

Mantega and Lobão to decide on Eletrobrás debts

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The Minister of Finance Guido Mantega and Edison Lobão, minister of Mines and Energy, are in charge of deciding the Eletrobrás debt of R\$ 8.5 billion, for dividends not paid to the shareholder since the 80's. There was no agreement during the technical discussions between both ministries. The debt, restated according to the Selic [Special System of Clearance and Custody] rate is recognized by Eletrobrás in its balance sheet.

Eletrobrás proposes to pay the unpaid dividends, but it must be followed by a capital increase, in such way to reduce its cash flow impact by virtue of the disbursement. "We will reach a final resolution within ten days", said Minister Edison Lobão, who will accompany President Luiz Inácio Lula da Silva in a trip to Central America. Although an agreement has not been reached, the minister denied any conflict between both ministries. The purpose of the government is to start paying the dividends still in 2008.

According to the agreement presented to the Public Treasury, it is practically decided that the minority shareholders portion shall be fully paid in cash, but in installments along 10 years. The minority shareholders are entitled to receive R\$ 1.8 billion from Eletrobrás, and the state-owned company evaluates that "there is no way out" for that portion of the debt, according to a source from the government who is closely following the negotiations. Some of those minority shareholders already brought a suit to the Court, such as the American funds manager Brandes Investment partners, which holds 8.23% of the voting capital and more that R\$ 500 million receivable.

In the evaluation of government members, to postpone a resolution shall place difficulties to the Brazilian company before the Securities and Exchange Commission (CEC, the American CVM), because the accounting treatment in the United States is different of that adopted in Brazil. For that reason, the settlement of debts owed to the minority shareholders must be made "in cash and as soon as possible", although there is an expectations that the resources shall be refunded – at least partially – by the subscription of new shares which shall be issued through a capital increase.

Another important shareholder is BNDES (National Bank for Economic and Social Development), which holds R\$ 1.6 billion in retained dividends, That portion, according to the agreement under discussion, must be converted into a new share participation of the bank in the state company. BNDES already holds nearly 20% of Eletrobrás common shares, and would increase his portion in the state company by five to 10 percent, depending on the arrangement to be reached. In that line of discussions, the tendency is to reach an agreement involving short or no new money.

The most complicated issue is faced in the conversations between Eletrobrás and the Treasury, which holds 54% of the voting shares and R\$ 5.1 billion receivables for unpaid dividends. On one side, the Management of Eletrobrás insists on reducing the debt to the maximum possible through the subscription of shares by the Treasury itself. That is, the state company pays the dividends but the money returns to the same cash through a capital increase. The Treasury would receive the resources on one hand and would return the money to Eletrobrás with the other hand.

The proposal faces the resistance of the Treasury Secretary, Arno Augustin, who alleges the need to use the payment in cash to support part of the tax collection lost with the end of CPMF [Tax on Financial Transactions]. According to sources, Augustin

requires that at least 20% of the dividends – something close to R\$ 1 billion - be effectively paid in cash by the state company. But this is only the beginning of conversations and the Treasury prefers to reduce to the minimum the exchange of credit for a higher share participation in the company.

On the other side, Eletrobrás is interested to maximize the exchange of the debts for shares, in order to avoid affecting its investment capacity. In March, the power company won the status of “Super state company”, resulting from the approval of a Provisional Measure authorizing its participation in foreign investments and allowing the company to operate as a major shareholder jointly with private companies, to compete for new power plants. That new status already led Eletrobrás to sign agreements for the construction of a hydroelectric power plant in Peru and to study generation project in countries as Argentina and Bolivia. The state company needs money to carry forward all those operations.

Another priority of Eletrobrás – and also one of Lobão's priority heading the Ministry of Mines and Energy – is to recover the seven federal electric power distributors. The management of the state company says that the solution for the pending unpaid dividends making the largest portion of the payment in cash, may reduce those efforts, as well as the investments needed to expand the power generation, even considering the issues estimated for the upcoming months. The dividends payment improves the funding capacity of Eletrobrás in the local and foreign markets, however, the issue of debt shall not be sufficient to support Lobão's new plans - under the guidance of President Lula - for the state company.

Eletrobrás also uses a fiscal subject in an effort to convince the Treasury. Last year, the company – without including the federal distributors which are presenting losses – contributed with R\$ 2.5 billion for the primary superavit, above the proposed target. In 2008, the goal is to reach R\$ 2.1 billion and the first estimates indicate that this amount shall be above the target again.

The accounts settlement with the minority shareholders may lead Eletrobrás to request a waiver (temporary waiver of debt) to the Treasury for those obligations. But that waiver shall be heavier and the investments shall be affected, says the state company, at the proportion that the Treasury requires more money and offers fewer solutions for the overdue dividends.

The Public Treasury tends not to release the tax collection; the Ministry of Mines and Energy promises to recover the federal companies and, although its staff does not like to talk about the increased presence of Eletrobrás in the electric power sector, it plans to keep the company as a “strategic partner” in all large investments of power generation in Brazil – see the presence of its subsidiaries in the consortium of the Rio Madeira plants – and leverage its presence in the neighbor countries. This is the deadlock situation that will be faced during the coming weeks by ministers Lobão and Mantega. Lobão says that the question is not only the Treasury funding but also involves an adequate solution for the minority shareholders.

The Treasury informed that both ministries are discussing a solution for the issue, the conversations are at an advanced stage but there is no definition yet. “The Treasury denies the resistance to any given dividends payment form”, it declared in a press release.

Eletrobrás did not pay dividends during nine years, starting in 1979. Since 1999, the company has been making regular payments, however, the overdue dividends remain

unpaid, a debt that is restated by the Selic rate. This year, only the debt restatement must reach R\$ 1 billion. Since last year, the minority shareholders have been increasing their pressure on the state company. At the shareholders general meetings, they have presented several suggestions for the debt payment: from foreign funding to sale of shares backlog (Eletrobrás holds papers of several electric power distributors as Celpa, Cteep, Cemat and Celesc). A frequent claim is the excessive expenses with the called federalized companies, which are companies with negative equity and financial debts and are subject to political nominations. Eletrobrás is responsible for five such companies: Ceal, Cepisa, ceron, Eletroacre and Ceam.