

Q2 2017 Earnings Call

Company Participants

- Wilson Pinto Ferreira Junior, Eletrobras

Other Participants

- Maria Carolina Carneiro, Head of Utilities
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for waiting. And welcome to the teleconference of Eletrobras to talk about the results regarding the Second Quarter of 2017. (Operator Instructions) We remind you that this presentation is available in PowerPoint at the website of Eletrobras, Investor Relations.

Before we continue, anything that will be said during this teleconference regarding the business perspectives of the company projections and financial goals are premises of the Board of Directors of Eletrobras, based on information that is available to the company. Considerations, thoughts about the future do not assure the performance. The investors must understand that economical issues and operational issues may influence into results of the future.

Now I would like to give the word to Mr. Wilson Ferreira Junior. Mr. Wilson?

Wilson Pinto Ferreira Junior {BIO 20013669 <GO>}

I would like to talk about the results. We're going to have an in-depth analysis of the results, our business plan. Also, quickly we're going to talk about investments. And conclude the presentation with some observations about new marketing strategies. On transmission lines, a highlight of the second -- on the Second Quarter. The growth in revenue from 9% in regards to the Second Quarter of last year, close to BRL 2 billion over the same period of the last year.

In managerial terms, we are positive in BRL 144 million. We have an improvement in the indicators. The net revenue over the EBITDA is better Q4 0.7% regards -- increase in regards to the Second Quarter of last year. Our strategy is aligned. We have had an investment of over BRL 2 billion in this quarter. And our plan is for the total investment of the year is aligned with the investment in the assets of the RBSE. We have a very positive

outcome. We achieved 95% of our goal in financial terms. We also had the transference of subsidiaries and her debts.

And an important information. We are using the law -- the resources of the law 8787, totaling over BRL 1 billion of investment in our subsidiaries. This is part of the global investment to remove the debt from these companies. And it's a further step in our business plan. We had (inaudible) at the Council substituting (inaudible). And we had a set of policies to -- from the administrators to the controllership. We did a public bid for the entire Eletrobras Group. And in the legal framework, we started to invoice in July, the resources of (inaudible)

Now I go to Page 6. We have a scenario that mirrors the financial performance of the company. First slide, reported results. According to the CDM, the Brazilian SEC, we are getting to the Second Quarter with a revenue of BRL 9.94 billion. And in terms -- managerial terms, we have a drop in our revenue of almost BRL 24 billion, 72%. Obviously, this is a nonrecurring result from last year. And we see why it is important to do the managerial evaluation, the due diligence. And we can consider these results so that the quarter results will be adequately compared. We have an effect of RBSE for the Second Quarter of 2016. In comparison to that, an investment of over BRL 5 billion against BRL 1 billion in the Second Quarter that is as a result of the financial exchange rates.

An update there. The onerous contract sum BRL 1.6 billion last year, a reversion in the Second Quarter of BRL 900 million. These are the main numbers. IKEA BRL 2 million over BRL 2 million. Of these 3 numbers, they explain mostly the most of the evaluation that we see in the further lines. We are talking about an EBITDA result, BRL 3.5 billion reported, dropped in BRL 20 billion or to 87%. So according to what happened to RBSE, we had a drop at 97% of revenue of BRL 44 million -- BRL 344 million. It's important to see the evaluation of the managerial results.

Of these main adjustments down below, we get a better idea of the performance of the company. It's important to see an increase in 15% of revenue, almost BRL 1 billion in growth. A growth of 83% in the EBITDA, BRL 1.9 billion. And a growth of 200% getting to a net revenue of BRL 152 million. This will be detailed later.

Page 7. These results here, we see the operational expenses as well as the financial results and the partnership results. This is the managerial consolidated result. We exclude CRB, that we're in a competitor as well as the effects of RBSE and the construction line. I think that the main issues here, we are going to see the comparison of the quarter, 36%. In the quarter comparison, the growth but we have 2 atypical things. In a comparison what cause us a problem in this comparison. And we will see down below first, the fact that we are doing a provision for payment of expenses that had a confirmation of addition in the First Quarter, something over BRL 700 million. That's part of the BRL 1 billion difference, 70%. But also last year, we had the readjustments of the company. Almost 9%, plus for this year, 9% of last year did not take place in the Second Quarter, only took place from September on.

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So on the comparison of the quarter, Second Quarter of last year, we had no readjustment. And on this quarter, with the readjustment of last year, we have 9.4%, plus some contingencies, please account for the differences. And down below, we see the net of these contributions though with the comparison of the quarters, maintenance of the results of the quarter of 2017, that will be diluted according to the adjustment of the taxes

Now the good news is the operational expenses. 50%, 60% drop. Recurring values in purchasing energy already have a drop in 6% in the quarterly basis and 2% in the semester basis. Good results of the partnerships participations, quarterly and every six months. This is the reason why the EBITDA had an investment from the management of 83% in the quarter and over 70% in the semester. The financial result. We had a negative result, an increase. And these are recurring in the operational performance of the company.

Next page is a work in progress. It's important so that we can clearly see the perspective of the results of the company. The activities of generation, transmission and distribution. Here is all we reported. We can see in generation, an investment that is very expressive comparing the EBITDA of last year and this year, BRL 1.795 million this year. We can see adjustments in the drop of the results of EBITDA and the generation. So this is the work in progress. We have the process between generation and distribution. And we want to work to make the ability of the conversion viable. We are cleansing our structure in terms of costs. So we can see the real costs.

In the transmission activities, we have a result that is similar to last year. OEM is directly registered, while by the issue of the RBSE the theme of last year. Then distribution activity, we have a good news. We have the last participation, an improvement in the results and the EBITDA line, a reduction of the net losses of the company. The news that we display is, that in terms of generation, transmission and OEM regime, if we do not account for the RBSE effects, the acceleration -- their businesses have an important evolution as well as transmission.

Page 9, quick detail of the evolution of the revenue. Left and right, the nonrecurring values, RBSE and discounting the exceled [ph] effect, we will get to the managerial revenue. Here the same thing in the right, which shows a growth of the recurring revenue of 11% with BRL 900 million. This comes from the growth of the revenue and the tariff adjustment that we had, thinking with a great deal of our assets, that happened to our assets, due to tariff readjustments for each of them. All of them are positive. Some have higher values showing, as a result of the transmission and exploration, we are concluding some works. And we have readjusted according to the inflation.

The other, we have to apply the indexation. We can do an analysis of the reported data of GSL as well as managerial data. And we can see the consolidated CVM. We have here the provision of the PAE of BRL 700 million nonrecurrent value. We also have, down below, the payment of tributes over receivables of (inaudible), generating BRL 60 million. And we have the effect of the readjustment of about 30% in the payment of the Eletrobras professionals. It was atypical last year. We only did the readjustment at the beginning of September.

Here is where we will perceive specifically an personnel. In the brief future, there will be a reduction -- important reduction. In the northern base, we have a reduction of BRL 90 million and a quarterly, we are talking about BRL 240 million reduction. And in materials, we will have reductions and reductions, comparing to the inflation as well. This will be reflected in an improvement of the margins of the company. The unified margin will be better.

Now Page 11. The operational provisions, an important change here. We can see a minus BRL 500 million this year. This is due to the contingencies, BRL 485 million, a set of shares, a set of legal working issues with staff. We have a reduction in the liabilities and the contracts with the distributing companies. And we have a perspective of ending this work next year, in a reduction of BRL 118 million for the construction of the Angra 3 power plant.

Now in regards to the costs, specifically GSL. We can see the evolution of EBITDA. Also in the recurring base in comparison, we are growing BRL 963 million over the revenue that we just talked about, an investment of more than 79% in performance. In the equity holdings, BRL 53 million in reduction of operational costs, in the drop here between managerial, BRL 384 million, 14% of the whole. And in the provisions, an increase. So the result based mainly on the revenue and the management of our operational costs below inflation.

The financial result on Page 13. This is important. Less than BRL 1.2 billion last year to more than BRL 2 billion this year. The greatest variations are regarding the issue of the exchange rate, BRL 2 billion in revenue, BRL 2.3 billion in expenses. This constitutes a natural hedging. It has the same behavior in the revenue and in the expenses.

Now we have the update of the assets, reduction in the indexing rate, that indexes our compromises. And on the other hand, below, we have the financial expenses. It gets into the -- our tributes account of our holding. The bottom line of these are in the next 2 pages. So when we look at managerial contribution in the quarterly and semester basis, we have a reduction of the participation of PMSO over the net revenue -- net operational revenue. And these have a drop according to the market -- in regards to the market, in the quarterly and semester basis. Next we can see, according to the margin of the EBITDA, a quarter that gets to BRL 25.9 million and semester, BRL 23.7 million. Talking to the Board of Directors that is along with me, it's an improvement -- important improvement in our performance.

Let's talk about diagnosis. From that diagnosis that we had on the conditions of the holding, claims related to low operational performance, below governance, the plan challenge 21, foreign language [ph], 21 measures to improve the operations very well.

Page 18. A little bit of the follow-up in our themes. Reduction in material expenses to 0. And we continue strongly involved in the implementation issue and some assets of this quarter. We had also an open channel that is trustworthy for all companies. We have a management of these reports, these complaints, a whistleblower, I should say program for -- to report on potential deviations of our company. We are compromised to that

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whistleblower program. We start the process of the due diligence with each sensitive service providers or just providers. We are evaluating new methodologies.

We have also the dividend policy. We launched a policy of managers. It's important that along with the law, it is aligned from the standpoint of policies of the government. And our management, we created 3 committees that work with the council, strategy, sustainability and people and eligibility. All of this goes along with our proposal for the evolution of our stature. Already there has been an internal debate along with (inaudible). So that we can submit for approval.

Page 19. The retirement program PAE, the extraordinary retirement program, 87% of our target we've reached. But with an addition of higher salaries. Here we can see the important reduction that we had in our transactional structure that I will mention later. Obviously, the higher salaries, if there was a higher level of addition, we would be close to BRL 285 million. And of course, we do not apply this to our company, well, unless it's key. We are trying to verticalize the company. And we have the potential to do so, this verticalization, which may lead and the average addition. And this will take our results to close to BRL 900 million. The result is extraordinary and it's very good. And it is better when we look at this prospectively.

We started to see -- well, we did the plan, we tried to do a repetition of the last plan that a company had submitted to their employees, recognizing the economical moment, the financial -- very delicate financial situation of the company. Also a moment, along with the other stake holding companies, we adhere to a program of lower costs. And this allowed us to get to a deadline that was below a year.

We had an economy just in the predicted investment of something close to BRL 800 million. We have basically 95% in economy. This is very good. I haven't mentioned one of the other reasons why we had this increase in averages, 95% in payouts are regarding to the cutting in the managerial functions. We have a lot of managers that were sensitive to this issue. We had a cut of 389 positions. This correspond to 17% higher than the plan. And our company is really involved in this, trying to be efficient. And with costs -- reduction in cost that is below BRL 43 million. It is lower than what we imagined. And part of these functions, we cannot let go and we have to recognize that some professionals that leave the managerial position still maintain their functions incorporate to the company. Good news is that part -- a larger part of the professionals that were in this condition adhered to the program.

Page 21. The unique language of the system of management, economical, financial, HR, public relations, 71% of realization of this program, trying to -- at beginning of January, we will have a rollout of the companies. And later, until the middle of the year, the other companies that will start to use a single system for the Eletrobras Group. As a whole, this is the first time that it takes place in the 75 years of the company. It's important to say the main advantage, we have better efficiency in management, quickness in reporting the results. We have higher cost for licensing and maintenance of their system. So this system will save over BRL 200 million. And there will be a reduction of over BRL 100 million per year, with the implementation of this system.

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Finally, an important measure of efficiency. The RT implementation. It's important to standardize, not only the processes but management processes. Well -- a little bit below it, we have it only 53% concluded. And it's fundamental that we have redundancy and the possibility -- higher possibility, at the corporate area, to have a set of activities concluded. Here, we can see processes. And we will do -- in the last quarter, we have the first complement. We will have people and we will be able to offer. While the retirement, the optional retirement for the management staff. And there will be a package -- exit package, I should say. So we can adjust our productivity to the new times. We have over 1,000 people adhering and we will have an economy of BRL 600 million.

Let's go to Page 23. The third pillar, operational efficiency. And we get to a fundamental part, financial discipline. We have here 3 actions, the sale of assets, for example. I am going to talk about other 2 things. The first, we are reporting here 4.7x EBITDA. So the debt has stabilized and the EBITDA is growing. Now we imagine that we have 2 sales processes. And here, we will reduce the debt. This will ensure that we will achieve this goal and get to below the 4x this year. So we have an adjustment -- a detail of the liabilities -- net liabilities and the investments of this year, something close to BRL 500 billion. A total of BRL 45 billion of the debt, remembering that we retain rate of almost BRL 8 billion financing. And a net revenue of BRL 400 million. So our debt is BRL 23.4 billion.

We are on the way of getting to this goal. We are closer. And the company needs the next 2 activities. The first one is regarding the distribution. We have a team that is doing a set of analysis on the companies that were hired. We've had done the final phase of the company challenges. And all together, ones that you can see, we've already fulfilled. We have adjustments and we have the program of the privatization, that will take place between November and December. And on our part, everything is prepared for privatizing. Everything is ready. We have a small delay in -- that happened in July that we'll compensate this month. But still maintaining the perspective of, at the end of the year, we will conclude this process. In regards to the shares of Eletrobras, we are pending the adjustments. And the results of the ANEEL audit team. It's not shares, I am sorry, it's actions. And these actions should be concluded in August. And this is the conclusion of the FY in August.

Page 25 until Page 31, I will try to go as quickly as I can. I'm trying to simplify this as best as I can. The society, the partnership organization of the Eletrobras Group. The sales of asset that we have, we can imagine this company in next year. The stage 25, sees the structure -- shows the structure of today. The companies of generation. The distributing companies, our participations, direct or direct investments in 25 companies. And the ones that are separated, the 4 companies of DP and consolidated. The market does not perceive the accounting value of BRL 24 billion. This is Eletrobras.

What are we going to do with these 178. One thing that you know is the payment, payments that we received from our controlled companies. And this will -- the results were shown at the end of June. We have 158 wind companies. This corresponds to 3,500 kilometers, more than 700 UBAs, 438 megawatts in the value of 4 point -- over 4 billion.

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We have 6 wind farms. We have bigger participation. But above -- we have less -- in all of that, we have less than 50%. In these wind-based energy generating companies, you can see that the set of these wind companies sums 1,000 megawatts. We have 1,000 megawatts of wind-generated power; 3,000 transmission -- kilometers of transmission lines. And 100% of that is in operations, with financing by PPA and the process evaluation by BTG and will be sold in the second semester. So this is our effort based on this. And what are we going to do with the rest, you might ask. There has to be an effort of rationalization. You can see that we have a wind farm directly connected to Eletrobras. It doesn't make any sense. It will be sold by Eletrobras as well.

We have the 2 first is the sales process. We have the Lot E, in addition to Lot A. And this month, we will open this for the private investment. We have a project of UTE that was not viable at Camaãari. We are selling it or closing the deal. Our 84 SPEs Corporate, some over BRL 600 million.

We can see a set of assets, on the next page. The transmission lines out of these 2 we are terminating these companies with 4 SPEs. So these 4 SPEs are terminated. And they are composed in the values. But what about assets? That can be -- what we had, by the admission of the controller partner that was interested by the project. We have here 11 wind farms of Chesf plus a transmission company from Chesf. And we have almost 70% of the operations, 2 SPEs.

We have conclusion. And the 11 wind farms will be concluded until March of next year. This will be incorporated in the improvement of the results -- improve our management, our results, the consolidated results of Chesf's finances. And so on and so forth. So here, we have to do an incorporation of the assets. We have another 3 assets that we are negotiating with the partner where we can have -- these are assets under southern region we can do as position swap. And we can remain with one to be incorporated. So we will finish here. We will sum BRL 1,517 billion in these assets. Any of the results besides the economic value, the values of revenue and EBITDA will be result -- will be consolidated at Chesf and Eletrosul.

We will remain with 48 SPEs. Of the 178, 48 remain with us. So we have 7 wind. Besides, while they are being concluded, 13 UHS with 11 megawatts -- 11,000 megawatts. Everything is basically concluded. And we basically are just missing a -- we haven't completed São Manoel, Belo Monte. Belo Monte will have the energy insured by the end of this year. The 17 transmission companies' conclusion is very close. We are getting it ready. And we have that SPE that operate services. So out of these 38 SPEs, we will have Eletrobras that will remain. And Eletrobras will be part of the consolidated group.

In the case of Furnas, down below, 43 wind farms operational. Here we can see the reverse bidding. And here, the concentration work of 45 SPEs colliding at 10. Finally, we remain with 38 in operation. And 10 of them, we will wait a better moment for distribution that can be -- can we see future investments, investments that are not rationalized yet. Thereby, we are simplifying our structure.

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Page 30. We have a view of this. We start with 137 SPEs of generation, 38 transmission, 13 getting to the accounting value of 24. These activities that I've just mentioned of sales incorporation, concentration and closing of the assets. Here is an important data. We will sell the 4%, closing BRL 500 million. And we remain with BRL 20 billion in SPEs that are operating and are about to be concluded. All of them are ongoing through the conclusion in the next two years. In the case of transmission, we will finish a lot of projects next year. We have BRL 20 billion in assets in operation and 11 corporate to do future investments.

Page 31. We can see how it is possible for the structure to be more efficient? You saw it to the private investment. (inaudible) and Cepel are assets, smaller assets. And there will be a private -- there will be a public bidding. And there will be -- also in the private sector, we remain with 48 SPEs at that time. Of course, there is a simplification of the size of the company and the units they control. It's more rational, more efficient. And this is the design that we want to have at target.

It's important as well. It's not just decreasing the size. With the installed base, we have 47,000 megawatts. We are here compromised with the conclusion of 3,500. And probably 1,000 megawatts are related to the SPEs of wind farms. Getting to practically 50,000 megawatts through the end of next year, this operation, that will be ongoing in this way. 49,500 about 50,000 megawatts. And transformation, BRL 2.3 billion, the SPEs that are involved: 3,700 megawatts. We have the capacity to conclude other works. And we continue to work. The relevance is here. The intelligence is to sell assets, grow the assets, then maintain the interest of the market and conclude the investments that we have to do today.

Page 33 is the set of works that have been concluded in Chesf. The company that we were feeling the most delays. Here the importance is, we mentioned the last one, that all of the wind farms and solar power farms, the concluded works on them are connected. There is no more assets that had been concluded that are not connected to the network. We have transmission lines. Everything is connected.

A summary. Page 35. About the investments of the company, we can highlight in terms of investment. A low value, we are aligned with our moment of cash flow, BRL 2.4 billion. The main investments are connected to the fulfillment of the compromises with generation and transmission. These investments done, they account for over BRL 1 billion. There is the corporate expansion. And here, distribution connected with the distributing companies. And to conclude, we have over 2,000 megawatts in Belo Monte. We will add over 1,300 as well.

We've just concluded the works of Maui 3. We have done it internally with our own capital. We've closed the cycle between October and November. And we've had here the Phase B, we have 270 megawatts. We will have this phase closed by the end of the next -- of this year. Performance is very low and this is a problem. 61 kilometers of lines for Chesf is concluded in this semester and as well as, I've just mentioned, the wind and solar power that has been connected generation to transmission.

Now we have had a meeting with important elements of Eletrobras, which are, at the beginning, I was talking about the entrance RBSE, 87.4 of the predicted revenue. We started and receive that due to other issues. So the new framework addresses consumers and revenues and the operators. But we are maximizing the costs. Secondly, relating to the legal issues. All of the assets that have volumes and they didn't have an adequate proposal when we did the repatriation of the risks. So here we have a total for that as well. And we want to add the logic, the mechanics of how this is involved. And we have energy and this allows us to have the public asset being able to be sold to the private sector.

All of the effort of Eletrobras is to increase the provision for the operational costs. We have a limit but I want to offer you a perspective. That's why it is important to Eletrobras. We need to have a more clear definition of what is privatization and not. And corporate revenues per rata, financing contingencies. This is not clear and has to be cleared. These 3 highlights are fundamental for Eletrobras. Clearly, there is a favoring of this new framework for the company. But it's go beyond -- it goes beyond that. First, I think that there is a process that has a cadence to be performed, the privatization, three months, four months. It will not take place in the next couple of months. It will take 10 years. And this has to be clear. The distributing companies have an action. And they have nothing to gain if they accept. But they have a lot to lose if they do not accept. So we need to do a separation of the energy and the planning, the actions. We need to have -- I will show you later. And we understand that this new mark -- framework offers for conditions to unlock the model and align it to what we have in the world, the most modern. We have a better allocation of costs between the agents and allocates the risk better between the agents. It rationalizes subsidiaries and these are part of the problem for the legal issues. To give an example, we have to manage these issues. And well. Everything that we are talking about, this is a way to be -- judicialize the system, which is important for us. So we can have liquidity in the functioning of the system.

The last page, here. What is explained here? We tried to do an evaluation of Brazil first. And the second, the entailment of Eletrobras. And the first, how many power plants do we have in Brazil? 91. What is the sum in terms of power? 29,000 megawatts of power in Brazil. So we have 1/5 of the installed capacity in Brazil, 150,000. And these power plants practically has our Eletrobras, 14,000 megawatts installed in Itapúa. We have 14 power plants.

In the top, we see results about what we feel about Eletrobras. Here, you can understand a little bit of the importance of the proposal. How much does it cost to operate all this? Costs BRL 529 million. Here, if we remember, below, there is no ideological risk. And now we see what was not that -- not clear, how much is the cost of the ideological risk? Better than looking at the costs first. Second, we can see this cost paid by the consumer, the O&M goes to the power plants, BRL 529 million and the average value of BRL 61 per megawatt hour. This is the average.

Looking down below, the quotas of Eletrobras have a lower price because throughout time, we were recognizing additions. And when we did an extraordinary review, we also have it in Eletrobras. But we have a value of BRL 35 per megawatt hour for this set of power plants. And the system today has BRL 61 per megawatt per hour. Down below, we

have the payment of the tariffs. This costs BRL 1 billion a month for Brazil and it has BRL 115 of megawatt hour. So you can see that the energy of these power plants, it doesn't cost us BRL 60. It cost over BRL 100.

In the case of the power plants of Eletrobras, it's a bit cheaper. Instead of costing BRL 35, there's the additional cost of BRL 70. Our costs are therefore BRL 133. Here, the problem is not more or less. The quota have a cost. The lower cost but a demand or a collateral effect that is basically the double of the cost. There is no reason why they shouldn't be managed, they are paid by the consumer. So if somebody that will purchase this power plant and will be able to operate it with a lower cost and will be able to attribute to a management through GFE, that is better. This is the principle. And it's probable. This is the great advantage of the model that we are proposing. But I want to clarify that I would like to thank you for your attention. And obviously, I'm sorry for the excess of information. But it is very important. So that things are clear in the context of Eletrobras.

We can do the Q&A.

Questions And Answers

Operator

(Operator Instructions) First question, Mr. Himat Borik [ph], Manager Resources [ph].

Q - Unidentified Participant

Two questions. First, in regards to the distributing companies. If we don't have the privatization until the end of the year due to any reason, how will the company, since they didn't renew the concessions, these concessions leave the company and they will not be adding liabilities, how would you deal with this issue if you cannot privatize, given that the companies have now renewed the concession? And the second question is regards to the net liabilities. You have a lot of provisions, a lot of things. And (inaudible) compulsory. Well I wanted to know if you consider all that, how much of the net losses, net debt? And do you consider this value as -- how do you treat this in the company?

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

In regards to the plan of the distributing companies. The first question and the second question, the balance of the company, the budget or the losses of investment. Well we've done already investments. And you can have in these specific cases, a reversion, giving a better perspective for the enterprise. I will give you an example. We will have some structuring investments. You had the opportunity of un-hire the regulated. And obviously, getting a risk provision for the private with a higher risk. This will allow you not only drive a better performance, increase the rate but also, you have the 2 sides. I agree that in this specific case, the compulsory loan, we have a legal issue. But its cost to the company an annual value. The average values yearly were about BRL 500 million on average. Maybe a bit above annually. This is not only in the provisions. But we have this over the cash. We have BRL 4 billion that I know of. But the full amount that we have, based in the view of the lawyers, BRL 14 billion are compulsory loans. If you account for their debt, you have to "we do an exercise through the long term. The financial result of that is that over the

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last years, we've doubled this in the judicial system. We will have to address an alternative for this. And this is one of the items that we need to deal with. In regards to the distributing companies, obviously, we're working here. It's not that we don't have a Plan B. These companies are operated by Eletrobras. If it doesn't work, you'll get January 1, you just leave them alone? No. You can remove the company from Eletrobras. And the system is not automatic. I am saying that this is the good and bad side at the same time. What do I imagine in this privatization process? We have a basis for the payment of the FX, include costs and we have to do their work. And we have here a set of loans. This will be to facilitate. And there is the third -- and it's the company itself. The concession -- it will be followed by itself. The assets that are there, linked. You'll also need this. So I understand that we have a converging and the converging -- a fruition that is the best way, best solution for the services, for the continuum of the service provision for the customers. But everyone is working so that we have the privatization until the end of the year. We are still within schedule for the end of the year. Nonetheless, from my perspective, the sector model, the factorial model, you can have the consequence, the focus of the company in an area that has a higher demand for investments. In a perspective of growth much higher, these concessions are enormous opportunity for those that want to invest in this segment that can still become more robust as long as we can have a commercial risk that has been eliminated by the model. I think that all of the movements are toward valuing these assets. And obviously, our obligation from the legal standpoint is to get -- this is the hypothesis, the legal hypothesis of what we have to do. I don't believe in it. I believe that we will work with the government so that we can have a second attempt in January or subsequently. And it's important to realize the importance of these concessions. We are working to give the adequate deadlines so that everyone can take a look. Everyone is very well done. The options of the concessions are very positive. I think that the model reinforces this. And we understand that Eletrobras is very interested in signing the concession and the assets connected to that. So we have the deadline until the 31st. And obviously, we will have to work with the government to maintain the perspective of service provision. And we have 9 point -- basically, we have the liabilities of the works. We want to see the investments return for the company. Based on everything that I'm saying here, no, thank you. And about Angra 3. These are an additional BRL 1 billion to finish or decommission. We have an update on that. The idea of getting another shareholder, this has been dealt along with CMP, the work of the company where we've done it. We did an auditing where there are 2 words to evaluate the amounts that are necessary for the conclusion. We did a recommendation. And obviously, that this decision is necessary but it will allow us to have a partnership. In Eletrobras, we have the technical and we have a phase where we're trying to interact a revolution for this. We have -- this is very strategic and this is an important work. So we have to conclude it, Angra 3.

Operator

Next question. Carolina Carneiro, Santander.

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

My question is in regards to the issue about the new framework. What would be your view in regards to the impact of the disquotazation [ph] of the company? Where do you see the advantages, disadvantages? The second one. Could you talk about the global reserve or reversion? They are discussing how much do you have of the stock of that resource?

And within what you have, would it be enough to do the relevant payments of RBSE?
What is your view?

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

The impacts of the disquotization [ph], there's advantages, disadvantages, advantages depending on the price that you establish has shown 2 numbers. We're talking about 130, BRL 130 on average. You are offering to higher this amount for a value that you can manage. And you get a margin or you will have to do something smaller. The numbers that we are mentioning are in the range of BRL 150 to BRL 100 megawatt hour. So our first advantage is to maintain our price. Now to be very transparent, the disquotization process has to be seen in the context of privatization. This means that if you have an asset in O&M regime, there you have costs. And now you exchange it through a regime, where I answer with the new price. And if you could do this based on the real cost. The companies have contingencies, corporate flows, corporate costs. So you have to see the advantage. You have to see the price and you have to see the cost that you can provide. We, as sellers of this option, we have the interest of looking at the price in the amount of research, retailable [ph] and corporate to this quota. This is one of the evaluations. We have a lot of resources that are not amortized. The costs of operation are higher. And you might have to remain with a part of their cost. The disadvantage of that, these efforts are very good. I am sure that there is an enormous interest in evaluation of these assets in a private way. And we see from the state side that they want this opportunity. And the advantages are positioned from now on that there will be no surprises. And in case of Eletrobras, there's only one option, which is to get the operation and the value of the cost established by the agency, if you have an alternative, then you have a GPL [ph] that it's positive. It's a better alternative than what we have. We want to have an option that we want you to consider the benefits for the consumer and the benefit for Eletrobras in the country, we have to take -- we are paying attention to that. In regards to your second question, (inaudible) has a set of values of the distributing companies themselves of Eletrobras. You have financing there, not just distributing companies in the period that is over BRL 3 billion. So once we do that proposal, they consider not only the stock but the incoming and a longer deadline. So this will be sufficient for the negotiation.

Operator

(Operator Instructions) Next question, Liliana [ph], HSBC.

Q - Unidentified Participant

I'm sorry if I'm being redundant. But I wanted to understand better, what are the impediments for a potential privatization of the assets of distribution? How is that negotiation ongoing about tariffs and basis of future assets?

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

Tell me if I understood correctly. What is the status of the privatization process of our distribution companies?

Q - Unidentified Participant

Yes. What will be the biggest impediment for that to take place?

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

At this moment, we have a small delay. We should get the recognition of all the fees. And this is an object of (inaudible). Four of the 6 distributing companies have a contract where of debt with Eletrobras that are being part of this fiscalization by the agency. The northern companies mainly, not the other ones. The -- within the process of modeling, this is what we are considering. So in regards to the tariff, we have territory adjustments that are annual. We hadn't had an extraordinary review of tariff. What is important? Why is the base as important? The proposal of the new contract for the concession, these concessions will have the opportunity of doing 2 reviews through a tariff cycle. You will have an intermediary moment. The basis of payout for Eletrobras, I still cannot disclose. We have the basis closed. And we took it to (inaudible). We are waiting for the next step if we've got a room [ph]. And we've done a good job. There is no impediment for the privatization. There is a closing, closure. There is relevance in this contract. And we are discussing this with the agency. And we understand that given the case, we will have to work with the minute, an agreement directly and the legal contingency. But I understand that our position over the values is very robust. So we've done that contextually [ph] with the agency. And this process is ongoing in this month of August. We have a better room that is being prepared. The issue of evaluation and modeling has been submitted. And there wouldn't be an issue, perhaps we have learned it in the process and the normal course of the process, which is the easiest part in making the companies available for the interested parties. Obviously, we've worked and there is a work in the agency and Eletrobras as well, with our controller companies. And the difference is that we are accounting for in values, we're still optimistic in the sense of receiving "well, we have to prove what we've received to the agency in terms of amount. And the agency has to see the budget of OCD [ph]. And we have to close it in a definite way. Our position with Petrobras, we won a very important step for the process.

Q - Unidentified Participant

And another question. In regards to the mine and energy ministry and the regulatory framework, the proposal. And the part that deals with Eletrobras in terms of potential for privatization or send -- selling of the assets that have in the model -- that becomes a price and the government offered 1/3 of the value for Eletrobras. Do you think that the modeling -- do you think that 1/3 is enough? And along these lines, within this government proposal, is there a possibility to sell the assets. But also the assets with the liabilities. So that they are free from the risk that Eletrobras won't sell only the (inaudible) then will remain with the liability so we have to sell both?

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

That's what I just mentioned. This modeling is not clear nowadays. And the way to this has been described, I don't think that this is what they mean. But we have to -- they are discounting the price and they're receiving the cost of the quota. If we think that it costs more or less. So the quota costs this much. And you will do a valuation [ph] based on deadlines on support risk management. And then you will have the recapturing of the sell-in. This appears immediately. What we've made available on these slides are very relevant event, it's the issue of value. If you consider Chesf is our main quota holder and 1/3 of our

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quota is our Chesf, then that's just me giving these costs. And it has a higher cost and we wouldn't be covered by that. The price is what we have mentioned but the cost is higher. So that type of treatment to the higher costs with the eventual contingency, this is not clear in the modeling. And this gets us closer to a privatization model. And if you privatize a power plant, there will be a part of the cost, the -- not only the vocalized costs connected to the power plant. But also the ones that are viewed to provide the services, corporate costs, financial costs, managerial costs. This is not clear and we hope that it will be clear. I think that this was not something that they started to -- that they realized before. This has to be clarified. We have to get the context of what this privatization means. And the third, the part that would be given to Eletrobras, if that's reasonable or is this something that has to discuss and think about. If 1/3 is higher than the situation that we have today, it's fairly reasonable. We can see the flow. It's 0 or minimally positive. Now it's negative. So we've -- are demonstrated in the beginning that if you have a perspective of this quotization [ph] and getting their cost per rata of this value is positive, if it's 1/3, then it will be worth it. So you need to rethink the calculations. What is important to highlight is you have the possibility of doing this because you opened the possibility with a new regime that allows you to do so. Otherwise, you wouldn't have this possibility. So you only have the possibility of having 1/3, if you adopted the new regime, otherwise you'll have no alternative. And it's basically like winning the lottery. Do you mind if you win the big prize with another 2 people? Or the possibility now it's 0? Winning, having a higher probability is better with 2 people. So somehow, there will be a cost and there will be a benefit to reduce the 1/3. And somebody will have to be stimulated to consider the hypothesis, to win the other 1/3. I don't have the most scientific formulas to evaluate this. But I cannot say that 1/3, 1/3, 1/3 is not something fair. Once we had a change in the regime, it's very balanced. But it's creating the conditions and it's changing the regime and the other, we are paying a little bit more but I want you to have a perspective from OCD [ph]. So this is very reasonable.

Operator

(Operator Instructions) We close at this time the Q&A session. This way we return the word to Wilson Ferreira Junior for the final considerations. Mr. President?

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

So thank you for all of you that are participating in this teleconference. Two points. We are in a restructuring process of Eletrobras, those retailers. I understand that we are undergoing the first year of management. And I am very happy to share the first results in the effective reduction of the cost, effective reduction of our debt by GFDE [ph], the privatization of distributing companies. We are convinced that the work are undergoing. And can -- they will produce the results. But we -- in addition to that, we have a bonus, Eletrobras are consuming -- we have this new perspective of a model. And we have a set of complexities. And this is important. We are replacing, repositioning the Brazilian electrical center -- sector in a very aligned way to what we see in the world and with the more advanced economies. The digitalization of our system with GFDE and subcontracting RBSE are symptoms of effectuation in our effectiveness and this needs to change. I have to recognize the work that was done not only by how -- it is modern. I have mentioned awhile the issue of separation. But it is important to mention that we have risk. And it doesn't seem to be an element that has been adequately mentioned in the past. And the main agents, these risks cannot be managed without us taking into consideration

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digitalization. So when you clearly state, what is the operation? Who will assume and will be responsible for the risk? And this is in a more adequate agent, we have a perspective of sustainable risk. This is what we are mentioning. We will verify in the near future, an evolution that is beyond the one that we live, which is that distributor generation. We have here, it is now reasonable to do so because a distributing company, there is no duplicate. It doesn't make sense. So we have a rationalized cost that can be de-rationalized if we had the loss of these consumers or even if the consumer gets solar power. The companies that work against that, they don't recognize the new model. You will have a part of your structure, a part of your -- you can even gather energy from your solar roof. So you have to look at this previously through data carrying. It seems to me that we've talked a long time to recognize that the wind matrix, the solar matrix, they can operate without causing a damage to our financial goals. And there will be an eventual change of forces, where we have the consumer and the small generator. And this will be placed throughout the world. What I can affirm that the model presented, it considers each of these things. And it has an advantage that is important, which is let's get prices that -- and something that determines -- the more that the market forces these agents to work, they won't meet the requirements whether we press demand. And we will be able to answer quickly. The second thing is that the subsidies have determined movements on the consumer side, have the subsidy to install a specific energy. And will remove a consumer from the distributing. These distributing companies, these subsidies are responsible for the change in the market. And it's not reasonable to have both the subsidies. They determine the choice of the consumer, from one side to the other. The truth is these sets of policies, the cost of price in the market, the responsibilities based on the main assets, the commercialization, you have the risks. You have to allow the best manager to manage the risk. When you do this balance, you'll have the perspective of a model that is sustainable. I think that this is the main issue. And our mission is to try to deal with issues that have accumulated, judicialized [ph] and whatever the perspective is, we have to address them. Specifically, GSF is subcontracting and the issue of RBSE. These are the main ones. I believe that we have here a proposal that will allow us to be in that 21st century. And within our -- in the context of our economy, we have to attract the investment. And we have to have a liquidity and we have had this type of circumstances. And we've done this very well. And you have the compromise to perceive that in the government, in the case of Eletrobras, given the advantages that I've presented, we will have better results in the next couple of days. Well thank you for your attention.

Operator

The teleconference of Eletrobras is closed. Thank you for your participation. And have a wonderful afternoon.

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