

## Q4 2015 Earnings Call

### Company Participants

- Armando Casado de Araujo, Chief Financial and IR Officer

### Other Participants

- Carolina Carneiro, Analyst
- Gustavo Fingeret, Analyst
- Luis Carlos, Analyst
- Marcello Ganem, Analyst
- Miguel Rodrigues, Analyst

### Presentation

#### Operator

Gentlemen, welcome to all of you, thank you for waiting. Welcome to the Eletrobras teleconference for the results of the fourth trimester of 2015. We inform you that all the participants will only listen to the teleconference during the presentation. And afterwards we are going to do the Q&A session when we're going to give you more instructions. We remind you that this presentation is available at the website in a PowerPoint form.

Before we continue, anything that will be said during the teleconference regarding the perspectives of the business of the Eletrobras business projections, financial goals are premises of the Directors of Eletrobras as well as information that is based on information that is available to the Company. We have our risk assessment and we depend on circumstances that are beyond our control. Now I would like to give the word to Mr. Armando Casado de Araujo, Director of Financial and Investor Relations at Eletrobras. Mr. Armando?

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

Good afternoon. Thank you for being here. This is the fourth trimester, Fourth Quarter results teleconference. We will talk about what was published in March 30 and the analysts have probably analyzed our results. Now, we will talk about maybe some doubts that have arisen at the investor relations area. So as every quarter, I will describe the factors that influenced the results in and I am at your disposal during the Q&A session.

Year 2015, as the year before, we had a very challenging scenario, especially to Eletrobras because it is the biggest company, generator company, transmission company of energy and we are based on hydroelectrical power and due to the rains, the rains actually had a

very important role in the results of our Company. Other variables influenced our results and I will talk about them later.

Eletrobras has a projection of BRL14.4 billion and it was registered in the same period and as the same year, the year before. We can see in the first two lines in the slide the main components of the quarter. Here the operational area, BRL1.7 billion to BRL14.4 billion. This is due to an internal compulsory loan and this represented in the result an expenditure of BRL14.6 billion over the limit value.

Fourth trimester of 2015, we had a loss of BRL10.3 billion in comparison to the previous period. The same way the operational provision is the preponderant variable in the formation of the result. We have an expenditure of BRL9.9 billion and BRL4 billion in the third trimester of 2015.

Slide number 6, I'm going to show you the numbers that composed this operational value. In regards to the operations that I just mentioned, I would like to highlight the provisions on the compulsory loan and the judicial actions regarding that.

Slide number 3, BRL5.3 billion is the total and a drop of BRL6 billion, BRL5 billion is the constitution of the provisions for the reductions of values of the immobilized assets and this has a significant part of what was applied in the thermonuclear plant of Angra. What contributed to the formation of this loss was a loss of BRL5.3 billion that we observe in our distributors. The sum of these three variables, the compulsory loans, the results and everything that I mentioned was a compulsory loss of BRL16.5 billion, a loss of BRL1.2 billion in regards to the previous period, an increase of loss.

Slide number 5 (sic; see slide 7), we have the materials and personnel growth of 11.9%, BRL8.5 billion to raw materials, we have a growth of 7.1%, personnel 2.6% from BRL23.6 billion services, respectively. Let's consider the expenditures that I will give you more details up ahead. The math that didn't get into the process of the program for the incentive of leaving the Company, it was very much below the inflation for the result of the period, BRL5.6 billion to BRL14.5 billion in 2015. This shows an effort of the Company of maintaining the reductions in its expenditures.

Slide number 6 (sic; see slide 3), we have an account of the provisional. We highlight the contingencies that were influenced by the compulsory loan and this is influenced by the provision that was registered for Angra 3, influenced positively by the revision of the reduction of losses, the loss on Amazonas of BRL1.5 billion. This is about the liability in Amazonas.

Our EBITDA, we can see on slide number 7 (sic; see slide 9). We have a calculation considering all of the variables that were mentioned in the previous slides. We have a negative EBITDA of BRL9.7 billion (sic; see slide 9, "-10,702"). But our EBITDA adjusted as it was shown in the lower part of slide number 7 (sic; see slide 9), we have an EBITDA of BRL2.9 billion comparing to EBITDA of BRL1.2 billion of the previous year that is adjusted by the same variables, distribution, provisions and all that.

Our consolidated finance: RGR we have the same highering in the assets; we have a loss of BRL40 billion. We closed the exercise. We have a net liability of BRL17.7 billion (sic; see slide 10, "16.7").

When we look at the consolidated price of controllership, we have a loss of BRL30 billion - liabilities of BRL30 billion. RGR BRL23 billion. We closed with BRL4.3 billion in the cash flow without RGR, which gives us a net liability negative of BRL15.6 billion.

It's important to mention, slide number 4, please. We don't have the presentation in order but in this slide I believe in the evolution of the net operational revenue which has improved since the last year, BRL43 billion now this year. As a highlight that net revenues of generation has a small reduction influenced by the drop in the sales of the short-term energy. We had a program stoppage at Angra 2, the power plant at Angra 2 and this is why we had a small drop. And also we have obligations of payments in the third trimester of 2015.

We presented growth in regards to the previous year influenced mainly by the growth of 22% of the maintenance net revenues. And the update of the tax return. This will have a positive influence due to the increase in IPCA. The system has been improved by new investments.

We have a strong increase in regards to the previous year. There is an yearly adjustment and the application of the tariffs, there was an increase. CELG-D, we had an increase in the supply of energy, 7.5 in this year.

Here are highlights in the net revenue. In 2014, we just had one trimester since we incorporated CELG and in 2015, we had net yearly exercise and that's why we have an increase in the distribution revenue.

I know that there is a lot of questions asked by the analysts in our Investor Relations area. And I hope that now with the Q&A I hope that I can answer all of your questions, if you have anything else that was said except for what was shown in the presentation.

## Questions And Answers

### Operator

Now we will start the Q&A. You can ask questions in English and we will translate them into Portuguese. (Operator Instructions) Miss Carolina Carneiro, Santander.

### Q - Carolina Carneiro

Good afternoon. Two questions; first one, do you have any provision now for the conclusion of the work group that the Company has hired to evaluate what would be the impacts of the citations and the operations of Lava Jato by the Federal Police in Brazil? And would the conclusion of the analysis be within the deadline that was given to you

which is May 8 to include in the 20-F an adapted 20-F. So we can deliver to the commission of CELG?

And the second question, in regards to the result specifically of the distributing network, I just wanted to have a general idea. Some time ago last year, you mentioned that there was an analysis underway to release the official publication of CELG that would be in the short-term CELG. But an analysis -- I want to know analysis of when do you think that official publication will be published?

And for the other processes of the other distributors, do you have any internal analyses that were done. And Eletrobras would do some sort of capitalization of -- or operation that equation to the process that was done with CELG?

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

As to your first question, there is a structure according to the American norm and as well as the Brazilian norm. We created, we are hiring Hogan Lovells that does the process of the investigation and we have a lot of people that were hired to do this job. There is a commission independently of liquidation. We have a shared investigation, that is independent. We have a key account, a specialist in forensic accounts and Deloitte, Tohmatsu that gives us support, that has strongly worked to develop the investigation work, nine projects that are being looked at.

And this job is being developed basically with daily meetings. All of our efforts are concentrated so we can give, we can work to obtain some results of course. We depend on the conclusion of the work, the investigation, the results of investigation by the Federal Police and we expect them to for May of this year.

In regards to the official publication of CELG, the incorporation of CELG, one of the issues that the market has really followed up was the issue of the treatment of the debt that we inherited with Itaipu power plant, we changed the index by the SELIC table. This was one of the conclusions, this was one of the items that we needed to incorporate in the profits; and we are concluding that phase in terms of directorship, the contracts of the contracts in between the directorship and the Council. So we can sign this contract along with ANEEL.

And we have all this conditions and we have to be in the compromise, as agreement, this happened last quarter. We immediately processed it, this is given to the Board of Directors, the result of this process and with that we accomplished that tendency, that expectation of concluding the operation in the first semester of 2016. We hope to do that.

Of the other distributing companies, as you know, we maintain the proposal of the administration that is published on the website. And we have that, that's line up 210 days. The distributing companies are providing the studies; they are ongoing. This should take about one to two months to conclude the studies. This is a dynamic process.

What I can ensure you is since we have an assembly, the deadline is June 27. We have until June 26. Before the assembly we have to do the accounting to submit all this. Everything has to be done before this date; everybody has to be on board the negotiation. So I believe that our position without a doubt, will be very clear when we publish the proposal from the administration a month before the maximum deadline which is July 26.

### **Q - Carolina Carneiro**

Okay. Thank you.

### **Operator**

Mr. Marcello, Oceana.

### **Q - Marcello Ganem {BIO 19791539 <GO>}**

Two questions. First, in regards to Belo Monte power plant in north of Brazil, it cost much more than what was budgeted and the conclusion was also very much delayed. So the operational time of this project is going to be shorter.

I want to know, if you did within this effort of an internal analysis for the publication of the 2015 balance, if you contemplated Belo Monte. Did you evaluate the process of Belo Monte and can you talk -- can you tell us a little bit more about the evaluation that you might have done of Belo Monte?

And the other question is regarding the distributing companies. We saw in 2015, we saw big loss, they had a big loss. And you have to do the sale of those distributing companies, maybe in 2016. But as the year goes on this might be a little bit more difficult, might not be ready this year. So I want to know what is your perspective for the sale of these distributing companies in 2016, are you going to see an improvement or not?

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

We did analyze Belo Monte as every single project that we have, that we are the main shareholders; we did an analysis. And we did not get an intermity test in Belo Monte. What does that mean? It means that applying internal methodology of attributing the risk to the value of the asset, it covers the investment that was done. It was tested and we did not get a test of intermity.

Second thing, in regards to the distributing companies, as I just mentioned to Carolina, we have a deadline to publish our positions on what we're going to do with the distributing companies. But if you see the proposal of the administration that is maintained, that is published, it's public, the proposal has the following design.

The design is, it will be done directly with the distributors. This we're going to try and do the sales to pay a part of the debt of the distributors; and the other one, we want to

maintain the investments for 2016 in regards to the promulgation, the extend, extending that public contract.

We will extend the proposal till the end of 2016. So that the investment necessary will be done by the controller. So we are working with that, there was no change in the proposal of the administration. We are doing the study, independent study. This is also in the proposal by the managers, with an internal analysis. And now we hired an external, a third-party to do a reevaluation of our studies to get the confirmation or confirm our decision, rectify our decision. But the way that we are dealing with this is maintaining the proposal of the managers, the directors.

**Q - Marcello Ganem** {BIO 19791539 <GO>}

Can you just tell us a little bit about the distributors for this year? Are you going to see an improvement or not?

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

Well you saw, Marcello, that in the result of the distributors, it had a very high result, it was BRL5 billion, BRL5.6 billion of negative result. This can be explained by the methodology implemented. To be able to calculate the afterlife of these distributors per se, you extrapolate the conditions of the business for another 24 months, because this is what the law says, the norm says. So you need to assess the entire situation based on a horizon that was extended 24 months.

If you start by the promulgation, extending of this promulgation, we will have a much bigger flow and with that we will improve the results. It is as clear as I explained. The data -- they did not renew the concession; you extrapolate in 24 months, you extrapolate the concession for another 24 months.

It's going to go on for another 24 months. These 24 months is how the asset was tested and adjusted. If you promulgate the concession it's going to get a flow of 30 years. And it will show the capacity that it has to honor all of its obligations 30 years.

**Q - Marcello Ganem** {BIO 19791539 <GO>}

So could you give us the discount rate that was done for Belo Monte?

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

We use (ACCI), the average cost of capital and we are going to look to give you the exact results. 7.5%, discount rate specific for each segment. 7.5% for generation of energy, 7% for distribution and 7% for transmission.

**Q - Marcello Ganem** {BIO 19791539 <GO>}

Okay. Thanks.

**Operator**

Miguel Rodrigues.

## Q - Miguel Rodrigues {BIO 16533007 <GO>}

Good afternoon. Two questions. First one, we'd like to know the expectation of deadline for the promulgation of RBSE, Eletronorte and Chesf; those are the companies. And what is the expectation of the accounting for these assets? The numbers are much higher than what is in the balance.

Second question, the operations -- the controls operational cost that was presented in your PowerPoint, it brings my attention the -- what is -- you have to maintain the operational costs under control. I would like to understand better what are the initiatives that you have implemented for the control of these costs? Are they going to continue? What are the initiatives for (codes) for the next year? And what we can expect in terms of results? Thank you.

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

Well in regards to the payments, in the BRL26.4 billion, which is accounted for everything for generation and transmission: the generation we have BRL1.6 billion; transmission, this is in the results of the balance BRL8.3 billion. So for generation there was BRL1.7 billion. We wanted BRL6.1 billion.

The revenues, at RBSE, we wanted BRL20.3 billion and we already recognized Furnas in this same value, BRL20.3 billion. We wanted BRL10.7 billion and now recognize BRL9 billion.

Eletrosul had BRL1.061 billion that is pleaded; we got recognized BRL1.07 billion. And now we are still waiting and we have the expectation of having this number recognized by ANEEL for Eletronorte and Chesf. Eletronorte pleaded BRL6.6 billion, Eletronorte BRL2.9 billion and Chesf BRL5.6 billion.

None of this indemnisation was registered in our balance. It could be registered by Eletrosul if the Ministry of Mines and Energy along with the other ministries would have disciplined the official publication that would establish the forms and the way that we're going to do this payment. So we are waiting for this and working with all the players of the market to obtain this as quickly as we can.

I had an expectation last year that this information would be published until the end of last year, 2015. This expectation was frustrated. So my new expectation is that we have a solution of this subject in the first semester of this year, even because all of the class identities that we talk to -- (Abraci, Abragi, Abrage), this is a right, this is an important asset for Eletrobras and we have to consider this for its needs of investments and the future cash flow.

We're controlling the operational costs. As I told you, we had an increase in cost of 7% with personnel. But if you remove CELG. And we are eliminating it until the first semester

FINAL

Bloomberg Transcript

of this year, with this, if you didn't have CELG, we would have a nominal increase of 1% of personnel. So we've maintained since we applied that program a strong control over this.

We're also working with the new business model governance and management that we're going to do a reorganization of our structural capital. And I highlight that at the assembly we are going to sell the shareholder participation of CELG-D. Today it's very important for us that this process goes on. And at least we need to see this process undergoing. We need to wait for the first movement, which is June 26 and wait for the subsequent other movements.

And the reduction of MSO which was obtained, just highlighting this, we obtained this with the implementation of the program, which is the voluntary leaving of the job by our collaborators.

**Q - Miguel Rodrigues** {BIO 16533007 <GO>}

So ANEEL and the various other (inaudible) for the first semester, what was the expectation?

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

Well my expectation is independent. I had the expectation for everything. Miguel, everybody -- everything is independent. For example, if you have the values published if the ministry had established the payment conditions, it would have been accounted for. But they are independent, it doesn't depend ANEEL for this. If you have a official publication, we have a partial treatment of the balance.

But we're strongly working to be able to get one thing. First, recognize our numbers at ANEEL; but to obtain this decision, we need to do see the way and the payment conditions by the Ministry of Mines and Energy.

**Q - Miguel Rodrigues** {BIO 16533007 <GO>}

Okay. Thanks.

**Operator**

(Luis Carlos, Cumulus Energy).

**Q - Luis Carlos** {BIO 15427389 <GO>}

Afternoon. Question and understand a little bit better. How was the risk accounted for?

**Operator**

We apologize the sound is not getting to the booth.

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



FINAL

The value of the accounted value of -- this is at the fiscal 2015, the value was BRL794 million, should be compensated with a premium of risk over the next years. We had in the recalculation of CGFS, we had an effective BRL319 million. All of those were provisioned at least 5% of risk, at least with Eletronorte, we had an official motion, positive official motion to not account everything.

So when you have an investment of BRL700 million, at the same time you had to account for a provision that was equal to everything, that everybody that everybody else did, which is 5%. This in that result, the effect, the -- sorry, BRL793 million, 990, plus the liquid results, the net results were generated in regards to this provision, that had not been done before and now we had to assess it. What was the other question, I'm sorry?

**Q - Luis Carlos** {BIO 15427389 <GO>}

(technical difficulty).

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

451.

**Operator**

Gustavo, Itau.

**Q - Gustavo Fingeret** {BIO 16003059 <GO>}

My question is regarding the proposal that you commented, that is well known about the capitalization of the distributing companies, which would give an influx to the treasury by the sales of the distributors. Once this issue was public, there was some things in the press contesting something that the Ministry could say that the check would be smaller if it was done on the holding level, not directly to the distributors.

My opinion, this could be something -- generate some (conflict issue) in regards to the lack of objective criteria, the lack of an evaluation report that an investment for the treasury has made sense. This would lead to a potential conflict of interest between the shareholders and the people paying taxes.

So actually, this operation is ongoing and eventually if you cannot trail this path of getting an agreement. And getting the investment directly on the distributors, what would be the plan B for you to be able to make the distributors stay at a point that they can be sold? I think that there is a negative P/L everything has to be resolved. The Company eventually has a plan B to solve? Or could you imagine that there will be a delay in the public auction, public date process, public sales process.

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

We maintained the monthly meetings of the managing council. This issue has been rectified by the council in all of the meetings with the model that was published. We do not work with plan B.

Bloomberg Transcript

FINAL

**Q - Gustavo Fingeret** {BIO 16003059 <GO>}

Okay. But if eventually and what I think is that there will be a margin for contestation, I don't know if you're going to make public one day maybe some evaluation report, some objective criteria that justify.

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

No, Gustavo. June 26, this work is done intensely but we will have -- we will publish this very clearly as the proposal of the management, the Director at June 26. It is mandatory that this is approved by the Directors of the distributors. It will be submitted to Eletrobras, it will be submitted to its managing council. And then there will be a (concern out).

And this was rectified by the one that we filed last year. And it is very important that, Gustavo, that -- insist on this point, because this is one of the conditions of the management, this is a guideline of the management that we understand and we are dead set on this, that this is the alternative that we have. Once this is public and it will be contested and you will not be able to travel this path.

**Q - Gustavo Fingeret** {BIO 16003059 <GO>}

Is there any way that you can imagine that you can lead the distributors to the point that you can do this public bid, because this is a substantial value?

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

No. I only work with this hypothesis. There is no other hypothesis. I'm totally in tuned with the decision of the council.

**Q - Gustavo Fingeret** {BIO 16003059 <GO>}

No. I know for Eletrobras, from the standpoint of the taxpayer, this is good, if you do the preliminary math, you have BRL7 billion by the distributors, it would be around 23 times, if that's what's been tested. I'm looking at some distributors that negotiate in the stock exchange but let's wait for the next chapters.

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

Eletrobras see this ongoing and we have to focus strongly in this path and this is one of the guidelines of the council, the Board of Directors of this Company that actually I adhere strongly to it personally.

**Q - Gustavo Fingeret** {BIO 16003059 <GO>}

Okay. Thanks.

**Operator**

Carolina Carneiro, Santander.

Bloomberg Transcript

## Q - Carolina Carneiro

So it's me again. Actually, specifically, I didn't answer, we saw at the DSP your communication that the estimation for CapEx, the investment budgeted for this year is BRL13 billion, if I'm not wrong, of which BRL10 billion is directly and BRL3 billion would be indirect.

Do you know if the funding for this CapEx is completely equated? And if not, what is the plan that you have to get this level of investment which is very challenging comparing to what you could do to for 2015, please?

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

Well as you know, Carolina, we, as a state-owned company, we have to submit our budget of the investments to the level of the executive level and from the corporate investment, we have to -- this is a rule by law. So we do the publishment based on the history of the works and what are the needs, the following needs.

We know that Angra has not been defined its return which might be for 2020 but we are still discussing this process due to the situation in which the power plant is. So on average, we have about 70%, 80% of realization, this is historic because we put a budget to get the conditions of directly working. But we always know that there is a variable variation of 20%, 30%. So given the situation of the Angra project. And given the situation of our realization, we will realize we will never get to the 100%.

The other issue that is important is that internally, we are doing a review of our investment budget with all of the companies in regards due to the situation of the cash flow of the company at this moment. We don't know -- we need to be sure that we are going to get the CELG sold, that we're going to get all of our compensations back. This selling of CELG is a good asset to spend or to get parameters for the needs of the investment.

All the auditing companies have been hired, have the priority to do this. And whatever is new, we will look at this very cautiously as we have the conditions to make those resources viable but with security, with safety. We need to be very careful. Even at the regions, we need to be very careful of who is going to participate, who is going to evaluate this project and what is their financial situation due to the situation that we are momentarily at right now.

## Operator

We therefore close the Q&A session. We return to Mr. Armando Casado de Araujo for the final thoughts. Mr. Armando?

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

Well I believe that I can answer any additional questions that you should have. We are going to start a week of publishing of (AFIMEX), that I would like to give some more feedback to you. We had three important points in this result which is the part of the

FINAL

testing in Angra that was representative; we had the part of compulsory loans; and we had the part of the distributors, where we are trying to find a solution for all these points.

In the case of Angra power plant, our nuclear power plant, we have economic adjustments that are very important to highlight because the intermity of Angra with a process that we're working for a review of tariff. And we can have a future revision of these intermity to distributors. As I told you due to that extension of 24 months in the concession, we would have substantial better results than what we have right now. And all of the internal tests that were applied, they were applied and can be reversed, yes, as we reform -- and we do new tests in the asset.

These are economic items of high possibility of working with these plans in the future. We did not have the effect of the paybacks of the indemnisations this year. We -- it's the only one that I already mentioned, which is we're going to receive BRL20 billion just at RBSE. But I think that we have a very positive horizon for the Company with these managing actions that we are undertaking right now. And our expectation is that we can have, we can see better results in the future. Thank you, all.

## Operator

We close from now on the teleconference of Eletrobras. Thank you for your participation and have a wonderful afternoon.

Bloomberg Transcript

*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.*