

Q1 2020 Earnings Call

Company Participants

- Unidentified Speaker
- Wilson Ferreira Junior, Chief Executive Officer, Member of the Executive Board, Director

Other Participants

- Andre Sampaio, Analyst
- Carolina Carneiro, Analyst
- Marcelo Sa, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, good afternoon to everyone, and thank you for waiting. Welcome to the earnings call of Eletrobras and we're going to talk about the results of the first quarter of 2020. Pretty important. All the participants that you will only be able to listen to the earnings call. Thereafter, we're going to start with the Q&A where you can expect further instructions. We have this presentation available in PowerPoint at the RI, Investor Relations website of Eletrobras. (Operator Instructions).

Before we start, we would like to clarify that any -- here is the disclaimer. Anything that might be said in regards to the business perspectives of the company, projections, operational goals and financial goals are beliefs and privileges of the Board of Directors of Eletrobras, as well as being based on information that is available currently to the company. These are not guarantees of performance because they involve risks and uncertainties and may depend on things that may or may not happen. General economic conditions and seasonal factors might change our results.

Now I would like to give the floor to President Wilson Ferreira Junior; and Ms. Elvira Baracuchy, Financial Director and Director of Investor Relations; (inaudible) the Director of Operations.

Mr. Wilson, good afternoon. The floor is yours.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Thank you, all. Good afternoon. Thank you, everyone, that is here at this earnings call of the first quarter of 2020. We are slightly affected by the onset of the pandemic and I

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request that we go directly to the presentation. You can see the disclaimer. As many companies have said, the disclaimer is about our projections and results in the current context of the COVID-19 pandemic. Page four. First thing that we like to say is pay an homage to the victims of the coronavirus pandemic. We manifest our solidarity to the victims and obviously, we would like to pay our tribute to the 12,000 employees that have worked vigilantly 24/7 for the commitment to maintain the services of generation and transmission of energy. And this supports our society and our operations. We would like to highlight our admiration and respect for all the healthcare professionals and all professionals that are working in the essential services to this country. You've given us so much in this very difficult time. And this is our homage on page four.

Page five, we can see how we're facing coronavirus at Eletrobras. The first thing is that the company has a high -- what we have over 12,000 people working with us. And we do not want to stimulate the spread of the pandemic. Very quickly, we established a crisis committee. I already talked to you about this. The operation has already stabilized. 64% of our employees are in remote models of work. We've also placed a few of our employees on vacation leave and we have 24% of our body of workers directly connected to the support of the operations, IT is very important and some working in the offices. The operation is very stabilized even though it was very highly impacted by the pandemic. We've worked with video conferencing. We've had over 120 video conferences that I participated directly alone very recently. We have been working with this process for over 60 days and we provide psychologic support as well we do workshops, speeches, meetings, webinars, leadership meetings, so we can strengthen and give support to our collaborators, so we can overcome this horrible pandemic. We're promoting vaccination campaign for the common flu and H1N1. This has been very successful in the area.

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We're one of the first companies to every two weeks and subcontracted parties that go through our on site, we do a training with them. We are doing the backup of the operation system, all of our operation system centers, so we can have the operations running seamlessly. And you can see there on the right in the graph that I just mentioned. We have -- at Eletrobras, we've had thus far, about 185 employees that contracted the virus. 114 are on treatment and recovering. Page six, you have the strategic importance of Eletrobras. Here is the assets for generation and transmission and the operation centers. The distribution of our controller, of our controllerships, 399 are strategic for the operation of the electric -- well, 269 out of 399 are strategic assets for the electric operations here in Brazil. We also have employees working in shifts. You can see on the right, less hours per shift on site. And we had operations with 8-hour shifts. We decreased from 134 to 57 days. And now we are working with the 12-hour shift. We had only eight operations during that shift, and now we have 133. Therefore, inverting this -- the time of the shift to decrease chances of contamination. We had 203 operations that are done remotely.

Let's go to page seven. Let's talk about the impacts of the pandemic. This has been the failure of pay, the default has been something that investors are worried. You can see the graph in the middle. I want to show you the origin of our numbers. We have generation and transmission. 70% of our revenue is in a regulated environment. And this is our concern. Since the beginning of pandemic we want to give support to the distribution of energy and now we have the COVID account, which has been regulated. These are

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mechanisms to maintain the capacity of pay for the distributors and this is the mechanism, these are the mechanisms that were implemented to not allow the distributors to fall into default. We have over BRL15 billion and we do not want the distributors to go under suspension or default. And in regards to this process, until 2020, we will keep this ongoing until December. We do not want to require suspension or reduction of volumes of energy with the CCEARs, and this period is added to the operation and we should keep the default rate in this level that you can see, 0.89%. Once again, generation is less than 0.5%. In March, we had 0.89%. And now we hope that with the COVID accounts, we will have less than 0.5% from May onwards.

On the right, we can see revenues obtained by the company in the free environment, the free market environment. The free market, as you can see, 30% of the revenue. This corresponds to 27% of the total energy that is procured with us, generated by our companies. Of this energy, of the 27%, 30% of those are contracts that are connected with industrial sites such Itumbiara, Sobradinho, with a deadline of 15 years to 17 years, with better market conditions and the market and better for us because the volumes sold in these contracts is going to be transformed in quotas. The company is a win-win situation for both agents. The other -- the 20% or so in our operations of the company for CHESF and [ph]CFS and we have the contracts for industrial sites that I just mentioned. Here, I just have to highlight this number down below. In the ACL market, we also had an estimation that for March it will be close to 0%, but actually, May to December, we still have a period that we are reviewing. There is an expectation of default, but facing everything that we're facing for our consumers and now with a perspective of restarting of the activities, we have an estimated of BRL133 million of generation in ACL. No negotiate - - so there is no renegotiation or canceling of the contracts in the first quarter of 2020.

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Well, now we can go to page eight. The technical note from ANEEL, and these are the measures that affect the transmission of Eletrobras. We can see the 12-month cycle. This is a system of -- well, it talks about the availability of the system. The revenue for the tariff period is divided by two. And it's done by estimation. It's done on the past cycle. We get the values that are presented and we had a surplus of BRL485 million. About BRL210 million are relating to Eletrobras. ANEEL decided to anticipate this discount via adjustment installment for the month of April, May and June, and therefore, we had a decrease of the deficit that we might have with the transmission companies. I think it is important to highlight that the impact of Eletrobras is mainly financial, non-economic given that the readjustment -- of the adjustment installment of the cycle will be for the cycle 2020, 2021, the second semester of the year, where we will have a regrowth.

Now the page 10 to talk about the company's highlight. First thing, we have the quarter that is very relevant -- a change that is very relevant, trying to find our PDNG. The first one is the incorporation of CGTEE and Eletrosul in January of 2020. The transference of Amazonas GT to Eletronorte is this here, we can see in the PDNG, the director plan for business and management. This signifies -- well, the transference in BRL3.1 billion in January of Amazonas GT to Eletronorte, the SPE for Mangue Seco e Manaus Transmissora de Energia, the authorized sales that are subjected still to regulatory authorization, we already requested. And now we had the SAP version that go-live we are going on the third wave testing the functionalities so we incorporated Eletronorte with a go-live with --

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so now 100% of the companies at least have all of the companies connected to the SAP version that we are working with.

Another highlight. We had the maintenance of our leverage. This is 2.2 times without the RBSE and now we had the rollout of the bonds in January 2020. We had that with a deadline of 2021 of \$1.1 billion and we had a capturing of resources by Eletronorte of BRL1 billion, which is interesting because it was taken with an interest rate of CDI plus 2.62%, and it's directly with Eletrobras and this is to be used by the holding to pay for a debt, where the holding that was more expensive and now Eletronorte has a smaller running cost. Our financial team, is specifically Elvira that is here and Paula, they won an award from an Institutional Investor Magazine Latin America Executive Team, you can see here the recognition from the market. We are being recognized the effort of the team and the evolution of the work, sharing our work in the market.

Thereafter, let's talk about the business evolution, page 12. You have in the area of generation, it's important to show the numbers 129 worth here of Eletrobras, 71 are active by participation. That is important. You can see here the stations, the power space, the power plants; 58 are corporates, 71 are SPEs and 5% out of these 30%, which is the 51,000 megawatts or about 9,000 megawatts are from Eletrobras, Itaipu. So, 25% of the Brazilian electrical capacity that has been installed is done by Eletrobras. In this quarter, I would like to highlight the aggregation of the wind park of Pindai I 40 megawatts. Now we are growing the WACC at 7.71%, a better impact in the power stations, in the power plant we have an additional revenue of BRL50 million with the RAG, and we have the retroactive cycles of 2018/2019, 2019/2020 to be paid in three years from July 2020 onwards and that's another BRL98 million. Eletrobras is still one of the best and more energy renewable companies in the world. 96% of our energy is clean and it's part of the electrical matrix of Brazil.

Let's talk about the performance in the sectoral context of the company. Let's see the revenue values and volumes of energy of our market, the regulated market being the ACL is the free market. Well, in 2014, when Eletronorte, we were losing important volumes and we closed that ACR contract with Furnas and Eletronorte, BRL198 million with Eletronorte, and now we have that revenue that is regulated. We are buying and selling the energy we are migrating the UTE Aparecida, the migration of the CCVEE contract to CCEAR with a price reduction, as you can see, that needed to be done and in comparison to last year, it's a little bit smaller, but we had gains with an increase of the fixed revenue of Angra I and II. We had Candiotá III with an overhaul of BRL74 million and we had Furnas, a better - a higher dispatch as UTE Santa Cruz strategies for seasonalization of adjustment of prices of BRL78 million. With ACR, the regulated market, plus BRL89 million, with the readjustment of the RAG, the impact in Eletronorte, Furnas and Chesf.

The bilateral contracts of the free market, an increase that was, like you can see here in the table, and we can see that the energy in the regulated market, there is a drop of 13% and the energy that is sold with the ACR increases. But we had -- we could do important sales in the first quarter of the year. And when we see that -- you see that 40% we have an efficiency that was very good for this opportunity in the first quarter, BRL643 million, with a significant increase in the volume that has been higher from Eletronorte and Furnas. You

can see the CCEE, there is a small drop of BRL15 million, which is irrelevant for Eletrobras. Here in the sectoral generation of energy, we've done very well.

Transmission page 14. The highlight is an aggregation of almost 300 kilometers, a net aggregation of almost 300 kilometers, 59% more than the aggregation of the first quarter of '19. We can see here the unit of Furnas and it's important to highlight the discount in the variable installment, BRL21 million. It's a reduction of BRL21 million in the regards to the first quarter of '19 and it reflects the improvement of the quality of the system. And we've had almost 25% less perturbations problems in regards to the first quarter of '19. We closed the quarter with 44.9% of transmission in Brazil, 71,523 kilometers of transmission lines.

Now we will talk on page 15, the aggregation of the RAP, the potential aggregation, but we have two important events. We have a bridge from the cycle of transmission of '19/'20 of BRL11.509 billion. And now we are going to have from '23/'24, BRL12 billion. And every year, we have an incorporation an M&A. And here, from the year '21/'22, we will have a reduction in the tariffs. We have also a reduction of BRL195 million and we have additional cycles. We have 25 corporate works on site. These are reinforcement and improvements of the physical installations 333 million -- BRL303 million. We have 85 corporate works. The investment associated being BRL1.9 billion, an increase of 15% in the RAP investment and you can see here the incorporation is BRL40 million in the next year, BRL45 million in the cycle '22/'23, a positive relationship of 5.4%. We're going to bring BRL627 million of recurring revenue to the company.

We have the review of the tariffs and the aggregation of the annual revenues of the base of BRL537 million per year. This last year we had all the elements for the effects of RTP, the WACC, 7.71%, PMSO and BRR, including the retroactive of the cycle of '18/'19. These values are here and depend on the review of the tariffs of the CP tariff revision of the next cycle. That will be for 2024. Here is the consideration of the profile, and these are depending on the tariff revisions of the transmission that we had the public bids in the beginning and debt reduction. We can see BRL54 million and another BRL71 million in the last cycle. Here is a very positive perspective of Eletrobras. We're waiting for the cycle of the tariff revision, as we mentioned.

Let's go to page 17, the results demonstration of the first quarter. Here, we can see the gross revenue we will detail this a bit ahead. The first thing we need to highlight the comparison on the left of the IFRS that's been reported and the recurrent. Our results here comparing IFRS and recurring results. On the right, we got all the nonrecurring events that we are waiting for every step we had additions of almost 7% in the recurrent gross revenue, BRL629 million this is the generation of BRL323 million, which is a better improvement of supplies of Eletronorte, BRL311 million, BRL89 million from the readjustment of OMA -- O&M, BRL66 million increase in the fixed revenue of Angra I and II and the loss of UTE Aparecida. We have here the growth in transmission, the change in the RBSE tax that is another BRL90 million. And you can see here the BRL562 million. We have the EUS that has been implemented. We have added to the revenue on the second line of expenses. This has no effect in the results, but it's important for accounting. We have in green the expenses with personnel, operational expenses. You can see down

below we had an increase for the tariff, it increases the revenue and the tariff. We had more energy being purchased for resale. Here, it appears for the quotas of companies.

We also had changes that have -- adjustments that were done by the company. We bought fuel for Amazonas GT. And we bought -- and we had a reduction of [ph]BRL57 million, an increase of BRL182 million, but this is a review that has been done periodically for the operational expenses. We see the non-recurrent -- the expenses with the generation, the reversal of EC and provisions that are diverse. Finally, this is the EBITDA of minus 5% in IFRS comparing to the 4% in the recurrent, getting to BRL3.205 billion. We're working with an EBITDA that is quarterly of about BRL3 billion. And it went from BRL3.088 billion to BRL3.2 billion. Here, the exchange rate variation, we see the effect in the recurring financial results, the minus BRL834 million. We saw that change with the value adjusted by RBSE, BRL411 million, we have that volatility and it goes through the regulatory bodies. It generates an adjustment of negative BRL411 million. This is just economic, not financial. We also have the exchange rate variation, BRL665 million. Once again, the asset position in dollars of the company is highly favorable to do any operational sales would be inadequate. And observe that this is the main reason for the financial results change and what we had over the last quarter and the last semester. We had a drop in the net revenue of 40% in the recurring and 77% in IFRS, but we're talking about BRL1 billion. We have this economic effect that I'm talking about, which is over BRL1 billion. But this is just a comparison. The reported value is BRL307 million and it's highly influenced and the net revenue by the financial results of all the companies that are economic and not in fact, financial. It doesn't matter because the cash is still in the company.

We have page 18, the main components of our gross revenue. Provisions EBITDA. I start and remember that in the previous table, we do a detail of the non-recurrent and the main one are we have BRL548 million. The recurrent here, we are, for IFRS, BRL542 million. For the current, we have BRL629 million. We can see that a great deal of this bridge is positive. We are talking about a growth of 5% in generation, more than 12% in the quotas regime; BRL194 million in transmission -- in transmission and builds -- and building 32%, an increase of 29%; RBSE transmission, BRL90 million, 10% in the contractual revenue, transmission, another 2% or BRL4 million. We had a drop of BRL13 million that are here justified vivo. These are operations of accounting appointment of Eletrosul done this quarter because of the incorporation process. That's the main variation.

We can go on the next page, the operational costs. We have, in the first quarter, an increase of costs in 36%. Looking at the IFRS and recurrent, BRL462 million and BRL457 million, respectively. We have basically a variation of BRL212 million in energy that has been purchased to resell the use of the electric network. Well, we also -- going back, the energy there has been bought again. The new contracts are, on the short term, BRL102 million, and we had also an increase of 130 megawatts average and seasonalization of Chesf, BRL43 million. We have BRL237 million of the bills that are for the electric bill here of the big elimination. The accounting prediction that we had at Chesf and we had this readjustment here for the tariff and the charges. We had here in the balance, the positive for fuel -- negative for fuel, another BRL162 million negative Amazonas GT due to the less consumption of natural gas at UTE Aparecida. We reduced the megawatts from 150 to 75,

and the reduction of the fuel with regulatory agreement, the transfer of the contract of gas from -- to Amazonas GT and the migration to CCEAR.

We have the evaluation of PMSO on page 20. We can discount the cost of PDC, which is the consensual leave given to the employees of the company. We have from BRL2 billion of PMSO to BRL1.8 billion. In recurrent PMSO of 2019, there is a reduction in personnel, which gives you earnings of BRL77 million, an increase of BRL75 million, a reduction of 6.5%. And with materials, we had an increase of 235%, BRL71 million, with the reduction of the power plants. In the first quarter of last year, the power plant was in overhaul, BRL22 million from Eletronuclear, an increase regarding the stoppage of Angra I and BRL20 million, Amazonas GT, the purchase of material for maintenance of the turbines 10 and 11 of Maua 03. In the area of services, we have a growth of 4% or BRL18 million, which is basically here. These services that are accounted in personnel for Eletronorte. The reference -- well, the help that is given to the employees were food, BRL8.8 million, the healthcare plan, BRL3.8 million. So, we have to do an adjustment, that is correct in the accounting sense. In the end, we have the growth of others, which is BRL93 million, 42%, which is Amazonas GT reclassification and the recuperation of the CCC as a reduction account of fuel in the first quarter of '19, BRL72 million -- accounted for BRL72 million in net-net. This is the behavior that is adequate of our accounts.

The operational provisions. We can see here the contingencies. We have -- I want to highlight here, these numbers are very similar, and this is paying out loans and adjustments. You can see here on the slide. On the other side, I just wanted to mention PCLD, an increase from BRL90 million to BRL261 million, already covering CPC 48, which is a prospective estimated risk. And basically here, we have a consideration about the accounts of Amazonas distribution to Amazonas GT. We also had in lots of investments, the sale of what we did of MTE, BRL100 million. And this is justified and we got you the provisions of BRL523 million. Last year, we have the provisions of BRL447 million for this year.

EBITDA. We had a drop of 5%, BRL148 million. Here, the provisions for contingency, we can see the recurring basis, evaluating from BRL2.9 billion. The EBITDA and IFRS to the recurring, going to BRL3.088 billion, a growth in the operational net revenue highlighted in previous slide, the behavior of BRL4 million of the partnership participations that are recurrent. We had bad semester for SPE. But even though we had the positive participation of the SPEs, the recurring operational costs, you can see slides 19 and 20, and provisions that are due to a drop of BRL457 million. And we have a recurring EBITDA, something of about 4%. And finishing, on page 23, the net revenue. We have a drop of 77%, and in a recurrent way, a drop of 40%, BRL659 million, which contributes to this amount an increase of 4% in the recurrent with the recurring EBITDA.

And once again, the financial results. We have BRL665 million with the exchange rate variation, the COVID-19. So, we increased the depreciation but we can see here down below on the left, we once again mentioned the exchange rate and the adjustment of the value that is recurring from the remeasuring of the RBSE assets and the changes of the discount in the NTN-B to WACC from 4.1% to 6.64%. The adjustments in EBITDA, slide 22 and I already showed the numbers. Smaller result has less income tax, so we have less of that we have BRL99 million. Here the red in the middle is the economic financial block

result, and we can appoint the indicator for net revenue and EBITDA. Here is very robust the financial discipline of the company you can see the net revenue over the EBITDA. Regard to the peak of our debt, in December of '18, and remember the debt from Petrobras, we have dropped to BRL24 billion to BRL21 billion. And if we see the gross debt of the company at BRL50.5 billion, there is a pass from RGR, which is BRL1 billion. So, the recurring gross debt is BRL49.4 billion.

And I wanted to highlight two things. First, the cash flow and our robust position. BRL12.254 billion is a great consolidated position. And to assure -- to give assurance to the investors, which is fundamental for the company. We feel comfortable. Here is the financing -- the investments that are -- the receivables, which is BRL14 billion. This will be placing the company in 1.6 times. It's not comfortable because we have an EBITDA that is now BRL13.3 billion. So, this is just a demonstration that the financial discipline is working an improvement of the EBITDA for -- from BRL13.2 billion to BRL13.3 billion, and also the cash flow being very healthy. Page 25. We have the profile of the debt, BRL49.5 billion. Now with the rollout of the bonus, we can see clearly the effect of that, specifically when we look the highest column, which is post 2025, which is an effect of the rollout of the bonus, BRL13.7 billion after 2025. The position that we have here. We are exposed with foreign currency, 24% and here, the debt in real is also subdivided. And we have the receivables, BRL15.3 billion, where we have mainly 49% in foreign currency and in real, 51%. You can see here the subdivision on the right. Here are the receivables from these companies and we think that this position is very comfortable.

And in the exchange rate, on page 26, we wanted to highlight the assets and liabilities. When we look at the currency exposure here, the assets here are \$1.7 billion and the liabilities, \$2.2 billion. What is important. The difference gives you that impact that we just mentioned of the currency exposure in this quarter. We hope that with the behavior of the asset and liabilities, you can observe that the asset position of the company is larger until 2022. We have a favorable position and we have \$163 million of currency exposure in 2022, but it dropped onwards. And obviously, we want to mitigate any negative effect of the devaluation of the cash flow when we talk about the receivables in dollars in the short term that are larger to liabilities. Page 27, the investment done by the company. We can see here the first quarter is not a quarter that we have important things to report because of vacation. And in the second quarter, we have the issues of COVID. The important things are, one positive and one negative. The positive is the perspective. We can have some SPEs to be capitalized. With the SpinCo, we could do this. The well-known case is Belo Monte. We had investments of -- budgeted PDNG by 2020, in generation, BRL2.8 billion, in transmission, BRL2 billion, lower than we imagined, greatly because we had the investment that needed to be done and are predicted in regards to Angra and T&E and they're being impacted right now.

I just want to do an observation on page 28, which are the impacts here, the investments that were not done. It's important that we look at the budgeted investment. If we would have done, it would give us 48%. We have minus BRL89 million with Mata Santa Genebra, Jirau and SINOP, Standstill because of COVID, and minus BRL138 million in Angra I and II and all the other ones because of the impact of COVID. A delay in the supply of materials and the execution of the work because of isolation measures. It's more difficult to get

materials, but we will recover this is an issue of deadline, and this is what we've been identifying over this quarter.

I'm ready to finish my presentation, showing you two things, very specific issues of Belo Monte. You've followed up on the news. And there were some allegations about socio-environmental problems and the Native American components of Belo Monte. We issued a communication to the market and we are talking about a power plant that has the highest investment in social environmental programs in Brazil -- in America. It's the biggest investment, and I just wanted to highlight this. Here are the results. The importance of a company with our social environmental responsibility or characteristics. 117 environmental projects; the building of 33 hospitals and basic -- ambulatory emergency rooms; 436 classrooms. The population of Altamira, which is the closest city in 2011, before the work, had 25% of people below the poverty line, and now we have only 5%. We benefited 4,000 Native Americans with 27 programs. Here, we can see another important thing. Reduction of 98% of the malaria cases and we had zero cases in December 2017. The treated -- well, potable water is a problem, the basic sanitation and the power plant, it was only basic sanitation of 14% in 2011, and now we have 92% of clean water for the people. The collection of sewage and treatment of sewage was 0% in 2011, and now it's 92% in 2018. Three places were designated for waste and -- almost 23,000 people reallocated and they were living in unhealthy conditions -- under unhealthy conditions and we reallocated them to better conditions. This produced social environmental effects that are positive.

And an important evidence here on page 30 is the protection of the Native American culture. In 11 lands, Native American lands around the power plant, and one Native American area, here, we have nine ethnicities and nine native languages with a territorial area of 5 million hectares. We didn't flood any native land, no native huts were relocated. We had, in 2010, 26 -- and we have over 4,200 Native Americans living in 2020. And before the COVID-19 donation, we had -- we donated BRL6 million to the region of Xingu, distributing Personal Protective Equipment and basic consumables. We have ongoing 110 PPIs and we've purchased thousands of COVID-19 tests. The operations are complex and we are surprised by the manifestations. We are -- we understand this but here, you can see our responsibility that everybody had this idea that Eletrobras company has sustainability as a motto.

And now this, I'm open to my questions, alongside with my colleagues. Thank you for your attention.

Questions And Answers

Operator

(Operator Instructions) A few questions here we can start with Andre Sampaio of Santander. Andre?

Q - Andre Sampaio {BIO 19422379 <GO>}

Good afternoon. Let me ask two questions. The first question in regards to the potential effects of the COVID-19 pandemic. One thing that ANEEL said about the discussion on COVID was the delay of investment and the improvement works. Can you comment on that and the second question would be in regards to the potential reduction of the guarantees now we're going back to the COVID-19 pandemic. I wanted to get a few comments on GSE. Thank you.

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

In regards to improvements, yes. There has been interactions with ANEEL and I wanted to -- even with -- to talk about the conversation that we had. This is one of the alternatives whilst we see an eventual extension of the crisis. But let me just say that our commitment, manufacturer commitment, that there will be no changes in the volumes, the receivable volumes in the tariff cycle. There is a possibility of reduction of some receivables to six months to be paid and the revenue of the tariff cycle won't be absolutely the same. And the financial effect with a reduction that has been considered, we -- if there is anything, obviously, this is something not to -- not to compromise the liquidity. But we've had interactions with ANEEL and we've had -- we said that if that is necessary, if there is any reduction in respect to the rules and also the care of the operations, we are doing our part with the automation processes, mobilization of our installation, then we have the capacity to manage. Of course, we have to do the right negotiation. But we have the commitment that this doesn't have any effect on the receivables on the tariff cycle and we mentioned that in the financial fact.

Your second question in regards to the reduction of the physical guarantees that discussion always comes up. The physical guarantee that we have in the system declared is not the real physical guarantee and the physical -- and the collateral factors that we have are higher GSE. We ended up having that shared insufficiency. This is part of the capitalization project of Eletrobras. Of course, the capitalization process of Eletrobras, we've had the review of the guarantees -- we had 5% in one process and up to 10%. But also Eletrobras, that when you take real energy that it's -- well, from our perspective, we would have 300 megawatts. So, this is a discussion that can continue. There is a bad side, and in our case, it makes a lot of sense to do this. But we don't have the same capitalization that we had three years ago. This is a discussion that we can have again, depending on how the crisis will unfold. I think that the effect is not so -- going to be so big. Somehow we were not required to answer -- respond to the question by the Ministry or ANEEL.

Operator

Now we have Marcelo Sa from Itau.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you for the call. Two questions. One, in regards to the debt that Amazonas has with Eletrobras, are you paying that debt -- Amazonas is paying that debt? And I wanted to get more details for the works of Angra III. Do you have the expectation of doing the public bid this year for Angra III?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Thank you for questions. Starting by the last, Angra III. We should have an unfolding of that process. It's evident that if we can work until the end of the year, it would be adequate. One of the pillars of Eletrobras is, while we don't have that process, we are still investing so that, that work will be done by 2026. We are waiting for the work of the national investment bank, BNDES, to follow-up on the works that are going to -- to continue with the works. But we should keep the perspective of 2026.

With Amazonas distribution, it's reported in the slides. Amazonas has had some difficulties that are made worse by the pandemic and the situation was worst than in the past. And certainly, we had a plan for evolution of the company that was big, but it's always -- there's a problem at this time. We have that default, prospective default, and we recognize that. But with COVID, we will go with this -- a part of this money will be used to be paid with the default that is, the debt they have with Eletrobras. This is the only default that we have that, that is well-known. These are financial assets and this is one -- the only one that has -- that is a mere difficulty.

Q - Marcelo Sa {BIO 16454581 <GO>}

Last question. There is an expectation of cutting cost of BRL500 million with one of the measures that you are expecting post 2020. Do you still have that expectation?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Yes. I thought that expectation. I have Elvira here, and this is our commitment, BRL77 million in this quarter. And we've had additional, closing the contract of (inaudible) Furnas. We've had a few people that we had to pay PDC. We are negotiating with the unions, but we keep the perspective of BRL500 million up until this year. We should have better numbers from the second, third and the fourth quarter.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank You.

Operator

Next question from Carolina Carneiro, Credit Suisse.

Q - Carolina Carneiro

Thank you for the question and for the call. Just one question. You have a series of contracts that are very important in the northeastern region. I wanted you to comment if there was any involvement to potentially negotiate either the deadline for payment or negotiating the reduction of contracts momentarily in 2020 with the potential compensation up ahead. Do you see any movement in that sense?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

I'm going to give the word to my colleague and he can talk about that.

A - Unidentified Speaker

And certainly, from the second quarter, there won't be -- but we will be reporting.
(technical difficulty) --

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

(inaudible) maybe your telephone is not working.

A - Unidentified Speaker

As the President said, in the first quarter, there was no impact of that nature. Obviously, with the advancement of the impacts of the crisis, there will be the notification. We are establishing negotiations and there is no significant impact. We do not expect that there is any significant impact. We are working to initially do our renegotiation and do a training and we want to minimize any impact in this process. But I would like to say that we are -- see all the numbers that are projected. Thank you.

Operator

(Operator Instructions)

Q - Carolina Carneiro

Another question. Well, in regards to the potential here and the update, you've had some news of a setback.

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

No. I -- we've had talks, yes, we have an expectation of having more companies that have the possibility. So, that effect will start next year and it's more relating to the need of overcoming the effects of the pandemic. So, I do not see any return that is negative but an adjustment of the short term and the most probable is that we will start to see this from 2021 the currency exchange processes. Thank you.

Operator

Any questions. (Operators Instructions) Next question. [ph]Liliana Young from --.

Q - Unidentified Participant

Well, good afternoon. I'm sorry, if you already mentioned this, but can you tell us a little bit about the political environment of Brazil and if you see any space for relevant reforms for this year? Or is it going to be more for next year?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Good afternoon. Thank you for your question. I believe that we are working -- we're dealing with deeper as well. This is a process of regrowth -- restarting the growth, and it allows the agenda for the second quarter. It's an agenda that -- well, it's economic recovery. But we will give the elements and demonstrating what is -- what you know about

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this. We've talked to you before. Eletrobras had 21 shareholders. Now we have over 60,000. Eletrobras is not alone here. Several Brazilian companies are sharing the reforms and perspective and this is what attracted the attention and the consideration of the investments here in Brazil. This agenda is the agenda for reforms and privatizations. We have a new secretary that has been placed here and specifically for this. And we've worked systematically here. And the agenda is for the recovery, the regrowth. And I think that the agenda for privatization is a general agenda and it's on everybody's mind. We will have to regain -- restart the agenda of the works, the environmental -- and well, the regulatory bodies, and certainly, the agenda. We'll have a regrowth and we have to take actions for the future. Thank you.

Q - Unidentified Participant

I am very impressed and I would like to congratulate you for the results. Thank you.

Operator

Well, now we close the Q&A session. With that, we return the word to Wilson, the speaker. Well, Mr. Wilson, the floor is yours.

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Thank you very much. Thank you to all for being here in our conference and hear the results of the first semester and this is the effect that is being expected by the company. Here are the future perspectives. It's going to be an effect -- a passing effect, and it will be reverted -- everything that is negative will be reverted positively for the company. This company has been capturing and keeping our perspective through our time. We are talking about a company with all of our assets in operation. We concluded this quarter the longest transmission line we've done over the partnership. It's operating. This is one of the biggest assets for the interconnection of the regions in Brazil. And from the standpoint of the operation of the company, all plants are maintained. We have a new SAP system, we have a new Executive Director that is very strong. And all the perspective that makes us do things, a sense of urgency, for all employees, all entrepreneurs, all politicians. Now, we have to get the time that we lost, we have to work to get it back. And we're going to be a part of the regrowth of this country. This is very good for us because we are part of the solution.

We produce energy with competency and with socio-environmental commitments and with the perspective of contributing to the public accounts. I want once again, to pay an homage to all the colleagues that have been working during the pandemic. It's been extraordinary. We had a reduction of 14% in the revenue, but the renewable assets increased. We've worked with 38% of the installed capacity. This is just one more of the evidence that we provide that the company has a commitment to our socio-environmental commitments and we are working with a strong operational revenue. Thank you very much. And we continue with the earnings call of the second quarter.

Thank you very much. And now the teleconference of Eletrobras is closed.

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Operator

Thank you for your attention, your participation, and we will continue. Have a [ph]nice weekend.

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