

## Q1 2016 Earnings Call

### Company Participants

- Armando Casado de Araujo, CFO, IR

### Other Participants

- Carolina Carneiro, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Ladies and gentlemen, good afternoon, everyone. Thank you, very much for waiting. Welcome to the teleconference for Eletrobras to disclose the results about the First Quarter of 2016. We would like to inform that all participants will be listening to the teleconference during the presentation. And afterwards we will have the Q&A session when greater instructions are going to be given. We would like to remind you that this presentation is in PowerPoint in the site with Investors in Eletrobras site.

So before we begin, we would like to talk about the declarations that can be made during this teleconference that have to do with the business projections [ph] of the company. So projections and the financial objectives, they are according to the Board of Eletrobras as well as the information available for the company. So future considerations are not guarantees of performance because they involve uncertainties and risks. Therefore, they depend on whatever can happen. The investors should understand that the general conditions and other operational factors can influence the results in these considerations.

And now, I'd like to pass the word on to Mr. Armando Casado de Araujo, the Financial Director and of Relations with Investors. Mr. Armando. Good afternoon. Please?

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

Good afternoon, ladies and gentlemen. I would like to first of all thank you for your participation. And to start this teleconference about our results of the First Quarter of 2016 that were disclosed on April 11, on Wednesday. And as you have already seen our results as well as -- if you have any questions and you have already asked our Department of Relations with Investors. And as we usually have, after every quarter, I'm now going to describe the main factors that influence the results of the First Quarter of 2016 and I will then be available for you to ask any questions.

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So in the First Quarter of 2016, just like in the previous year, we had some very -- there have been difficulties in the electrical sector and definitely, this is one of the largest generation and distribution of energy companies. So as you know, as the analysts know, the evolution of the distribution market had a very important role in the results that we disclosed last Wednesday and we also had these difficulties that influenced our results. And I'm going to start with slide number 3. And this slide as we already presented -- actually it is slide number 2 -- Eletrobras registered in the First Quarter of 2016, BRL3.9 billion and losses of BRL10.3 billion, that were registered in the Fourth Quarter of 2014 and with profit of BRL1.3 billion in the First Quarter of 2015. So it defers the same period as this quarter.

With regard to the results of the First Quarter which is represented in the first two columns of this slide, the main components I'm going to detail further ahead. But basically we highlight the operational provisions that represented losses of BRL3 billion and also in the distribution companies, we had BRL1.2 billion in losses. And just these two values, they are higher than the amount of the loss in this period. And further ahead in slide number 6, we are going to see the composition of these accounts in terms of operational provisions.

In slide number 3, I have three variables and two of them influenced two variables; there are two that influenced the results of this period and it is exactly what I just talked about. We have the provisions, judicial provisions, BRL2.8 billion and then we have the distribution area, there is BRL1 billion there and the energy that has BRL868 billion.

In slide number 4, we show you the gross operational revenues. There was a reduction of 27% with regard to the Fourth Quarter of 2015 going from BRL11.3 billion to BRL8.3 billion. And this was influenced by the deconsolidation of Celg-D in the First Quarter of 2016. So during 2015, we consolidated Celg-D. And now because of the alienation process, we are going through this deconsolidation and definitely, we have the components that are involved in each group of accounts in the company according to the results. And also because of the revenues in terms of relation. So in the short term, the price has gone down and therefore our energy has been giving us less revenues compared to the previous year and the Fourth Quarter of last year as well. So this is the first time in terms of comparing to the Fourth Quarter of 2015, we've had a negative variation at BRL380 million. And basically have the commercial pricing and we have the breaks from the commercial price in industrial goods. And this is influenced by the methodology used and also the variation of the dollar.

Now in terms of the distribution segment, we have a reduction compared to last year that contributed to the lower net revenue. And I've already talked about the deconsolidation of Celg-D because of the approval of the sales at the participation of Eletrobras -- shares of Eletrobras and the distributor, as agreed upon in the meeting number 164 that was done on the 28 of December 2016.

Now in slide number 5, I'm presenting the First Quarter of 2016, we have our expenses -- personnel expenses, also for material and services. It was 14.3%, BRL2.836 million that was in the Fourth Quarter of 2015 compared to BRL1.988 million in the First Quarter of 2016. So we have 24% -- so a 23.8% difference in these numbers. In slide number 6, I show you the provisional operations of the company, which is about BRL3 billion, out of

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which BRL9 billion have to do with the provision of the compulsory loans that I'm going to explain probably during the questions.

And finally, in this brief presentation, I presented in the First Quarter of 2016, we have BRL2 billion, which is negative and then we have BRL3 billion, which is about the compulsory loans at this time. And this is not something that has been effectively transformed into an obligation. So we're going to have an EBITDA of about BRL1 billion. So with this very brief presentation. But considering that we have already studied all of these issues in the report, I prefer to make this time productive in this conference. So I'm available to answer any questions you may have.

## Questions And Answers

### Operator

(Operator Instructions) Ms. Carolina Carneiro, Santander. Ms. Carolina. Good afternoon.

### Q - Carolina Carneiro

Good afternoon, everyone. I have two questions. First of all, I would like you to update the complement to what you presented in front of results and the communication from the market about the discussions from Celg-D and the presentations, what kind of spaces are being taken up by the company and when we're supposed to have an answer from Celg-D about the order that you presented. And the second question is, if you can upgrade a little bit about the Celg process, because we saw the press saying that maybe we would have a new discussion about the amounts involved because of the sale of these assets. But just to have an updated value from you to see what is actually the amount involved, where we're at. And if you have to re-evaluate the sales value. So that's it. Thank you.

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

All right, Carol. Thank you. Now, with regard to the filing of our 2014-2015 numbers, definitely I got this last year in the stock exchange. I had contract with the SEG [ph] as well and I had a relevant fact that was communicated and also considering our situation and SEGI [ph] and the stock exchange. And basically, we're doing everything we can so that we do not remove the company from the listing, because of this process -- and we explained the whole process and I reported this myself -- this whole process we're going through, this is something that has never happened in Eletrobras. And we're having investigations done and we don't really have this investigation concluded. And we are in a situation that is exceptional in terms of the filing of 20-F with qualification. And qualification that is gradual as we develop this investigation process.

And we also have a very tight deadline. And that's why we were not able to file the process. But what we have is that we have to have a suspension, just to start the negotiation in the New York Stock Exchange. And with this suspension, we start a process of cancellation of the registration and this demands a certain amount of time. And we are working very strongly. We had a meeting today with our Board and we worked to be able to through this period try to conclude, or to work on the conclusion, or on an

acceptable conclusion so that we will be able to during this period work with a hypothesis of filing this listing. So without concluding this investigation itself.

Now, considering a Celg -- okay, there is more important information that I would like to give you at all considering what you want to know. We do not have in our bonus contracts where we have our resources; we do not have any default clauses. So our contract did not have expressed default clauses or in terms of the maturity of debts. So all the contracts we have are related to our statements, our financial statements. And we file them here in Brazil. And they are duly filed. So I think it's something that does not provide us with any impact in terms of maturity deadlines for this process in terms of debt. Now about Celg, we are still working very strongly. We have not worked with any values. We are working with the agenda. And we want to finish it this year.

### **Q - Carolina Carneiro**

Okay. Thank you, very much.

### **Operator**

(Operator Instructions) Carolina Carneiro, Santander.

### **Q - Carolina Carneiro**

Just taking advantage of the fact that nobody else asked questions, I'd like to ask for another update. But now, with regard to RBSE, we know that we still have a lot of questions about how the accounting of these receivables will be. So I'd like you to give us, as far as you know, what you have up to now, when we would be able to see the accounting of RBSE and what kind of impact this can have in terms of your results, especially with regard to these discussions that we know already existed about the impact of the taxes and the discerning of the impact for the company. Thank you.

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

If you see our balance, you can see that it's number 47 of subsequent advance and we already registered what was approved by ANEEL for Electrofinia [ph] and for Furnas. But we still need, we still depend while we have a meeting with Gracon [ph] this week, that is going to close document for us to be able to start our discussions with the agency, with ANEEL. Then, we have our estimation of this amount for the company. So there is a part that has already been registered in the book. And an example of the subsequent values. So the amount of Eletrosul is BRL15.3 million; it was BRL1.07 million that was approved. And the updating, we still have a divergence of that. But it's going to be seen by ANEEL, or approved by ANEEL in this meeting, that we're going to have in a public hearing. So it's BRL1.077 billion with BRL764 million of updating. I'm going to receive BRL1.771 billion compared to BRL513 million with this difficult -- this difference is what I'm going to appropriate as an asset for the company.

And this company asset is there. It is being placed in the articles of incorporation and it's known for this condition. And because of this condition it works as if were a financial asset. And because it is a financial asset, we can deal with it. How we usually deal with financial

assets is, basically we have different taxes that are paid because it is like a provision. And when you amortize this value of an asset for the profit and what is done in the internal revenue, we have to do the different type of taxing and this would lead the company to be taxed by the IRS, that is recognized during that period.

Okay. So basically, this is the condition involved. But now we depend for this to be recognized. This is what we're talking about with Gracon. The auditors are coordinating this meeting so that we can deal with this correctly and at least -- but that's probably what is going to be followed.

### **Q - Carolina Carneiro**

Okay. Thank you.

### **Operator**

Virujana [ph], Santander.

### **Q - Unidentified Participant**

Good afternoon. My question is about ANEEL and rule number 3 and the irregularities involved in IGE. So I would like to know looking at the balance of Eletrobras and how much time do you have to discuss this when we talked about ANEEL did last week?

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

Virujana, first of all, Eletrobras disagrees with this position of ANEEL and we have BRL1.8 million which is the differences between the assets and liabilities, that was BRL1.8 million. And we have recognized this amount as an obligation in case the distributor had a positive result. And since the money was used for this acquisition, it would be given back in this amount. So this is not being recognized by it. And the other issues -- the company is actually going to take the necessary measures and legal measures to be able to go against the value that they came up with.

### **Q - Unidentified Participant**

And do you have a deadline for this? Because basically, it says, that's 90 days.

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

No, because if there is any need, we're going to (inaudible) action against this.

### **Operator**

(Operator Instructions) Okay. So we are going to close the session -- the Q&A session.

And we are going to pass the word back to Mr. Armando Casado de Araujo for his comments. Mr. Armando, please.

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

All right. So I would like to thank everyone who participated in this teleconference. And I think we have some important points that can bring better results to the company. Like for example, the organization and with regards to the concession of the distributors, the compulsory loan itself that we are trying to provide all the values for. But they are not being executed yet; they are quite far from this process. And this can open up a pathway for us to be able to work with smaller amounts in terms of provisions. And also Celg-D is an important issue. So I think these are points that deserve to be considered. And definitely these adjustments will make us get better results in the future and also in a short amount of time. So I'd like to thank everyone. And I am available, my whole team is available at Eletrobras, if you have any kind of additional explanation you may need. Have a good afternoon, everyone. Thank you.

## Operator

So we are now closing the teleconference of Eletrobras. Thank you for your participation and have a great afternoon.

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