

Q2 2018 Earnings Call

Company Participants

- Armando Casado de Araujo, Eletrobras
- Wilson Pinto Ferreira Junior, Eletrobras

Other Participants

- Andre Sampaio, Research Analyst
- Carolina Carneiro, Sector Head
- Marcelo Britto, Director
- Marcelo SÃi, Associate Director and Analyst

Presentation

Operator

Ladies and gentlemen, thank you very much for waiting. Welcome to the teleconference of Eletrobras in order to disclose our results regarding the Second Quarter of 2018. (Operator Instructions) I'd like to remind you that this presentation is available in PPT in the part of Investors Relations in our website. (Operator Instructions)

Before we proceed, I'd like to say that any kind of statement given during the presentations regarding the perspective of the company's projections, operational goals, they are premises of the board of Eletrobras as well as information available for the company. Any forward-looking statements are not a result and are not assured because they are -- they involve uncertainties. Investors should understand that economical conditions and other operating aspects may influence these forward-looking statements.

Now I'd like to give the floor to President, Wilson Ferreira Junior. Wilson Ferreira Junior, the floor is yours.

Wilson Pinto Ferreira Junior {BIO 20013669 <GO>}

Good afternoon, everyone. I'd like to thank for the opportunity and for you being here to listen to our results of Second Quarter of 2018. I have a quite large presentation.

So let's start on Page #4, where we have our main highlights -- financial highlights regarding this quarter. And the 3 main ones, we have an increase of 36% in gross revenue. We had BRL 14 million -- more than BRL 14,822 million. We had in terms of CVM EBITDA BRL 5.293 million (sic) (BRL 5,293 million), an increase of 96%. And in terms of net income, we had an increase of more than 807% increase regarding the previous period of

the Second Quarter of 2017. And we are going to introduce to you the main results which led to that.

So going to Page 5, just to mention some highlights in terms of this analysis. The first one here is that we kept on reducing our indebtedness in the Second Quarter. And we are able to reach 3.4. And we are really close to our master plan of business and management, which is going to be rigid as we go on, especially due to the sales of the SPEs, which are expected to cover them all.

We included more than 814 megawatts until the end of the Second Quarter. And we added also almost 200 kilometers of transmission in terms of line until 2018. And also, we are going to provide more details afterwards.

We had a great highlight on July 27 -- 26, which was the privatization of Distribuição PiauÍ to Equatorial Energia. It was a discount index of 119%. And we had the payment to the government and specifically, the process of capitalization for the life of the company from now onwards.

Another highlight of this quarter was the definition by ANEEL. And we had Resolution 2421, which talks about the resources. And now we have a recognition a bit higher than -- a bit lower than BRL 1 billion between '18, '19. And we have investments in the semester which added almost BRL 1 billion in terms of corporate (sanctions) and is also an investment in SPEs.

Then after that, we are going to Page #7. We are going to show you the main things in terms of infrastructure. As you can see here, we -- in June this year, we had -- we have aggregated 814 megawatts. And up until the end of the year, we are going to have 1,489 megawatts. And with this, during the year, we have a highlight in terms of some wind plants specifically before the next month and Sinop until the end of the year. And during - - until 2019, we are going to install main machinery. And we are going to have Belo Monte next year. So that's why we are able to reach -- Brazil is about 160,000 megawatts of installed capacity. And we have 48.629 megawatts (sic) (48,629 megawatts) in terms of total installed capacity of Eletrobras, which represents 20.4% (sic) (30.4%) of Brazil.

And here in the bottom part, we have the discrimination of all of them. In terms of Belo Monte, 610 megawatts. We had additional 174 from São Manoel. And in the northeast of the country, we also had an additional aggregation. So we keep on working hard.

And on the next page, we are going to talk -- we have also services. And we can see the progress we've made in the last 50 years and how Brazil is now interconnected. Especially, most of it belongs to Eletrobras. So we added 194 kilometers of transmission. And we've reached now 71.782 kilometers (sic) (71,782 kilometers) in total transmission lines.

And we also have substations, new transmission lines of 230 voltage and so on. And also, we have transmission lines in Brasília and also the 230 kV which connects 2 large places. All of this for us to complete the corporate lines in about (BRL 24 million). So those works

which were delayed and they are now into operation. And they are expected to be completed.

Now I'm going to Page 10. And we are going to detail a bit more the results in terms of economics and financial of Eletrobras. We have all the (factors) here. And we also have a graph where we show the variation of revenue.

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So here in the middle, we have detailed 4% growth in our revenue. And we are reporting in the middle of the year the price of -- an increase of 36% compared to last year in gross revenue through IFRS. And here, we know that, in the moment, the company is also going through a really (down to earth) moment.

In this quarter, in particular, we are going to have had recognition of the tariff in (1,400), which corresponds to all resources which are the object of financing called (distributors lignarias) from the beginning of August 5, 2016. We were -- consolidated our debt with (RGN). And now they belong to the concessions of distribution, which are now object of privatization. I'd like to remind you that we are privatization. And we have the right of concession to the federal government.

Having made this initial disclaimer, we have the main variations which took place in this quarter compared to the same period of 2017. And we highlight specifically in terms of generation, in terms of OEM (sic) (O&M) BRL 16 million. And we have positive results of Eletronuclear. We have negative results in terms of better transfer (in light) of BRL 16 million. And it's not really considerable.

In terms of transmission, the first in terms of exploration of half -- of ARF (sic) (RAP) in the amount of 2.85%; and the other one, as I said, in terms of BRL 123 million (sic) (BRL 126 million), added to other, (BRL 52 million). In terms of exploration -- I mean in exploration regime, we had a drop of (sic) (to) BRL 91 million. And specifically because of this and because of the end of July, we were just making a reference.

In terms of exploration regime, we have BRL 52 million for generation for Eletronuclear and the transfer of commercialization of Itaipu of BRL 31 million. And now transmission and OEM (sic) O&M , a growth of (sic) to BRL 126 million, (2 events). And now you (have the object of) conclusions we made.

In terms of exploration, this negative adjustment is due to the recalculation that we made for all companies. And now in terms of distribution, we have BRL 484 million, which are positive revenue arising from this tariff adjustment from the ordinance of mining and energy ministry of the Second Quarter of this year and also adjustments from last year from Alagoas, Piauí and Amazonas. So the combination of these 2 effects, specifically the first one, is what leads to the variation in terms of operating net revenue from the distributor.

And now in other revenues, we have BRL 51 million. And this is due, in a great extent, to the program of conservation of Brazilian energy, which is operated and led by Eletrobras

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last year. It had a result positive in the First Quarter. And now we are going in the Second Quarter and maybe in the third one, the main variation of (BRL 61 million).

Okay. So now we are now going to Page 11. And we are going to -- in terms of analysis of our general costs, operating expenses and so on. In general costs, on the first page, we had important variation when comparing the 2 quarters of 27% and when comparing the 2 half years of 11%. Now the positive aspect is the energy bought for resale. We had a drop both compared in the first and the second comparison, specifically due to the seasonality.

We expect for the second half of the year to have a different number from the first half. And we expect in the second half to have a higher volume and a better perspective in terms of price, specifically in terms of PLD. And we have here 2 effects in terms of fuel for the production of energy that we are -- see here is negative last year and positive in this year. We had a change of procedure so we could hardly compare it to volumes. But it's about we adjusting ourselves in terms of the policy established by the agency.

In terms of general costs and on -- in the Second Quarter and the first half of last year and this year, the costs are fewer. They have here taken note as different items (inaudible). Santa Cruz is also here at this moment, (so that) volume is different from the other one.

Then we have more tariffs in terms of transmission. In Amazonas, we have a different number from last year. A positive point here we have to notice is exactly this main component, energy bought for resale. And as I mentioned, it has this characteristic of seasonality so we are waiting better results for the second half of the year.

Now Page 12, we are going to talk basically about the 4 components in terms of management of Eletrobras. So we have a quarter comparison and -- of a drop of 11.6% and a comparison of the half year of minus 2.3%. I'd like to show you a drop in terms of expenses with personnel. We have with them pension plan and the dismissal plan as well.

The good news is that (until) June, it's important to mention that we had an agreement -- a collective agreement in which we had, for the first time, adjustment. And by adding the adjustment and the year adjustment to the (PCA). So we have (1.69) plus 1%. And this perspective is for us to have a greater stability with these volumes of resources, in addition to other aspects as hazardous pays and so on, which are extraordinary costs.

But on the half year, we saw that lots of people left during this year. And this has an impact on the company. On the other hand, we had 2 extraordinary events this year. They are highlighted here specifically to (mobilize) in terms of material and services accounts. We had in terms of nuclear in Angra 2 and Aparecida thermoelectric, both of them generation expenses of materials and services which are higher. And this is the reason why these accounts are higher. But they are growing due to the activity when compared to last year when we didn't have it. So this is the main reason of the variation for materials and services, both on the pace of the quarter and on the half year, is this activity.

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In terms of others, we had a drop of 4% and 19% in terms of half year, specifically due to the (cut) of BRL 887 million in terms of Amazonas Distribuição, which is a result of the bill. And in order to make the comparison easier, we have the pension plans from last year and the consensus dismissal plan this year. In specific case, we had some recognitions specifically due to the privatization. We have a contribution here. And we also had an agreement with the municipality of Teresina with the companies of water resources of Piauí. And these were recognized, were agreed and had a positive result.

And on Page 33 -- 13, we have an impact of the provisions. We have the 6 most important of this process. So we have contingent -- a variation of BRL 834 million in this quarter. And the main aspect of this are 2. Basically, it's the renegotiation of the fiscal that we have of BRL 563 million. It's the collection of ICMS by Rondônia state government. And we have really favorable conditions for the company.

There are specific characteristics. But also the recognition with the debt, the company of waters with Eletrobras. So we had -- already had. And we are going to have the next quarter the reversal of this amount due to these really positive agreements we had with -- this quarter with the state of Rondônia. We also wanted to highlight that the provision for the classification was approved for Furnas after a lawsuit, a really old lawsuit.

In terms of compulsory loan, we have reclassification of risk and changes in court decisions. We have BRL 167 million. And in terms of Cepisa, we had an impact of IFRS 9, which changes the term to assess noncompliance from three months to one month. And now we have BRL 199 million. Then we also have here exactly the topic on reversal of Angra III of BRL 417 million with the constitution of the baseline and also Angra III, which is basically a small offset from distributors. In the Second Quarter of last year, we had BRL 194 million. And this year, we have BRL 334 million.

We are going now to Page 14 and the analysis of EBITDA regarding this quarter, a really high one. And we are using the comparison here. We are reporting a growth of 96%. When we take out from this comparison the nonrecurring events which added about BRL 3 million last year in terms of pension plans contingencies, which also have BRL 770 million onerous contracts in terms of BRL 904 million, we had a number of BRL 1,976,000,000. And we have a drop of 50%. And this drop is due to some aspects to be taken into consideration.

The first one, we had BRL 340 million which correspond to the drop of operating -- net operating revenue and shareholdings, Madeira Energia from Santo Antonio. We also have Jirau, BRL 62 million; and Itaguaçu da Bahia Energias, BRL 33 million. So specifically about our shareholdings and in this case, Madeira, (Porto Jirau), is about 40% comparing these 2 companies.

And now we have a topic related to operating costs. Again, we are going -- we have allowances, this contract. And that acknowledgment only in the Second Quarter of BRL 459 million. And when we do not conclude this because there's the process of the sale and -- still being debated by the congressmen, it may be withheld. So that's why we include that here as possible analysis with its allowances in terms of BRL 176 million.

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Here, we have -- from Santa Cruz, we had a variation, a positive variation of costs -- of managerial PMSO. And we have BRL 176 million in provisions. And we highlight, in case of Cepisa, which certainly is going to be reversed. There is already a reserve amount. Then we are going to have -- this BRL 72 million increase of guarantees is going to be a result of renegotiation of the CCD. And we may use it exclusively for the reversal.

We would talk about, about BRL 615 million being reversed from the privatization from the distributor. Then we are going to have our EBITDA to BRL 1,650,000,000. And we are going to be compared to the other one. And remembering that the variation, apart from this variation in terms of interests and shareholdings. We are going to compare operating EBITDA, which are negative only because of provisions and interests from parent companies.

In the following page, we are going to have the financial income. We have a great contribution for this quarter. We had a really small variation of 1.3%. And we had in other financial results operation with derivatives. We had the indexed contract in terms of (Eletronorte), which are positive in the quarter. In the financial expenses, we have a reduction of the indexes of CDI, IPCA. And this had BRL 1 billion for the semester and added about BRL 50 million in this year. So it's also a really positive result.

In the last line, on Page 16, we have a variation of the results of 723%, adding to BRL 2.832 million (sic) (BRL 2,832 million) and a growth of 68%. And the main component which determine these results, obviously, it is the tariff asset revenue from this ordinance 301 and the RBSE of BRL 1.2 billion, the reversal of ParÃ; Rate that I forgot to mention before.

We had also a provision for this. And we've reversed that. So the provision for compulsory loan of -- the volunteer dismissal plan of BRL 24 million and Cepisa agreement with the municipality and the water companies of BRL 231 million and this provision for fiscal allowance that I had already mentioned of ICMS from the government of RondÃ´nia. So the result is really positive. I believe that it fulfills our expectations.

I'd like to talk about the analysis of this result, both in terms of revenues and expenses and net income, on Page 17 by segment. And here, I think it's important to look into the perspective for Eletrobras. First, I'd like to mention that in generation and transmission, we had tariff adjustments. In transmission, we had a volume of tradable energy. And we had a drop, which was slight, of 4% and -- 3% in terms of transmission and 4% in generation.

And it's important to mention the effect we have arising from managing personnel, material, service and others. Here, we are pointing in generation a drop of 22%; and in transmission, a drop of 27%. In terms of operating costs and expenses, a drop of 31%. When we are talking about transmission, we had a drop of -- we have an increase of 128%. But this is due to the provision of BRL 173 million. If it weren't because of this, we would be talking about costs and expenses quite stable.

When comparing the quarters, in the Second Quarter, the increase on EBITDA is 50% and in transmission is 9% even for this activity. And this (inaudible) -- and all together adds

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34%. This is important variation. It's a trend of consolidation. We are still not working at our full capacity.

And in terms of financial results and net result -- net income, we have a positive result specifically due to reduction of debt and indexers. And we have a net income of generation reaching BRL 1 billion -- BRL 1.1 billion and 33% increase; and in transmission, BRL 705 million. And apart from that, we are going to BRL 1.8 billion, an increase of a great number in %.

Then we have the part of distribution. We are on the course of the privatization process already -- which already took place in Cepisa. But we noticed that in the quarter, we had a variation of 156%. And we look back, the financial provision of (556) (per year in) this year of PiauÃ. And we have this allowance of fuel, which is here in the second line of 400 -- more than BRL 400 million. This adds more to BRL 1,200,000,000.

And of course, it's a difficult situation for these companies which had readjustments. So the company had (a write-up) problem of cash. But at least they had a reduction in their adjustments for the consumers and made it to have better economical result. But the financial result was not so good, including with other additional costs. So due to these, the results of the distribution (this month) is positive due to the (BRL 3 billion) from the consolidation of the regulatory asset, which is here shown in 75%. But what concern specifically the costs and operating cost, specifically from the disallowance of fuels. But we are on our way. The recognitions of the regulatory asset should have been done and (asked) at the same time. And now we obtain this recognition.

Let's go to Page 18. We have the assessment of our leverage. We are -- we dropped and now we have a net indebtedness of BRL 17.6 million (sic) (BRL 17.6 billion). But you can see in the graph here, we had BRL 23.4 billion, almost BRL 6 billion more than we had today and a variation of 3.4.

If you look here, in (June 6), it's a reduction of 8x. But we are reaching a stability. And we know that the privatization and the sales of the SPEs are going to contribute definitely for us to reach a healthy level of leverage for the electric companies at Eletrobras.

Going to Page 20. We are going to talk about some challenges. Regarding the PDC, we have 736 consensus dismissal plan, our target regarding the implementation of the SAP in all companies. And we implement simultaneously our shared centers for us to have a potential reduction in about 250 people. Up to now, we reduced 736 people and -- which allowed us to have annual savings of BRL 231 million. From this month, we have our master plan of business and management, corresponds to the recognition and our discussion. We reported an economy and savings in terms of extra time and dangerous work and on-call of BRL 25 million. The shared centers when -- are working ready since July 18 in the 4 regions: Rio de Janeiro, FlorianÃ³polis, Recife and BrasÃlia. They are working simultaneously with SAF -- SAP. And also, regarding -- we have some about Angra. We have a group of work which is aiming at establishing within 60 days a balanced tariff. For Brazil, it's really important to have the thermonuclear. This would be the lowest tariff in the country, besides the benefits of us having an investment already

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made of more than 50%. I think it's an important attitude. And I -- hopefully, in the next month, we are going to have a definition regarding this.

Regarding financial discipline, we have 3.4. The highlights of the quarter, we have the sale of shares of Eletropaulo by Eletropar from the public offer created by the union. We sold BRL 95 million. The privatization of distributors, we are going to talk a little bit more afterwards. But from August on, we are going to have another stage of this auction. We are going to be talking about the auction of the SPEs. And I think it's important to highlight our commitment of completing the work regarding the main places here.

Regarding the results of last year, we have a reduction of material weaknesses. We also had an important reduction of 80% in terms of significant debts. And we established the statutory audit committee and the participation of (Rogel), which are already independent assessment of 200 directors in the company. And that's why we are going to have independent assessment of 200 directors and officers of Eletrobras companies.

We are going to have something similar in our -- with our 190 directors I appointed in SPEs and affiliates. We are going to have a policy to select our directors. We are going to follow them up and monitor them. And this year, we are going to certify each of them and assess them. So this is something that somehow we are going to recognize the work that you're doing in terms of governance. We had not only the recognition but also the highest note from

(CESP).

Next page, we are going to report our investments in the first semester. BRL 1,800,000,000 (budgeted). About 30% of our goal, BRL 1 million (sic) (BRL 1 billion) in the last semester, the half year. We are well set in terms of our investments and we are going to continue the (PMNG) to the level of BRL 3.5 billion to close the cycle of five years.

Page 22 are the highlights here. On September 27 it's going to be the auction of our 71 interests in SPEs. And we have 59, 1605 megawatts, in generating; and 12 in transmission lines, 2,910 kilometers. And the minimum price is going to be of BRL 3.1 billion. We are going to divide them into 18 lots, 8 of generation lots and 10 of transmission lots. I believe it is really important work. We are interacting a lot with our board and the Audit Committee, with the Minister of Planning, with the federal accounting court. And this is going to be essential. We are going to have incoming revenues. And after this auction, we are going to see that we can reach the indicator of leverage we want. And this is going to allow us the target. It's a company focused in generation and transmission of its of 4 subsidiaries: Eletrosul, Furnas, Chesf and Eletronorte. And the participation of Eletropar and the research center. And apart from these 4 operations -- we have more details of them. The main works of generation, Eletrobras is a participant of it at 32 participations; and transmission, 17 of them, specifically delta of 500 kV at Belo Monte. All of them, they have an important participation of Eletrobras and we have 50 SPEs and we have a book value of BRL 20.52 million (sic) (BRL 20.52 billion).

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Privatization of Cepisa, we have a tariff reduction of 8.5% which is a grant of BRL 95 million. And into October, we are going to have assumption of Eletrobras debt, contract execution, new utility companies capital increase and concession agreement execution, all of this is related to this schedule.

Apart from this, we have important milestones. On August 23, we have a meeting with the distributor. We're going to have 4 of them. We are analyzing (sale). We are analyzing the topic, which is due to the -- depends on a result from the Supreme Court between the state and federal government. We have to respect this but, on the 30th is going to be the auction. The auction means that the 4 (concessionaires).

Then on next page, we are going to have a little bit of the analysis of what is going to happen, because (one of) the auction of Piau , everybody had questions about it. So I'd like to mention this to make it easier for you. Each of them, they have 100% of discount. And here, in terms of Piau , we have 19% of discount and 19 times BRL 5 million, which is equivalent to the grant, equals BRL 95 million. Every -- each 1% is 1.5% (sic) (BRL 1.5 million) of Acre, Alagoas; Amazonas, (Kinzi), Rond  nia, 1.5 (sic) (Amazonas, BRL 15 million; Rond  nia, BRL 5 million; Roraima, BRL 1.5 million). So this is going to be made if the new openings offer more than 100% discount in the tariff of (stabilization).

Devoting capital from capital acquired of almost 90% for each of the company. That's why we have 90% of BRL 5 million. We have about BRL 45,000. And for each of them, we have an obligation of capital disbursement of BRL 721 million for Piau ; BRL 239 million, Acre; BRL 546 million, Alagoas; BRL 491 million, Amazonas; BRL 254 million, Rond  nia; and BRL 176 million, Roraima. So the assessment, the minimum considered regarding the base of compensation, the set of treatments related to this allowance, we are talking about concessions between 2.2, 3.2 and 2.8 in terms of Piau , 2.8x.

Finally, on Page 27, what is the amount noticed from these distributors? You can see that in 4 of them, it's reversed. What is the debt is going to be assumed to capitalize? And we have to mention them. And what is the contribution? And on the right-hand side, we have the remaining debt of Eletrobras for these companies and we also have the possibility of interest of 30%. We have a debt -- we don't have a debt higher (than) we had to convert debt into capital.

And just to remind you, on Page 28, we have the reason why we understand these privatizations are attractive. So we have the reference here from the company from Nordeste, another one from the northern part of the country, to see what is the remuneration basis in terms of reais for this company, in terms of supplied energy. So as you can see, our reference company we have 0.55 megawatts per hour and all other companies here are being sold. So they produce to Eletrobras an amount much lower than we have here. The lowest one is 0.11 megawatts per hour and there's no possibility -- extraordinary possibility of improving this result, (improvement) of our losses, improvement of services. This is why Cepisa is half of the benchmark. That's why it explains the (event).

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And now to complete the presentation and highlighting that the U.S., we have 3 topics in terms of investors with the North American authorities. We have an agreement of the close action of (\$14 million). And we have this exception of announcing here with the interaction of the companies with the U.S. authorities. So the Department of Justice of the U.S. declined to prosecute Eletrobras related to the Foreign Corrupt Practices Act and to impose a sanction. Did not impose conditions nor determine the indication of monitoring. So I believe that everything, all the numbers we've rendered helped us to reach this result due to both decisions, which is the next one to be analyzed in Eletrobras. So I'd like to apologize because my presentation was long. But I needed to talk about all the topics, the many things we have ongoing (especially). I'm available to answer any questions you might have.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Andre Sampaio from Santander.

Q - Andre Sampaio {BIO 19422379 <GO>}

I would like to ask 2 questions. The first one, regarding our decision to have the CVA (book), I would like to understand what is the rationale, specifically regarding the retroactive regarding December 2016? Could you explain why you decided to make this provision -- sorry, this book recording? And also, I'd like to ask about the possibility of converting this debt after the privatization of the company. Could you provide more details? Would you have interest in converting this, looking into the strategic part of the company?

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

I will start with the second one. And afterwards, Armando is going to address the first one. This model is inspired in the privatization itself from (CEMAS) . At that time, Eletrobras had 32% of the company. I would say that is one of the best investments we made in the company. BRL 1 of conversion of debt created many billions of reais in terms of dividends. So these companies may operate in a better way if they have this leverage. So the option would have -- that we would have debt in all of them for us to have a conversion for 30% inspired on this case. If you remember, we have a term, a period of time to do this. The law establishes that we have up to six months to acknowledge the business terms of the operator and to put into place what is established here. So at this moment, I cannot tell you anything in advance. I cannot any -- make any forecast. I see they have a really positive experience from the past and -- but we are going to analyze on a case-by-case basis and we are going to disclose anytime we have any information.

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

Hello, Andre. Good afternoon. The retroactive CVA comes from the beginning of the designation period. We have RGR, which is about 111% of (SELIC). And we are recording this in the liabilities on our balance sheet, the counterpart of our revenues. We consulted ANEEL (in the same) recognition of this asset. Then after this was ratified by the Minister of

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Mining and Energy by the ordinance 301. And then we had the opportunity of registering this almost BRL 4 billion, which were already in the liabilities for us, to have the corresponding counterpart. Reminding you that inside the privatization process, the same counterpart amount is diluted and recognized in the tariff (in the) CVM by the same controller. And now even though we are in designation period, we are going to have this recognition. This was positive for the company because we were recording a liability in our balance sheet and that was compromising our leverage levels. So that was even more positive. As long as we keep on being service providers during the period of designation, now we are going to have a (book duty) of this record in terms of the finances we had for the designation period, which now were extended to December 31, 2018 -- until December 31.

Q - Andre Sampaio {BIO 19422379 <GO>}

Just to complement, I think it was pretty clear but I'd like to confirm that there's still no recognition related to the possibility of what you mentioned in terms of the ordinance. From August 2018 to December 2018, you would have a complete control of the agreement. So we didn't do that, right? It's just related to RGR, right?

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

Yes. Just related to RGR that was allocated already.

Operator

Our next question comes from Maria Carolina Carneiro from Credit Suisse.

Q - Carolina Carneiro

I also have 2 questions. First one regarding the privatization process just for us to understand what is the step-by-step of the company given that now the bill is going to be -- (is launched) in terms of time, (which) you do not know when it's going to (be) approved. I'd like to know, how do you see this agenda in terms of privatization? And if -- do you share the idea that this is not going to prevent the process for most distributors? Are you going to continue what was already started with Cepisa? I would like to know your opinion in (view of the other) companies. How do you see the process? And the second question is talking a little bit about the results. Just for me to be sure, what is left from PDC to be executed this year, the consensus dismissal plan? Would you have a relevant amount? Or do you think -- or did you consider that you have already implemented this and it's already done? Just for us to have an idea what is expected in terms of PDC for the company.

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

Okay. Regarding privatization, which is the first question, I just would like to remind you that we mentioned 11.2 in terms of capitalization of the company regarding the debt with Petrobras. Apart from that, we have BRL 18.8 billion of additional debt with credits which are coming from PL. Of course, the company has to analyze it. This (tender) can go forward because the credit account -- the credit is going to remain with the company, with Eletrobras. So the company is going to have an analysis exclusively of risk of execution of

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this credit. I think everybody recognizes that. All of them are already recognized by ANEEL from the PL to have the budget. But the contracts, we already provide energy. And of course, the perspective of normalizing the agreement of Petrobras from Amazonas GT, these are absolutely necessary operations. They did not take place yet. But different from what was shown on the news, there were no increases and we have to return it, as ANEEL itself said. We, in fact, have a normalization of this. So we are going to keep this tender. We have the perspective of the privatization of the second step on August 30 exclusively from Alagoas. Regarding the remaining PDC, we have authorization to implement it until December. So we opened the first stage. Next month, we move from the headquarters. We are going to be definitely in one building and we're going to complement the shared services center. And from this perspective, I see that unfortunately, both in terms of (RP), we have a small delay of 3 to six months of this (too), which demands people. But it's open until the end of the year. I mean, we have the possibility of opening until the end of the year. We closed for the first session but we are going to have another additional PDC until the end of the year. At this moment, we already are authorized to open it again. Both processes, RP and PDC, during this half year are going to be made for us to be able to adjust the company to the processes and to be able to -- maybe to not have as many employees. This is going to be informed to the market. At the moment, we are ready for it. And the (position) of the project itself, we have 736 employees participating in it and this represents about 1/4 of our provisions by the subsidiaries of Eletrobras.

Operator

Our next question comes from Marcelo SÃ; from UBS.

Q - Marcelo SÃ;

My question is regarding the potential exercise of (Cepisa). I didn't understand properly. Just to understand the mechanism. Understanding that you decided to (appear), it means that in order to buy 30%, you'd have to convert debt or would, in six months, would have an appraisal report to define what would be the terms of this. It was not really clear for me. Could you explain it to me?

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

Well BRL 308 million. And we have in the (capital) BRL 1,063,000,000. So the debt of this would be reducing BRL 308 million. And that represents 30% of the capital of the company.

Operator

Our next question comes from Marcelo Britto from Citigroup.

Q - Marcelo Britto {BIO 15393330 <GO>}

I have 2 questions. First, regarding the privatization of (CL). We know it's suspended due to the determination of the Superior Court. But I'd like to understand, what are the steps the company and the federal government is following to eventually to restore this process when this injunction is suspended? Because I understand the bill we have today, which is being analyzed by the Senate, would not prevent the privatization. Also given the

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privatization of these SPEs, does the company understand. And what is the company doing to suspend the process and to carry out the sales? Because it's under the same suspension regarding the privatization of CL. And the second question regarding the bill which is being analyzed. There's a highlight, the change of the (base stage) to determine which distributor from Eletrobras would (flexibilize) these regulatory penalties in the next three years. We understand that this includes Electro Acre and Rondônia as possible of having these penalties (flexibilized). I'd like to understand the company's perspective and how does it help or prevent this in terms of the impact if the process is restored?

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

Well regarding (CL), the Supreme Court is conducting it with an injunction. And when we have the (works), we see that there will be understanding between the federal and the state government. The topic under -- being debated in the case of Cepisa is that at the moment (that these companies were strategized), they had indemnification rules after the auction. The auction did not take place and these companies, of course, had their activity changed with the capitalization and so on. And the state government, I understand they have remaining rights on the 40%. They would have rights to 40% as long as they had carried out the auction. (There's a) discussion with the federal government. I understand that we have to wait due to this injunction. We are part of this and we have to wait for (the term to be established). We have suspended the provision of service. And I believe that looking into the result we have with Cepisa for the consumers, for you -- for this discussion, we just have to respect their decision. Regarding the SPEs, given the law and the powers granted by the institute and by law, they create the subsidiaries and they may (constitute) the subsidiaries which can be sold. So this was used. Regarding the PL from the Senate, from the bill, from the Senate, I'll ask Armando to make the comment in terms of (flexibilization) of Acre and Rondônia.

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

They have 2 effects. The bill recognizes that in terms of the reimbursement of (CCE), they recognize a period of 10 years, something (later). And for the effects in terms of deduction. But regarding the recognition of the tariffs, in terms of (loss), for you to have a positive result in the tariff and the recognition of cost of generation, well, this was just normalized. Amazonas and Roraima already have this instrument.

Q - Marcelo Britto {BIO 15393330 <GO>}

Do you believe there's the potential of causing any further delay even if the Senate keeps it?

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

What do you mean about delaying?

Q - Marcelo Britto {BIO 15393330 <GO>}

Delaying, that maybe they have to change the bidding process because they are changing the tariff, the total tariff.

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

Well at this moment, it was not approved yet and you have a session scheduled for August 30. At this moment, (if) they keep it, they can keep the schedule.

Operator

(Operator Instructions) We are going to close now the Q&A session. We are going to turn the floor to Wilson Ferreira Junior, the CEO, for his final considerations.

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

I'd like to thank everyone for their attention for our teleconference of results. I'd like to emphasize that we are in a really important moment of our master plan of business and management. And this is something that we've been discussing for years and years which corresponds to the process of focus of the company in the (relevant sense), generation and transmission and privatization of transmission. Of course, they do not have advantages in comparison to others. And somehow, it's recognized. We are talking a lot about Cepisa, which took place less than one month ago. But I'd like to remind you that we have (CL) and with similar results. We are optimists in terms of this process. I'd like to emphasize that the company is in the process of leveraging. And at this moment, it is essential for you to put the mobilization of SPEs, which is going to allow the success, more than BRL 3 million (sic) (BRL 3 billion). The company has a net debt about (8). So there would be a possibility of reaching a leveraging area which would be a good result. And this is what makes sure that the company now can conclude the projects which were ongoing. Everything -- almost everything is within expected. The company has reduced its investments in terms of BRL 50 billion to BRL 20 billion since its operation. But even though, we have grown our line transmission and et cetera. So these are important elements. And in parallel, both of these elements related to corporate activities or to the consolidation and integrity of compliance, (dissent) of recognition. So I think it's really important, the agreement with the Congress. In the company program, we are now almost turning a page and starting a new perspective. For the next quarter, I think it's going to be significant and I'll (await) you here for the results of the Third Quarter. Thank you very much.

Operator

At this moment, the teleconference for Eletrobras is closed. Thank you very much for your participation. Have a great afternoon.

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