

Q3 2011 Earnings Call

Company Participants

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

Other Participants

- Felipe Leal, Analyst
- Marcio Prado, Analyst
- Unidentified Participant, Analyst
- Vladimir Pinto, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for waiting for us. Welcome to the teleconference of Eletrobras to the disclosure of the results referring to the Third Quarter of 2011. We inform you that all participants will be just listening to the teleconference during the presentation.

And then we're going to have a Q&A session when better -- other instructions will be provided. We remind you that this presentation is available in the PowerPoint file at the website of Eletrobras. (Operator Instructions)

Any observations regarding the business perspective of the Company operational goals are premises from Eletrobras Board as relevant information that are available for the Company. Other considerations are not a guarantee of performance, because they involve risks and uncertainties and, therefore, they depend on circumstances that can or not occur.

Investors must understand that economic conditions and other operational factors can influence the results in the next -- in future considerations. Now I would like to give the floor to Mr. Armando Casado de Araujo, Financial Director and relations with investors from Eletrobras. Mr. Armando, please?

Armando Casado de Araujo {BIO 16673880 <GO>}

Good morning, everyone. It's a pleasure for me to be here to disclose the results of the first semester -- Third Quarter of 2011. And I'm going to give you a brief report. And you can have our presentation for this teleconference. And as I just said, right after we're going to be available for any questions that may arise.

So our results for the Third Quarter 2011. Eletrobras had a net revenue of BRL1.5 billion, which is equivalent of BRL1.38 per share. And this profit is 379% over the profit BRL339 million that we had in the Second Quarter of 2011 which is 0.49 cents per share in comparison to the second -- Third Quarter of 2010 when we had BRL145 million net profit of that quarter. There was an increase of 99%.

During this time from January to September, Eletrobras had a net profit over BRL3 billion which is BRL2.80 per share, which represents 85% over what has been recorded in 2010 when we had a profit of BRL1.7 billion, which is BRL1.54 per share.

As you can see in the slides 5 and 6 over the presentation, we will demonstrate evolution of our quarterly results regarding 2011 and '10, where we can see that the Third Quarter was better than the result in the quarter of this year. So slide number 10, we also have presented the components of our consolidated semester result. In 2011, there was an evolution, stable evolution regarding the previous semester.

Net profit of the period had BRL1 billion in 2011, over what has been verified in the previous quarter, semester. The difference between results of the second and Third Quarters is due mainly to the register of unusual events that happened in the previous quarter that have depreciated the results of that quarter. This fact is known by all of you, such as Armando Casado de Araujo, combined with some facts of this quarter such as exchange rate instability that had a different behavior this quarter; different from the two First Quarters of this year; and provision adjustment for voluntary dismissal of Furnas and Eletronorte.

I would like to highlight as well and indicate the following accounts which is operations of Eletrobras power at this Third Quarter; an increase of 19% regarding the Second Quarter going to BRL8 billion at this quarter. And this is due mainly to energy in the -- the increase of 10% going from BRL4.4 billion at the Second Quarter to BRL4.9 billion.

Due to the evolution of the market, we want to highlight -- register a negative register of BRL137 million at this Second Quarter due to the recalculation of liquidation on the energy commercial chambers, CCR, at short-term market, with a positive result of BRL18 million readjusted and registered at the second -- the Third Quarter of 2011.

It is another important planned update of return rate of transmission rate that has an increase of 45% going from BRL559 million in the last quarter to BRL811 million this quarter due to the shareholder participation of consolidation, which is the participation transformation of those companies into corporates, which is 100%. Due to the letting of sole operation of provisions grew at 35%, influenced by the register of the voluntary dismissal program that I have mentioned by Furnas subsidiary on BRL49 million, last year BRL137 million. Summing' up the program, over BRL500 million.

Financial results had both the variation of 321.28% going to a net expenditure of BRL689 million last quarter to a net revenue of BRL1.500 billion this semester. This is due to the exchange rate variation and incidents over our assets indexed by a foreign exchange -- foreign currency, especially by American currency at this third trimester. There was a

variation over 400% made from a net expenditure of BRL404 million to BRL1.500 billion. This is due to monetary variations showing a devalorization going from BRL216 million at Second Quarter to BRL56 million at the Third Quarter.

Now we are going to come in about the controller. Regarding to the results of the controller, the evolution is demonstrated on slide number 9. And I can highlight that the first months of 2011, there was an increase of societary participations of the shareholding. And this is due to the fact that was mentioned and registered by our controls in the Second Quarter comparisons.

The Third Quarter, or the previous quarter, as you can see at slide number 12, Electrobras registered an increase of 77% with BRL312 million gain regarding the BRL551 at the Third Quarter.

The financial result that we highlight at the slide 11 had a positive impact in the Third Quarter. And the final result of Electrobras is BRL2.294 billion, 10% over the result of the previous quarter when we registered a result of BRL23 million.

And this is due especially to the devalorization as a % of the North America dollar, US dollar facing the real. And Electrobras had many of receivables indexed to this foreign currency, registering a positive effect at the result of the Company at the Third Quarter. At this quarter, Electrobras registered a net profit of BRL1.6 billion due to exchange rate variation. And a liquid loss of BRL412 million due to the Spain effect.

From January to September, the financial result has a positive impact. The final result of Electrobras is BRL2 billion, over BRL2 billion, representing 82% of the same period result which was registered. And this was due to the commissions and taxes that had a decrease of 20%, going from BRL1.6 billion in 2010 to BRL1.3 billion in 2011, especially due, as you know, that happened in December 2010 devalorization of US dollar again regarding to the real.

And due to this, Electrobras had a relevant participation of receivables indexed by this currency producing a positive effect in the result of the Company during this period. In this period that was registered a net profit of BRL970 million. Due to some exchange rate variation in the last period, we had a net loss of BRL280 million at the same composition.

Due to monetary variation from -- internal price variation, during the same period from January to September there was a gain of BRL522 million against BRL452 million net on the previous period, representing an increase of 15%.

Regarding to the evolution of this quarter, the value registered BRL167 million is 18% reduction regarding to the -- what was registered in the second semester, Second Quarter of 2011.

So these were the main highlights that were results of the Third Quarter. And now I am available for any questions that you might have.

Questions And Answers

Operator

We'll start the Q&A session now. (Operator Instructions)

Q - Felipe Leal {BIO 2015017 <GO>}

I have two questions. First, could you tell me a little bit about the project of Belamonte? I want to understand whether they're buying there until 20% of free energy of the project, Eletrobras holding doing this for 30 years. And if the price is around BRL130, as we have heard around.

And the second question; if you could comment on the process of the offer by participation of Portuguese Government, or maybe see what kind of timeline you have for that. And if you could make comments on the strategy for that part of the revenue coming from abroad, or other countries. And which is expected to this business.

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

As you know, regarding to what we have told to the market, we have sent a proposal, a binding proposal. And from this point on, then there's confidentiality of the figures of the operation.

We are awaiting the development of the entrance of our proposal done by the major -- many players have presented their proposals. We have our expectancies. And we have our strategy. And this is the proposal to be at this bidding. So due to this confidentiality, I might not make any other comments today.

But there is a partnership where there is a lot of investment in renewable energy focus on the American market. And they have a good governance system. And we have a strategy for nationalization. They have an authorization by law to constitute these superintendents to look after this business that are following up all this.

So we have our expectancies of this condition. But I am at this is confidential thing now and I would like not to make any comments because this is a very important strategy for us.

The plight of Belamonte Energy, we have the right of preference. But this right of preference can actually be enforced or not. And this condition also Belamonte -- I mean from the shareholder side, Eletrobras because in regard to the society, we have a relevant participation there. But it's a private association where all information regarding to Belamonte bears a strategy for the shareholders.

They, the shareholders, they deal within the Company, because although we have a relevant participation there, they are a private entity due to the amount of information

that could be got from several shareholders. So I'm just giving you the specific point of the issue. I hope I have answered your question.

Q - Felipe Leal {BIO 2015017 <GO>}

Thank you, very much.

Operator

Marcio Prado, Santander Bank.

Q - Marcio Prado {BIO 15398968 <GO>}

My question is that Electrobras had a provision, over BRL500 million. And there was a program of voluntary dismissal. I would like to know if you could give us more details on that program. What does it mean number of employees that could be dismissed from the Company? How much could the payroll decrease due to this program? What are the subsidiaries that are involved? So I'd like to have more information about this project.

And second, it's not a question but it's a follow-up on what Felipe had asked. The phone call is bad, I don't (inaudible). You had mentioned a right of preference in Belamonte. So I'd like to know -- I didn't understand that very well. If you make comments on that again, I would appreciate it.

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

Okay, Marcio. The DPV, it's the voluntary dismissal program. It's a strategy -- we have some problems with the connection.

And the details, Marcio, I don't have the detailed information now. But the level of -- the important thing is that the adherence level to this program is hard to know and we shouldn't need to know this as this was launched right now. And this program. And for this reason, just for generating a perspective of obligations it is registered in our account. So there is this perspective of obligations, of liabilities.

And so things can happen during this period. So I have to have the provision of this amount. And I really don't have all the details or the information on that.

I can give you more details of this program on the rules and characteristics of the program, because they are authorized by (inaudible). And there is no problem to answer your question later. But I would ask you that -- Otto will pass that for you later.

And according to Belamonte, Eletrobras has the preference right. There is this option. And I understand that this issue will be assessed by Eletrobras. And all the details, according to all the details, there is the condition that Belamonte is an SDE. But also it's a big SDE. They are very big. So there is the whole communication process and relationship comes from there. And I am just answering what is relevant to my part, my end as the shareholder.

Q - Marcio Prado {BIO 15398968 <GO>}

Just to follow-up here, about DPV, the BRL500 million provision, in provision. Nobody has the ready adhered to this program of voluntary dismissal. This is just a perspective you have.

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

Yes, that's it. Correctly, Marcio. That's it, absolutely. There must be some adherence because this is the fact, it's in force; this program is in force. I am telling you that I don't know the level of adherence that happened up to now. And those BRL500 million are not related to the level of adherence. This is just an estimation. Yes, Marcio, BRL500 million is the maximum possible value, okay?

Q - Marcio Prado {BIO 15398968 <GO>}

Okay, thank you very much.

Operator

Vladimir Pinto, Bradesco Bank.

Q - Vladimir Pinto {BIO 1554020 <GO>}

My question is regarding something of the result, a variation of the construction cost on page 3. It says that the construction cost was BRL1.39 billion and the second was 200 so a variation, a big variation here. I would like to know what caused this, the construction variation. You didn't have this variation. So I'd like to understand a little bit more about it. Is it regards to the transmission? Okay.

And also to understand a little bit the result of Amazon Energy. Again, it was negative. So how are you dealing to improve this result?

Thank you, very much.

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

Vladimir, pass the floor to Francisco who is going to answer your question. He's helping me at this teleconference. And then I'll talk about Amazon Energy.

A - Unidentified Speaker

Good morning. Regarding the cost, Eletrobras works with a margin which is construction revenue. And losses must be equal. So having an alignment. And this policy, as you know, we consolidate rationally SCS companies that are not property of Eletrobras; they have other shareholders. So we are addressing this.

So both may have the same value because our concept, we operate -- can construct. We have this policy that's the reason -- I'm sorry the connection is not good, it's hard to listen in.

FINAL

Vladimir, there is a result here of BRL340,000 against -- from the different (inaudible) quarter to other comparing to -- with the two previous quarters, there's a little improvement. But we still have some problems. But we are doing -- we are at the final phase of elaboration of a business plan.

And with an action plan to improve it from -- with the resources that we will have available by the World Bank to have some improvement in terms of trade and technical terms -- aspects. The tariffary reduction is going to be even worse than it was established by the second and first. Yesterday it was subject of a big meeting that was talking about this issue and we could do what is necessary to improve it.

In terms of concessions there is also a launching of tax losses in terms of credit. In the perspective of renewal this can be recovered. And we are working on the points that are fundamental to improve the Company. But it's not an overnight thing.

We have a loss of 42%, a regulatory of 20%-- it goes from 20% -- 42% to 20% overnight. No, it's a process, it's a program. I have some good news. At the advance of this project, some operational directors were employed, the regional directors. And those directors will be focusing on these clients, that our Board, who is here in Rio now, will count on the full support and the implementation of this action plan linked to our business plan.

So just to add a little more. The Company showed the Third Quarter a loss of 28%, inferior to what was found on the previous quarter, that grew at a lot this semester. It was a bit improvement. But we still have a long way in order to solve the problems we have with distributors.

So going back to Belamonte issue, what I understood, Eletrobras has the right of preference. And when energy prices are below BRL130 in the market, Eletrobras will have -- will enforce its rights. So how is the perspective of Belamonte business in these kinds of conditions?

I'd like to know that we are investors. I am just answering by the perspective of the investments we have in the project. So as I told you, Belamonte is a specific purpose -- association. They have many investors and shareholders. And we are one of them. We have a relevant participation. And I'm talking about that from this point of view.

But the condition of the business as a whole, which is a combination between shareholders, is that the society responds to it. Okay? The association, they will respond to that. From our end, we do have a preference right to the energy concession. And the enforcement of it goes through our assessment. And the society as well.

Okay. But from all shareholders in the Group, this is the first -- well, we see a big change in the Group. The biggest shareholder is Eletrobras with 49%. Well, we are minority. But I don't know that any other shareholder is as big a Eletrobras.

Q - Unidentified Participant

Bloomberg Transcript

So we have heard about a company that's going to come to the business saying -- talking about this business right of preference. Is that an obligation and liability against Eletrobras? And when Belamonte was started, I ask this, because the information of BRL130 is not new. And I remember that it was a little bit different what was said. It was that there would be a guarantee of energy at BRL130. But now, by -- it's clear that you don't have this.

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

It's the choice of Eletrobras. It's not Eletromonte's choice -- Belamonte's choice if Eletrobras is going to take BRL130 below the market price, or below. It would be due to Eletrobras. Yes, it's an option we have.

Q - Unidentified Participant

Okay. Thank you.

Operator

(inaudible), UBS.

Q - Unidentified Participant

I would like to understand two things. It's a follow-up about DPV, about the terms of the offer -- of your offer. I'd like to understand how financing would be. Armando, how would you feel a level of debt where -- how much more debt you could have to be comfortable on your balance sheet?

The other question is regarding to the voluntary business (inaudible) plan. Is it really for the holding and the other subsidiaries? And the most important is to understand what is the terms to incentive -- to encourage the employees to adhere to the program? Thank you.

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

Okay. This program, DPV is a project we are going -- we are entering. There's a whole analysis about it. In our level of in debt there is a flow of dividends being evaluated. Our level of debt must be analyzed by the perspective of the new business, new revenue, new capacity. So in this and that necessarily, we have a long-term and excellent conditions where we'll have this as an important component, as a strategy for this proposal.

I'd like to give you more information. But from the mental point -- this is from the mental aspect of our confidentiality agreement. So -- but all analyses were done. Of course, we have a level of indebtedness. But we have a lot of receivables, growth of our receivables.

Q - Unidentified Participant

Could you talk a little bit regarding the DPV up to where you think this will support this indebtedness? What is your current level of indebtedness? Could you make comments on that?

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

There are some problems on the connection. I wonder if he is receiving. I told you that we are building up our business plan. And this business plan, we're working with a level of indebtedness of all companies of Eletrobras system. And we are having this evaluation, this assessment. And we have an expectancy -- an expectation to disclose this business plan very soon, where this -- those limits can be verified, both investment and indebtedness of the Company.

Q - Unidentified Participant

Okay.

Operator

We are closing this Q&A session now. We will pass the floor again to the main speaker, Mr. Armando de Araujo, to make his final considerations. Mr. Armando, please.

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

I'd like to thank you all for taking part on this forum, (inaudible) regarding the voluntary dismissal plan. We're going to prepare a note explaining the companies that adhered to them. They were Furnas and Eletronorte. And this will be given to the other companies. But we will prepare a briefing about this to the investors.

And I'd like to thank you, again, for your participation. So we are closing the teleconference now with thanks for the participation of you all. And have a good day.

Thank you, very much.

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