

## Q1 2013 Earnings Call

### Company Participants

- Armando Casado de Araujo, CFO, IRO

### Other Participants

- Felipe Leal, Analyst
- Maria Carolina Carneiro, Analyst
- Unidentified Participant, Analyst

### Presentation

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

Ladies and gentlemen, good morning and thank you for waiting. Welcome to the audio conference for Electrobras to disclose the financial statement of the First Quarter of 2013. We inform you that other participants will only hear the conference during the presentation. And right after, we are going to start the Q&A session, when more instructions will be given.

We remind you that this presentation is available on PowerPoint on the investor relations website of Electrobras. Before we proceed we would like to say that eventual declarations that might be given during the conference regarding the perspectives for businesses of the company's projections and financial projection will be beliefs of Electrobras; as well as information that is available to the company. So future information will depend on circumstances that might not occur. The investor should understand that economic general conditions and other operating factors might influence the result expressed and future considerations.

Now, I would like to pass the floor to Mr. Armando Casado de Araujo, financial director and relations with the investors of Electrobras. Please, Dr. Armando?

It's a pleasure for me. I thank for your presence at our teleconference for the disclosure of results regarding the First Quarter of 2013.

And directly to go to subject, as everybody knows, this financial arrangement is for the covenant (inaudible) the new generation and transmission tariffs of the effort, whose concessions will be used [ph] in accordance to the law 12.783 of 2013, as our changes in our accounting policies and disclosures.

Well, the consolidated individual financial statement for the year ended December 31st, 2013, will be the first annual financial statement to be presented in accordance with a set

of five standards for consolidation, joint arrangements associated [ph] and disclosures, because as follows, IFRS, 10, 11, 12. And 37 revised in 2011 and IFRS (inaudible) 28, 2011.

These standards were adopted by the company. And from 1st of January, 2013, in these financial statements with its impact on the comparative period and disclosed in financial statements of the First Quarter of 2013 and the market letter, which is filed with the (inaudible), the stock exchanges on which our shares are traded. And in the Electrobras IR website.

So before talking about 2013, I'd like to mention our work on recovery of the profitability of the company, which has been the major request from investors and market analysts. We are working intensively on a strategic program for Electrobras Systems, which is part of Electrobras business and management plan for 2013-2017 period. And we have a strategic realignment of Electrobras, establishing conditions for managing and obtaining revenue to the optimization of expenditures; and capturing synergies inherent to integrated activities of the Electrobras companies; corporate and organizational restructuring; improvement in management processes; and a focus on extension (inaudible) investment and (inaudible) for the company.

And organizational recovery and improvement in the process of stock management that guarantee better investments for the company. So much so that during this period, we had an auction for transmission. (inaudible) companies have participated in the auction. But we were not -- (inaudible) we did not have the profitability that we wish. So none of our companies were able to take any of the lots because we have a concentration very high with -- because we are concentrated on improving profitability of the company.

I'm going to let (inaudible) about the First Quarter 2013 results. And then I'll be available to answer questions about our company. Some of the other results, as you know, the net loss was R\$36 million, while in the First Quarter of 2012, the company presented a net loss R\$10.5 billion. And we had operation for short-term -- short-term (inaudible) regarding the transactions held in the short-term market (inaudible) CCEE by (inaudible) electrical market produce revenue of R\$816 million.

So we had an increase in cost of fuel of energy, increased -- production in the amount R\$557 million, compared to R\$89 million in the previous year. Provisions of contingency presented R\$275 million against R\$103 million in the previous year.

Third, we have R\$211 million of (inaudible) loss. So we have a current exchange valuation (inaudible) billion. Itaipu, R\$85 million, 22% (inaudible) in 2012. And so in the (inaudible) by the quarter by the operation of the methodology that we did, by when we did the statements. And I said the prediction of inflation that were proved by the 2.4 (inaudible) were effectively worth 1.05 [ph].

That we continue to have our goal of reduction and we have a growth in the quarter of 7.9% compared to the same quarter of the previous year, demonstrating a reduction of 6.1%, lower than the annual growth recorded when compared to previous year.

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So let's talk about net debt. And that's highlighted in the presentation. The number -- just a minute, please -- well, 10; it's highlighted on number 10, where we demonstrate that we have here a debt in terms of the net cash of R\$8.2 billion. During this group, it's a (inaudible) of 8.7 where we have included in the income. So if we take out RGR of a certain amount, (inaudible) application of R\$14 million to finance to receive of R\$11 million. So the total million (inaudible) to RGR (inaudible) plus what we have in cash plus what we have of financing -- so we have a net cash negative of R\$8.2 billion.

When we demonstrated the consolidated (inaudible) the change investment in a very controlled way with Electrobras. (inaudible) of the period I highlight, that Furnas, Chesf. And Electronorte and Electrosul, we had a profit of R\$59,000 to R\$141, or R\$167 and R\$41 million (sic). CGTEE, I have exposition of short-term -- have loss of R\$188 million. Altogether they have a loss of R\$91 million, against R\$197 million loss of last year in the same period, reflecting better performance of the distributors due to the technical and commercial losses and (inaudible) that is due to this involvement.

Once we've (inaudible) we have this consolidation (inaudible). As I've explained, this de-consolidation of the SDS, that instead of registering expenses in consolidation, they gave (inaudible) by equity equivalent. (inaudible) R\$176 billion. And it's now up to R\$141 million [ph]. Our social capital is R\$141 million [ph].

And we highlight and we make -- and we divide it by the shareholders. We have from financial services, (inaudible) million; (inaudible). What I highlighted, that have 102 (inaudible) times 4, against an equity of 28.2. But we have a 9.4 adjustment in the controller due to our external capturing.

I highlight also that (inaudible) is that -- of which (inaudible) 46.1 against the cost of investment per external capturing of 29.4. So we have R\$16 billion in receivables, R\$11 billion in (inaudible). And 9.2 to pay. (inaudible) considerations that I believe that is known by the market, the result.

And I believe that it's more important now to test -- to the Q&A sessions. So we are going to start from this moment the session of Q&A.

## Questions And Answers

### Operator

(Operator Instructions).

First question will be from Felipe Leal from Merrill Lynch Bank. Please, you can proceed.

### Q - Felipe Leal {BIO 2015017 <GO>}

Good morning, all. I'd like to ask for you how -- the discussion about the residual value of the assets for transmission. Before the CGTEE, is there an expectation of value, or you have any idea of when it's going to be defined for you?

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

Good morning, Felipe. We have -- if I will remember the paragraph second of article 15012, (inaudible), until the 31st of December to present the plans that we have considered already by the near values of the positions of consolidation.

That is, within the objectives of our market plan for management, one of them was the creation of a work group coordinated by Electrobras to survey all the assets according to our methodology. But our position is that in September we will have all of this consolidated to be able to present to (inaudible) the request for residual value.

But I should remember -- should remind you that we have the criteria for value of the assets by the new value of the reposition [ph]. So we have applied this methodology and that's why we kept in our statements of 2013 the right. Now we are refining and we are doing this together with other companies to request that. And according to the law, until December (inaudible) to find the values effectively considered.

**Q - Felipe Leal** {BIO 2015017 <GO>}

(inaudible). Thank you.

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

The next question will be from Carolina from Santander Bank. Please, Carolina, you can proceed.

**Q - Maria Carolina Carneiro** {BIO 16342681 <GO>}

Good morning. Two questions regarding the cost. First, I'd like you to comment a little bit about the DNS of the First Quarter. It is a controlled trend aligned with inflation, a little bit (inaudible) to what we find (inaudible) for you, if you are working on that and this specific line. And know if you have any forecast of when we are going to see the PDG or what you're preparing the program -- the emissions program. And if you have any idea of how things will develop to the next quarter.

And I'd like to know from you the positions that have for the next quarter because I have an intention that you have a certain reduction, that you called (inaudible) equity that you called in your balance sheet.

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

So in the First Quarter you've seen that we have an involvement and we have been working more on that. But what we consider the DNS are the measures that we (inaudible) including -- and all the other companies are thinking in terms of measures. But they are palliative measures [ph], for reduction of travel cost, tickets, hotels, trying to say on teleconferences, etc. -- everything that you're able to do, because what is going to really touch the cost is the second part, the part that you said. But you're perceiving this involvement and we are seeing that it's possible to continue with this trajectory of looking a lot to cost. Actually, the impact of the renewal that we have is because everything that is

attached -- it's costs attached to an assessment of the board of decision as to the authorization or not.

And this is all in our companies. And that's where you see a (inaudible) of 7.9 or 2.1 (inaudible) to the previous year. But we consider they are (inaudible) measures which we are putting forward. But (inaudible) because the emission program (inaudible) what happened is Electrobras, because it's a governmental company, it's a state company, it needs approval from the governmental body. (inaudible) and we sent the ministry (inaudible) energy (inaudible) minister of finance and taken a little bit of process of negotiation.

This week it was approved. And now we've received approval and we've said, let's do an assessment about the plan itself, make what -- the expectation. And now, I believe that actually the next quarter we will have more precise information about the impact and the precision necessary for us to be able to implement the plan.

As to the provision of the quarter, as I said, the provision of the quarter was residual on the (inaudible) contract. It's as I said, we're from (inaudible) contract, we have to justify the extension. I highlighted the footnotes, which is the transmission one, when you look and you confront the expense with the income, it's important. But the law 12.783 that we're commissioned, we have rights (inaudible), all of those that have option to the extension.

So naturally. So this decision took this -- all the option of extension of all the (inaudible) transmission companies. So we are making an adjustment. One of them is (inaudible). Because it's important to take the burden of this contract (inaudible) working intensively with other measures. Yes, we're (inaudible) contract that had a settlement of (inaudible). And we're going to send her the plan of action for this new settlement, since it's not part of the tariff. And this will make this contract stop being a burden.

So on the assessment now is that it (inaudible) the first moment, Carolina. But we are working intensively. And from the next quarter on I can give you more information about those contracts.

**Q - Maria Carolina Carneiro** {BIO 16342681 <GO>}

Okay. Thank you.

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

Next question will be from Marcelo (inaudible) from Brasil (inaudible). Please, Marcelo, you can proceed.

**Q - Unidentified Participant**

Good morning, all. In truth I have a question more regarding the results. Can you inform to the market, for example, what would be the (inaudible) Electrobras if this accounting method wasn't changed by equity equivalents? How would be the results in 2012?

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

Well, Marcelo, the (inaudible) and I can give you an example why.

The first thing is when you -- we have a new (inaudible). Let's talk about the transmission. When you register the income -- revenue up there in the group of revenues, that they had the same value as the counterparts in the expenses. I don't know if you understood. But we have a transmission -- even in a period of construction -- revenue that is up, there is one that is down.

So if you were to look at the assets of Eletrobras practically, all of them are in construction. Most of them (inaudible) materials -- majority of them are. What was done there will be marginal, in my opinion. It would be marginal, why? Because it would be the one that -- the investment part -- practically an inequality relationship and the cost of OEM and (inaudible). But it's marginal because the big projects aren't (inaudible).

And now we can make a consideration -- I would make a consideration, an additional consideration. And I (inaudible) to show you. (inaudible) on the optics [ph] of the operating cash flow. So you are looking at this projection to give -- and I have a (inaudible) of EBITDA in the economic part.

So just to complement the question, since the result impacted (inaudible) small because there is a lot of construction. In relation to the debt (inaudible) operation. But if you take (inaudible), it's not all connected. All the emissions have not entered there yet. (inaudible) as an example, because many things have entered now as an equity equivalent. And you consolidated a lot of projects that were being constructed, which is a significant reduction in debt, R\$24 billion.

R\$24 billion (inaudible) but it's important, Marcelo, to understand that (inaudible) better to include (inaudible) concept (inaudible) project is being under analysis. So (inaudible) deconsolidated. So just so you can have an idea (inaudible) how is that the information of the (inaudible) tariff, what is the cost rate? The cost includes the debt. So the year establish the cost and the tariff.

What happened (inaudible) part of the treasury. So it's registered economically on the balance sheet. But naturally speaking (inaudible) the tariff. So I carried out the investment with me. But (inaudible) didn't pass the obligation through the cash flow of Eletrobras, now that we've deconsolidated out of it.

So we've (inaudible) itself. But by the standard that we have now changed, now the project has the obligation of the investment and I will take it (inaudible). So because we have some covenants established in the (inaudible) the change in this capacity (inaudible) adjusted debt as you did before (inaudible) contributing to the balance sheet. (inaudible), Marcelo. We captured the debt to Eletrobras so we don't have any discount. Okay?

The next question will be from (inaudible) from UBM.

## Q - Unidentified Participant

Thank you for the opportunity. There are two questions. First, why didn't you participate in the next auction of transmission? And the second, is the risk of execution of the project because of some (inaudible) with a higher budget than what was expected? So I'd like you to talk a little bit about what is the return expected now, because we have quite a lot about the infrastructure projects that are (inaudible) becoming more expensive than they were expected in the beginning.

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

Well, thank you. As to the transmission auction, we received a invitation of Electrobras so that the majority of the participation to go to the auction. But we didn't count any -- no premise should be firmed, based on the risks, licensing. And terms that take a long time for the enterprise to grow. So between -- and a very strong monitoring of our projects in construction.

And we beat the margin to go to the auction. And it is not possible, what happened in the auction. It was not possible for us to buy those projects. And then there was a strong process of communication during the process of auction and we were declining the bidding. So that is if the projects do not satisfy our portfolio more than ever, we have a situation that is (inaudible). We are going to be remunerated by the bidding on the project and the investment. We are going to be remunerated by the investment (inaudible). And depending on the projects in the future, they might generate assets (inaudible) for the (inaudible) special standard.

And now it has a problem of a group of assets that is going to be operated and kept. And we're going to earn (inaudible) these assets. So we have to be very responsible in the commission of our projects because now we have to be sure of the profitability of the businesses. We have worked with (inaudible) already. We have a return rate that we worked in the market disclosing that (inaudible) due to our strategic hedging, which is very important that now we are being much more rigid due to the experience of licensing and all those questions. So we are thinking not take on any other project that might incur any risk for us. And the second, that is, the part of risk of project and training includes (inaudible) partners. We are investors there.

So I got to know about (inaudible) that had to do with (inaudible) approximately built to be in the scope of the (inaudible) group. So I don't know about the concept presented. But it's a process of negotiations. It's not going to be directly with us, you know. I cannot answer the question another way.

But we are not taking on any additional cost. Okay. We are not going to take on any additional cost without analyzing things that; well, it's a process of negotiation that is (inaudible) provision of the structuring projects of this nature. Thank you.

(Operator Instructions). Just continuing, we have now (inaudible) Pereira [ph] from Banco Safra.

## Q - Unidentified Participant

Good morning. I would like to have an update about the strategy that you have for the distributors.

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

Regional, you mean? The strategy is in our master plan. And as we said to the market, we said that we (inaudible) the services and give the alternative for the distributors. It is -- we're going to put up all the costs we have obtained through end of this work to make the survey and assessment. We are going to count on external work as well.

And as per 30th of June we are going to have the model of the alternatives for that. And I explained also at the time that the distributors I (inaudible) extension. So that through groups of important things that we are assessing, the first one (inaudible).

So we are making an assessment of the companies as well. But independently from that, you've seen the result. We've (inaudible). The third question that I believe is important is that they're doing this discussion before we're apart -- being connected by the national system. So it gives a better quality of energy supply services, because we are going to be all in the same system and we (inaudible).

And they're much more thermal than hydric [ph]. So the changes to operation of the company (inaudible) development -- we are not stopping making our progress towards this. We have a cost that you already used -- (inaudible) coming from the IRB. And yesterday I had an opportunity to see a report about that, the enterprises that are getting done in (inaudible) with the quality of the services, separate station [ph], transmission lines; changes of transformers.

So we are making a significant investment into the quality of the energy so that (inaudible). Because we are (inaudible) going to give areas high-quality services (inaudible). So to answer your question, it has to be very specific (inaudible), because while we have this extensions we are making investment. And independently from this we are going to continue our project of recovering of those companies.

And we (inaudible) the quarter short the involvement of the last of the (inaudible) last quarter of 2012 that was R\$197 million to R\$91 million this year. Thank you.

The next question will be from Andre [ph] from (inaudible) Capital. Please, Andre. You can proceed.

## Q - Unidentified Participant

Good morning. I have two questions. First is in relation to the dividend policy. We're very concerned about the changes effected last year, in Eletrobras, had to change the dividend policies due to a new policy of revenue and all the expenses that are committed to you the next year. And so the deconsolidation of these (inaudible) position of cash that

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you have, can you give us an idea of what's going to happen with the dividend policy; namely, Electrobras.

And second is in relation to the CapEx in the years to come. Can you share with us what are the levels of CapEx that the company intends to invest in the next years?

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

Well, Andre, first, the policy of dividends. As all you know, Electrobras doesn't have a dividend policy well-defined yet. But it has practiced payment of dividends, extending always what is based for financial. And the same amount that it pays to the preferred shares we are making to common shares. And even though they are not equivalent because of the share basis -- it's 30% for preferred and 70% for common.

But we pay dividends at year-end. It was necessary because we had a question, if we would pay the dividends on the purchase with the profit reserve, because we are not getting any profit, that we would pay (inaudible) dividends. So we (inaudible) the company lawyers and we got to a solid conclusion. The subject was very difficult because they offer different opinions.

So we take this subject to the board of directors, the ones that are going to decide on the payment of dividends if we don't have the policy. And I explained the program (inaudible). We are going to pay the dividends; we are going to pay dividends for the shareholders. So they're fixed dividends because -- you know, they're fixed (inaudible). We have R\$31 billion in capital. So we gave R\$366 million, 1% [ph]. From that we pay 15% (inaudible) R\$484 million, if I remember. So we took this R\$484 million and we extended it to the common shares because if we have a profit -- we have the profit, we (inaudible) at all.

So one was on the basis of 20, the other one on the basis of 40. So (inaudible). And we are fighting recently against questions of reduction of cost, etc.. And we're anxious. So we always try to (inaudible) the market what we are doing. Because it doesn't -- it's good for nothing to say what you are doing now, if they are approved now. So it is approved. But now we are making the total (inaudible). But in the meantime (inaudible) company.

And then (inaudible) market (inaudible). So we have the payback on such-and-such debt that will be first to work on that. And it's very easy, the question of profit in our condition (inaudible) I've commented (inaudible). This is all part of my projected research (inaudible), even though I still have R\$10 million [ph] (inaudible), that I have to subject this money to the board. So I have not a (inaudible) dividends that we got in there.

But as to CapEx, we have now an investment already of R\$32 billion. And a total of two other R\$30 billion that are (inaudible) to keep our market share. And then a question for the first part of the R\$32 billion, we're trending that we have already hired indemnizations [ph]. And then we have additional indemnities due to the collection (inaudible) in 2012. And another (inaudible) financing, R\$13 billion to (inaudible) not even get on the auction yet -- (inaudible) additional finance, funding that we're going to have at this moment.

This is due to the (inaudible) level of investment. We're going to (inaudible) guarantee of the federal government. Okay. Thank you.

Next question comes from (inaudible). You can proceed.

## Q - Unidentified Participant

Good morning, (inaudible). My question is much related to distributors. Mainly I'd like to know what's the impact of the purchase of Asogi [ph] to the (inaudible) Electrobras. You know that Asogi's a very big company. So how are you seeing -- what has impacted and what is impacting (inaudible) in the next year?

The second part is the consultation about (inaudible). You, in the case of (inaudible), you did not subscribe to the capital increase after maturing (inaudible). And I found it very -- exchange because it's a company that has very high potential; and at the same time, with new negotiation the debt [ph] went down and it was extended a payment. So it was something very interesting.

On top of that comes the question of the (inaudible), why you still (inaudible) position (inaudible), which is CPFL Equatorial. And the group (inaudible). So how do you see the company if you are going to have an increase of capital at (inaudible)? What's (inaudible)?

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

(inaudible). Okay. (inaudible).

Capital -- we cannot put any money from outside. So for those independent we're approaching we'll have to give (inaudible) to it. What happened? I thought we have a situation that it's equity situation. But it's almost insoluble [ph]. And so (inaudible) government of the state, which is the majority shareholder, took a loan from the federal government of R\$230 billion. And all of this was taken by the government of the state through the counterpart -- (inaudible) guarantee.

So it was taken by the federal government, guaranteed by the state government. (inaudible). So it was part of the form of capital and the other one (inaudible). And (inaudible) to liquidate the sector (inaudible), RGI, CBC, CBA. And the residual banks and others. And this was the first part that was done. And this improved the level of investment of the company.

And in this sense it was -- Electrobras did not make anything because Electrobras did not enter in the business yet. They did not do anything with their capital, could not do anything because if you put -- I could only put the value corresponding to something that was also (inaudible) 0.2%. So (inaudible) they have R\$980 million and we did not do that.

So now we are making our work both at the part (inaudible) and the state government (inaudible) to make this service. Just a second -- both are going to align the values, to

(inaudible) need of funds or not. (inaudible) so much so that Electrobras is going to enter in the business with 58% (inaudible), which would acquire the business by (inaudible).

But people that are demanding this. And the next step is (inaudible) to make the consideration of the other side. But (inaudible), the situation that we have (inaudible) and up to now we did not get any time. (inaudible) we did not subscribe because we had participation in October and (inaudible) of legal (inaudible) energy concessionary.

And when we talked about the debts, the debts that were also coming -- RGI (inaudible) in the balance sheet of 11/30/12. And there (inaudible) part of the capital. What we wanted to do -- well, I negotiated (inaudible) of the part that I had from the debt in capital. But (inaudible) new capital and leave part of the debt was not a good business for me.

So (inaudible) because sector (inaudible), we did not understand (inaudible). (inaudible) and the projections, because I remember (inaudible), I don't have in front of me. But we have (inaudible) 2018, et cetera. So since we made the proposal (inaudible) at the creditor's meeting. And the creditor's meeting, the accounts were approved with the organization of our proposal. That was why, because (inaudible).

Because the minute the conceding powers acted correctly, (inaudible) provisioning measure to make it a provision of the company in order to -- not to get, elaborate (inaudible) I don't have any legal recovery. So they tried to do this and keep me out of participation. So we are going to see how (inaudible) going to be (inaudible) total investment.

And then you talk about (inaudible), talk about (inaudible) different stuff (inaudible). Now I know both cases. So it's good to be (inaudible) going to make on -- that's why I'm talking about what happened. And (inaudible) is a little bit different -- very different. So we need to get to this stage and to (inaudible) have to do this, to enter in legal (inaudible).

## **Q - Unidentified Participant**

I understood. Thank you, very much, Dr. Casado.

If there are no more questions, we will pass the floor to Dr. Armando Casado de Araujo for the final considerations. Armando, you have the floor.

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

Well, the words -- the ones that I have -- is to thank the market. I believe that it is the efforts of the administration and the actions that you are taking to be able to make Electrobras a company that's (inaudible). Because it is the largest company in Latin America. It is managing business -- electric energy. So it has to be efficient in the operation and maintenance. You have to continue to do these things (inaudible).

So the administration's (inaudible), what with (inaudible) at the moment, that I should register that now that's the way it's going to be from now on. We're adapting ourselves to

the new moment. We are recovering management because the approval of concession will be 2015. We have a transformation plan. We are really getting involved with the new plan of business.

But in a different way it will be good because now we have -- very prudent and we take care of twice as much as we used to take care of things. And we are making effective (inaudible) concession of 2015. And now it shows (inaudible) auction. So we went to auction and we didn't bid because we are looking for something much more important. So the financial profit (inaudible) to us. And now I believe that we are finding the solutions to prove to the market that we are making work to organize the company.

But we don't want only to disclose some (inaudible). But we would like to demonstrate in detail the process and the stage that the process is. As I said, I thank the market and (inaudible) as always to give more clarification. So thank you all.

So we close from this moment on the audio conference. We thank you for your participation. And have a good day.

## Operator

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