

Q1 2015 Earnings Call

Company Participants

- Armando Casado de Araujo, CFO

Other Participants

- Carolina Cardnedo, Analyst
- Marcela Nagib, Analyst

Presentation

Operator

(audio in progress) -- Uncertainties and risks. So, they depend on circumstances that can occur or not. So, the investors much understand that other international factors can influence in the results in these future considerations.

At this point, I would like to pass the word onto Mr. Armando Casado de Araujo, Financial Director and Investor Relationship of Eletrobras. Mr. Armando. Good afternoon. Please, you have the word.

Armando Casado de Araujo {BIO 16673880 <GO>}

Good afternoon, my fellows. Good afternoon, ladies and gentlemen. First of all, I would like to thank you, all, for being here at the teleconference for the presentation of the results of the First Quarter of 2015.

As we usually do in all the quarters, we're going to give you a brief report of the results of the First Quarter of 2015, which was disclosed on Friday last, 15th May. And as you already know as well, we are then going to go onto the Q&A session.

So according to slide number 1, as you can see, Eletrobras presented in the First Quarter of 2015 a consolidated profit, net profit. And -- of BRL1.2 billion, while in the Fourth Quarter, there was a net loss of BRL1.1 billion. And in the fourth, we had net profit of about BRL1 billion.

As you already know, the analysts know this, because of the rain and the consequent evolution of the generation and distribution energy market, they had a very important role in the results of the Company. But according to other variables that are atypical, they also influenced the results.

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And the results of this First Quarter that still reflect the new tariffs for generation and transmission and the assets, these concessions were renewed according to law 12783 from 2013. And this was influenced by several variables that were presented on slide number 2.

And I would like to highlight a few of them. They had positive contributions and some others that gave us some negative contributions. So, let's start in a positive manner. And let's compare the Fourth Quarter of 2014, where we had the selling of energy in the Chamber of Commercialization of Electrical Energy in the short-term market. And it went from BRL757 million in the last quarter of 2014 and went up to BRL887 million in the First Quarter of 2015.

The reverting of the provisions of onerous contracts demonstrated in slide number 3, which is a continuation of what you have already been seeing in 2013 and 2014, presented a low amount of BRL75 million. And the energy bought for reselling presented a reduction of 18.9% in the First Quarter and compared to the Fourth Quarter of 2014.

So, the monetary updating of remuneration of indemnifications referring to the law 12783 registered an amount of BRL495 million. And this is part of the financial results. And the positive results of the society participations in the amount of BRL41 million, considering the negative results of BRL556 million in the Fourth Quarter of 2014 and the net result of the positive monetary variation, exchange variation, was BRL341 million, which is above the amount of the -- of what was registered in the fourth semester -- sorry, the Fourth Quarter of 2014.

And if we look at the compensation account of the items, we have about the amount of the amount that is according to the currency. And the recognition of CVE, the compensation account of the items, this is made by distribution companies. And this has been presented in slide number 4.

Now, according to the negative results, we compared with the Fourth Quarter of 2014. There was a reduction in generation of 7% in the First Quarter of 2015. And the provision for the contingencies represented about BRL253 million. And this is according to the compulsory loan that was made. And the provision of the doubtful (inaudible) of consumers and resellers about BRL102 million.

Now, about the operational revenues demonstrated in slide number 5, we would like to highlight that, for our net operational revenue in the First Quarter of 2015, we have the amount of BRL8.599 million, representing a reduction of 12.1% compared to the Fourth Quarter of 2014, when an amount of BRL9.781 million was registered.

However, in these two quarters, if we compare and if we disconsider some other accounts, like the selling of energy in the short-term market for the amount used in construction because there's an equivalent amount accounted for and the impact of CVA on the net operational revenue, operating revenue presented an amount which was about BRL7.183 million.

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Now, as seen in slide number 6, the personnel, material. And services account, that is always something that brings questions from shareholders and analysts. We had a reduction of 22.7%. We went from BRL2.594 million in the Fourth Quarter of 2014 to BRL2.004 million in the First Quarter of 2015. The account from personnel presented a reduction of 9.2%, going from BRL1.640 million in the Fourth Quarter of 2014 to BRL1.325 million in the First Quarter of 2015.

And after I consider that, in the Fourth Quarter of 2014, we have the inclusion of (inaudible) -- it was disconnected. So, we have an account going from BRL887 million -- sorry, BRL878 million in the Fourth Quarter. And the material account, there was a reduction of 19.1% going from BRL76 million to BRL61 million in the First Quarter of 2015.

So, in terms of the operating provisions, we have the amount of BRL327 million registered in the First Quarter of 2015, which represented a reduction of 68% compared to the amount of BRL1.033 million registered in the Fourth Quarter of 2014.

In the First Quarter of 2015, the operational provisions were influenced mainly by the provisions for the contingency in the amount of BRL253 million for the provision of credit for doubtful liquidation of consumers and resellers in the amount of BRL102 million and the provision of foreign losses in investments in the amount of BRL22 million.

And within this context, Eletrobras closed the First Quarter of 2015 with a consolidated EBITDA, demonstrated in slide number 8, in the amount of BRL1.806 million, which is 657% superior to the EBITDA of BRL118 million registered in the Fourth Quarter of 2014.

In the same manner, the sum of the EBITDAs of the other controlling companies presented in the First Quarter of 2015 showed an increase of 3% compared to the Fourth Quarter of 2014, going from BRL1.753 million to BRL1.806 million in the First Quarter of 2015.

In the last two slides, we present the amount of our net debt. And this is consolidated and according to the controller company.

In slide number 9, we show our consolidated net debt for which I would like to make a few comments. So, our total debt, including financing and debentures issued by our controllers totaled BRL44.3 billion. Deducting this amount from the amount of the RGR, which is BRL7.1 billion because it has an amount in the assets and accounts for the -- accounted for in the assets.

And the amount we have in cash, which is BRL6.7 billion, which -- there's also BRL13.8 billion from our financing, which we received BRL13.8 billion from that. And it is important to say that, in this calculation, we do not have the amount of BRL3.9 billion that we have to receive for the account of Itaipu from CCE. And this amount is part of our financing to be paid. And we are receiving -- we are considering this amount in our activity. And this includes an amount of BRL12.8 billion, deducting this value.

Now, looking at our controlling company, we have an amount of BRL29.9 billion in our controller. And if we take BRL7.1 billion, that represents the part at the RGR that I've already talked about. This represents -- it would represent BRL22.8 billion.

Then from this amount, I will deduct the amount of cash from the controller, which is about BRL2.3 billion; our financing, which is about BRL32 billion; and also, from this amount, we have RGR. And we have a negative liquid debt of about BRL11.5 billion. So, in terms of the controller, in terms of net cash instead of a net debt.

So, with this explanation, I would like to say that I'm available for questions.

Questions And Answers

Operator

(Operator Instructions) Marcela Nagib, JPMorgan.

Q - Marcela Nagib {BIO 17631091 <GO>}

Good afternoon. I would like to know if there is any covenant in your bonds that is related to the filing. Thank you.

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

No. We don't have any covenants.

Q - Marcela Nagib {BIO 17631091 <GO>}

No reporting requirement about that?

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

No.

Q - Marcela Nagib {BIO 17631091 <GO>}

Okay. Thank you.

Operator

Carolina Cardnedo, Banco Santander.

Q - Carolina Cardnedo

Good afternoon, everyone. I have two questions. And the first one is about the reason or the reasons that led the filing of 20SE and also about what was made by KP&G. So just wanted to understand the process involved. The Company is going to have to decide, or who's going to have to decide about a possible hiring of specialized consulting companies to look this over because of the reasons placed in the communication. So

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possible involvement in the case mentioned by the ACO [ph] -- just for us to understand how the situation is going to affect the decision making and what kind of impact this will bring in terms of the next result.

So, if you can just tell us how the decision making is going to be made, if you're going to actually hire a consulting company to do that. And if there is a possibility of, even before that, doing something.

And the second question is just for us to get an update about the expectation that the Company has about the ESS [ph] potential and the deficit this year and how much free energy you're going to have available this year according to the potential impact, if you can talk a little bit about that for us to understand. Thank you.

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

Okay, Carolina. Thank you very much for your question. I think I have to give you a more extended explanation about your first question, which is -- well, when we filed the amount of last year, we applied a few procedures according to the norm, the Brazilian law.

And this law, already because of some news that was disclosed about some other companies that we participate in, Social [ph] , Santo Antonio. And Corporativa [ph] . So, at that point, when we were talking about the auditing of these companies, administration actually took some measures to be able to fulfill the requirements because of the institutional demands. And it was exactly about the communication processes.

And we have an internal checklist that we call a homemade checklist. And we show how we participate or how we go through this process in terms of specific proposals. And this checklist shows all of the different procedures and all of the different phases. So, you have the public bids. Then when we choose our partners, we have the due diligence process and how that happens, economic and financial areas. Then the checking that is done during the public bidding process and in the auction itself, in the preparation of the business, until the entrance of the commercial operation.

So, our participation, as everybody knows, is up to 49%. And we also did a whole process that is very special in terms of different institutions, everything in Eletrobras and all of our societies, all the ones we have shares in, everything that goes into the media. So definitely we looked into all our companies to be able to follow this whole verification process about communication.

We also monitor all of the consulting companies, everything that is sent to us by the regulators. And we also did another figure. And our internal audit has a specific name for it. So, for example, in Santo Antonio, you have this process where you have a whole checklist. And this is exactly in the investment process when we go to our limit where the Company is --

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-- so, where our controller company is. And we check to see how the whole process works internally and --

(technical difficulties)

-- in this society and specifically in all the areas. And we look at all the evidence, all the documents that can be shown and that are available. Then we calculate the risk of materiality. Then our --

(technical difficulties)

-- and it's an (inaudible) material value. We compare with Eletrobras.

So, about the public ministry, in the case of the public ministry, we have not received an answer yet. The federal police have told us that they are moving silently. And they have nine available in the site, in the public site of the federal police. And we can see that, until now, we have no evidence of any strong remarks about this.

But Carolina, until then, we are obeying the additional auditing procedures so that we'll be able to have our financial statements for 2014. And in March, we disclosed our statements from 2014. And the balance is -- until the 30th of April, we will have it there in English.

So, from 27th of March until the 25th of April, that's when we got the news that you just mentioned. And there was more news that came out from (inaudible) National [ph] , which is an important news program in Brazil.

And we have complementary processes that have to be added. And in this process that had to be added, they do not want us to adopt only the internal procedures. They want us to use the external ones as well. And that's where we're talking about the consulting company that was going to be hired.

So, we took this issue to our Board. And they immediately hired the specialized consulting companies. So, we have hired them. And we have difficulty in hiring them because we had very little time to do it. And we did two measures. We undertook two measures.

The first one was the CEO asked for a few things. And the second one, he wanted to do specific work about it. So, this hiring was concluded for work to be started. So, the statements that we are showing you now, we are filing this in Brazil. And we already have this explanation.

Now, there is no qualification actually. And for this reason, we are hiring the specialized company so that they can provide us with a report. And we have, since this process has already been initiated, the services and the investigation. We have filed that. And they asked for more time.

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We have this form. And we asked for approval that takes 15 days. And now, we are expecting the communication because time is time for us to finish a good phase of our work so that we will be able to file this. And this is why we are trying to do this as quickly as possible to hire this company and start the work.

So, the administration is really being very careful. So, the fiduciary power of the administrator is doing all that it can so that this project will be well explained to all of our stakeholders and all of our investors. So, I think there is a large quantity of procedures we've been undergoing. And definitely, we are trying to follow all the laws and regulations to hire this company.

Now, about the GFS, first of all, Carolina, are you satisfied with the result?

Q - Carolina Cardnedo

Yes, I am. Thank you.

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

Okay. But now, let's call -- let's talk about the GFS. And I can say about that that Eletronorte needs some explaining. Eletronorte has a GFS of about BRL1.558 billion. And this amount corresponds to a GFS of 451 megawatts.

But there is one small point there. If I had not gone to the auction, I would've had 278 megawatts in my GFS. And that would've given me less -- a smaller amount. So, I would have a difference of BRL950 million between the GFS and what I would have -- I would actually have.

Now, I also sold 270 that generates revenues. So, the exposure which is the greatest I have in the whole group is my exposure of BRL288 million. That's the exposure I have. And when I have a five-year contract. And if I look at the price. And we can conclude that we're going to have gains according to the calculations.

But this year, specifically, I have an account in this manner. I have a minimum exposure, which is about 44 to 55 megawatts. And talking about all the corporations, I have exposition. But I have free energy that generates that -- it's energy. But it still has exposure. So Eletrosul doesn't have it. So, when I look at the net amount in the case of Eletronorte, you have exposure of about BRL280 million to BRL300 million. So more than 55 megawatts possible.

Okay, Carolina?

Q - Carolina Cardnedo

All right. Thank you.

Operator

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So we would like to close the Q&A session now. We will go back to our speaker, Mr. Armando Casado de Araujo for his final comments. Mr. Armando, please?

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

So I would like to thank you for being here for us to be able to disclose our results and to clear up any questions. And I'm always available here or through our distributors or even personally. It is a pleasure to answer and give you any information as clear as possible so that you will know about our invest -- your investments. So, thank you, everyone. And I'd like to close this conference.

Operator

At this point, we have finished the Eletrobras teleconference. We would like to thank you for your participation. And have a great afternoon.

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