

Q1 2011 Earnings Call

Company Participants

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

Other Participants

- Marcos Severine, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, good morning, everyone. Thank you for waiting. Welcome to the Eletrobras teleconference to disseminate the results regarding First Quarter of -- Q1 2011. We inform that all participants shall only listen to the teleconference during the presentation. Next we are going to start the Q&A session when further information will be provided.

We remind you that this presentation is available in PowerPoint presentation with investors of Eletrobras. (Operator Instructions). Before we continue, we would like to clarify that an occasional statement that may be made during this teleconference related to the business perspectives of the Company, future projections, financial methods, they are premises of the Eletrobras management, as well as information now available to the Company. Future considerations are not assurance of performance because they involve risks and uncertainty because they are future events and depend, therefore, on circumstance that can or not take place.

Investors should understand that general economic and operational situations and other operational situations can change these results in future considerations. Now I'd like to pass the floor on to Mr. Armando Araujo, Financial Director of Relations with Eletrobras investors. Mr. Armando, please. I would ask you to wait a few seconds. We are waiting for the Mr. Armando's connection. Armando?

Armando Casado de Araujo {BIO 16673880 <GO>}

I don't how much you have heard me. I don't know so I'm going to repeat everything I already said from the beginning. Can you hear me now?

Operator

Yes, we can hear you.

Armando Casado de Araujo {BIO 16673880 <GO>}

I'm going to start it again. Good morning, everyone. Our teleconference to disseminate the results of the First Quarter of 2011, as our slide three shows we had here a profit of BRL1.285 billion against BRL163 million in 2010. This profit of BRL1.225 it's in according the projection of the market when we consider that it contained due to the American inflation of ITAIPU with about BRL634 million when we have this income tax over the revenues, which is the social contribution of the net profit. We have profit of BRL400 million. So this BRL285 divided by BRL400 [ph] we would have a profit of BRL885 million in the first in this quarter.

The main component of this on slide four we can see that the main as participation share holding in First Quarter in 2011, BRL786 million against BRL956 million where we can see that in 2010 it was -- the revenue was about PMT per plus 10% and now the enter of the plant. We are registering different revenue of BRL258.9 and also the accretion of energy selling of several generators.

Regarding the index net financial revenue it diminished from BRL410 million in the First Quarter of 2010 to BRL266 million in 2011, as a result mainly of the capitalization of Electronuclear, at the end of the fiscal year of 2010 the net monetary correction BRL188 million against BRL149 million in 2011. Also we have also the GPM variation, a small change as compared to 2010, BRL227 million in this quarter.

The -- also the stock exchange the dollar varied to \$2.69 in 2010 against minus \$1.35 in 2011. This made us -- we had this negative variation of BRL222 million against BRL227 million in 2010. The taxes from this operation these shareholders this was the charges, although we had -- we paid the first installment of dividends related to Selig. But from the special dividend Selig had a growth superior than 10% [ph]. So there was -- we decreased the installment. But a close of expense as a result of this increase of Selig charge.

Other profits, as I said before, the expectation of the market as compared to the profit here, or the other accounts, especially when we emphasize here the BRL602 million negative in 2010 against positive results on the First Quarter of BRL600 million in flat [ph] BRL34 million.

The Company, the results per company we had in 2010, Furnas had BRL194 million in the First Quarter of 2010, BRL104 million in 2011, basically here, the purchased energy to BRL613 million and the financing cost in related to the financing for investment. Also, Eletronorte also improved its result in new expectation. It's also transference of the -- due to the distribution and also the providers. And distributors, as we showed in the result of the results that BRL334 million negative in 2010 against BRL257 million in 2011 and the key costs of this effect will be showed when we present 20 results of the fiscal year of 2010.

We are taking the steps to fight these losses of energy against the Eletrobras counterpart. And also the structure of business plans reduce the costs -- personal costs so that we can go through the referenced companies. In relation to EBITDA we had this -- the results. Furnas had a result of BRL414 million and Chesf BRL646 million keeping its

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behavior, Eletronorte. And has increase of BRL234 million, Eletrosul BRL992 million to BRL82 million, Eletronuclear from BRL96 million to BRL182 million, CGTEE from BRL21 million to BRL63 million positive. And distributors of BRL73 million to minus BRL119 million.

Our level of debt, our financing to receive it goes to -- is from 11 in about BRL24.6 billion and payable BRL20.4 billion. Centrais societary [ph] events that were significant and on the First Quarter was about capitalization of the advancement of future capitalization that which base was as a result of the conversion of credit of the treasury for BBDS. So we concluded this operation and it was BRL63 million to BRL73 million in this already accounted, the account. And we transformed the social capital in BRL26 million [ph] to BRL331 million.

And we also made on the 15th the second installment of the special reserve dividends of BRL3 billion. And the interest rate of capital we are in the 25 -- 29th of April we are paying the dividends in the exercise BRL1.5 billion. This is the reason why these credits were being collected all by Selig and with these amortizations we are already starting to decrease the results from this point onwards, the result of this impact of Selig on these two main accounts.

This is what I had to say. So I'm available in the social capital department and now I open the session for Q&A, questions-and-answers. Thank you for your attention.

Questions And Answers

Operator

Now we are going to start the Q&A session. (Operator Instructions). First question will be Carolina Cardnedo [ph] from Banco Santander. Ms. Carolina, please go ahead.

Q - Unidentified Participant

Good morning, everyone. I have two questions. The first question is looking at the results we see that the level of provision to First Quarter was very below what we had as a recurrent for companies and also the part of level of the -- as compared to last year. So I would like to know if there was a nonrecurring impact regarding this quarter for -- that is below the average, or if now this is platform of -- this millions is what we're expecting for the -- a recurrent level from this point onwards for the income tax?

And the second question is the concessions to renew concessions. We saw at the re-initiation of debates about the concession contract. I'd like to possibly be here for you what are you working in terms of expectations in terms of when we are going to have new information on the concession of generation contract, if they're going to finish in 2015? And what do you expect this to be to designate in terms of investments for you? I know you are doing this internal control and perhaps changes for advance of investment, in other words some change in the scenario. Do you have something to inform about this? Thank you.

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

Thank you, Obrigá [ph], thank you for your question. In terms of a provision level, as in 2010 we had a great adjustment. I don't know if you remember. We made an adjustment of results in the BRL3.2 million and some other provisions along the fiscal year, the current fiscal year. So the results of our -- is that will be our expectation is that only the updates of the already made provisions.

In terms of concessions, renew of contracts we have we to -- we are working internally and this was set by our president in the financial statements of 2010 to prepare a business plan. And this business plan we are stimulating -- stipulate some alternatives. We have no means -- we haven't defined yet how the concessions will be made.

What we know is that the concession will be provided as some fee, some charge on the charge or the renewal of the concession. The platforms we still don't have any decision as far as that's concerned. This is a matter that for us it's even -- we are more reserved in this point what then the market to understand that Eletrobras sometimes is seen as government in this part. But it's not as government.

This is something that we have definite expectation of the market in terms of the concessions. So we are, yes, we are working on this because it creates part of the concessions so when they will finish in 2015. So we are getting ready so that we'll be able to prepare all our work regarding these undertakings.

Q - Unidentified Participant

Thank you. Can I -- regarding the first question in terms of provisions, just to be very clear, can I consider then the updates on this point onwards? Will you have set levels, similar levels with the recurring expenses on a new platform for you?

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

Yes. That's right. Our expectations are like that.

Q - Unidentified Participant

Okay. Thank you, very much.

Operator

Next question is by Marcos Severine from Banco Itau. Marcos, please go ahead.

Q - Marcos Severine {BIO 3322666 <GO>}

Good morning, Armando. I have two questions as well. The first question I'd like to understand a little what are the solutions you're designing and working on to solve problems of the distributors? If this occasionally will bring some selling of assets with a view of a private public partnership, or if you are going with some private companies to carry on these distributors? This is my first question.

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And I think this -- I think it's a very relevant subject, especially due to the deterioration that we have been seeing in the last two years, although despite the law 21-11 that spoke about the cost with CCC. I remember that there was a problem with Aneel also that you recognized the coverage of these costs. So I'd like to know if there is any possibility for us to review the situation and with this automatically if you would improve the numbers, the figures of the distribution segment.

My second question, if I may, is with regard to operational notes of the subsidiaries. This is something we are -- have been waiting for some time. The last call you said that the president, Neil [ph] Costa, would be introducing this operational target. I'd like to know if some figures were represented that we expect, yes, he expects a dissemination of these targets for all subsidiaries. Is that possible to hear some commitment from you? Is there the possibility for these targets to be released along still in this first, Third Quarter or not? Is it something that is really taking place through a longer term? Thank you.

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

Well, hi, Figademo [ph], this is Armand, how are you? It's nice talking to you. Okay, as the distributors, first of all regarding the law 21-11 it -- this law, as you know, it came from July 2009 and then the law in December 21-11 spoke about the regulation of 2010, the regulation right afterwards and the standardization of the norm into the 7 [ph] of February, 2011.

And the cost that they have is that now is disciplining the calculation. There is some data it takes from companies that is the business calculation of the table of in the oil, the calculation to how this convenes and as in S calculation. So it's disciplined this rule and we here the calculation we make on energy versus against the consumption oil, fuel consumption because that is very large.

So as you know this is part of the cost of production with the as in the part of the fuel consumption that now covers the production cost. And now its source of production in efficient conditions. If you shared the conditions, as I have already the opportunity to say, is to really see the fuel or the generation is in the best conditions of the machine.

And this now we rule so that we don't have this situation deregulated and it's going to consume a lot more than it should. And then the taxpayer has to pay for the service. But in this question of these law came 21-11 we are still analyzing the situation together we -- together. And all those were affected by law of 21-11.

Eletrobras of course is in charge, has great responsibility in discussions. So we are waiting to see this account so that we can have the reimbursement, the appropriate reimbursement of this law 21-11. So we cannot acknowledge anything at the moment. We have to put it right the way this is going to be considered on the accounts that is how much we are going to account on. We are working on this subject.

The distributor, there's another thing we showed in our financial statement. It was for us a very strong question, the result of distributors. The president is very concerned with the situation. He is for this reason in terms of the operational targets of the subsidiaries is

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working effectively. We also had a plan, business plan. But we don't have a commitment on counterpart.

And the counterpart commitment or I'm talking is this. He should say if you need this target is this way. If you fail meeting this target we are starting the mechanisms here to specification on profits and results as a counterpart of meeting effective results.

And in terms of distributors, there were two significant events in those results of 2010, reminding that the excess was convenient. And these two results it had was a result on the end of concession of 2015. And this end of concession at the same time had the cooperation of this concession. So there is a possibility for us to start recovering the credits that are there, a tax credit and the plant itself, even though the result would BRL100 million negative.

With this BRL800 million negative we don't know where the problem is. If the problem is in the reference companies we are too distant from them, or a commercial loss of that overcome this amount. The losses are reference losses. This business plan we are intending to have up until the Third Quarter of this current fiscal year, answer your question.

The president is really making an effort and I am a testimony, a witness to this that he is making efforts to correct this within the Company. He's making meetings with the whole company to take care of the process. He's going to update the business plan with respect in conditioning factors as he himself presented in the last meeting. And we've been working on this so that up until the Third Quarter of -- or the end of the fiscal year we can have this sorted out. But for sure our goal is to solve this up until the end of 2010.

And one more other thing, we still don't have any planning, as you asked, where we would have a player to agree a partnership where companies could work in a partnership, a private partnership, as you mentioned. This is not in our plans as yet.

Q - Marcos Severine {BIO 3322666 <GO>}

Thank you, very much, Mr. Armando, just two more questions if you may. One is relating FX [ph]. The effect of the FX conversion in the financial results is going to take place only on the Second Quarter, is it?

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

Yes. That's right because, yes, this was done -- we simply -- I just communicated a subsequent event which already took place on part of the quarter. But this -- so Selig is doing this conversion anymore.

Q - Marcos Severine {BIO 3322666 <GO>}

Okay. So my last point would be relating the conversion, the renewal of the concession, some -- when those concessions are renewed we can expect the conversion of BRL1.1 billion made around last year. Is -- am I right?

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

Yes, BRL1.1 billion effected, carried out BRL1.1 billion of awards, Marcos. Regarding -- if I'm not wrong, I think you consider the nonrenewal. So with this you made provisions of the last year's balance sheet regarding this nonrenewal. And so regarding the time you would have to recover your investments would not be enough. That's correct. They were a tax credit coming out that in -- totaling BRL500 million. But because you said BRL100 million.

No, there were several events. I think that would be the sum of all of them. Yes, that is something that Carolina pointed out that we adjusted in our equity regarding the sale of two plants BRL500 million. But that was -- I'm not going to recover that. I -- it was applied, determined. And it was not adjusted in the capital of the Eletrobras and we carried that out in 2010.

So I said you see I made all the adjustments in the accounts of 2010. But now this question of recovery, this BRL500 million they are tax credits then because what is today what happens. It's a little bit more complex, the situation. We are making contact with Manaus and we also considered the conversion in 2011. And we do have tax credit as because the park there is hydro technical with thermal things. The basis of oil is greater than the one I can get from consumers to make the compensation. That's why I accrue credits.

So up until then we -- I am going to accrue credit. These credits I'm accumulating in the renovation of the concession I have total perspective of recovering them, see, because then I stop having the effect station of the credit and that -- from those amounts of the renovation. I start using them. So I get from the final user and compensate with the credits I have. The study we made were is that we cannot recover everything up until 2015. That's why we made those adjustments.

Q - Marcos Severine {BIO 3322666 <GO>}

I see. I understand. Thank you, very much, Armando.

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

Thank you.

Operator

Our next question will be by Bruno Duarte [ph] Banco Barclays. Bruno, please go ahead.

Q - Unidentified Participant

Good morning, everyone. Thank you for taking my call. I just had one thing about the schedule. The business plans to be disseminated still in the first, First Quarter. We know that the BNDES to make -- to amortized this with Acne [ph] resource that have been converted in shares. The idea is for it to sell these shares in the market that is. With the business plan announcing on the First Quarter, do you have a new announcement about BNDES for this sale? Or will this be made up until the end of this year? Do you have any news about the time to putting the shares on the market by BNDES? Thank you.

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

Bruno, as far as I know the answer is no. I don't have this information. I don't have -- I don't know if the shares will, yes. But of course this BNDES would disseminate the sale. Well, this is up to them to disseminate their portfolio and to say what -- to announce what they are going to do. I don't have this information I'm afraid.

Q - Unidentified Participant

Okay. Thank you, very much.

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

Yes. I'm surprised by your question. I don't know if BNDES is going to do this, yes, because they never gave a time for that actually. So people see that BNDES here -- it seems that they are going to sell the shares on the market because this would be the best moment for them to do this. So this is the concern of the market. Yes, today our shares are worth one-third of the market value. We have to take in consideration the best moment and then I don't know. I don't have this information. I'm sorry.

Q - Unidentified Participant

Okay. Thank you, very much, anyway.

Operator

As we have no further questions, we will go back to the presentation of Mr. Armando Araujo for his final considerations. Mr. Armando, please?

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

I'd like to thank all of you for your attention. I'm available. Neti [ph] and Arlindo, we are all available to clarify any further question. Please feel free to contact us for any further questions you might have.

So we, I believe, this is important to say we went through a big process in the adapt our accounting standards, I know I have already said in the 2010 financial statements. Eletrobras today has 63 SBS [ph], 31 invested in counter invested within, we have all the distribution, commerce trading, we have Itau pool [ph] so Eletrobras really overcame the accounting standard.

There were -- we went through a great transformation in terms of financial restatement, which led us through 2010 and as a result of that the First Quarter of 2011 because we had to finish this work so that we could start the work on the First Quarter. So we are taking all the steps possible so that this information now with this commitment to meet them on time. We still have problems.

We feel we have a problem which is important for you to know. We have with that specific company that they had to give me the opinion to this company so that the company can give its opinion to Eletrobras. I'll just give an example. Eletrobras has Eletronorte.

Eletronorte has 83 [ph] SBS. So SPE has to give its opinion to consolidation. Eletronorte has to give its opinion too or Eletrobras to consolidate. And the period is the same. This made us -- it was a headache for us.

So I'd like to -- we are going to overcome this problem now and we have already taken a step for that. I think this explanation is important for you to have. So I would like to thank you for allow -- letting me do this presentation of the First Quarter and I'm -- thank you. And I'm available for further questions.

Operator

This moment we are closing the Eletrobras teleconference. We thank you -- the participation of all of you and I wish you a very good afternoon.

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