Yang {BIO 2001647 <GO>}

And just to confirm it, another question about (foreign language), are you going to participate in the bid for the operation and maintenance and others that might happen in September of this year in the same way that Furnas did the bid to operate (foreign language)?

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

We don't have a strategy that has been discussed about this. It depends on the strategy. An advantage that Eletrobras has is that it has a big power for being in all the states. That's an advantage in regards to the power plants. So we have an advantage.

That necessarily doesn't mean that we are determined to have these businesses. For now we are just studying.

Q - Lee Yang {BIO 2001647 <GO>}

Thank you.

Operator

Marcello Bank [ph], UBS.

Q - Marcello Bank

Thank you. I have a question about the cities that you have with capacity and in Sao Paulo -- in Eletropaulo was commenting about this, that a we await -- that a decision has to be taken at least by the specialists in the next months. I wanted to know how this process is and what you think -- who should pay for this debt? Should it be Eletropaulo as a test? Give a little bit more details about that.

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

Well since that is registered in our accounting for BRL15 million but the value is over BRL2 billion. And you know that this was recurrent and there is a period -- and the decision is to be published -- the information that I have is that it is to be published. And this was due to non-hired loans. So we are expecting to receive this.

Q - Marcello Bank

So let's just say that the asset would determine that it's by Eletropaulo. Would you ask for insurance?

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

So we will use a judiciary resource that is our right. What we have done initially is within our rights.

Q - Marcello Bank

Thank you.

Operator

Bruno Bretas, 3G Radar.

Q - Bruno Bretas {BIO 19502436 <GO>}

Just one question in regards to this issue that Marcello was talking about. We talk about a possible negotiation due to Eletrobras. And I wanted to understand if this would be possible. I have my doubts on how you could negotiate this value. Once you have a judicial decision, it's not possible for a federal company to negotiate the value. I just wanted to understand.

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

A company from the government, the debtors recognize us to be paid. Just so you know, the head group was turned private and has had a debt of EGR with the government.

And the only one -- well, we could do negotiations with the bank and so on and so forth. But because this is a federal resource, the government doesn't have a space for us to negotiate these debts, yes.

Q - Bruno Bretas {BIO 19502436 <GO>}

Thank you.

Operator

We close now the Q&A session. We return the word for the speaker, Mr. Armando Casado de Araujo, for the final considerations. Mr. Armando, please?

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

Well I would like as always -- I am at your disposal to participate to answer not only at the teleconference but at any time. I thank Carolina, Bruno. And Marcello for their questions.

And I believe that now we will start the session of presentations at (inaudible) and I am at your disposal. And once again, I would like to be at your disposal for everyone. Thank you.

Operator

We close now the teleconference of Eletrobras. We thank you for your participation. And have a nice afternoon.

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