

## Q1 2012 Earnings Call

### Company Participants

- Armando Casado de Araujo, CFO and IR Director

### Other Participants

- Leonardo Brojes, Analyst
- Lillyanna Yang, Analyst
- Sandra Boente, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Thank you, very much for waiting. Ladies and gentlemen, welcome to the Eletrobras conference call to talk about the results of the First Quarter of 2012.

(Operator Instructions) This presentation is available in PowerPoint in our website.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Eletrobras management and on information currently available to the Company, which involves risks and also these future considerations, they are not a guarantee of performance because there are risks involved, uncertainties. And they depend on circumstances that may or may not occur.

Now I would like to pass the floor to Armando Casado de Araujo, who is our Financial Director. Please, Mr. Armando, you can continue.

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

Good morning, to all of you. It's a pleasure to be here again giving information to the markets, to the analysts, shareholders. And investors, regarding the results of the First Quarter of 2012.

And so we have a net income of BRL1.268 billion, 127% higher than 2011, 1.3% less than the First Quarter. And I will explain that during our presentation. Our net operating revenue was BRL8.278 billion, 60% higher than that of the First Quarter of 2011.

Our operating result was BRL2.098 billion, 6% higher than the First Quarter of 2011.

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PMS -- personnel, material. And services -- was BRL1.831 billion in the First Quarter of 2012, 6.9% higher than that of the First Quarter. It showed that we are in a continued path of decreasing these expenses. The PMS, compared to NOR had an increase of 22.1%, an increase of 1.9 percentage points compared to the last year, the same period.

EBITDA also had a growth of 7.1%. It increased to BRL2.7 billion and the net result of the exchange variation was the decrease BRL201.4 million.

The transfer of Itaipu went from BRL634.4 million in 2011 to BRL706.2 million in 2012, coming -- because of the American indexes and the net income, as already mentioned, was BRL1.268 billion, 127% higher than the first -- the Fourth Quarter of 2011, because we had many adjustments at this time of the partner companies. This was explained in the end of the year and this increase is showing this difference and it was 1.3% inferior to that recorded in the First Quarter of 2011 because of the work we had carried out at that time.

And our net consolidated equity is BRL78.455 billion.

What I can show you about the improvement in NOR and PMS in the next slide, in the consolidated results, in 2011 we have BRL7.1 billion and we went to BRL8.2 billion. And the PMS was from BRL1.7 billion to BRL1.8 billion, demonstrating that personnel had a growth of 9.1%, material from minus 14.2%. And services 5.7%.

So, comparing this evolvement in the consolidated, the contribution of PMS on NOR, it was 24% in the First Quarter of 2011 and 22% in the First Quarter of 2012.

Now, separating the results into the results of the generating and transmission companies, we can see that the net operating revenue we had BRL5.1 billion. We went to BRL5.7 billion. So there was an improvement.

Furnas was BRL1.7 billion to BRL1.950 billion and this result improved because of the increasing revenues with new contracts, especially the Santa Cruz contract that improved availability and improved BRL90 million in our revenue.

Chesf had an improvement -- increased the revenue because of the trading of short-term energy and the profit was at the same level because of the prevailing (inaudible) and because of the financial results.

Eletronorte had an improvement also, however we had a provision of BRL49 million from (inaudible), as well. And the financial result was worse in BRL21 million, with some effect. This did not happen in the previous quarter.

Eletronuclear had a drop in NOR because of the reduction in supply in Angra 3 because we had a stoppage that occurred from in February and March.

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Eletrosul had a worse financial result because of the monetary adjustments to open the capital. So, there was a BRL75 million worsening in the results. But it's from AFAC.

And CGTEE had worse also, because of the cancellation that we had. We are reviewing and we think that during the year we're going to reverse that. And so for resale, now the liquidation of -- the price of liquidation and difference because of this cancellation, we had to put it to the market to make it available. Because of that, the result of generation and transmission companies, it was BRL967 million in 2011 and it's BRL910 million in 2012.

Distributors -- the distribution companies, although the result is negative BRL273 million in 2011, however there has been improvement in all companies, apart from Alagoas because of the increase in the tariffs and improvement in the operational -- in the net operating revenues. It went to negative BRL59 million and all the results are improving and we have continuously explained and communicating it to the market.

The total consolidated assets are BRL165 billion. For the assets' part we can say that we have fixed assets that are 36%. Almost all are generation assets. 30% are financial assets apart from the concession companies, therefore, long-term assets. So, these are the most significant ones.

And from the value, almost BRL16 billion are the things that we have available.

For liabilities, the stockholders' equity, 48%. And we have debt -- I will explain that throughout my presentation.

Our consolidated financing, our debt, is BRL43 billion and we have to note our net debt. So our debt is BRL43.4 billion. But out of it is RGR. So if we remove the consolidated financing without RGR, BRL34.9 billion. In cash and securities we have BRL16 billion. And we have also receivable financing and those without RGR, then we have BRL6.1 billion. So, there's BRL43.4 billion turning to a net debt without RGR that is BRL12.8 billion. So, we have a leverage capacity.

Our capital structure is BRL31 billion and we can see the common and the preferred shares. But I'm going to talk about the total capital. 40% is from the federal government, 14% BNDES, 7% BNDES. And 32% from the market. 9%, sorry, are residents and 22.9% non-residents.

You can see the comparison between 2012 and the same period from 2011. Shareholdings, we went from BRL956 million to BRL1.083 billion. We improved the capital of our (inaudible) or connected companies.

Itaipu transfer I already mentioned from BRL634 million to BRL706 million, because of the American inflation and exchange rate.

Net financing revenues we were BRL682 million, now it's BRL572 million because of financing and interest rates.

Net monetary correction, the (inaudible) contracted to IPCA or other types of contracts, we went from BRL150 million to BRL235 million.

Net currency correction from BRL223 million to BRL216 million.

And the charges of shareholder resources it has decreased and the tendency is for decrease. It went from BRL365 million to BRL198 million because of the liquidation of the parts of the retained or withheld dividends and the last part we're going to pay in June this year. And this had to be corrected according to SELIC rate. We have one more to pay and this will be decreasing the expenses that we have with SELIC correction.

These are others from BRL397 million to BRL693 million and the taxes from BRL152 million to BRL221 million.

And so our profit was BRL1.285 billion in 2011, BRL1.267 billion in 2012.

Also, we can mention our financing. Our assets are BRL27.2 billion and BRL20 billion are our own resources and the average rate is 7.6%.

For the liabilities, we have BRL18 billion in debt. I already said that we have the counterpart of the assets and we have BRL9.1 billion, which is compared with the BRL20 billion that I have from my own resources. So, I have BRL9.1 billion to pay.

My -- for the assets, my average rate is 7.6% and for the payable, it's 4.8%, the average rate.

Here we have BRL14.4 billion receivables in reals. In dollar -- US dollars we have BRL12.3 billion and it's self-explanatory.

For the parent company financing, it's BRL18.1 billion. In the same way that we did for the net debt, removing the RGR, then the financing is BRL9.1 billion. In our cash plus securities, we have BRL10.4 billion. The receivable financing without RGR is BRL20 billion and so the net debt without the RGR is minus BRL21.2 billion.

After this brief presentation, I know that all analysts know very well this. So now I am available for questions and answers. Okay?

## Questions And Answers

### Operator

(Operator Instructions) The first question is from Leonardo Brojes [ph] from Eletrobras. Leonardo, you may proceed.

## Q - Leonardo Brojes

Good morning. I have two remarks. Actually, a question and a remark.

The first question is, the interest on capital that has been regularly paid from ONs has increased progressively and I think about three years ago I read a service order from Eletrobras to the shareholders that there was an idea to make this dividend equal to OPN. It was 1.6 and it was 1.2 or 1.8. So, do you have this idea of making it equal interest rates and dividends on your own capital?

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

No, Leonardo. The common and preferred stocks have different characteristics. They have a fixed dividend of 6%. If we increase the result of the Company, then we can say that we are going to, perhaps on the way, an equal distribution between ON and PN. But PN has a 10% remuneration that is higher than the ON. So, the possibility of making them equal does not exist.

## Q - Leonardo Brojes

But it was 0.4 to 2.8 (inaudible) .12. So the idea is that it's going to increase, right?

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

Yes.

## Q - Leonardo Brojes

The second question -- actually, it's a remark, for the market to consider the high level of the Company in terms of disclosure, in terms of profit, that has been presented because the exchange rate is profit, future capacity, the power, future prospects. And the different (inaudible).

So, we see the analyses that are communicated by the Company but it's open in the way that it treats for shareholders and that's very positive. But when we see the analysis in Bloomberg and the media overall, the analyses are always negative, looking for negative things at a point where Brazil has a strong economy and there is a huge crisis, especially in Europe. And that Brazil can bring resources to make our companies grow, we should not be pessimistic, neither totally positive. But we also should talk about positive things as the Company has been doing.

Another example that I want to give to show that my thinking is right, ON is now less than 20% of the equity value. In the world, you're never going to see a company that is the leader in its continent in energy, in energy generation, with face value.

So. And there is one other thing that I want to mention. Petrobras, which is one of the greatest companies in the world in market value is lower than an oil company from the equator. It's a company that is strong there. But in terms of globalization, we should counter that. We should not turn against our companies.

The world is moving globally a very difficult situation. So, we've got to think about that. Thank you, very much for your attention.

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

Thank you, Leonardo, for your question and for your remark.

## Operator

Next question, Adolfo, shareholder. Please, Adolfo, you may proceed.

## Q - Unidentified Participant

Good morning. I want to ask a question. Why is there such a difference between the preferred stock A and B?

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

Armando here, Adolfo. The preferred A is an old stock and it's no longer issued. You can only buy now common and preferred stock B. The A has a minimum dividend of 8% and the B has a 6% dividend. So, in our statute it is (inaudible) that the first calculation is done according to the preferred. So we calculate the dividend of preferred stock A and B and the balance is sent to the common stocks.

So, as the profit of the Company increases, then we have a greater volume given to the common stocks until these -- when these -- so that they get to the same level of the preferred stock B, 6% of the capital.

Then the dividends that are left to be distributed are linearly distributed around the classes of stocks. And we always guarantee that the preferred stocks will have at least 10% more than the common stocks in dividend per stock.

Because of that, the preferred stocks A have a price that are not the same as the other stocks of the Company, because there is a very reduced amount of the stocks, it has no liquidity. Sometimes there are many months without any type of operation. So, they don't follow the same parameters.

It's 0.2% of the liquid capital. It's a very small amount of stocks. So, it's better to buy preferred stock B. When you buy common stock or preferred stock B, you have the guarantee of liquidity. When you want to sell that somebody will buy it.

If you are able to buy preferred stock A, which is not easy, the time that you want to sell, maybe there is no one to buy it. Sometimes you may want to sell it for months and you cannot find a buyer because it's 0.2% of the capital, it has no liquidity in the market. So it's not part of our international negotiations.

In the New York Stock Exchange ADR program or in the Madrid Stock Exchange the preferred stock A is not listed, just the preferred stock B and the common stocks. It's only

in the Sao Paulo exchange.

### Q - Unidentified Participant

Wait. A solution that I want to give, I don't know if it's possible in CBM market, if we have two, three, five thousand stocks of the preferred B and we just annual dividends, is there a way to give a prize or a premium to those that are not manipulating stocks in the market. But actually these people believe in the Company?

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

We cannot do that. It has to be the same for all.

### Q - Unidentified Participant

Thank you, very much.

### Operator

(Operator Instructions) Next question is from Lillyanna from UBS.

### Q - Lillyanna Yang

It's Lillyanna from UBS. Thank you, very much for the opportunity. I have two questions.

First, when do you think the government will renew or not the concession and when do you think you're going to have details on the terms of this renewal? And does it make sense to remove the inflation index from the energy price in the contract?

The second question is, can you give an idea of the return of the projects that you have, such as Belo Monte and Angra 3? And the scenario that we have for lower interest, do you think you're going to have a lower return from the projects? Thank you.

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

Lillyanna, thank you for your questions.

As for the renewal of the concessions, I had the opportunity of telling this in other calls. But we have -- we are going to present the business plan. We have different scenarios that we are producing internally. These are expectations that we have. Of course, these are just studies, because we are waiting for the concession to be renewed and we know that there can be reductions to us.

We don't have the definition. We have a great expectation from what we could see. Yesterday in the press, there has been many things talked about that it would be now in the second semester of the year. But they also mentioned that it would be the second semester of last year. So it's difficult to talk of when this is going to happen.

And I'm as anxious as the market, because we want this definition. This is important to us because there are many consequences that it will give to our Company.

This business plan, we are going to communicate it to the market. But we are preparing it so that when the concessions finish in 2015, we are prepared according to the different scenarios that we have prepared. So, this is an expectation.

A Financial Director of a company such as Eletrobras will have many assets that will be touched because of this. So, it's difficult not to have this information and we get very anxious because we don't have them. But we are preparing ourselves to be able to face the situation.

Then the index of the prices for energy contracts, now we have in the distributors Part A, B. And Part A of resources. We cannot place revenue that is not adjusted, either because of cost, because we need to have something that preserves the cost values, that preserve a revenue that can place the costs.

So, there was talking about the -- that there would be differences in the contracts. But there should be a rule so that we can adjust revenue to the costs. This is a natural path for me.

And the return of our entrepreneurship or our investment at lower interest, our costs are a function not of cost. But of financing. So, we always reveal the capital costs and we count that the interest may increase or decrease and we review that to see what will be the costs.

### **Q - Lillyanna Yang**

Could you give me an idea of the return that you will expect from Belo Monte and from Angra?

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

I said that we had capital costs of 8.5%. When we take all our investments, our expectation is that we want to preserve this profitability.

### **Operator**

Next question is from Sandra from Deutsche Bank. Sandra, please, you may continue.

### **Q - Sandra Boente** {BIO 1511861 <GO>}

Thank you. Good morning, Arlinda, Armando.

My question is regarding operational costs. It had a very positive performance in the First Quarter. I want to know if this cost reduction in PMS, especially, that you had in the First Quarter, the percentage of the revenue and the absolute value compared to last year, do



you think this is sustainable for the rest of the year? Do you think this could be a new level that we can consider? Or do you think this was a punctual issue for this First Quarter?

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

Thank you, very much, Sandra, for your question. It's an important question to us.

The effort that we have carried out in costs in personnel, material. And services has been huge. So, the companies don't have any more a service-providing contract. As the contracts are finishing, we are reducing the costs. That's our orientation. We don't want to increase these costs.

As for personnel, we have had greater control on extra hours and we have reducing costs on the remuneration or wages and, at first, we had a permanent reduction. We had the resignation program in all companies. In companies that we don't have this program, we're going to put it. And we have been discussing costs all the time.

So, I can say that we are going to have this new level. But we have also seen that this does not occur overnight. So, the goal is that systematically we improve costs.

It's not punctual. We have repeated results. The last two results showed this decrease. We want to keep that. We have a meeting of the presidents of companies and the item is one of our -- one of the items of agenda is cost reduction. We have a fixed agenda to discuss some points and cost reduction is one of them.

**Q - Sandra Boente** {BIO 1511861 <GO>}

Thank you, very much, Armando. Thank you. Good luck with your program.

**Operator**

So now, this concludes the question-and-answer section. So, I'd like to turn the floor back to Mr. Casado de Araujo for his closing remarks. Please, Mr. Armando.

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

So, we have reached the end of our presentation. I think that the questions are very important. They are the focus of presenting our results. The questions about the renewal of concessions, return, lower interest, also shareholders' concerns with the profitability, the issue of costs that Sandra asked. These are things that every quarter we will have to show all of this.

We know about the concerns and now I'll go back to my base, to my Board. I'll talk about the main concerns that you had, because we have a commitment of improving all the time.

So, I'd like to thank you all and I want to leave an open channel. You can talk to me, to Arlinda, who is from the Department of Investor Relationship. And we want to improve

our level of information to you.

Thank you, very much and have a great weekend.

## Operator

This concludes today's presentation. Thank you, very much for your participation. Have a nice day.

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