



Eletrobras

3Q24

Conference Call Transcript

Conference Call – 3Q24 Results

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START RECORDING

Operator: Good morning, ladies and gentlemen. Welcome to Eletrobras' Q3 2024 Earnings Conference. Joining us today are CEO, Mr. Ivan de Souza Monteiro, Finance and Investor Relations VP, Mr. Eduardo Haima, Operations and Security VP, Mr. Antonio Varejão de Godoy, Governance, Risk, Compliance and Sustainability VP, Ms. Camila Araújo, Strategy and Business Development VP, Mr. Élio Wolff, Sales VP, Mr. Ítalo Freitas, Innovation, R&D, Digital and IT VP, Mr. Juliano Dantas,

Legal Director, Mr. José Eduardo Guimarães Barros, Supplies and Services VP, and Interim People Management and Culture VP, Mr. Renato Carreira, Expansion Engineering VP, Mr. Robson Pinheiro de Campos, and Regulation, Institution and Market VP, Mr. Rodrigo Limp.

This event is being recorded and will be available for replay at the Company's Investor Relations website, where the slide deck for this presentation in both Portuguese and English can also be downloaded. If you need simultaneous translation, the feature is available under the globe-shaped icon labeled Interpretation located at the bottom side of your Zoom window. For the question-and-answer session, if you have a question, please state your name and the name of your company using the Q&A button at the bottom side of your Zoom window. As standard practice, your name will be announced so you can ask your question live, and a request to activate your microphone will pop up on your screen. Alternatively, you may also submit your question in writing, also using the Q&A feature, and your question will be read out loud by the operator.

Before moving on, we'd like to state that any statement made during this conference, in connection with business prospects, projections, operational and financial targets, are based on Eletrobras' management beliefs and assumptions, as well as information currently available to the Company. Forward-looking statements are no guarantee of performance, seeing as they involve risks and uncertainties and, therefore, rely on circumstances that may or may not materialize. Investors must understand that general economic conditions and other operating factors may affect the results expressed in said statements.

Now let me turn over to Mr. Ivan Monteiro, the CEO of Eletrobras, who will begin the presentation. Mr. Ivan, please proceed.

PRESENTATION

Mr. Ivan de Souza Monteiro – President of Eletrobras: Thank you. Good morning. I'd like to thank everyone for joining us for the Q3 2024 conference, and I'd like to begin by talking about our budget for 2025. For the Executive Board, this will be the end of the more significant adjustment in Eletrobras' budget, and we will continue to see the incessant search for better operational efficiency. For the first time in Eletrobras' 60-year history, we'll have the freedom to manage its costs in full, after the discussions that occurred in the Collective Bargaining Agreement. This was imposed by regulators and is an effort to improve Eletrobras' participation in the auctions that we are already participating in, as well as improving its competitiveness versus our competition in the search for new clients. We also like to reinforce our commitments to reach a PMSO in 2024 below R\$ 7 billion, below the R\$ 6 billion in 2025 and close to R\$ 5.5 billion in 2025. From a company that had no focus on the customer to one that supplies real solutions to them. The team, processes and commercialization strategy are already operating under this focus.

The funds raised over the years of 2023 and 2024, diversifying our fund sources, some of them

unprecedented, consolidates a strong cash position, allowing us to build alternatives for future capital allocation, in particular to support the substantial growth of our CAPEX. The management of our compulsory loan in the last few quarters, focusing on the definitive resolution of a set of legacy items, seeking to definitively mitigate non-recurring events in future quarters.

We now operate as a fully integrated company, under a central management with four subsidiaries with diversified strategies, without a priority hierarchy, and a structure that was deeply bureaucratic and with a fully hierarchy based. In the management of the Company's more than 86 thousand equipment, we are now using the best technology available, artificial intelligence, machine learning and everything else that's available to us for fully efficient management of all our equipment. Partnership to acquire knowledge, to acquire new technology, institutes and companies will shape Eletrobras into the future.

I will now turn over to our CFO, Haiama, who will detail our results in the Q3 of 2024.

Mr. Eduardo Haima – Vice President of Finance and Investor Relations: Thank you, Ivan. Good morning, everyone. So moving on to slide four, as Ivan said several times, I just wanted to reinforce that the Collective Bargaining Agreement that we signed has allowed us to enter a new dismissal program and will allow us to continue to streamline our structure.

Last quarter we had already incorporated Furnas, and this is the first one where results are being positively impacted by the merger. Also, during this quarter, we have already signed the exchange of the counterpart in the thermal power plants, which were previously with Amazonas Energia and are now CER's contracts, reserve contracts. We concluded in a secondary operation the operations with Cteep, and financial operations as we said earlier. We've virtually continued all our funding with nothing left for the next few years, and we'll continue to carry the legacy that we have for the future in our compulsory loans as well.

In slide six, moving over to the streamlining of our structure, our recurring operational expense is still in the level of R\$ 1.7 billion, up 7% over the 2Q and 1% versus last year. It is important to mention that within this R\$ 1.7 billion, we have more or less R\$ 74 million that were highlighted, which was the insurance for the contract that was renegotiated from the Tucuruí GSF of R\$ 74 million. This was an ACR contract, and next quarter this is a cost that will no longer impact our results.

Another important thing, when we compare Q3 with Q2 in terms of costs, because of the Furnas merger, several costs were deferred, specially from Q2 to Q3, so, perhaps the best way to look at our costs this quarter is to look at an average of these two quarters, if you think about the normalization.

Lower on the chart, we see the number of employees at the Company with a downward trend compared to the previous year, a slight increase compared to 2Q, but with the PDC this downward trend continues again.

On slide seven, the financial solidity as I said, we made huge funding efforts to make the most of this time at the market, raising over R\$ 22 billion this year alone. And with that, considering the R\$ 5 billion fundraising that we had in October with our debentures and what Ivan mentioned as well with Sace, which is an Italian export agency, we should end year with about R\$ 37 billion in cash, which would be about five years of debt amortization. This is a very comfortable place which allows us to navigate any volatility that may come our way, and also accelerate our organic CAPEX program.

On slide eight, diving a little bit deeper into our compulsory loans, as we said, this quarter alone we've reduced our liability by over R\$ 1 billion, bringing an additional discount of approximately R\$300 million, but this R\$ 1 billion reduction in probable wins, we also decreased those which we call off-balance debts with another R\$ 750 million give or take in off-balance disposals.

Now a little bit of our ESG agenda on slide nine. When it comes to the E pillar, it's important to state that we received permission to operate the Coxilha Negra wind farm, that's in the state of Rio Grande do Sul. When it comes to transparency, we are now publishing more reports on what we do on several different fronts, whether with our Holding, our CGT, in biodiversity terms, and also when it comes to innovation and technology. And under governance, we report that we've created our social and environmental commission, which is linked to several different vice presidencies within the Company.

On slide 11 we talk a little bit about our energy balance. It's important to state that this quarter we continue to move forward in our long-term strategy, which is to bring end customers to our customer base and therefore sell more energy over time. We believe we've been managing our power portfolio really well, so much so that this quarter there were a lot of people concerned about whether there would be availability in the short-term market, but we were very comfortable and ended in a very positive position going into Q4, and also to 2025 and beyond.

On slide 13 we talk a little bit about what happened this year and especially in the second semester. The chart on the top left-hand side, we look at the affluent natural energy in the last few years, so you can clearly see that the levels were very positive in 2022 and 2023, which led to a lower price as you can see on the bottom chart, but the situation has changed significantly starting in June in terms of prices, and that was much because of the expected rainfall levels in the second half of the year. And we believe this price volatility is now a constant, and the constant monitoring of these changes has significantly benefited us, allowing us to position ourselves whenever we see an opportunity.

On slide 14 we talk about something that was seldomly discussed until last year. We talked about it in the first half of the year, but it was a small impact, but now in Q3 and Q4 it was very significant, which is what we call modulation. Now, considering how the transmission of energy behaves over the course of the day, there's also an impact on the spot price over the course of the day. Now because our portfolio is around 90% composed by hydropower plants, we are absolutely exposed

to this shift in prices.

Now how does that translate into revenue? In a scenario where there would not be this volatility in hydroelectric generation throughout the day and in price throughout the day, if it is generated on average, and the price is always on average during the day, what would we have? We would have a revenue that would be nothing more than the multiplication between the volume and the average price, which in the table on the right, is basically this revenue that we give, the daily revenue would be R\$ 421 million. But because of these fluctuations in both generation and prices, and you have to calculate prices every hour, our revenue would ultimately approach R\$ 431 million. The modulation effect is basically this difference. In our case, we understand that it should always be from zero to positive, but there are other sources that embody a certain risk, which can be very negative.

Now what would be the premium to hydro plants? In 3Q, where the fluctuation was still small, we would see a difference of close to R\$ 3, around R\$3 to R\$6 premium for the hydro plants. Now for October the gain was close to six times that of the 3Q. This is just to show you the impact that this volatility will have on our results moving forward.

On slide 16, for the financial highlights, this quarter we had the renegotiation of the Tucuruí GSF, which brought a revenue close to R\$ 1.3 billion. Also, because of our purchase agreement with the thermal plants, with part of the energy being sold to Amazonas, and because the contract is being honored, we have been able to reverse close to R\$ 400 million in provisions that we had in 2Q because of those sales.

We also recognize the revenue of close to R\$ 6 billion from transmission in IFRS, and in profit terms that would be close to R\$ 5.4 billion. We've already talked about the reduction due to compulsory loans and the liability management.

On slide 17, the highlights as mentioned before were the revenue from the renegotiation of the Tucuruí GSF, and a decrease in the transmission revenue, because of the periodic tariff review. Part of that disappears by July of next year. On the EBITDA, in addition to the impact of that revenue and the cost that came in line with last year, we saw some gains because of those provisions for our receivables with Amazonas was reversed. And lastly, with the reported income, I'd like to say that of the R\$ 7.5 billion in net income, R\$ 5.4 billion comes from that re-measurement of the assets base due to the tariff revision.

On slide 18, where we talk about our PMSO, for comparison's sake, because in the previous year we had not calculated the estimated PLR expense over the following quarters, in the same quarter of last year we calculated what that expense would have been so that we could calculate the average for this year. So, what we call IFRS adjustment, we include that effect. Our personnel costs have been coming down also because of adjustments we've made in recruitment since the privatization. In the service line, as I said, comparing not with Q3 of last year but with Q2 of this year, some

initiatives have been delayed because of the Furnas merger, and in the other line we've concluded the revision of all our core deposits, with a net impact of R\$ 64 million, but part of that entered in other expenses of the PMSO, and part of that was recognized in provisions and contingencies, which were still in the line but had already been paid in the previous period, and also monetary corrections for those financial deposits write-offs, which were booked on financial expenses. Lastly, within this R\$1.692 billion there is an insurance cost for the Tucuruí GSF of R\$74 million which disappears from the 4Q onwards.

Now in provisions, I think I've mentioned nearly all of those that you see on the screen. Reminding of the R\$ 300 million write-off that we had because of the compulsory loans and also the contingencies in connection with the deposits, these are the main highlights. All the rest is much more in connection to last year than this year.

That being said, I think we can move on to the question-and-answer session.

Q&A SESSION

Carolina Carneiro - Safra: Hello everyone, thank you for your conference. I have two questions, the first one about your costs. We can see the development in year over year terms, but there's still some volatility if we compare for example the PMSO this quarter with that of last quarter, and because you've talked about this dismissal program, can you give us some color on what is recurrent quarter over quarter and maybe what we could expect in terms of the trend for the next few quarters.

And my second question is about the energy market. Looking at your energy balance, we know there's a strategy for maybe not be 100% exposed in terms of what you've sold in energy, but a few companies in the industry have reported several energy balance reports with significant sales between 2026 and 2028, with high prices, around R\$ 170 to R\$ 180 a kilowatt/hour, in line with what you reported this quarter. So could you please talk a little bit about whether there were moves in terms of sales for longer periods beyond 2025, and whether this level of prices that we saw for other companies is consistent with what you're seeing in your future contracts. Thank you.

Mr. Ivan de Souza Monteiro: Hi Carol. Good morning.

Well, I think we made it clear with regard to PMSO, the downward trend that we believe to be consistent. We have innumerable examples of the strategy that we're adopting here at the company and you should continue to believe in that strategy, but the figure that we just reported below R\$ 7 billion for this year and below R\$ 6 billion next year, and about R\$ 5.5 billion in 2026, that should be the level that will be in the budget pieces that we will be submitting to our Board of Directors. These are unrelenting commitments for the company, we believe these to be absolutely achievable.

Now as to our operation in energy sales, I'd like to turn over to our Vice President.

Mr. Ítalo Freitas: Hello Carolina. Well, in the near term, we were really able to leverage that fluctuation in prices that we saw in the last quarter. We have been expanding our client portfolio to over 700 clients, and in the long term obviously volatility should be smaller, but it is important to state that Brazil is undergoing deep changes in the energy industry, and there are substantial challenges relative to the intermittent variables. These renewable sources are facing more challenges to be incorporated in the medium to long term, and this push prices up. So, you do not have the same number of projects that we've had in the last 10 years being planned for the next five or six years. Now why is that? That's because this type of generation, which is intermittent as the name itself says, has been considered because of that modulation, but it involves other challenges, such as *curtailment*, a famous word already, with a heavy impact on those variables as well as the costs of implementation, CAPEX and OPEX, which have been bringing implementation difficulties for this type of energy sources. So this puts pressure on the price as a whole in the market, with an upward bias.

Ms. Carolina Carneiro - Safra: Thank you everyone, that was very clear.

Mr. Bruno Amorim - Goldman Sachs: Good morning, everyone. Thank you for taking my questions. I'd just like you to talk a little bit about your prospects for investments in reinforcements and improvements. If you could please confirm the figure expected for 2024, and if that's consistent with what you expect for the following years. And also, if you could talk a little bit about the regulatory process to approve these investments, how's that been developing and what do you expect for the future?

And in connection with that, what's your take on the trend with equipment prices? I understand that you have a very important advantage by being the largest transmission player in the country, so you're obviously competitive, and I understand that you also benefit from that when purchasing equipment. I just wanted to understand what you're seeing in terms of equipment costs because of the depreciation of the exchange rate. We are seeing other players, which sell those equipments, reporting strong margins, so I just wanted to understand what your prospects are when it comes to your profitability in that sense.

Mr. Ivan de Souza Monteiro: Bruno I'll have to activate three different VP's starting with Élio, who will speak about capex, reinforcements and improvements. Then Limp who will talk about regulations, and we'll end with Renato who will talk about the equipment prices.

Mr. Élio Wolff: Hi good morning, everyone, thank you for your question, Bruno. First of all with regard to volume, in the last few years we've seen a trend moving closer to 2 to 2.5%. This year we should go over 3 billion, which is obviously a sign of our evolution, and for the next few years we see the potential to execute even more. And it's not just about getting the volume, but having it

well done, and we wanted to be commensurate with our ability to execute it.

Now to your second point in the issue of the approval of our improvements, we have a very interesting backlog with possibilities that we're working with alongside engineering, working primarily on the issue of safety. We have to preserve our assets and that obviously involves appropriate compensation, so what we believe is that the regulator has been seeking to encourage us to invest more and to catalog more investments so that we can do more, grow the system and improve our operation, so we see a lot of room to grow still in the next few years.

Mr. Rodrigo Limp: Good morning, everyone. Good morning, Bruno. I just wanted to add to what Élio just said. In transmission, there's very consolidated legislation, specially in terms of reinforcement and improvements, both large-scale and small-scale, with some been previously authorized and other when it comes to the agents identified needs, obviously following all the feasibility analyses, which include tariff revisions. This quarter we've just concluded the tariff revision for the 2018-2023 cycle. We've recognized the investments and are already working for the 2028 revision cycle, kickstarting the regulatory base management so that we can improve our process to recognize our investments considering the regulatory rates determined by the regulatory agency.

Sr. Renato Costa: Good morning, Bruno. So, demand remains high in the market, yes, there is an upward trend in costs, both because of raw material, which is still going up, but also the increased demand for material and the lack of productive capacity from our producers or manufacturers. Even though there's a lot of investment, investment is not taking place at such a fast pace, so they cannot build more plants and increase the supply.

We also have the economy of scale because of the demands for the entire group, and we are adopting long-term contracts to buy these pieces of equipment in combination with the operations, engineering and supply areas, and identifying what types of equipment for generation and transmission we can already purchase for the long term, sometimes conducting spot purchases so that we can better manage these assets that put pressure on our CAPEX and be able to ensure a profitability from other projects as well.

Mr. Bruno Amorim: Thank you.

Mr. Marcelo Sá - Itaú: Hello everyone, thank you for your conference. I have a question about your collective bargaining agreement. You mentioned that 65% of your associates adopted, and I remember there was something in Furnas and CHESF, but I don't know if approvals have already come or whether it came only from Furnas, and I also wanted to understand what the non-acceptance of that agreement implies, because associates outside of that agreement will also miss out on a few of the benefits that Eletrobras offers, so it might be detrimental to them to not be part of the agreement. And also, whether the Company could maybe fire those at any point. I just wanted

to have that very clear. Thank you.

Mr. Ivan de Souza Monteiro: Marcelo, let me turn over to Renato, who'll take your question.

Mr. Renato Costa: Hi, Marcelo. About your first question, about two thirds of our associates who agreed, including CHESF, which was a group that signed later. We have the CT rules for 64% of those jobs. You're right, there's part of Furnas and the Holding that's still outside of that agreement. They understood that the previous collective agreement has already expired, so that basis outside the agreement they are under the CLT agreement. So, they are entitled to the benefits under the CLT agreement.

We offered a very advantageous agreement to those employees, but that group decided not to participate in the agreement. But right now, it's still business as usual, we are replacing employees and using the assets along those lines, part of that being under the CT agreement and part of that under the CLT.

Mr. Marcelo Sá: I just wanted to understand that the collective agreement represented an increase of about 4% in real terms. Is that what you offered? And why did the group from Furnas not agree? Could you talk a little bit about what the pushback was and why they didn't enter the agreement?

Mr. Renato Costa: Well, the adjustment and the benefits we offered with the CT agreement includes the adjustment for inflation only for the operational base. What was agreed for anything that's above R\$ 6,000 of compensation, you do not need to adjust for inflation either your salary or the other benefits. And that goes to what Haiama said.

Now according to the situation, a lot of people felt close to the agreement in its current state, but the door is still open to talk to those people and make the necessary adjustments. But for the time being, they do not seem to be willing to adopt or to enter our agreement and we also have no plans of changing the agreement that we have on the table.

Mr. Marcelo Sá - Itaú: Okay, thank you.

Mr. Guilherme Lima - Santander: Good morning, everyone. I have two questions. First of all, I just wanted to go back to Carol's point about PMSO. You mentioned R\$ 5.5 billion by 2026. Now looking at the figure you were reporting back in 2023, correcting for inflation, it seems similar with the previous period guidance. So, I just wanted to understand whether you've looked at that prior figure and then consider that that would be achievable, or could you maybe look at an even prior one and give us maybe a figure that's different from those R\$ 5.5 billion in 2026.

My other question is about your sales strategy. In fact, about the market at all, we have been hearing about the growing risk of delinquency, and I just wanted to hear whether you see that risk spreading across the market. Could that affect your negotiations, especially with regard to the energy prices

that we've seen in the last few days? Could you please talk a little bit about that?

Mr. Ivan de Souza Monteiro: Thank you, Guilherme. About our PMSO trend, we always encourage you not to look at changes quarter by quarter. Non-recurring events might take place in many cases, which is why it's important to look at the trend as a whole. So, provide that information about that trend is what's important. I just wanted to remind you that the figure that we provided in 2023 is a nominal figure and it has to be adjusted for inflation and other effects which is nowadays not only a privilege to part of the world. Many parts of the world have experienced peaks in inflation, so I also like to tell you that our commitment to going back is not based on merits or history but based on new initiatives that we're introducing every day to have simpler and more efficient processes. So, this is a trend that will be discussed along the next few years, and my impression is the figure that we can deliver seems better, but we did not want to commit to that right now, but our feeling is that it could be better.

About sales and marketing, I'll turn over to our vice president in charge of that.

Mr. Rodrigo Limp: Thank you for your question, Guilherme. Yes, over the last few weeks or couple of months, we have seen some volatility in the market, and a few companies go through more critical situations when that's the case. We have seen and are seeing that and that's characteristic of a market with this type of volatility. It also offers the opportunity for this market to grow even more. Now we do not expect any impact going into the future from this issue in particular, looking at our prices, but rather a combination of several different factors. We are not exposed to these companies which are struggling at this point, and the very few that we are working with, we have renegotiated our rates with an actual interesting haircut.

Eletrobras works with a very healthy counterpart range which is very consolidated in the market, and what we are seeing is that this might be the beginning of the energy market growing more mature here in Brazil.

Mr. Ítalo Freitas: Thank you. I just wanted to quickly add and talk about the importance of safety in the market, which is an issue that's spearheaded by ANEEL and CCEE. Of course, there's a lot of work to do, but we have made significant headway, especially with the work that CCEE has done monitoring the market. In terms of greater volatility, it obviously makes players more trepidatious, but this also has to do with the regulation that has evolved in the market, which is very important especially when you look at the new horizon for the free market with new measures such as the Ordinance number 50 that was issued this year.

Mr. Guilherme Lima - Santander: Thank you.

Operator: This concludes our question-and-answer session. We'd like to turn over to Mr. Ivan Monteiro for the Company's final remarks.



Mr. Ivan de Souza Monteiro: Well, once again, we'd like to thank everyone for joining us and also say that our finance and IR teams are available for any further questions.

Operator: This concludes Eletrobras' Q3 2024 earning conference. Thanks everyone for joining and have a great day.