

Q1 2010 Earnings Call

Company Participants

- Arlindo Magno de Oliveira, Centrais Electricas Brasileiras S.A

Other Participants

- Felipe Leal, Merrill Lynch Intl
- Gustavo Gattass, Analyst
- Mariana Coelho, Analyst
- Reginaldo Pereira, Analyst
- Tiese Alalua, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Today with us, we have Mr. Armando Casado de Araujo, CFO and Investor Relations Officer. (Operator Instructions) Before proceeding, let me mention that forward-looking statements are based on the belief and assumptions of Eletrobras management and on information currently available to the company. They involve risks, uncertainties and assumptions since they are related to future events. And therefore depend on circumstances that may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors can also affect the future results of Eletrobras. And therefore can lead to results which differ from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Armando Casado de Araujo, who will begin the presentation. Mr. Casado, you may begin your conference.

Please hold on a minute, please.

Ladies and gentlemen. please keep on wait and soon, we're going to start the conference call.

Mr. Arlindo, you may proceed

Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Good morning, everyone. I don't know what's the problem that has taken place; I will start from the beginning. Mr. Armando Casado hasn't yet arrived in Rio, he is coming from

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Brasilia. We are going to schedule a new meeting. And we will send an invitation for you. So he can talk to you about the strategic of Eletrobras, CD[ph] Eletrobras, as in the agreement with our subsidiaries. And teleconference today, we are going to talk only about the First Quarter results. And the other subjects we're going to be using in a new teleconference. We're going to invite you, please, we have a new agreement.

Eletrobras, in the First Quarter, has obtained a profit of BRL520 million, 413% higher than those recorded in last year, that has summed BRL21 billion. There are some variables that have influenced it positively in this figure; however it could have been above that what has been shown now, because we hadn't had the time to include in this quarter, the financial statement from Furnas, which is one of our largest subsidiaries. Furnas from January 1st has implemented a new management service replacing the previous one developed by the own company from the '80s.

The information of this fiscal year from 2009 has been closed in the old system after the approval of the financial statement by the administration council. In the short period of transferring between the old and new system, with all the recorded messages around 2 million, the company to proceed with a better analysis of these records has not shown the accounting statement from the first semester.

As soon as Furnas closes this semester, we will for sure have a bigger number than this BRL590 million that has been the one reported in the first semester. If we consider mainly that Furnas has a kind of financial way that is very similar to Chesf, it gives us the idea of how much we can be considered overstated of this BRL500 million that we are reporting in the First Quarter.

So in regard to Furnas and other companies, Chesf has presented an increase of 65% in relation to the prior year, has closed with BRL434 million against BRL264 million from last year. This is roughly BRL200 million above that Chesf has presented is part of the densities[ph] that you can remember from last year. Eletrobras has capitalized its debts of different companies including Chesf because of fiscal benefits.

With this capitalization of Chesf, that is still for future increase of capital, Chesf reduced its financial density and increased roughly BRL100 million in regard to the First Quarter. Chesf has also had a reduction in their operational expenses of BRL120 million basically because of provisions that it had from doubt debtors that were considered last year. And this year, Chesf considered that this provision are in proper levels. And so has to leverage these provisions.

In regards to last year, we have had a BRL120 million in regard to debtor provisions from Chesf. Of this, BRL120 million operational expenses, the debts has been reduced. And has had this difference of BRL120 million added to Chesf's results. The other company that has shown a highlight is our expectation from all the market analysts, is in regard to Eletronorte.

Eletronorte, now with the capitalization of its debts. And also receiving all the subsidy from the provisory measure 466, that became the 12/11 law, has -- not have this debt from last

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year, from BRL72 million results this year, this figure, it's very meaningful. From Eletronorte, we have roughly BRL120 million related to fuel. The fuel last year was BRL223 million, this year for BRL104 million. So BRL120 million representing the subsidy of CTC, that has been added to a CO account.

And also, this debt is empty from Chesf, has reduced from BRL340 million to BRL90 million, giving a gain of BRL150 million for our subsidiary in isolated systems. Chesf, from now on, has a totally different profile from prior years. And is a profitable profile. Other companies that belong to us, they are very similar from the previous year.

We have had Eletrosul that has had BRL51 million for BRL67 million, a 31% increase to a normal level. And CGTEE has left a negative to a positive of BRL30 million, mainly because of the short term market. CGTEE has power in the markets. And also the price was much above than it is this year. This change of profile short time price made the density has now profitable result. But both values are still small, near to zero.

Eletronuclear has had a loss of BRL48 million basically because of the debt that it has in foreign currency that gives a contrary result. We have receivable in foreign currency, we have had a gain -- Eletronuclear has shown a loss because of this debt exposed in foreign currency.

Putting all this information together in our balance, we close the First Quarter with a gain of participation of roughly BRL650 million mainly in the equivalent of our controlled companies. And we have had a gain of BRL515 million against BRL542 million last year. This gain we are recording, registering it with all the participation of Furnas, that could have a leverage in this first result of the First Quarter.

The next step is in regard to our financial activity, that is called bending[ph] activity. Eletrobras in this portfolio, has had a gain of exchange actualization against a loss of BRL200 million from last year, mainly because of the change of position of the dollar in relation to this year. Last year, 2009, the First Quarter, we have had a devaluation of the dollar of 1%. And this year the devaluation of real of 2.2%.

But this change of profile of dollar has made us record a gain of BRL230 million as an exchange gain. And also a gain of a BRL170 million in terms of actualization of the inflation in Brazil. And mainly because of the evaluation of 2.8% in Brazil. It was also negative last year. These two values and the reduction that we have had in the revenue of financial aspect, because of the capitalization of debt, it was BRL337 million. And this year it was BRL208 million because of this debt.

We have a mention of Eletronorte and Chesf, they were capitalized. And we transferred this gain, for this company's debt will become part of Eletrobras as a dividend. These are in reality the larger number that made Eletrobras close the First Quarter with a profit of BRL520 million in regard to BRL190 million of last year.

So please, you may proceed to make questions that you may have.

Questions And Answers

Operator

(Operator Instructions)

First question, Ana Maria Coelho from Itau Securities.

Q - Mariana Coelho {BIO 16262980 <GO>}

Good morning. Good morning to everyone. Good morning Arlindo, I have a question for you. If you already have an expectation of when you're going to publish this result to -- as Furnas, Amazon, Eletroacre, Rondonia and Roraima. And when it will be; and if you have an idea to tell us of how these figures will be with these other companies? What can we expect if this profit of BRL550 million, how much more it will be added to it? Thank you.

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Mariana. Good morning. In terms of date, we do not have yet. They are closing this conciliation of these two systems and they haven't informed us the date. Just adding to it, we have had a similar problem when we closed the last year, when we haven't had disclosed the balance of our distributors.

I'd like to inform you all that from now on, in our site, you can have all the balances of our distributors from December, except from Eletroacre. During this week, we're going to remake these investor's numbers, including this company and going to present it to you in regards to what could have been added.

Eletrobras does not like this kind of forecast, because we don't have any closed balance. What I can tell you. And I have said it previously, Furnas has very similar profile to Chesf. We can expect that something is similar to Chesf, maybe a little less. But in this level of Chesf we have presented in this First Quarter of 2010, this effect that have had of gains -- of losses, sorry, of something completely atypical from last year. I believe that the profile were very similar to Chesf.

Q - Mariana Coelho {BIO 16262980 <GO>}

Thank you.

Operator

Senchu Konche[ph] from Banco Barclays[ph].

Q - Unidentified Participant

Good morning, Arlindo. Good morning everyone. I have a question for you regarding to the dispute between Eletrobras, Eletropaulo and CTEEP. Yesterday in the conference call of Eletropaulo, the company said that in regard to this process, appointed referee, Eletrobras has questioned this indication made by the judge, the name of this referee has

been questioned. It was adjudged in the second law court. And they maintained the referee.

My doubt is if the maintenance of this person will alter the expectation of this company with a lower value of a different result of Eletrobras has provisioned for this case? My second question is in regard to Angra III, if you have an update to provide us in the progress of disputing company, this company that has been built.

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Good morning, Senchu. In regard to Eletropaulo, there is no questioning in regard to the amount, the criteria of Eletrobras to have questions, the name of this person is mainly because of other technical and legal problems, not in regard to values. It's not -- should be not be discussed, it's in the higher court, we only have to update it because of the federal laws.

Eletrobras does not provision it. Because of conservative behavior maintains the previous amount, we're going to launch the final value when we have the definition of who is the debtor of this question? The debate in this issue is not the name of Eletropaulo. There are two possible debtors, one is Eletropaulo. And the other is this company called Paulista. The debtor maybe a share of each company. But we're not clear about it, of who is the debtor.

So the role of this person, of this referee is to analysis of the documents, to appoint who is or who are the debtors of this action. So from this point on, Eletrobras will make a provision in his revenue. But at this point we don't have anything.

Q - Unidentified Participant

Arlindo, just following up on this, do you have any expectation in regarding to the conclusion of this process?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

I made these questions for our legal department. And they answered that all legal issues, we do not have a deadline. It's difficult to have a conclusion during this year. But an action of this amount should not be answered so soon. Still, I do not have any forecast.

In regard to Angra III, they are starting their job. But the building of Izumen[ph], even if it's a terrible one, just working on the floor, on the ground, investments side, it's not meaningful of ALCA tax[ph] that we are expecting to invest in this Angra III company, we're just starting to work.

Q - Unidentified Participant

For 2010, can you expect this thing can be more accelerated, can be sped up?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Maybe in the end of the year. But it's not meaningful yet because it's already May. Even we start the work now, it's going to be a very small share of this BRL8 billion that we are expecting to spend in Angra III. Thank you.

Operator

Next question, Tiese Alalua from Credit Suisse.

Q - Tiese Alalua

Good morning, Arlindo. Could you please comment on how you can increase the debts, the value to adds this year. Eletrobras has talked about the BRL500 million from the World Bank. And BRL1.2 billion that is going to be captured from the market through emission of debt in dollars. Do you have an idea in this year how the market will do and in operate?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Good morning, Tiese. We do have -- we have approved a budget of \$2 billion. From this \$2 billion, as you had mentioned, a part of \$500 million is already allocated by the World Bank. It's just a final process of ending this whole thing. But this idea of Eletrobras is to issue two new debts, one transfer of \$500 million of synchronized debt. Eletrobras will do intermingle[ph] of lloa[ph]; the part A will be a multilateral agency in the country. It's a great country; to date, we haven't to define yet of selecting them.

The other \$1.5 billion, we intend to do it after -- to have a market call. So that we can issue a bonus of \$1.5 billion. This process is still in the initial part of the process. But should start lowing this money from the synchronized process.

Q - Tiese Alalua

Is it going to take place in the second semester?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Probably yes, in the second semester.

Q - Tiese Alalua

Thank you.

Operator

Mr. Gustavo Gattass from BTG.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Arlindo. Good morning. Some questions that I have for you; I'd like to start asking about regulatory bodies in Itaipu. Could you please tell us the step-by-step of how you have ended up having this negative result? The second question, you have mentioned the CGTEE. And the fact that have had a low profit. I was thinking here of AFAC that has its

origin with CGTEE. I'd like to know from you if there is any news in this process, are we closer or further away from converting this AFAC?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Good morning, Gustavo. In regard to regulatory issues, the difference is very high, because there are two variables. The approval of this rates or index that is used is done through a legal instrument made by NL. And it was issued in September. So Eletrobras will account it at the end of the year, a relative number in relation to September. And then after that it adjusts to a real number that was in 2009.

We have accounted BRL200 million to adjust this number in 2009. And the difference was calculated for these 2010 numbers. The method we used is forecasted in Itaipu treaty uses two different rates with an average in regards to variation of one year of 2008, in regards to the variation of 2009. And so the average variation of 2009, the index was 109. And 2009, a 120-008.

The price consumption, the same methodology, the average index of 2008 was -- the average number, a 109-2005. We calculate the averages of two index weighting 50% without counting this valuation that was a negative one. A movement of deflation accrued during this period. I can send this spreadsheet, it's here before me.

And Gustavo, you have asked me this before. But I haven't had this spreadsheet before, we may read to you.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

What about AFAC? In regard to CGTEE, there is no capitalization, specifically in CGTEE. The AFAC, the original AFAC, when the money entered in Eletrobras, in Eletrobras, yes, the contribution was made to CGTEE was worthless. And now it's large. In regard to AFAC of Eletrobras, there is no planning of a short-term for this capitalization. Eletrobras is observing the market expecting any improvement of our quotation. And this capitalization is done according to the market value.

You can cause a dilution of these minority shares, even if they have had to subscribe, we wouldn't like to cause this problem in this moment. We're observing the performance of in the market. So in the future we can capitalize this value.

Q - Gustavo Gattass {BIO 1702868 <GO>}

It's done with the market value?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Yes.

Q - Gustavo Gattass {BIO 1702868 <GO>}

You have no doubt?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Yes.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Just one more question in regard to Mariana's question. I'd like to confirm nothing has end to net income from Furnas?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

It's not only the presentation of the open balance. The difference of the concept that we have had in December, the companies in December, we haven't had any opinion from the auditors. Now, we haven't had the balance because of this system. When they have it, the figures will be changed in regard to this one that is disclosed.

Q - Gustavo Gattass {BIO 1702868 <GO>}

When I look into a balance, it does not include nothing from Furnas or the assets, the final of the end of the year. And it does not include nothing that has happened from the end of the year up to now.

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

No. It does not include nothing that has happened in the first semester.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

Next question, Felipe Leal from Merrill Lynch.

Q - Felipe Leal {BIO 2015017 <GO>}

Good morning, Arlindo, you had mentioned Angra III work. I'd like to remind if the way of trading the power and the price of power in Angra III?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Good morning, Felipe, not yet. We -- these are the two reasons that our packs hasn't closed yet. We are still defining the methodology, the path[ph] is that we use the same one used in Angra II and I. But we still haven't had this definition.

Q - Felipe Leal {BIO 2015017 <GO>}

Thank you.

Operator

Next question, Pedro Manfregini[ph] from Phillip Morgan Bank[ph].

Q - Unidentified Participant

Good morning, everyone; one question in regard to the next reserves. We haven't seen in the last auction a report of Eletrobras. I'd like to know what Eletrobras can -- is been registered for this auction, to give us idea of the amount and the projects in oil that I can imagine. And the second question is in regard to hydro for this year. If you believe that we're going to have all the projects that are forecasted for this year, hydro projects, if Eletrobras has any interest to take part of these auctions? And the third question; what do you have in our study in terms of hydro projects out of Brazil?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Good morning, Pedro. We're going to start talking with the first question. The portfolio of the study is very large and diversified. We haven't had yet an investment appointed, concluded to be done out of Brazil. We're still studying it, some surveys are still in progress, some are still very small. But we're still beginning to study it.

In regard to the possibility of new investments in Brazil, Eletrobras analyzes the possibility of taking part of our actions, maybe alternative energy, hydro energy, we analyze with the end profile that has been outlined by administration management bodies. So in these features, we analyze all of them that are appearing. We still haven't had the information of the potential that Eletrobras has and intends in this market field. I can check with the engineering department. If you want to get in touch, I can provide the information to you later on.

Q - Unidentified Participant

Just an idea of -- you already have the auction of reserves. Just to have an idea, what has been recorded by Eletrobras?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

I have to check. Please get in touch later on. And I will check with the engineering department.

Q - Unidentified Participant

Thank you, Arlindo.

Operator

Reginaldo from Bank HSBC.

Q - Reginaldo Pereira {BIO 15754056 <GO>}

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My question is in regard -- that belongs to Furnas is numbers, figures, that should produce power, they are delayed. I'd like to understand if you're Eletrobras, if Furnas is buying this power, if it's going to last in 2010, if it has done any other strategy to host these delays in the museums[ph]?

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

Furnas is doing these purchases to close the market. But the level of details of this operation, I do not have them here with me. But I will find out how the levels of these two plans. And if you get in touch with me later, I'll go check with Furnas what is the volume in that we are buying to close these agreements.

Q - Reginaldo Pereira {BIO 15754056 <GO>}

Thank you.

Operator

We -- this concludes the question-and-answer section. This time, I'd like to turn the floor back to Mr. Casado for any closing remarks.

A - Arlindo Magno de Oliveira {BIO 2125555 <GO>}

One more time, I'd like to thank you all and reinforce that the presence. And in this case, absence of Dr. Casado has been of a Force Majeure. And very soon we're going to be issuing another invitation to have another teleconference. And he will for sure give more details on the strategic side of Eletrobras, including these questions of our participation, improving of our governance. Thank you, to all.

Operator

Thank you. This concludes today's presentation. We thank you all. Have a nice day.

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