

Q2 2011 Earnings Call

Company Participants

- Armando Casado de Araujo, Centrais Electricas Brasileiras S.A.
- Vicente Amato Torres, Centrais Electricas Brasileiras S.A.

Other Participants

- Dotavu Geraldo, Analyst
- Fernando Prado, Analyst
- Unidentified Participant, Analyst
- Vladimir Pinto, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for waiting. Welcome to this Eletrobras teleconference for the disseminating results against the second semester of 2011. (Operator Instructions)

Before we start, I'd like to clarify that occasional declaration that may be made during this conference regarding the future perspectives of the Company, projections, operational methods. And financial methods, they are no commitment from the Eletrobras, also the information available to the Company at this moment.

Future considerations are not guarantees of performance because they involve risks and uncertainties and they belong to forward-looking statements. They depend on circumstances that may occur or not. The investors should understand that the economic - general economic factors and other factors can affect the results such as for future considerations. Now I'd like to give the floor to Armando de Araujo, financial and relationship director of the Company. Mr. Armando, please?

Armando Casado de Araujo {BIO 16673880 <GO>}

Good afternoon, everyone. It's -- I'm delighted being here with you, disseminating the information related to the Second Quarter -- second semester of 2011. And here helping, Marian[ph] here from the capital department and from the division of relationships with investors. Eletrobras has counted, as you can follow me, by the presentations that are available. And I'm going to also talk about these slides here so that you can better understand the results.

Eletrobras has accounted, in the first semester of 2011, a net income of BRL1.611 billion, equivalent of BRL1.40, 2.6% and higher than the -- in 2010, when we had a net profit of

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BRL1.575 billion, equivalent to BRL1.39. In relation to the Second Quarter of 2011, we had a net income of BRL326 million, equivalent to BRL0.29 per share and inferior to the register in 2010, when we had a net income of BRL1.411 billion, equivalent to BRL1.25 per share.

Well, the results of this Second Quarter -- semester is -- had some factors that I'm going to explain later on. In relation to the result of the First Quarter, although the factors from 2011, the results were higher than -- as compared to 2010, in terms of evolution of power markets as showed in slide four, you can see here.

The Company's -- Eletrobras company in the first semester sold 129.6 hours of power 126 that had been announced in the first semester of 2010. This represents an increase of 2.9%. The result -- Eletrobras result regarding the Second Quarter of 2011 is below what we indicated to you in the list that follow Eletrobras, which is -- was BRL1 billion and this resulted from some clarification of this later on.

In the First Quarter 2011, the net income Eletrobras was BRL1.3 billion -- BRL1.28 billion, whereas the second semester of 2011, we registered a net income of BRL326 million. The variation of the first semester in relation to the First Quarter, as you can see here on this slide 10, is due to some factors not recurring to which we can -- I'm going to make some comments about. The first one is the exchange variation. As you know, due especially of the financial of our -- in ITAIPU receivables, we showed in the Second Quarter a net expense consolidated of BRL690 million against a net expense of BRL286 million registered in the First Quarter of this year.

The debt charges presented in the Second Quarter was an increase of BRL150 million, due to the increase of financing volume and investments in core. Another factor was the price variation index price that corrects balances regarding from the consolidation of electro power of ITAIPU representing in the financial statements public of -- with right of reimbursement variation of BRL612 million. This contributed for this profit of BRL1.285 billion, as I have already mentioned. In the second semester, this price index had a negative variation of BRL671 million, that is the relationship -- in relation to the first semester, these two indexes showed a negative variation of BRL673 million.

Another item is the personal account and material and services in the first semester in relation to the first semester in terms of consolidated of BRL233 million[ph], especially because of the statement of profit payment made in the month of June. And an increase in the material account in -- due to the investments in course. On the Second Quarter also -- we also registered a loss of BRL529 million, resulting from some extraordinary items, especially related to the Batalha Simplicio, Simplicio in Furnas in an amount of BRL409 million as well as a provision for contingency at Balbina Eletronorte in the amount of BRL120 million.

In this context, I'm going to describe the evolution of EBITDA in 2010 and I'm going to make a few comments afterwards. In 2010, our EBITDA was BRL3.053 billion against BRL2.812 billion in this First Quarter 2011. And as I had already said and informed the shareholders and showed, in slide number eight in our presentation, the companies had about BRL2.8 billion in the first semester but if we explore this extraordinary -- that I said in

Batalha and Balbina plants, we would have then in Furnas EBITDA of BRL490 million, BRL844 million and Eletronorte BRL442 million to BRL621 million. That would take our EBITDA higher in relation to the previous semester. In three, BRL343 million with the edge of 9.5% if there were not these extraordinary events.

In the environment of the holding in the financial income that constituted one of the main components of our results, as you can see here, in the slide 11, there was a fall as compared to 2010, going from BRL1.6 billion the first semester of 2010 to BRL265 million in the first semester of 2011, especially to put the very -- money exchange previous and the -- according to the income interest of BRL1.1 billion in 2010 to BRL848 million this year, especially due to the capitalization and financing that we -- were not controlled in EletroNuclear. As you remember, in December this year, we had capitalization of BRL3.151 billion for EletroNuclear, within our plan of tax -- use of tax and also the retake of the functions financial for EletroNuclear made some investment to build another plant.

Also the income in terms of ours statements showed in our slide 12 increased to BRL1.3 billion in 2011, due to the equity equivalence that we are controlling now. And here again, especially as a result of the Furnas, as I mentioned before. And the reduction found in the sale of power due to the liquidations in the chamber of commercialicao sanfor[ph] power in the short-term markets, especially in terms of other markets.

Well, here in slide nine, we can see the quarter results in terms -- in consolidated terms. Here in the slide seven you can also see the main indicators of our quarters and semester results of years 2010 and 2011. Making this very briefly, I think that we have a better motivation for questions. So then I am going to open for discussion and I'm available for questions if you have any.

Questions And Answers

Operator

Now we are going to start the question-and-answer session. (Operator Instructions) The first question is Mr. Vladimir from Bradesco. Mr. Vladimir, please?

Q - Vladimir Pinto {BIO 1554020 <GO>}

Good afternoon. I -- my question has three points. First, Batalha is Simplicio plant. What has motivated this because there was an increase in cost? If you have any information, could you say something about that? My second question would be a request that that the Company to make available calculation memory -- these factors that we see in ITAIPU expenses. We can -- so that we could understand a little bit better how volatile this number is quarter after quarter.

And my second -- my third question is to -- I could just check information here in your presentation, for example, the operational income is BRL5,000[ph]. We see the number of then another number. So I think the number is correct. I would just like to check that. Thank you, very much.

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

Regarding -- Vladimir. Good afternoon, Vladimir. Batalha -- as far as Batalha is concerned is that's right. There was a review in the budget and applying the intermittent test -- we had this intermittent test at the end of 2010. There was a review in the budget and then to keep this coherence with the adjustment -- present adjustment via the investment of this revenue. We had this confirmation for BRL140 million in Batalha in the other plant. In terms of our calculation memory for ITAIPU, I'm checking this and we are going to send to you this calculation memory.

In terms of hold[ph], the difference of 5.7[ph] indicated and the ITR someone is checking here and we are going to give you an answer shortly. Can we go -- before they are making this calculation, let's take another question. Then we will come back to this, shall we?

Operator

Yes. We are going to open for new questions then. Next question is from Dotavu Geraldo. Yes, go on, please.

Q - Dotavu Geraldo

My question is this. I can see here in this slide 10 -- on slide 10, we can show here this balance here. In the First Quarter, it was BRL1 billion negative. In the Second Quarter, it shows here BRL160 million positive. What do these results refer to? Another question I would like to ask, if I may, I find difficult to understand. Because we -- the area of electric power because it's a more stable project is this great variation such as this -- does this tend to continue? Because this is -- this project is a very high value. It has a constant value. So -- and we see this big variation for us to control. So this, I would like to know, if it came as BRL1 billion negative. And then afterwards, I show a positive. What does that mean? Thank you, very much.

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

The volatility of the foreign exchange, Geraldo is your name, isn't it? The exchange volatility we have this -- from ITAIPU, \$7 billion depending on variation of the dollar and varied, if I'm not wrong, 4% in the First Quarter minus BRL135 million in the Second Quarter. So this amount received is too big -- too high. Then you have this volatility in the financial expenses. And this is expressive to us. That's why we have this account at BRL135 million[ph] against BRL200 million and something, in other words, an increase of BRL4 million in this variation.

This, let's say, as we have this internal capture in dollars and then we are able to have a financial companies the same amount in loans -- financial loans -- and the same amount. Then we would be neutralized, if you like, of this effect on the results of this fiscal year.

Now the other possibility would be to keep the rest. But we don't have, let's say, in terms of the feasibility of cost, a projection to hold a hedge of this dimension. Only in short term that we already do. But we are not able to hold of this volatility. But we are doing some

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captures for the future and actually, this is going to decrease this exposition. In terms -- what was the second question? Oh, okay. The other one -- the other question, Gustavo -- I'm sorry, I lost contact.

Now we are coming back. Yes. Okay. Let's see, his the last question then. In this other one, Geraldo -- as a result of the commercialization of ITAIPU's power, the whole power commercialized from ITAIPU, it takes two indicators, two levels of inflation American -- in industrial goods and this other one. And these have the same behavior that I have just spoken about in terms of financial currency. We can find here the same behavior. And this is adjusted quarter after quarter for the great wave of this variation here is related -- is a result of the behavior of these two inflation indexes in the United States.

It is a clear American indicators that adjust this. So we have no means of, in this case, to forecast stabilization of this factor. This is adjusted in the power account every year. The difference is that one, you actually -- this is absorbed by the -- every year, annually.

Would you like to make any further comment? Okay. Let's continue here. Vladimir, we are still trying to give you an answer, okay? Bear with us. We are going to get back to you shortly. Is this income here in the TR, I think there is something of the equity equivalence.

Operator

Continuing our next question at next person. Mr. Caliki[ph], please go ahead.

Q - Unidentified Participant

Good afternoon. I'd like to know about the Sabest[ph]. I'd like to know if there is -- if this will be connected to concessions.

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

Okay. Both I and my -- our president, we have started this strategic planning. And more than this is the strategic planning. We already have it. It is structured. What we are, shall we say, working on and this question I remember that someone from ITAU asked me the same question about the business plan and the business plan. And I had a chance then to tell him that, on the Third Quarter or the Fourth Quarter we would be disseminating this information.

We have here -- we have already made a few meetings with some companies and with a president of all these companies of the group and we are working to model and provide with financial statements that will be the basis to make this business plan in terms of numbers, which is the part I am responsible for. Now the modeling and for each of these companies. And my forecast to provide this information, is to be at the late September.

This business plan will be prepared from the delivery of this information in the process of negotiations as the president informed in his presentation that he made in the past which disseminated these results of the First Quarter 2010. The First Quarter representation -- I spoke about that. I was the one who delivered that message. So up until the end of the

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year, we -- shall we say, until November, we should be -- provided this information to the market.

One of these events that are relevant and we are dealing in a very careful way is precisely this process of negotiation process. And we still don't have a clear definition to make -- disseminated this plan. And this has been made clear in this internal discussions. But we still don't have the good results to be able to disseminate this to the market and tell the market what are the effective decisions in the business plan.

But certainly, whenever we have -- are able to make this dissemination, then we are going to have these questions as to -- and on this question because this is -- so that then when we have this, we will be able to give more information about that. So your question about this -- when the plan -- when the business plan is being built and together with this we have this -- we are going to talk about this and this renewal of this, then we will be able to make all these dissemination.

Q - Unidentified Participant

Okay. Thank you, very much for your answer.

Operator

(Operator Instructions) Our next question, Mr. Fernando Prado from BNP Paribas. Mr. Fernando, please go ahead.

Q - Fernando Prado {BIO 14010797 <GO>}

Good afternoon. I'd like to ask a question in relation to the renewal of concessions. Do you believe in the possibility of renewal or non-renewal or the probability of each plant to be requested in a meeting?

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

Well, I believe that we will be able to do it. Of course, this is only information I have. I believe that people who provide services according to the pillars required by the country and the quality of service, we see this economic balance. At the same time, turned to the productivity.

Eletrobras does that very well. It has the competence to do that as all the conditions and all its actions are based on these pillars. So there would be no -- why not to renew this concession. But I'd like to register here that this hasn't been defined as yet. This will be a prerogative of the country's powers -- if the country will be able to do this. But I believe that there will be a renewal of the services and due to the service quality provided by Eletrobras.

And how can I put it? The definitions are precisely the point I emphasized in the previous question. This is a great element that we are missing for us to finish our planning. We don't talk about Aneel or we have a very negative impression of Paribas because we

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posted that everything has -- would be already depreciated. So the tariff would be in to reach here[ph].

Q - Fernando Prado {BIO 14010797 <GO>}

What's the minimum tariff, do you think, would access the renewal of concessions?

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

I don't know. I have no means to answer your question because we are going to check its complexity. First of all, we have TTSR[ph], which is the basic network. Then we have the RBNE[ph], which has another behavior. Then you have the generation assets, which plant by plant -- each plant has an operational cost and each segment has its balance charge. So for you to use the investment, they have to be analyzed to -- according to what is registered in the -- in each company. You have to also analyze what now is going to consider an investment.

Of the simple fact to say that a plant is depreciated is not enough for you to consider that the amount has already been generated. During that time, there has been a lot of investments. Everything that is the mobilized assets in a company, they are active and they are assets that are according to the account plan of Aneel itself. So this is a very big debate to know the amount of -- the depreciated amount. So this is a work that we would be a little bit cautious to say what would be the balance charge because I think that the market has been analyzing from this point of view this sector. Each company has its own amount and this balance charge or tariff.

Q - Fernando Prado {BIO 14010797 <GO>}

Thank you.

Operator

Our next question would be by Sandra[ph] from Deutsche[ph]. Sandra, please go ahead.

Q - Unidentified Participant

Good afternoon. Thank you for taking my call. I -- in terms of accounting and the -- I'd like to -- let's say that we have something in the inland revenue with power then we have another effect in the financial results. And now also in the line of others here, this line. And so I would like to know the -- what's the full account -- where we are going to see this effect on each quarter?

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

It's nice talking to you. I remember I've been with you in New York. Okay. I'm going to pass your question to Vicente. He's going to be ask you -- answer you.

A - Vicente Amato Torres {BIO 17431856 <GO>}

Sandra, how are you? ITAIPU, it's this balance of Eletrobras balance sheet. There are three ways in three places. The first is the -- resulting from the financial operations. This reflects in the financial results as a result of the interest incomes and the financial resources from the exchange financial. The first one is, in fact, the financial. These three results -- you can see that this loan and financing. So we have loans to receive from ITAIPU and the result -- the effect the field here of box[ph] of financial results.

The second point that Eletrobras recognize in this balance sheet is regarding the power, energy operations that would have the same role of a commercializer in Brazil, this power generated by ITAIPU. So in part is the power energy sold and for the resale. Just remind me of that. In this specific activity of commercialization of ITAIPU's energy, Eletrobras doesn't have any results, doesn't have a profit or loss in this operation as determined by the law that regulates this power of Eletrobras to commercialize energy. So based on this net income of Eletrobras. However, there is a third effect and I'm not sure if you remember the thing would -- took place two years ago.

The Brazilian government, together with the Paraguayan government -- the diminished the debt of ITAIPU from a burden that they had. Which is the compensation through the foreign exchange. So we had two indexes -- in August and two months ago. This right belonged to Eletrobras. Eletrobras is a company. In its business it has this financing to receivable influenced by these factors. In any concession, between governments, these inflation indexes were removed. So they would have a loss. It led from forecast to receive this indicator.

It invested in a planning where these indexes would become resource to Eletrobras and the government in sovereign action, given to Paraguay. In order not to generate a loss because -- the Brazilian government gave Eletrobras a right to invest in the cost of tariffs of energy practiced in Brazil. This additional related to the two index inflation -- indexes, which is in fell on the debt. So this amount which, up until last year, was in ITAIPU and they consider this as a right -- a receivable right to 2023, which is a yearly policy which is imposed in the Brazilian consumers. So this additional has a component on American inflation and foreign exchange. It has this volatility.

And this third effect is included here in the others -- in item others. It's an item -- it's an extraordinary item that Eletrobras had the right to invoice from the customer. So making a long story short, you get all these operations of -- and you get this operations energy power. And then you have blocked partly because it has this right resulting from this negotiation of the debt between the Brazilian and Paraguayan governments.

Q - Unidentified Participant

Thank you for answer.

Operator

(Operator Instructions) Our next question is from Fabiano[ph].

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Q - Unidentified Participant

Good afternoon, everyone. My question regards -- I'd like to understand if the blend you intend to disseminate, possibly in November, if you intend to say something about what could be strategic for this segment of the Company. Are we going to see negative results? If I'm not wrong, in the first year, we can see some negative results here. And a worry that comes to the mind of the investor is that would could happen in the next years if we can have an estimate -- if you are going to have a fall of EBITDA for the distributors as a whole. So we are a little bit concerned with a possible worsening of the situation of the company.

This makes sense. I would like to understand from you, if I may, if there is any -- if you have an idea about this. If you have an alternative solution. I'm not saying if you could have a partnership -- not to sell the company. But some partnership with private companies in the model in which Eletrobras would also be partner of the business. And it may be the private partner will be -- bring positive results to the company and possibly these dividends would drive this cash flow of Eletrobras so that we can have some improvement. So if you could possibly make some comments about that, I would be grateful. Thank you.

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

Fabiano, indeed these figurative results has already presented in 2010. It was not one of the best. The losses -- we had operational costs, we had some provisions in that -- for that quarter -- led the Company for BRL482 million negative result and this is really a concern in the Company. We are starting a process of hiring this green hiring and we are going to start this now. We had an action plan where this loss -- we make an adjustment of operational costs of the Company. And all this has been a focus of a great concern of -- on the part of the Company.

And to the proposal made, I also read in this paper of having -- we don't have official information by the Company that was such -- people who form opinions, talking about the subject. There is nothing here in the company official with this modeling, if you like. And not even -- we are not even starting this possibility at this point. So what we are going to insist on now with this action plan in the Company if the Company is trying to improve itself, improve the Company. We want to improve the revenue for the shareholders. We want to reverse negative results so that we will -- won't use so many resources as we are at the moment.

Operator

Since we have no further questions, we are going to give the floor to the speaker, Mr. Armando Casado for his final considerations. Mr. Armando, please?

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

So I just would like to thank the participation of all of you for this opportunity of disseminating our company's results. I will be, in the next quarter, as of the next -- this forthcoming 29th, for further clarification, keep providing more details. And at the same time that we exchange information by telephone here, by means of Mary and

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Orlando[ph] investors. So for all kind of clarification that it was not possible to provide you at this moment. Or there are questions you never made.

So once again, I would like to thank all of you. We are here working so that these results can improve day after day. The business plan, as we said, is a question that we are working really hard. The target contracts, we are also working on that. In other words, the Company business model so that we can improve our results. The management now is going to continue this. We have management in action. One of transmission, one of distribution. So that we can better see the results of all these activities. And the results as a whole.

We are doing this so that we have the better capacity of analysis for you. And we are also starting a restructuring to improve our commercial relationship area to provide you a better service. I would like to thank you this opportunity once again. And I'll see you in another opportunity. Thank you.

Operator

This -- we are going to close this Eletrobras teleconference. We thank your participation and you have all a very good afternoon.

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