

Q1 2014 Earnings Call

Company Participants

- Armando Casado de Araujo, CFO, IR
- Unidentified Speaker, Unknown

Other Participants

- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, welcome. Thank you for being here and waiting. Welcome to the teleconference of Eletrobras for the showing of the results of the First Quarter of 2014 (inaudible) that all the participants will be just listening to this webcast. And after that, we will start the Q&A when further instructions will be available.

We remind you that this presentation will be available in a PowerPoint at the website with the investment relations at Eletrobras. To follow [ph], we would like to clarify that any statements that could be done through this conference call relating to the perspectives of business of the company [ph], operational goals and financial goals (inaudible) premises of the Eletrobras board of directors, as well as information that will be available.

Future considerations are not ensuring -- are (inaudible) performance and (inaudible) or cannot occur (inaudible) investor should know that general economic conditions can influence the results of such future considerations.

Now, in this moment, I would like to give the word to Mr. Armando Casado de Araujo, financial director and of investor relations of Eletrobras. Mr. Armando, welcome and continue.

Armando Casado de Araujo {BIO 16673880 <GO>}

Well. Good morning. Good morning, to all of you. First of all, I would like to thank for the participation of everyone in this teleconference -- quarterly teleconference to talk about the results of the First Quarter of 2014, given on the 15th of May, as well as information of businesses about the company, as well [ph].

As we just demonstrated, we in our communication Eletrobras in the First Quarter of 2014 had BRL980 million net revenue, which means -- which is significantly larger than the results of the First Quarter of 2013 and the fourth of 2013, when we had BRL33 million and

BRL5.5 billion [ph], respectively. Would like to highlight the evolution that even influenced the -- by the -- reduction of net that went from BRL1.1 billion to -- in the First Quarter of 2013 to 2014, had some evolution of BRL6 billion in the fourth billion of 2013 [ph] to 7.8 in the first of 2014. Part of this evolution (inaudible) is represented by the revenue obtained in the short-term energy, in part due to the several businesses that are being gradually incorporated to the transfer (inaudible) mentioned of energy of Eletrobras.

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It's important to highlight, as well, that the revenue from building construction had a result in -- due to the registration of construction in the same amount. Two other highlights that I would like to mention that are still from 2013. We have a reversion of BRL242 million [ph], inferenced [ph] by the reversion of the provision of (inaudible) in our investment (inaudible) and (inaudible) of BRL309 million, as we mentioned to you before, was not included in (inaudible) Eletrobras registered in the 2013 year.

The leaving of [ph] the employees in this second part of the bid [ph] is a reduction of employees of -- a reduction in the cost of employees. In 2014, we presented the highlights -- the highlights of the results of the first semester -- First Quarter of 2014, some of which I already mentioned in the slide number three. But I would like to highlight the following items, short-term energy, especially due to the changes in the energy -- changes in the market relating to Electro Norte [ph] and Fornas [ph], produced a net revenue of BRL1.7 billion. The cost of fuel for the production of energy in the BRL317 million, the First Quarter, due to the more activation of the thermal energy and the bought energy [ph] for the -- for the resales BRL1.6 billion in the First Quarter of 2014, also influenced by the exposition [ph] of our distributors that should be replaced in the -- in the text.

And the provision of -- of contracts usually by the general contracts, which the detailed presentation will be on the slide number seven. We can see in this slide that we had -- in '12, we had accounts payable of BRL3.6 billion -- BRL2.2 billion, BRL2.1 billion. We reduced the contracts to BRL3.2 billion. And now in the function of [ph] these BRL250 million extra, we're reducing the contracts by (inaudible) contracts by the BRL3 billion, following the reversion of all the honored contracts [ph].

We also have a reversal of provisions by the investment of (inaudible) as we mentioned in the BRL334 million (inaudible) is -- was acquired by the (inaudible) and (inaudible) we had a condition of reversing part of our provisions. We also had a provision in the sense -- in the contract sense for the adjustment of the market value of (inaudible) in the value of BRL111 million. We also had a provision, as I mentioned, of the (inaudible) of BRL309 million. And the (inaudible) revenue from the exchange rate, BRL309 million, due to the receivables that comes from the financing that we have from (inaudible) as a consequence, we have an EBITDA of BRL1,688,000,000. And as I will talk about this later.

We complemented the opening (inaudible) has the net operational value, which the results that I mentioned already on the results on slide number one. On slide number six, we present the simple calculation of EBITDA with the (inaudible) amount of BRL1,688,000,000, as I mentioned.

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Slide number 7 (inaudible) anticipated the opening of the accounts that composed the (inaudible) contracts, the consolidated balance. And we are working strongly to -- working towards the reversion of those contracts. On slide number eight, I can show you the results of the generators and the transmission companies. And in that sense, I can show you an evolution in the respect of the net operating revenue that went from BRL4 billion to BRL5 billion, the result of service that went from 260 to BRL1.5 billion, the profit and loss of the period. There was actually a profit of 249 [ph], again, against 153 [ph]. And the EBITDA of the January (inaudible) generation transmission [ph] (inaudible) this company of 613 to BRL2 billion. So we had a recuperation that was very good and what is the respect of [ph] the EBITDA margin that grew from 15% to 40%.

In the -- in the respective transmission [ph] and distribution, we had an evolution in the net operating revenue and we had a loss of BRL99 million against BRL437 million. We highlight that that loss is influenced (inaudible) of losses in the (inaudible) and of several adjustments that are being done.

So the main components (inaudible) compared for the first Q of '13 against the '14. We have the shareholdings influenced by these positive results (inaudible) to BRL1.5 billion (inaudible) as I explained from 85 negative we went to 19 positive. And the (inaudible) revenues for the financial results from 296 to 361. The net monetary correction [ph], which are the taxes over our contracts, interest rates, we (inaudible) we went from 182 in the First Quarter of '13 against 146 in the First Quarter of '14, the net currency correction [ph] from minus 115 to minus 109. And the shareholder's resources, we went to minus 25 (inaudible) 889 [ph]. And mainly this is a negative of -- we had -- and this -- the taxes [ph] went from 120 to 42, which lead us [ph] to a net income to -- from negative 36 to 986, 986 million positive.

Our total consolidated assets -- the consolidated equity structure is 141 billion [ph], on the asset side, 51% is concentrated in the investment on financial assets. And 12% of cash flow and titles of real estate. On the liabilities, 45% corresponds to our liquid net revenue. Our capital structure at BRL31 billion of that total capital, 32% is in the hand of minorities and the government, 32% is the minor non-residents [ph]. And on the slide 13, we have the total consolidated financing, when we remove the RJR [ph] (inaudible) debt-to-equity ratio on the asset, we have a consolidated debt of BRL24.9 billion cash plus securities, we have 10.2 on the receivable financing [ph] for the RJR BRL11 billion [ph]. And in net debt, this is a from a typo [ph] that gives us a net debt without the RJR [ph] BRL3.4 billion.

From the current company's financing, the same exercise, we have a total BRL21 billion. We reduce RJR 13 [ph], cash on securities [ph] BRL3.6 billion (inaudible) financing BRL22 billion. And here with our -- with our control companies (inaudible) typo [ph]. And we have a net debt of our BRL13 billion.

Slide 15, also with the controlling company [ph] we had BRL28 billion to receive against 21 to pay. And the highlight is on these own resources [ph] of BRL22.5 billion, as we show a debt of 13, 14 practically, we have borrowed 5.9 financial institutions [ph]. Well with that, we talked about the presentation they already know. And now to make our teleconference more productive, I am at your disposal for Q&A.

Questions And Answers

Operator

We will start the Q&A. (Operator Instructions [ph] The first question will be from Mr. Leonardo Torres [ph] from (inaudible) Leonardo [ph]?)

Q - Unidentified Participant

Well. Good morning. The question would be referring to the possibility -- the probability if on that exercise we have some reimbursement of investments that Eletrobras has done and that still are pending on the discussion with Angel [ph] and with other participants, shareholders, major shareholders of Eletrobras. So the question is simply that, how much of reimbursement is possible within the ones that we have right as the big shareholders of Eletrobras?

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

Leonardo [ph], we have in our assets liabilities -- no, first, I think that I asked you to talk about your question. It was recognized by the (inaudible) the (inaudible) of bids, public bids, we have an asset and the investment done in -- this assets (inaudible) modernizations and the infrastructure and modernization (inaudible) generation of energy. We have registered in our assets by the new methodology established by (inaudible) which is a new reimbursement value, we have BRL12 billion to receive this value, registered by this new methodology has led us to understand that we have a loss of BRL6 billion in our assets, along with all the innovation of the context of innovation. So we are still waiting that [ph] (inaudible) public audience, we have contributions from that public agency.

It's context I just wanted to predict the expenditure done on top of the predictions of the basic project and we could give a contribution. So it would be consolidated (inaudible) built. There (inaudible) there is a big difference. And our project really costs what is built. And on top of that, we -- they (inaudible) suggestion in the public audience. And now -- public hearing. And now we have to submit the information (inaudible) we have to submit all that information. So that a new validates [ph] our data. I predict that they will do that -- we have that line [ph] to submit that. And they have a deadline to show the results, some of the results.

And I don't think that this will occur this year. This will occur next year. Why? Because we have a deadline still that's not closed to deliver, which is 180 days. And at the end of the year, once we submit those data, they are going to analyze those data. And then after they're going to recognize those data next year.

But the people from regulations on the update and correction office, we will follow the same (inaudible) that's the first BRL13 billion that's (inaudible) with an interest rate that should be going with the market of the time.

Q - Unidentified Participant

Thanks.

Operator

Next question will be from Ms. Liliana [ph] (inaudible) Ms. Liliana [ph]?

Q - Unidentified Participant

Good morning. Thanks for the opportunity. Dr. Armando [ph], I wanted to -- how much energy available Eletrobras has to be sold or that is not hired we are selling with the free-market? Can you give us an indicator? Another question is, if you can give us an idea of the return expected (inaudible) the generation, given that we verified the delays in the works and what is predicted? Thanks.

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

Liliana [ph], thanks. Well I would like to give a context. We had the option of part of the free energy [ph] that we have of being considered on a bid [ph]. And we have (inaudible) that's very significant, BRL251 per megawatt hour, this for a period of five years. So we did a study, internal study where we projected this cash flow and we compared, even considering the -- the disposition of 2014 [ph]. And even so [ph], our analysis compensated to do the business for five years than just be exposed [ph] to the short-term markets and be sold on the short-term market.

There is something that we just left as a reservation. But the director of market strategy, as a director, I cannot do give [ph] that, because that's -- that settles [ph] with the market prices [ph]. And I can't give you the amounts of commercialization. But I can tell you that what is available is considered in our analysis, discounted (inaudible) we understand that this is a good situation. And if we wanted -- we didn't want to have a problem with exposition [ph]. It's a problem of market we're generating (inaudible) market.

So the (inaudible) worst than the average -- historical average (inaudible) do you have five or less than your actual energy (inaudible) or not? We have a little bit, more or less [ph]. We consider this in the analysis that we've done (inaudible) is -- which is the adjustment of the market value, 8.5%, above 8.5%. And we have a business line (inaudible) that.

Q - Unidentified Participant

Thanks.

Operator

(Operator Instructions) Next question will be from Mr. Leonardo Torres [ph] (inaudible) Mr. Leonardo [ph]?

Q - Unidentified Participant

Mr. Armando, you explained very well that (inaudible) wanted to know if there was going to be a complementation [ph] from another colleague. But here's the deal. From the

receivables (inaudible) and still studied. And studied won't be this year for sure. But what is (inaudible) on the balance, how much can we receive?

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

Well everything. The expect -- well, Leonardo [ph], what have we done (inaudible) how much we did (inaudible) of our assets by the cost? We did it by the accounting cost. So for the asset. We had BRL31 billion in assets affected by the renewal of the data [ph]. Of those BRL31 billion, we lowered it to around BRL26 billion. We lowered BRL5 billion from the assets. Why there was this drop? Because (inaudible) registered it by the cost, this -- due to the law [ph] has created a new methodology, which is a new reimbursement value.

We had these assets. And we recalculated them by the new methodology and we got to this amount of BRL13 billion [ph], which is the first (inaudible) and we have an expectation of an extra BRL12 billion [ph] that would give us BRL26 billion against the BRL31 billion [ph] that was -- we had a lower of BRL5 billion.

We did all of that (inaudible) that when we have a public bid, we also wanted to talk about the issue of -- the criteria. Are you going to consider what as a criteria? Are you going to consider the cost of a project of that size of a basic project? Or are you going to consider for what (inaudible) have we spent to build it?

So (inaudible) example (inaudible) let's just say that we spent 300,000 cubic meters for -- to build it. This is on a basic project. Then you spend a million in the executive project, that difference of 700,000, this is what we're defending that should be considered in what effectively was spent [ph]. But for that, Leonardo [ph], we have to prove and to prove we are doing all the studies of the time to show by tables, by (inaudible) coupons what was -- that what we spent is not BRL300,000. But BRL1 million, just a theoretical -- I don't know the real numbers. But this will be reconsidered in the future. And this is our expectation.

So we are coordinating a workgroup within Eletrobras, with all the companies, to do the -- getting all the information to (inaudible) will get that. And they will take some time to analyze that. That's why I told you (inaudible) my expectation is that we're not going to get the results this year. But next year. Even the consolidated [ph] part on the -- yes, exactly that part of the balance sheet, exactly that part. So this year, we are not going to get more resources. More revenue, no, no. I don't have that expectation.

Q - Unidentified Participant

Well thank you.

Operator

We close this session of the Q&A -- we return the word mister -- to Mr. Armando for the final considerations. Mr. Armando?

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

FINAL

I would like to thank the presence of everyone. I'd like to ask you for your questions (inaudible) would like to tell you that according to the communication of the market last year, we created (inaudible) regulations. But (inaudible) regulations will be directed by (inaudible) which is the president of -- up until then the president of Eletronorte [ph]. He is the vice president of the (inaudible) Brazil. He has a great penetration in the market. And he knows all the parties of generation and transmission and has vast experience in -- to develop this role, which to us is very important, because as you know, we are affected by the renewal of the bid, public bid [ph]. And all of this renewal, we had (inaudible) taxes is on the regulated environment.

And once we (inaudible) the regulated environment, we have to monitor that expecting thousands of megawatts in almost 30,000 kilometers of transmission lines. And all of that has 30 years up ahead where we're going to have reinvestment to be done. I haven't told you about in this presentation there's more than BRL80 billion in investments done in this quarter, of which we have a revenue by the regulating agency (inaudible) recognition of revenues for reversion in our depiction [ph] as predicted [ph] by the (inaudible) itself. And the strong working -- the regulatory -- regulations has already predicted this in our director final [ph] business management, that will make us the director -- the directorship will take care of (inaudible) has (inaudible) proving the reimbursement -- the reimbursements. And this is a lot of money. And I think this is the adequate moment and this is the new moment for renewal in the buildings.

And everything that's renewed will go through a process. And this is very big. Eletrobras, as you know, is very big. And this will be -- this is a board of directors that's fundamental for us.

Operator

And there is another question here. Just we're going to open for (inaudible) Sergio [ph]?

Q - Unidentified Participant

Hi. Good morning. I have a quick couple questions. We've been doing a follow-up on the previous answers. About the answer to Leonardo [ph] is, what are you doing now -- you're doing -- getting the data in regards to the RBCA [ph]? And according to -- what's the value? And what other deadlines are you going to -- are you going to get it by June 30th? These are practically the two main companies that have this request [ph] (inaudible) Eletrobras and (inaudible) there (inaudible) of June and then 150 days [ph] to (inaudible) if -- my (inaudible) is if every -- these two companies have different deadlines and later (inaudible) these values according to what is going to be concluded of the study will be shown as a simultaneous package [ph]?

A - Unidentified Speaker

Specifically, you were -- well, the first question is on RBCA [ph]. Okay (inaudible) RBCA [ph] (inaudible) RBC [ph] has a lot of (inaudible) we decided that (inaudible) opens (inaudible) so it's an asset that we have around BRL8 billion of these BRL8 billion that we have there, we did it by a new reimbursement value. We had a public bid. The public bid

recognized (inaudible) as a concept that should be taken into consideration [ph]. This (inaudible) is to control effectively how much is spent on the works [ph].

So just so I understand, for me, RBC [ph] would be specifically of the transmission lines. These (inaudible) billion cubic meters of concrete, what about that phase of (inaudible) in relation -- in regards to (inaudible) about the renewal of the generators (inaudible) generators have an improvement.

Let's just make the consideration. If it's in the case of a transmission company, we -- there is a variant for the cost of the path [ph]. And the basic project, when you do it, we have the best project. The last (inaudible) the shortest distance between two points. But when you are building a de facto, you find problems along the path. You have to create a variant to -- a variable (inaudible) this increases the power, the transformers, the price. This is (inaudible) no (inaudible) but when I build it, there is -- there is a different number. There is a different.

As well as we control -- as long as we control this and we don't have significant changes, the reimbursement, with the reimbursement value, we're going to have a difference between what we presented and what really happened, this contribution (inaudible) recognizing the public audience.

So this value, you think you're going to get BRL12 billion, no, in the case of (inaudible) this difference everything is done with the investments prior to 2000. This is (inaudible) in transmission part, it's BRL8 billion, BRL8.5 billion. This is in our balance sheet. This is detailed in the balance sheet.

I'm not -- I'm talking about (inaudible) BRL8.5 billion. So BRL8 billion in regards to the transmission line, including RBC [ph]. And BRL4 billion is related to the reinforcement -- related to the generation. Okay. And take a look at this. RBC [ph] is delivered until December of 2014. Anel [ph] has a deadline of 50 days. So answering your question, if somebody delivers it today, we will anticipate to that. They have 150 days. But there is a limit date until these 31st of December. And they have 150 days to be (inaudible) to give its standard.

Well counting the 31 of December plus 150 days, we're going to get May, June of next year, okay? And generation company is until June of 2014, we're presenting everything. But the deadline of Anel [ph] still hasn't determined for this part of the generation, hasn't determined that against RBC [ph] it was specific.

Q - Unidentified Participant

And the second question in regards to PNS [ph]. Can you inform me -- you informed on the presentation a cost of -- which is the cost reduction in regards to the adoption of the result of the PDI [ph]. Well the first (inaudible) do you have a tendency of stabilization of this standard?

A - Unidentified Speaker

It has a tendency of reduction, because you have in the year of 2014 the PID [ph] has got people from the second semester of -- Second Quarter of 2013. But there is a part of people that are still leaving in the 2014. So the tendency is that we have a drop of this value.

Q - Unidentified Participant

Can you say more -- 20% more? Two hundred million reduction?

A - Unidentified Speaker

Sergio [ph], I don't have the detail. It's about 80% last year and 20% this year, 20% and plus 20% this year. The people here are 80%. And 20% is this year more on the Fourth Quarter.

Q - Unidentified Participant

And lastly, my question (inaudible) which is the strategy, your position of how much you have available on the spot market. Is this strong result from the First Quarter of the sales of energy (inaudible) how much -- how much are you going to get on the First Quarter and the next quarters? Are we going to have to have buy [ph] energy on the spot market just to have an idea of the behavior in relation to the revenue?

A - Unidentified Speaker

Sergio [ph], actually you've made the same question as (inaudible) yes, it just changed the currency. But I wouldn't like to reserve myself to that, because (inaudible) commercialization, which is what we coordinate here, it's very strategic and we have a pact on the board of directors that we maintain that -- in reserve.

Q - Unidentified Participant

But at least -- the only line that should have a variation, if we have a variation (inaudible) the other one's supply, all those lines should be stable.

A - Unidentified Speaker

Yes.

Q - Unidentified Participant

Okay. Thanks.

Operator

We close, therefore, the session of Q&A. We return to the speaker, Armando Casado de Araujo, for the final considerations. Mr. Armando?

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

FINAL

Okay, well, I will complement what was already started, the (inaudible) of our conference. And just to complement, the company has been working strongly on the recuperation [ph] of its results. We have the part of the compromise that we had with the unearthed contracts [ph]. And this the directors of regulation will work with that. And that was the issue of the question. It demonstrates an interest in that subject. And we are working strongly with our strategic planning. The director plan of business [ph] for -- were part of the shares we -- part of the actions we already presented the results. And with that, we are working strongly for the improvement of the results of this year of 2014.

We already recovered [ph] BRL77 billion. We have BRL2 billion of EBITDA. But the generation is from (inaudible) transmission that was part of the renewal bids [ph] we had an EBITDA of BRL2 billion -- BRL2 billion at the end of this quarter. With that, I would like to thank. And I am at your (inaudible) me, Paula [ph], Arlindo [ph], Francisco [ph], Leonardo [ph], here from the team of the investor relations, we are permanently at your disposal to answer any questions. We are not just limited to these conferences. Thank you very much. Have a nice day.

Operator

We close from this point the teleconference of Eletrobras. We would like to thank your participation and have an excellent day.

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