

Q4 2016 Earnings Call

Company Participants

- Armando Casado de Araujo, CFO & IRO
- Wilson Ferreira, President

Other Participants

- Carolina Carneiro, Analyst
- Marcello Marin, Analyst
- Miguel Rodrigues, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen. Good afternoon, everyone. And thank you for waiting. Welcome to our Trading Conference of Eletrobras to inform the results for the Fourth Quarter of 2016. We inform that all participants will be listening to the teleconference during the presentation. And later on, we will have a Q&A session and more instructions.

We remind you that this presentation is on a PowerPoint format and it's available at our website. Before we move on, we would like to disclaim any declarations or estimations done during this teleconference on any goals and any projection are premises of the Board of Eletrobras, as well as any other information that we make available. Any future considerations are not going to guarantee any performance. And they depend on many circumstances that may or may not be true. Investors must understand that any operational factors may have an impact on the results that we are going to inform.

I will now pass the floor to the President of Eletrobras, Wilson Ferreira Junior; and our Financial Director at Eletrobras, Armando Casado de Araujo. Mr. President. Good afternoon. You have the floor.

Wilson Ferreira {BIO 1528124 <GO>}

Good afternoon, everyone. I would first of all like to thank you for attending our teleconference for the Fourth Quarter of 2016 at Eletrobras. We are here to talk about our perspectives of continuous improvement in our results. So we have a presentation that is a bit longer than usual. But since we closed the year, it is very important to talk about the results of all four quarters. And this format, we understand, is going to allow investors and all the participants to understand the businesses that are going to net Eletrobras.

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On page three, you can see the highlights that we had in 2016. As you may know, we had a large restructuring program in the Fourth Quarter. I would like to highlight a few of those processes. We configured a new Board -- a new Executive Board with many very good market professionals. We also created the Compliance Board -- the Compliance Committee. And that was a very important process for the entire organization, for the entire company. And Eletrobras needed that. We also adapted to the new responsibility or accountability law for the company. We also launched the five dimensions program and updated our ethics code. And of course, we continued with Hogan Lovells, which is an independent company, leaded by (inaudible). And we continued that research and that investigation.

As for PDNG, our directive plan, we launched the new one for 2017 until 2021. As I said before as well, we had a large restructuring process in our organization. And we also registered the RBSE, which is the existing network. And that is very important in our balance. We also had the privatization of CELG-D and the cost was BRL2.1 billion. Then, in 2016, we had mainly highlights and some others were the physical add of -- we added 14 - over 1,400 megawatts in capacity, that was installed. And we also had Belo Monte with almost 1,000 megawatts. We also had almost 1,800 kilometers of transmission lines added. And the highlight was for Furnas and Chesf, Furnas with over 600km and Chesf with almost 600km. In 2016, it was also important that we tied all of 20F Form for 2014 and 2015 with the operating on the NYSE. And we also launched the IR Ombudsman for Electrobras, following all of the best practices that we have for IR in Brazil.

I would also highlight on page four some financial highlights for 2016. Here, we have profits of BRL3,426 million in 2016. This has to do with our net operating revenue of over BRL60,000 million, our RBSE (inaudible) the existing network has around BRL28 million and the provision for the corporate income tax. And the social contribution on net income, the CSLL with almost BRL10 million with a net effect of over BRL18 million. And our managing EBITDA was around BRL3,500 million. So these are the operating provisions, which was BRL14,724, our negative net financial result was of around BRL6 million and the highlight it is our strategic work to have as less loss as we would with monetary correction for compulsory loans of BRL3 billion.

Now, let's talk about the loss that we had in this quarter. It was BRL6 million approximately. Here, of course, we have to highlight the privatization of CELG-D with a net operating revenue of around BRL13 million the existing network RBSE update is BRL1.3 million approximately with the provision of the corporate income tax IRPJ and the social contribution on net income CSLL of BRL439 million with a net effect of BRL851 million. So here, we have some additional position to have to do with impairment, onerous contracts, etc. So in this semester, (inaudible) reached BRL7.5 million and our loss provision CCC and CDE was BRL724 million. This was based on the resolution of the agency. And other investment loss was around BRL1.5 million. Our negative net financial result was BRL1.8 million and I have to highlight that BRL1.9 billion which for the monetary correction of the compulsory loan.

Let's move on to page 6, where we have a summary of the results. Here we're thinking about our (management) results at Electrobras. The consolidated IFRS numbers are here. And we also have the management consolidated for 2015 and 2016 and for also

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comparing the Fourth Quarter of each year. On top you can see the reported results and the bottom we can see (inaudible) management consolidated results. Here we consider events, especially non-recurring events that allow us to have a better perspective of the recurring result of the net operating revenue for the managing part. I would like to highlight that the revenue showed very good, very solid growth. Obviously, we had an influence here because of the recognition of the RBSE, the existing network system.

And in this result we can also talk about the EBITDA, which was negative in 2015, it was negative BRL10 million approximately. And now we have a result BRL19 million, over BRL19 million, almost BRL20 million. So very expressive growth as you can see. And if we compare the quarters of each year, the result is -- it's still negative. But it's just half of it if you compare the Fourth Quarter of 2015 and 2016. So that's a fact, a very good fact.

We can also see in the financial results as we drill into detail that there was a currency variation. There was a currency variation in the year. So we were coming from a negative BRL1.76 billion, approximately and if we compare to two semesters, it went up to BRL1.863 billion from BRL1.686 billion. And we're also coming from 14 negative to 3 positive from 2015 to 2016. Then the last line line, as you can see here in the first and the fourth semester, in the Fourth Quarter, we can see that even though we're not completely satisfied still, we have very good results comparing the two.

So I highlighted recurring results, we are starting to see a light at the end of the tunnel when it comes to the perspectives of Electrobras. We've been working hard for the last -- for the past two years and it was a shame to see negative results. So based on what we did in 2016, I believe we are going to have better results and better perspectives for the future. So based on all that, we're talking about a company that had a 3.4% growth, if you think about it annually. And when it comes to the quarter, if you compare the Fourth Quarter of each year, we had a growth of around 15.7%. I think we start to see, we have a perception of the consequences of all of the efforts that we made.

Here we see the recurring results, growing 4.1% in the annual base. And in the quarter, it was a decline of 3.5%. So that determines that the managing EBITDA, the recurring EBITDA when up to BRL3.496 billion, which is a 33% growth and it's much more expressive if we compare the quarters, we're looking at 322% growth going up from BRL186 million to BRL784 million. So that is very important that really shows the behavior that the Company has now.

Same thing for net profit, we went from a negative BRL796 million to a positive BRL696 million, with a growth of 187%. I think that shows that we are reverting the losses and in the managing results, we also see that overall, we've -- we can see that the perspective is much more positive now. So as I was saying that was all for the IFRS consolidated results and the managing consolidated results.

Now if we look at the approach according to each segment, that also allows us to better understand the market and to give us a good perspective of management of the results that the Company had. Here we start to see, on page seven what the results were for

Generation, Transmission and Distribution. In Generation, if we think about the ones not renewed by Law 12.783 and also the ones that were renewed by the same law.

While in Generation and Transmission, let's start with that. These are the consolidated revenue numbers. I think it is worth starting to look at those, this is a company that has had a very good operating revenue results, of course, that comes from Generation with BRL17 billion. We have added around 2% in IFRS reported and in the managing results. Here we have the divisions between the assets, the not renewed ones are the ones where you have the highest tariffs and that's what determines the main instalment for revenue in Generation, that would be around 90% of our Generation revenues, that come from those assets. And the other ones account for 10% and they presented a reduction in 2016, a small reduction.

As for Transmission, I think here from a managing point of view, we have to see that the renewed assets are the ones that also determine part of our revenue, it's not like what happens in Generation. Here if you look at the table, the revenue for Transmission is around BRL3.780 billion and the growth that we had was a 14% if we compare 2015 and 2016. So again, 80% approximately comes from the renewed concessions and the rest from the not renewed ones. So in revenue, I think it's clear that from this point of view, we have around 20% of the revenue coming from Distribution, 10% or 12% coming from Transmission and the rest. So the main part, around 65% comes from Generation. This is like an X; Ray of our assets, if you think about what was reported. And again this was influenced by RBSE and the management where we have made many efforts. You see -- in the bottom here, we see the EBITDA in our operations. Again here, this allows everyone to better understand the Company. Here we had a negative number in 2015 again, it was positive in 2016. And like I said, influenced by RBSE, this is just for you to analyze.

I just wanted to talk about managing EBITDA, which had a 33% growth. This was affected directly by the growth in Generation, 283% which is a lot. We also have the growth of the not renewed assets of around 25%. And a reduction in the renewed ones of 300% approximately, because of those concessions. As for Transmission, we went down, we had elevated costs both in not renewed and renewed. So in Distribution, in this new operation because of the privatization, this situation was aggravated in comparison with the past because of our decisions -- our sales decisions.

On page 8, we have a similar table for Generation, Transmission and Distribution where we're looking at final results and comparing 2015 and 2016, if we look at the reported IFRS and the managing results. So if we think about generation, we see that it's pretty much the same. Transmission was reverted, the loss was completely reverted and distribution is also pretty much the same.

Let's move on now to our net operating revenue for 2015 and 2016. Here we're talking about million reals. And looking at it annually and according to each quarter. So the Fourth Quarter 2015 and 2016, comparing both. So if we look at our growth revenue, we had a growth of 55% comparing both quarter. In generation, you must remember the trend that we follow that allowed us to have better operations in 2015. There was a small reduction in 2016. And if we think about -- if we don't think about the non-recurring events, then we

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go up. In transmission, I would highlight, as I said before, the assets that had a return because of RBSE, the existing network. And the improvements that were made. So annually, it went up from 800 to 29,000. I think this was the main growth element with over 3,000%. And if we compare to quarter, we went up from 200 approximately to 1,500 with over 500% growth. In distribution, I think what could call our attention here was construction. This has to do with the investments of the company.

In one year, there was a reduction. But now, we have resumed that. And we can see that it has improved, especially if we compare to quarter. As for distribution, we had a total revenue of over 16,000 and in the quarter, without a doubt, we can see that because of the tariff adjustment that had an impact and we had a growth of approximately 95%. Well I think this is like x-ray of our operating revenue.

And on page 10, we come to a different approach, the PMSO, as we call it. So it's personnel or staff, material services and other expenses. This is according to each segment and the consolidated results.

So now we look at each area to see where we can improve. Here, we see an improvement in personnel or staff. We see a change actually here. We had a change of around 9%. This was affected mainly by the readjustments in salaries or wages that we're observed in June, especially. And around that quarter. So that variation had an impact. We also had non-recurring aspect because of different agreements with unions and companies that was around BRL90 million. When it comes to material, we had a growth of 4% in services -- third-party services, we had a 10% change. And I think the most important thing here was the investigation services. I mean, if we remove that, we see that in services and third-party services, the change was not that important. If we compare it to the expenses in 2015, it would be theoretically real reduction in services. And as for other expenses, here, we had a growth of 3%. But an important opening, let's say, if we think about the findings in the investigation. So the over 300 that we added in the end of last year had an impact in this area. And we had a reduction in those total costs.

So we see that the total PMSO had a growth of 8% and the managing one had a growth of 6%. But let's take a look at this according to each segments. In administration, it was a change of 1%; in generation, a variation of 8% approximately; transmission 7.6%; distribution 4%; and eliminations around 68% variation.

On page 11, we're going to look at operational provisions. And we compare it year-on-year. We have contingencies in the first line, BRL3.99 billion in 2016, highlighting the provisions for consumers. For PCLD, for consumers, we had a drop of 48%. As for the financing programs and loans, we had a growth of 10%. Impairments, which I'm going to detail later, had a reduction of 8%. Onerous contracts had a growth of almost 500%, as you can see here in the table, where we went up from 317 to 2,200 and that's (inaudible) 1,479. We also have the CCC provision for the ANEEL, which is the national agency of 742. This is had a financial effect of the budgetary suspension that was under discussion. And we also had the hydrological risk. Here, we had Eletronorte make and (inaudible) was here because of the agreement that they had from GSF assets. So the operational provisions had a variation in total of 1%. So we had 14,638 and now we have 14,724 in 2016. That was

all affected by the onerous contract and by the provision made by the National Agency and yield.

On page 12, we see the approach on compulsory loan. We see it went from BRL9 billion approximately, BRL9.3 billion to BRL4.6 billion. So we had a large variation here. And this happened mainly because of the monetary correction of all of the adjusted processes. So here, we have reversion, constitution of provisions because of the payments as well. We had a variation of BRL1.5 billion approximately. And the main part here is because of monetary correction. I also wanted to talk about impairments, like I said before I was detail it. So let's see here. We have a main balance for impairments, we had around BRL16 billion in our balance in 2016. And then we add 5.5, mainly affected by adding another 3, the (inaudible), which reached around BRL9 billion in diverse in the different projects where we had variation. And we also had a total in generation coming from the others of around -- the transmission of around BRL3 billion. So Campos, Batalha, Simpício, all of the other plants. And the balance -- the final balance was 12 in generation (BRL12 billion). A small percentage of this is just Angra 3. In transmission we added BRL2.3 billion, reaching BRL3.6 billion. And in distribution, we went from negative 200 to positive 237. I think this is an important piece information.

We have a perspective and we're working on this to be able to have Angra 3 on good condition. And also, we have the privatization of the distributors, which is going to have a reduction in fact.

So impairment is a very important element here. But it also pushes for action. We have to create good conditions for it to be reverted by resuming projects or selling. As for onerous contracts, which you can find on page 14, you can see here on the table, we had BRL194 million addition. It's the main one that we had, that was last year. And final balance was 3.7. Again, the main one is Angra 3, just like before. The good news is the contract that probably is going to be adapted. And the distribution bases went from 19 to 1079. So in Angra, we have a BRL1.3 billion onerous contract addition, that was the final balance. And we also had some internal one in distribution. We have Amazonas and other for distribution. So we can work with 11.2, coming from 16 plus 3, basically 50% or even more than 50% on two assets.

Let's take a look at page 15. We have an approach on the CDE and CCC provision. So here, we had an additional provision of over 700. And this gives a lot of transparency, I think, because of the contracts, because of the CCD 1 and 2. These are closed contracts between Eletrobras and Petrobras, made during 10 years. And in the first column, you can see the first parcels that are already expired from the moment that Petrobras took the distributors there. And they couldn't really find the resources for payment. So those values are still there. They're in the funds. And they were not considered by the national agency in what they're doing, the activities they're doing. We have the first installment distributed by all of these distributors and that corresponds to the CCD 1 and 2 financing program, which is (inaudible) of what is necessary for them to really be able to afford those payments. I mean, the distributors have some rights that are given to them. And that led to debt with Petrobras. Those were negotiated and they used CDE for those CCD contracts.

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So these are expenses that have to do with the refinancing program of 10 years. They did not have any budget, they couldn't really pay for those debts that they had. And CCD 3, which is the second part here, is the remaining parts -- the remaining installments of the debt until now, until 2017. And this was the object for a new financing program. But not 10 years from now. But three. So this would be 1.5 -- 1.4 actually.

And if you look at the right table, we have the suspended installments for CCD 1, 2 and 3, according to the national agency, the annual resolution, approximately 2.1. We also have the Termonorte II suspended installments. And we also have the resources suspended installments until 2017. So all this generates expenses for the company of around BRL3 billion -- BRL3.8 billion. So the audit looked at that and said well, companies are going to have to pay for their debt, if ANEED is not going to decide on that, not going to be supervised in that. So the main cost of the CDI is going to be applied and the provision total cost is going to be BRL742 million. This was decided by the auditors. I do have an observation, I'd comment on that.

We have an agreement -- we had an agreement for CCD1 and CCD2, that was made in the end of last year and we also had another one for CCD3, involving the Presidency of both companies. For the privatization of all of the companies that were to be privatized. Of course there are many efforts. There is a lot of goodwill for Eletrobras and Petrobras to really do this correctly. It is also true that we're going to have the first to find and that -- it was opposed for ANEEL for the national agency to actually to provide all that according to all of the values that were established at the time.

So it was an obligation of the agency to supervise but that never happened. It wasn't even an option, it was an obligation. But that wasn't done. They started that supervision in beginning of 2017, this year, they made a first report, an internal report where they identified a few data using samples. And as a prevention, I think in the budget they used that number BRL742 million, they used all these CCD1, CCD2 and CCD3 and all these were actually requested by Eletrobras. But they were not recognized by the agency. So we started doing that supervision.

Eletrobras now has all of the documentation available, everything was made available and we're just expecting -- we're just waiting the announcement of the results and it was shocking for us because it didn't take into account what Eletrobras was doing. And as I was saying, it's not an option for them to do this audit, it is an obligation. And our Company really prepared for this audit, we even prepared to not accept any of the provision that hadn't -- that didn't have to do with the official one. We checked in our analysis that there are many different variations between months, maybe because the price change, maybe because of other factors. So we cannot even accept the provision that is not going to follow all of the rules, that has to be correct and the Company -- our Company is ready now with all the documentation to really go through this audit. And we're going to, of course, accept responsibility for anything that we miss.

So we wanted to make that clear, because the right to the reduction (inaudible) only happen if that's a provision process is done, I think it hasn't been done and we cannot really incorporate it and incorporate what Eletrobras is doing. So we expect this process

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to be quick, because our rights -- some of our rights have been suspended until the resolution complies.

Now on page 16, we have a different approach on the financial results. I have highlighted the two main elements here, which is the monetary and now on the electricity, which was a reduction of 55% and also the currency variations, which was a reduction of 51%. And here we must look at liabilities as well. The monetary corrections that I mentioned before also have to do with this. So we're looking at (BRL19 million), negative (BRL19.6 million) for financial expenses and we went down to negative still but (BRL17.4 million). This is basically because of liabilities, because of the monetary corrections, the currency variations and also the regulatory liability update. I think here we must highlight these three topics and also in financial expenses, we have to think about other contributions and loans.

On page 17, we are going to look at net profit and dividend and reserve. We had around BRL3.4 billion if we're looking at the accrual basis, the accrual net profit. And there was also a minimum remuneration, a minimum compensation to be paid of BRL433 million, that was something that I wanted to highlight. And if we look at the mandatory minimum dividend, it would be 25% of the adjusted net revenue. So around BRL820 million.

So paying those elements are going to have an impact at total, plus the reserve. And the rest, we must remember here that we have an accounting revenue, especially because of the contribution that happened through the eight past years. So we consider a reserve for investments and for planning, which was 50% of the net profit. We also have statutory reserve and we also have the capital budgetary reserve, if you can see the last line over here.

On page 18, we look at our total debt. These are the first indicators, when I think this is good news, we have the net debt over the EBITDA going down, which also stopped the net debt to go up, the managing or managing EBITDA to go up. So we have the adjusted EBITDA figures. On the right, we see the net debt and all of the elements and then the net debt. So we had around BRL45 million, if you look at the gross debt and 23% if you look at the net debt. Here we're looking at the RGR financing programs that have to be paid. We also have all the CVM or Brazilian SEC like titles, the financing without RGR and also the net balance of the financial assets from Itaipu. So again from (42) to (23) from (45 to 23). On the bottom, we see the profile of this growth path. So from 2017, 2022, this is what the figures would look like, basically 80% of the debt would be in this period and this exercise so BRL5 billion, BRL6 billion or sometimes BRL7 billion a year. The indexing is over we are in the bottom. As you can see most of this debt is now local, 15% would be RGR. And in foreign currency, 26%. Out of the 57%, which is in local currency, we have CDI mainly and we also have the TJLP of (10%). In foreign currency, the main one would be US dollars.

Page 19 now, the economic and financial performance. On the top left far, we can see the results and the profits according to each share and the results on the right is the managing result. Here we have a very good perception that is going up. It is following a trend we are, I would say maybe losing less. So we are improving. We also have these managing PMSO, the personnel, material services and others and the managing net operating revenue. I think these numbers also start to show a good trend. But even

though it was a year with a lot of inflation in salaries and contracts, causing a lot of influence, we went from 42% to 43% if you compare in 2015 and 2016. So I think it was a very good sign, a good news. Let's start growing the rhythm that it had in the past. And finally in the bottom right part we see EBITDA and managing EBITDA which I have already detailed. So I am going to page 20, investments.

On page 20, what we have here is what we had -- as a forecast of BRL6.2 million and we actually realized BRL4.7 million. My highlight here would be the main reductions that happened in the expansion, the corporate expansion. You're going to see (38) in Generation, (34) in Transmission, even in Distribution something like that, something close to that and some smaller variations that have to do with the attempt to keep compliance, compliant payments, to follow the timeline of all of the work with Distribution and Transmission and Generation. Here we can see the comparison for each element, it was forecasted, it was actually executed. In corporate, the corporate expansion also happened. But it was a bit slower rhythm than we expected.

Same thing for maintenance. Let's take a look at page 21 now. Here we have kind of an X-Ray as well for business segments. So we reached in Generation over 46,000 megawatt. So it is like a third of what is generated in Brazil. It would be 40% for concessions in the exploitation regime, 28% approximately for prerogative concession, 17% in shared concessions and 14% for the expansion. So 2016 had a growth of 1,500 megawatt.

In Transmission we're looking at over 7,000 kilometers and we added many kilometers, it would be 9% of the concessions in exploitation regime, or 6,400 kilometer, 81% in prerogative concessions, which had lower rate, these are lower quarters. And 9.4% for the expansions for the SPE. So we have a total of 1,700 kilometers. And we have over 4 million consumers in distribution and this is with our fixed distributors.

Let's look at page 22 now with our investment for the direct (inaudible) our PDNG, business and management directive plan. I wanted to highlight here, the corporate investment was we resumed are main industries investment plan. For the directive client, we're looking at BRL7 billion in SPE investment and around BRL6.5 billion for corporate investment. Here, we want to really conclude everything, all of the work according to the timeline. So everything is going to be concluded until 2018 for generation. And for transmission, along with Chesf, we're going to eliminate most of all in 2017 and the rest until 2018. We don't have any plans for distribution after 2018, as you can see here, because of the privatization, which also happens in the contracted ones and the new ones. As for SPEs, after 2020, we don't have anything contracted. So it's also -- that's why you have selected numbers here.

And we only consider new investments in generation after everything is concluded. So that's why you only have the figures after 2019. It is important for the company to start using resources from the existing network to replenish assets. But in generation and transmission, these are going to be the new focuses of the company. So we're going to create value with a good ROI.

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On page 23, we have a quick x-ray of our social capital. Here, we start with the ordinary shares, preferential, with a total of BRL31.3 billion. We have an opening here between BNDES and many other institutions, Uniao, BNDESPar, BNDES. We will also have the government funds and the Minoritarios. We see that they are very important as well in both in Europe and the United States. They have very important Social Capital, especially in preferential shares, pretty much half of it, 7% in Asia, a lot in Europe and in United States. So it is important to think about foreign funds as well.

You can see the share performance on page 24, also as a result of this important growth and the value of the shares. In the past, we had around 292% for ELET3. And that happened in the US and in Bovespa, the Brazilian Stock Exchange. I think you can see that there was a very good daily volume growth and that was particularly especially in the United States.

Now, very quickly, I wanted to show you share -- I wanted to show you the directive plan of our management and business directive plan and evolution. I just wanted to show you a little bit of how we're working along with the Council to really comply with our main elements. Remember, we have three leverages. We want to work with operational excellence, governance and compliance and financial discipline. So these are the main three strategies. And we have some important initiatives that are going to help us revert whatever is negative and bring more growth and to have a more sustainable Company. Of course, we start working with operational excellence. The main thing is to reduce costs -- operational costs.

We also want to restructure the Company as we have been doing to better work with our resources. We have over 2,000 managers that we want to reduce 521 of those posts. We want to have a -- we have savings, thanks to the reduction of those functions. We have already approved at Chesf and Eletronorte, a reduction of 42% at Chesf and 26% in Eletronorte, which is going to be a reduction of 93 out of 363. I'm sorry about that 2727, I think it's a mistake, it's probably a typo. We also created the electricity committee, where we're going to incorporate the right initiatives, the right reports, we're going to think about our risk management and credit risk and also pricing for our operations. That has actually been very important. It wasn't a great year last year for electricity trading. So now, we're going to have a better evaluation, a better assessment done by the committee. We cannot just work on savings -- creating savings. But also we have to really work on potential revenue. We approved a pension plan -- a special pension plan at CEST. And that is going to be completely implemented during the month of April. We also have an incentive plan for them.

The shared services center has been approved, the model has been defined, we're going to have a reduction in administrative costs in Rio de Janeiro. We're starting to work in standardizing five of the main transactional activity. The reduction of administrative costs is going to happen in Rio and in Brazil as well. The headquarters in both cities are going to be reduced and that's going to generate a savings of BRL60 million. And our next activities would be the conclusion of the organizational restructuring program. Thanks to the CGTEE, Amazonas GT, Furnas, Eletronuclear and Eletrosul, we have approved the restructuring program for each one of those companies. Just like I said, we're going to

have that special pension plan implemented in April. And those people are going to be leaving until December this year.

As far this the shared services center, the first wave is going to happen Rio in the second semester and the second is going to happen in the beginning of 2018 like Eletropar. So we're going to be submitting this plan for the special pension plan, the PAE as we call it, very, very soon. The shared services center is also going to give us to lead to more savings in the First Quarter of 2018, that's going to be ended in Brasilia, (inaudible) because we're going to extend that.

On page 28, you can see our factoring main strategy, which is governance and compliance. We can -- as I was saying, we have records, all of the 20-F form for 2014 and 2015, we have aligned the strategies between the holding main and be controlled in 2016. We have 52 changes in the Council -- the administration counsel and 25 Board members. We also reformed the social perpetuate to adequate it. 60% of the professionals that were exposed to risks were trained in compliance last year, 74% of the total -- of all of the professionals concluded the ethics and integrity online course. We have updated our ethics code as well. And we have maintained the sustainability index at BM&F BOVESPA. The market multiple went down to 3.57 in the end of last year in December. So I think we have a potential here to multiple -- the market multiple is going to be 7.13%. And that's our goal.

We also have a few activities to conquer going to contract, an independent announcement channel in 2017. We're going to add it to our internal regulations, we're hiring. I think we started due diligence for providers. We understand that it is important to avoid any problems within 20-F in 2016 until 2018. We're going to have a new approach starting in April till the end of April. So I hope to have some evolution since. But really we have -- we are committed to eliminating any problems with the 20-F form till 2018. We're working to really do that. We still continue with the implementation of the five dimension compliance program. We're going to reform the social perpetuate of Eletrobras to also comply with the national company responsibility or accountability loss. We have sent a proposal to CST to be approved.

And now, to conclude the third strategy, financial discipline. We want to reduce the investment. The reduction would correspond to almost 30% for what we had forecasted originally from 2017 to 2021. So it would go down from BRL50 billion to BRL35 billion, approximately BRL36 billion. We really had to generate a good reduction. So I think we did. We started with privatization of CALG-D with around 28%. All of the other distributors were included in the PPI, which is the investment partnership program by the Federal Government. We started the due diligence for the privatization of the distributors. So that process is going to take place until the month of June, it is a very bureaucratic process to be done in this year. And we have to make information available so that, that can happen, the sales can happen in the Fourth Quarter. Until the Third Quarter, we're going to have bureaucracy. We have hired a financial advisor for investments in SPE. We have received SPEs in exchange for some payments. So now, we're going to model our sales system better. The idea is for us to have a model for investment. We want to have one block for wind energy, for instance, another block for other types. And we want to do that by the

Third Quarter of this year. We want to start working with that. We have a few new activities to come and that has to do with the third and Fourth Quarter this year.

On page 30, I wanted to show you the privatization according to our directive plan from 2017 to 2021. So this is the timeline that we have until the end of this year. And just to conclude, I want to show you a few actions that we want to take. There are five fundamental actions for us, challenges to overcome, starting with the audit. We're going to have 15 days to get all of the documentation to ANEEL, the national agency. That is fundamental because they have to recognize the process and then, we can resume our position. We can finish the CCD with Petrobras. And that's going to be important for Petrobras and to privatize the other companies, the other distributors. So that's the priority for us. We're working along with the ministry to work on proposals to resume these processes. Of course, this is very important for Electrobras and for the Brazilian system, of course, the results show that. And we want to work on the debt equation with Petrobras, because we want to continue working in the Amazon region with those companies and we also put something (inaudible) with the compulsory loans, of course, having a good strategy for contingencies in compulsory loans is also essential. We want to think about monetary correction and variations throughout 2016 and see what could happen in 2017.

Now on page 32, I just wanted to show you what our next events are going to be in Rio and Sao Paulo. We are going to have a road show in the US. We're going to show different approaches, we have a conference with ITAU, the bank. Again, we have a very -- we want to show transparency and compliance.

So to wrap up, this is our investments IR channel, if you ever want to talk to us. And now we are open to the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Miguel Rodrigues, Morgan Stanley.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

I would like to thank you for the presentation and I have two questions. How do you see the judicial system, about RBSE and what the main risks could be for Petrobras? And the second thing is on the PAE, on the special pension plan, they were presented and they were approved. But what are the cost expectations to implement them? Are that -- is that aligned with the directive plan? I wanted to focus on those two main things.

A - Wilson Ferreira {BIO 1528124 <GO>}

Well Miguel, let's start with the second question. We approved here and the PAE, the special pension plan is actually something less attractive. We obviously have to align to our parameters of compensation. And if we look at other companies and what they offer in our area, we want to be aligned. So I think now it's, well it's a voluntary adherence

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program. Our program is going to be 20% less than what we had. So it's like BRL1.5 billion difference, I think we're going to talk to you about BRL1.2 billion in the end for the (BRL1,500 million) at the adherence and the savings would be BRL900 million in total in the end. We haven't defined this completely with the Ministry for these voluntary dismissals, of course, we would like to have more than BRL1 billion for the savings of around BRL600 million with an additional savings of this BRL600 million. Of course, there is a possibility that we have a bit cheaper of a plan around 20% less, we would be talking about BRL800 million to BRL600 million. So we can have a better return on all that.

As for the judicial system, your first question, well, this is something we could talk about for hours. I think personally, the sector is working with the judicial system a lot and we are going to have a lot of liquidity problems because people go to the judicial system for anything nowadays. In this case, all of the elements have to be recognized, those companies had a right when they adhered to the renovation of the 579 decree and those were not available at the time, there was a lack of resources to reduce this tariff for the consumers.

So of course, we can have that discussion, that's something that is ongoing. But I don't think we can change that. Maybe Armando could talk to you about that and could comment better.

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

Well as you know, this process has to really recognize the right, it comes from the 579 and many other laws, many other decree. Then we verified this position through a public audience, a public hearing. And based on that we have (inaudible) some famous, some well-known lawyers working with those processes. And based on all that and on the rights that we have, which is the capital compensation criteria and the impacts. But all those represent for the transmission companies, not only Electrobras. But all of the national companies. This put in risk some investment. So if we want to compare. So the loss, the main loss would be on the transmission companies, not so much on consumers, I think. If we compare the effect of the 579 decree and the influence of RBSE recognition, we can see that there are more than 15% variations. So this is the framework that we are building now, details of that actions.

Also we started that process but it has to work the condominium system. If there is no reaction in that sense, we cannot guarantee that the other participants of that system are going to be receiving anything. So that is a process that is ongoing now.

Operator

Carolina Carneiro, Santander.

Q - Carolina Carneiro

Good afternoon, everyone. I also have two comments. First of all, you have mentioned the special pension plan, which was approved within the parameters. Well was it approved by the Ministry? Can it be informed in April and implemented? Also the dismissal plans,

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are they waiting for a remodeling and approval of the Ministry? I didn't understand those two elements. I wanted to know if the Ministry has already approved it.

And the second question would be on the reduction of functions that you mentioned for (inaudible) and Electro. I mean, what is the timing here, is it going to happen in the Second Quarter? Are we going to see the reduction of functions very soon? Then we're going to have those millions of savings soon?

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

Well Carolina, yes, we had all of the conditions for the PAE, the special pension fund approved by the Ministry of Planning and we're going to submit them to the employees in the beginning of April.

As for the voluntary dismissal plan, which is going to be implemented along with the shared services center, well, we are negotiating that with the Ministry. So that we can finally offer that to the employees before the implementation of that center in Rio de Janeiro. So that's going to be offered to all of the employees, that have to do with an administrative function. Our expectation is that by July, we're going to have that implemented. So that in the second semester after that is installed, there are going to be people adhering. But of course, it will start with the pension plan. Then in the sequence, we're going to have a second wave of implementation in other states, Pernambuco, Brasilia and Santa Catarina. Those are probably going to be in the beginning of next year. So those -- that PAE is going to have a one-month period for adherence for a region. And we're going to have a different offer, which is called PB in Rio, especially and by the end of the year, we're going to be starting with other states.

So as for the functions, we are probably going to conclude the approvals for this restructuring until the month of April. And from April on, if they haven't been approved -- if they have been approved, we're going to be reducing the functions. I hope some of the people of course are going to consider more effectively their own leaves, that's fundamentals for this to happen. And I think this is going to be noticed by the Third Quarter so the -- it's a little while for things to adapt. And there might be a delay, Eletrobras has done that before. But of course in a much more smaller scale. In the Second Quarter, as I said before, in April, we're going to start and the cost reductions are going to be noticed in the second semester. Thank you.

Operator

(Operator Instructions) (inaudible).

Q - Unidentified Participant

Hello, everyone. Wilson, I have two questions, quick questions. We're not talking about -- I wanted to ask you a question, a specific question here. What is your point here to avoid the liminal for (inaudible)? Armando said there is a possibility that if () received the liminal, the other players of the condominium are going to be paying. But we know that one receive the liminal, the others may copy that and also obtain it and (inaudible) the entire

system. So I wanted to understand if (inaudible) receive that liminal, how are you going to work on that?

And my second question, on Amazonas Energia. I think until yesterday we were working with the possibility of it being a creditor or lender of the fund but now it would be the other way around. So would it go to Petrobras Holdings, if it becomes a debtor or do you just leave it with the same code as Amazonas Energia?

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

Well let's talk about Amazonas Energia first. I think, first of all, before it's a debtor or creditor, you have to think about other stuff. They may be supervision, they shared their conclusion and that has to be done, if you were dealing with the company, if you have checked the data and if you had reached the conclusion. But that's not what happened. They had a few conclusions and now they're going to talk to the company, the company is going to present their data and then a decision is going to be made. Since it is only two weeks or 15 days for this to be made, we have to make this clear that the national agency said this is going to happen until March 15. But there has been a delay and apparently yesterday, they decided to make some other changes. So we received the communication on that at 7:00 PM and now, we're going to have 15 days, we're going to present everything and the national agency will have to also bring a report about the company and then, they are going to see if the creditor or investor or whatever. The first ones produced in the first and second CCD, they had guarantees of Eletrobras. It is possible that part of this is going to be maintained for CDE. But depending on the findings that are very high, there could be guarantees for Eletrobras. And this will have to do with the third CCD. We're going to have to see what is going to be CDE guarantees and what the next audits are going to show. It is a shame that this wasn't done before. But will. We're going to start supervising for the future. And this is going to be done with 50 years manager of the fund. So I think we should just wait a little bit, see the final value. And then we are going to distribute everything the best way possible. We believe, we trust what we are doing, because as I said, we have a very well-fundamented framework. So we started in 2002, we made an assessment, this was approved by ANEEL, that was also verified by the public responsible. And it was normalized by ANEEL's decree with the Ministry of Mining. They checked all of the norms, they checked all of the payments or financial components from 2017 to 2025 for this financing plan. And the way the equation does matter is solid. It really goes along with all of the criteria. The impact now, I believe, that we have seen is some periodic reviews for the tariff. But that's not significant, it would be around 7%, sometimes even less. And they are less than what was practiced in the past. So we do have a very good defense line, a very well structured line. And we're confident that we are -- their decision is going to be favorable for us. Well just to add one last thing here, there is nothing here that at the origin didn't have any investments done and depreciated. If we had money at that time, all we had to do was to -- an indemnisation in money, if you want to renew it previously. So that's important. The counterpart of that was a reduction in the price of 25%. And that was put in reserve. So you have the assets, no depreciation, there was an update system and update procedure, an update that was done according to the norms, according to the decree of the Ministry. And it was verified by the agency. So what you can say in the end is just that it took longer than it should have. So that aggravated a little bit of the situation because of the timeline and the conclusion and deadline. But it is being done the right way with the

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right criteria, with the right assessment. And that's the argument. In fact, there is an asset that was renovated, that was renewed compulsorily. But it wasn't indemnified. So it doesn't benefit with one or the other, that's not the point. You probably will remember that at the time when we applied according to, say, 579, we had a reduction of the tariff. In some segments, it was almost 30 in fact. And to sustain of that, they depended on more people at hearing and they shouldn't reduce the 20% because they didn't have total adherence the year-end. But there was support from the treasury to sustain all that. Well Wilson, I think that our process recognizes that you have the right to be indemnified. Even though ANEEL is not using indemnisation, there isn't a different term. What they say is that, well, it's not up to them to pay -- that the treasury has to pay. But I think here, what is wrong is the (inaudible) itself. We know when it starts. But we don't know when it ends.

Q - Unidentified Participant

And if the judge understands the snowball that can be generated, do you think they do?

A - Wilson Ferreira {BIO 1528124 <GO>}

Well yes, I think they do. They have this clear idea. I think this shows the importance and they have heard the agencies, they have heard the Ministry, they have heard ABRAS. So first, we were talking about huge players here and of course, the numbers are being shared, they have to be. So I believe that if we think about perfection, importance, all that, there is no doubt that the judge understands that. It's a legal process with all of the elements and proofs. They cannot really guess what the judge is going to do. But the arguments that you mentioned, especially for Transmission, are solid.

Operator

Marcello Marin, BNDES.

Q - Marcello Marin {BIO 19135682 <GO>}

I would like to clarify one thing. I would like to go back to the funds under debt. I wanted to know if the management knows the updated values that was put as guarantees by Electrobras, how much would that be? And the other question is if we think about directive plan until 2021, we see that there is BRL20.9 billion in investment. Of course, there are some contracted, some that are not. So what is the plan B for funding to make these viable, the contracted ones and in the RBSE relation.

A - Wilson Ferreira {BIO 1528124 <GO>}

Let me get started -- let me start with the second. In 2017, we imagine the following. We have a process here of the constituted financiers. And we imagine that some things are going to depend on the vehicles, all that is being organized. And we are also working to avoid that in the SPE process. There is a potential of this value of around -- up to BRL5 billion that we want to use in the second semester of the year.

Q - Marcello Marin {BIO 19135682 <GO>}

How much?

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A - Wilson Ferreira {BIO 1528124 <GO>}

BRL5 billion that we want to start using in the second semester. Because in the Second Quarter, we're going to have the advisor already hired. We're now working in integration with the control system, the control organism. That is the alternative funding if we have any troubles for these attracted plan. And the one with the biggest risk would be BNTE, which was recently approved by (inaudible). And we're going to now replace everything that was done. It was much better. So we can conclude all of our procedures. We are working with Sinop and Sao Manoel with the right timeline. There are two projects that they haven't concluded only. And there is another challenge to conclude Belo Monte, especially in generation, where we're working with the partners on PTA. We're using the partner's cash flow to finish the activity. Those would be BRL2 billion for the PTA. That's what we're doing right now. And we might even have a reduction in financial resources for that. And I don't see, at least short-term, any problems as to financing plans because the financing plans that were in this programs are already structured or specifically in the case of Belo Monte, they are being negotiated. I will pass the floor to Armando.

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

As for the CCDs, in the first and the second, we have around BRL10 billion and that according to the resources, they have to be paid in 120 months worth 10 years. And the Ministry of Mining has around six to be funded for payment in 10 years. And then, we also have a remaining debt that is independent on that process. It comes from a different matter. It would be a (6.5) and we will get (3.5) from CBE. So it would total around (16) and (3) and the second remaining debt would be a payment in three years or 36 months. So we would have see the resources of around (3.5) to cover for the (16). So again it is BRL16.7 billion debt and out of those, we would get -- it would be from different matters, we would use different resources, different funds as alternatives to conclude the entire process and close to that.

Q - Unidentified Participant

But payments, is it going to be guaranteed or is it attributed to Eletrobras? That's my question, that's not clear to me.

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

Well the difference of what comes from CDE in the total, comes from other assets that are going to negotiate with Eletrobras. And the difference between the guarantees of CBE and the non-recognized would be guaranteed by Eletrobras. The resources -- the CBE resources. But Eletrobras seems to really place guarantees in 2014 and the open debt is not guaranteed by Eletrobras, not formally. So that 50% that is still open, it would be on a different contract. So we're talking about 50% of BRL6.5 billion. So there -- it's guaranteed and around (3.5) it's guaranteed in the first contract of 2014, is that right?

A - Wilson Ferreira {BIO 1528124 <GO>}

No, on (6.5) Eletrobras guarantees the entire contract. What Armando said is that, that part of the (6.5) was reorganized with CBE. So this difference is what Eletrobras has guaranteed. So Eletrobras guarantees the entire 6.5. But not the other contracts and what is open, it guarantees just the profit.

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Operator

Miguel Rodrigues.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Hi Wilson, I wanted to ask two more things. First of all what is the strategy for compulsory loans nowadays? And the second, going back to the privatization of distributors, when the sale was approved, did you think about the (compressions) as well or (inaudible) consider this scenario possible for distributors? And also what's the challenges would be in that scenario?

A - Wilson Ferreira {BIO 1528124 <GO>}

Well Miguel, as for the compulsory loans, we are still working on that. There are still processes that are being analyzed at the court and any decision that we're going to make of course depend on our assessment to see what the best (cash) would be. So that has been our main effort. And we're working hard to have the right decision making process. In this semester, we're going to have a decision in court.

So nowadays, there are some criteria and laws that have to be followed for agreements - for financial agreements and we have to follow all that. We accept suggestions but we don't really want to follow a path if we haven't heard from the court. That is going to determine our strategy, I believe that's how we should work in this first semester. And we have to keep in mind that out of these values, 50% is solidarity with the union, with the government. So let's wait for what the courts are going to tell us and see what's going to be decided.

As for the distributors, of course, we have to think about our compression. The settlement wouldn't be the best option, I believe, we are looking at very high amounts of money. So our plan B will be automatic if we don't get to do the plan A. I think the most complex thing now is the amazon issue. We have to review all of the interactions with ANEEL. And last year we spent BRL740 million that weren't really sent to the end-to-end, let's say. So for us to have a perspective, a definite perspective of return, what do we need? First of all, we are going to need to finalize all these conclusions to really negotiate their third CCD with Petrobras. After that we will be able to deverticalize the Amazon as GT. So all that depends on a few sectors, we have to finish the supervision, the audit process and of course, it has to be a satisfactory response. Another factor would be resuming budgetary aspects of the funds, like I said, it was BRL740 million (inaudible) end-to-end. And this is a right of Petrobras and it must receive the first, second and the third CCD. This way you'll eliminate the problem. That's why I said, we wanted to close the deal with Petrobras. But we depend on ANEEL, on the national agency's supervision and audit process. I think that way we are going to be able to work with the best company and there are sizes of justified priority. The balance that is involved in Amazonas is high.

Operator

We have now finished our Q&A session. We will pass the floor to the speakers for their final comment.

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

Well on behalf of everyone, I would like to thank you for your attention. Thank you for attending this conference. And on behalf of everyone, again we want to say we are extremely satisfied with the results. We were finally able to reverse losses and have profit. We want to improve our income, our revenue, we want to improve our management. We're looking for producing best through privatization and active sales and all that is being made with the right supervision and care. Our controllers were (to be) efficient and transparent. We also had our Board meeting this week, we had a lot of discussion and the council still shows great signs.

So the Executive Board, the President, everyone is exceptional, the Council has acted in the right way aligned with everyone. And it's important to say that because we have two meetings a month and we all were involved with total support. And just like any council, we have personal perspectives of each member. So we consider all opinions. We have of course friendships and great relationships with one another. But we all take everything seriously to the high level of ethics in all activities.

And this moment where Brazil needs this effort. And we're focused on having the Board discussions the same way as usual, consistent and transparent, we want to have a high level governance. So I really think everyone who has worked with us in this first phase. And I want to say we're always ready to work together in this new phase that is going to start next week. So everyone here and the council and the Board and all committees, we are all willing to overcome all challenges in the new plan. So I hope to, I expect to give you great results very soon. Thank you very much.

A - Wilson Ferreira {BIO 1528124 <GO>}

Well I just wanted to also thank you and to say that I am available if you need anything, if you want to clarify any doubts we're here for you. Thank you. Good afternoon, everyone.

Operator

So we have finished our teleconference. Thank you very much for attending. And have a great afternoon.

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