

Q4 2009 Earnings Call

Company Participants

- Antonio Previtali, IR Manager
- Eduardo Sattamini, Director

Other Participants

- Anderson Frey, Analyst
- Felipe Mattar, Analyst
- Henry Cobbe, Analyst
- Marcelo Britto, Analyst
- Marcos Severine, Analyst
- Mariana Coelho, Analyst
- Maura Shaughnessy, Analyst
- Rafael Quintanilha, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(interpreted) Good morning. This is the conference call of Tractebel Energia. All participants are connected in the listen-only mode. Later on, we're going to open for the Q&A when further instructions will be provided. (Operator Instructions). We'd like to remind you that this conference call is being recorded.

Now, I'm going to move onto Mr. Antonio Previtali, Investor Relations Manager of Tractebel Energia. Please, Mr. Previtali, you may go on.

Antonio Previtali

(interpreted) Good morning, ladies and gentlemen. We welcome to Tractebel Energia Conference Call where we are going to discuss the results of the 4Q '09 and the whole year of '09. This presentation as well as its slides will have a simultaneous webcast on the site www.tractebelenergia.com.br under the Investors section. There, you will also be able to obtain a copy of the company's release.

Before moving on, I'd like to clarify that any statements made during this conference call, relative to the Company's business outlook should be treated as forecasts and depends on the country's economic scenario, the performance and regulation of the electric industry, and other variables and therefore are subject to changes.

With us today in Florianopolis are Eduardo Sattamini, Financial Director and Investor Relations Director. Initially, Mr. Sattamini will comment on the performance of Tractebel along the 4Q '09 and the year '09 and then, we will answer your questions.

Please, Eduardo Sattamini, you may go on.

Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Good morning, everyone. Be welcomed. It is a pleasure to announce a net income that is record for the sixth year in a row. Net income was BRL1.134 billion, a 1.7% growth over the year of 2008. The Company is also announcing the distribution of complementary dividends in the amount of BRL81.9 million with a payout of 55% in '09. And that, together with the capital over -- on capital interest over capital will total BRL276 million in the beginning of the year.

The Company's EBITDA remained stable, the amount of BRL2.178 billion with a margin of 62.3%. Net revenues in '09 amounted to BRL3.496 billion, 2.8% higher the previous year. Average sales price in sales contracts, net of sales tax and export, reached BRL108.81 megawatt hour, 8.1% higher than the previous year. Also highlight is our operational efficiency with a record instantaneous generation in October where we generated 6,807 megawatts, reaching a capacity factor of 90.9% with a record throughout the year of uptime of 98.9%.

This year also with highlights we have the consolidation of our expansions through the coming of the Estreito hydro plant. We completed our -- the negotiation of this transaction in the end of last year and we will be already having a cash generation with that as of 2011.

On page five, we can see the organization charge of SUEZ and Tractebel Energia in the world. You see here the addition of SUEZ Energia Renovavel, a renewable energy, which is where we concentrate rights and obligations related to the Estreito consortium, our participation in this Estreito hydro plant.

Moving onto slide number six, here we have something new in the slides which is the plant of Jirau that is included for the first time. Today, it is held by GDF SUEZ and this year or maybe next year it will be part of our portfolio. It is also important to highlight that today, we are present in five regions of the country and as of this year, we are at the beginning of operations of Areia Branca and by Biomass Andrade. For in the southeast, we are going to have operations in the five regions of the country.

In slide number seven, we can see our position as compared to the competition. We capped our leadership and what is new here is that we have the inclusion of projects under construction, again showing the consolidation of our leadership position. What is missing here is the forecast of growth for our competitors. We do not have details on that, but our growth indicates a consolidation of our leadership position in the market.

With regards to our portfolio, it indicates a change from '08 to '09, a reduction of free customers, particularly because of the reduction of our volume in industrial customers,

which is partially explained for this reduction and also of -- because of the re-directioning of our new contracts. We have two components, really, that led to this change in position.

On slide nine, we can see our position for 2010 on sales for free customers and the distribution of customers throughout the different sectors of our economy. Our expectation for the year of 2010 are very good, especially due to the latest news that the country and the industry is resuming its growth. January recorded a year-over-year of 9% and in the last 12 months in November, we observed a drop of 1.9% which was almost eliminated in the month of January. So there is expectation of higher volumes as the industry resumes its growth.

Going to slide number 11, it is very important to point out that the coming of hydro electric plants and the low level of consumptions have supported the prices. We have a country that still has a very low per capita consumption of energy. The expectation is that the effect of income on demand is going to be a multiplying factor due to the elasticity of the demand for electric power.

As for the management of our portfolio on slide number 13, the Company's strategy is to have a gradual sale of future availability and as we can see in the charts, the Company seeks to have the best moment to sell its availability. But the availability for the next years, 2010-2011, is not very good, although there is a potential of using this growth of demand and strengthening of prices in the years of 2010 and 2011.

On slide 14, with regards to our energy balance, we have had a slight change in the last quarter from then to now, especially in this price, especially because of the adjustment in the schedule of Estreito power plant which has already been included in evaluation reports when we had the negotiation with GDF SUEZ. There was a slight change in availability between '09 and '010.

You should also note that bilateral sales have had a slight drop because of adjustment of expectations by industrial consumers. But as of 2012, we are going to see a slight increase because of the contracts that have been signed as about BRL125 per megawatt hour for a use of four to five years.

Now, in slide 16, we are now going to present our projects and our prospects for growth. The first project, the most significant project for this year of 2010 is the project of Estreito. You can see this is an up-to-date picture of January 2010, showing the water going through the sluiceway. And today, our work focuses more on the power house to start generation in early 2011 and commissioning may take place probably in early 2012.

I'm going to mention a little bit about the transfer of the power plant from GDF SUEZ to Tractebel. It was based on a report, a technical report, that considered quite conservative assumptions, the vision of the management of Tractebel Energia that did potential upsides that have not been considered, which would be upsides that we can be quite sure of that will happen.

FINAL

Such as, for example, the additional effect of secondary power, the reestablishment of leverage of the venture, and the reestablishment of the funding from BNDES, which has already started or have already applied for and a more realistic vision of Sehaquebrade [ph] power plant.

It has 1,087 megawatts installed capacity, 641 megawatts of assured energy. The ownership of Tractebel Energia is 40.1% (sic; see slides). The investments by Tractebel Energia in this project is estimated at BRL1.758 billion and it's going to go into operation in early 2011 and should -- we should also emphasize that the total amount of energy of Tractebel Energia has already been sold at an auction for 30 years in October 2007 to start to be sold as of 2012.

Now on slide 17, you can see the photographs of Andrade Destilaria, the thermo power plant, and also SHP Areia Branca in Minas Gerais, both expected to go live into operation in the first half of 2010. Here for the Destilaria Andrade, our partners are Acucar Guarani. It has an installed capacity of 33 megawatts, assured energy is 18.3 megawatts, and we have sold energy in a five-year term contract at BRL158 per megawatt hours, historical price.

And Areia Branca also, it's in the state of Minas Gerais with a 19.9 megawatts installed capacity, 11 megawatts on average of contracted energy, both with the investment of about BRL95 million and a 20-year term contract at BRL159 per megawatt hours.

The novelty is the Jirau project on page 18 today. Brazil sustainable energy or Energia Sustentavel do Brasil is the company that is building the power plant. GDF has 50.1% and it is responsible for the construction, maintenance, and sale of the energy from Jirau power plant. 70% of the power to be generated has already been sold in an auction held in May for a period of 30 years as of 2013.

It has installed capacity of 3,450 megawatts, assured energy of about 2,045 megawatts and it's expected to go into operation in 2012. More precisely, May 2012. For this project, there is a specific purpose and this company has a website where you can find quite detailed information about the progress of the project, and the website is www.energiasustentaveldobrasil.com.br.

Now in terms of our financial performance, on page 20, you can see the main financial perimeters or indicators of the Company net revenues, EBITDA, and net income. And although there has been a drop in industrial activity earlier last year, we are in a consistent growth of the portfolio and we have managed to keep our net income at a reasonable level, EBITDA almost with no change in relation to last year, and net revenues have had quite significant increase.

Now, seeing the breakdown of all those numbers, on slide 21 you can see the evolution of the gross operating revenues. And as compared to 2008 on the chart at the bottom, you can see the main drivers for the variations from '08 to '09, especially CCEE results that provided a negative contribution because the growth result of CCEE in '08 was really

Bloomberg Transcript

extraordinary because of our monthly allocation strategies we have related to price and volume -- higher average prices in '09.

There was some contribution from exports. Also, the issue of indemnification of the EPC contract of Sao Salvador that has contributed to the gross operating revenues reaching, at the end of '09 a total of BRL3.886 billion in gross operating revenues.

Now in the evolution of EBITDA, this has had a slight increase and I would say it remains stable. Once again, you can see the effects of the Energy Trading Board and the spot market which is normal for Tractebel because of its thermal generation.

In '09, there was a reduction in thermal generation which increased the exposure and because of that, we have had results that really fell short from last year's results in the accounts of the Energy Trading Board. We have also had the contribution of our Company to EBITDA that have been -- that we have cooperated as of '08 and '09, generating BRL98 million in terms of the scope in addition to the EBITDA coming from new operations.

As for our net income on page 23, what we can see is that there was a reflex on the allocation of energy, the monthly allocation comparing results from '08 to '09, where we can see again that there was a concentration of energy allocation in 2008 in the First Quarter whereas in '09 we had a higher concentration in the Fourth Quarter. And it's important to highlight that because when you make a comparison quarter-on-quarter, allocation of energy can generate certain distortions.

Once more, we had a negative impact caused by the CCEE committee due to the large quantity of rain that we had in '09 and the maintenance of PLC at lower levels. And we had an important effect on exchange variation that contributed as for us to leave our net income at a reasonable level. And I would say these are the main elements that can explain this chart in terms of net income.

As for the quarterly financial drivers, again it's important to point out that we can see, particularly in the bar charts in the bottom of the slide that once more there was this allocation effect on the 4Q, making our EBITDA margin to be higher in '09 as compared to '08 and also comparing it to the Third Quarter. Of course, this has an impact in a higher EBITDA in the Fourth Quarter and consequently also a higher net income in the quarter.

For indebtedness, we have a low indebtedness of the company which shows that we really take advantage of our growth opportunities. We can see that our total debt over EBITDA is 1.6 times only. We had a substantial reduction in our debts in foreign currency from 11% to 7% where we can see that our cash in the end of the year of '09 was very robust and part of it reflects the commitment of interest over -- on capital and dividends, as I said, in the amount of BRL276 million.

Part of these resources are also allocated for the position of Estreito. We have a problem of total -- a program of total investments of BRL2.2 million for 2010 that will absorb this

FINAL

Bloomberg Transcript

cash throughout the year, which is added to the general cash generation of the year and will meet all our obligations.

As for the net debt on slide 26, this is an annual evolution. It's shown quarter-on-quarter, but it is year-on-year. We had some adjustments on the movement of debt from '08 to '09. Here, we have the contribution of investments, BRL323 million investment. Dividends of interest of our own capital paid in '09 of BRL495 million, results of -- in cash variation contributing -- sorry, foreign exchange variation that contributes negatively for the net debt and working capital change and others contributing positively. With in the end of '09, a net debt of BRL2.160 billion, which is below our EBITDA.

For medium and long-term debt on slide 27, it's important to note that we had debts with low relative costs -- 93% pegged to the real currency, which is very important. Our income is almost entirely in real. And pegged to TJLP BNDES interest, we have 44% of our indebtedness, especially because of the indebtedness of financing our expansion and construction contracts. As for the investment schedule, we have a profile where there is a concentration in 2011. We are probably going to seek for a strategy of expansion, but again this is a very comfortable indebtedness as compared to our cash generation.

On slide 28, investments on maintenance and recurrence, again supported by strong cash generation. What we can see from last year to this year is that there was a movement of investments of '09, 2010, especially because of the completion of the Estreito operation that was not carried out in '09, but rather in 2010 upon approval of the BNDES of the final transfer of this asset.

We expect to have investments of BRL2.2 billion, BRL1.2 billion financed with debt and BRL1 billion with our own resources. As for our dividend policy, we capped the payout of 55% of our net income and this is probably what is going to be capped for 2010, 55% due to our commitment with investments along the year.

Well this is what we had to show you and now, we are going to open up for questions and answers and if you have any doubts, you can contact us at my email or by email with Antonio Previtali or even calling us on the phone.

Questions And Answers

Operator

(interpreted) (Operator Instructions).

Our first question comes from Mr. Marcos Severine from Itau Corretora.

Q - Marcos Severine {BIO 3322666 <GO>}

(interpreted) Good morning, everyone. Good morning, Sattamini. I have two questions for us to start. The first one regards the growth projects. Apart from the ones in the presentation that are well known and also not considering Jirau, I would like to understand

a little bit better your project portfolio. So you were talking about greenfield, your growth strategy through brownfield, what are you looking at? Can you expect any acquisitions, maybe hydro power plants, thermal? So what do you see?

The second question regards Jirau. My question is -- is there any possibility of you defining a transfer price for Jirau now? Can you say it's going to be 15% of Jirau CapEx, so it's going to be 10% or 20% because we could see how much this issue was important in Tractebel's share earlier this year in the announcement. I think that this is a key point for Tractebel investment scoring. We know that the scenario is quite positive in terms of results. Results last year were very positive if we look at the overall scenario. But I think that this definition will still affect your shares and are you going to define that along this year?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) First question regarding growth. In the area of greenfields, we have developed a few windmill projects in Biomass. We'll be qualifying these projects for a reserve auction still in the first half of this year. And brownfields -- the company has always -- is always looking at the markets with possible opportunities. Today we have a specific target, but we are always looking at the market and considering opportunities for possible consolidations.

As to Jirau and your question as to whether we can define the price now and whether it's going to be based on CapEx -- and we use CapEx as a reference. And what I can tell you is that it is not going to be based on CapEx. CapEx is one of the elements that we consider when we make the evaluation of the assets to define the price. In addition to CapEx, there's also energy price, required returns, and many other elements and assumptions that are considered for us to come to a price for the sale. So using CapEx as a single reference is not good when you're talking about the evaluation of greenfield enterprises.

We are not going to define anything now. We are going to define this when we find the registers in everything and we find that the time has come for us to make the transfer for Tractebel Energia so there will be an evaluation measuring the risk of the venture until it is completed. We might mention a little bit the past. It's been done in a conservative way.

We have just conducted -- we have just adjusted that in terms of the sale of what -- sales have endured the plans and it was quite better than we had expected at first when the transaction took time. We wanted to optimize. We wanted to find the upside of the project. And usually, we attain better results than those expected or announced -- considering the evaluations that banks make. So in the sale price we are going to see a return much closer to brownfield than greenfield.

Q - Marcos Severine {BIO 3322666 <GO>}

(interpreted) Is this more or less irrational?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) It is going to consider mitigated risks. It's not going to be like brownfield because it's not going to be in operations because it's going to be closer to brownfields than a zero greenfield. What I can say is that this is the theoretical return rates that are elements.

Q - Marcos Severine {BIO 3322666 <GO>}

(interpreted) Would it not include that?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) That would provide greater returns to the venture.

Q - Marcos Severine {BIO 3322666 <GO>}

(interpreted) Thank you very much.

Operator

(interpreted) Our next question comes from Mariana Coelho from Itau Securities.

Q - Mariana Coelho {BIO 16262980 <GO>}

(interpreted) About Jirau, we saw some things about the leaving of the Camargo Correa from the consortium with the 10% share it has. Is there a possibility that -- is there a possibility for SUEZ to acquire those shares and what would be your positioning with regard to announcing that, would you have a disclosure of the amount of this purchase? That would be my question.

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) There is the possibility. There is the possibility, even when we signed the Articles of Association of the company. The price calculated for a transfer to SUEZ would have a small amount generated by the development of Camargo Correa at the time and the transfer would be at book value. What happens from now on is that Camargo Correa is negotiating amounts above book value amounts. It's already completed part of the operation with a pension fund and it is trying to complete the remainder operation. If there is a transfer to GDF SUEZ, I could say that it will have to be at book value.

Q - Mariana Coelho {BIO 16262980 <GO>}

(interpreted) I understand. So the scenario of Jirau is starting operations beforehand with all its energy assured for 2012 and not 2015 would not be part of the assessment when SUEZ decides to buy Camargo Correa's share.

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Well the negotiation with Camargo Correa is different from negotiation with third parties. This is a negotiation that was started at the time the consortium was incorporated. So it is not a negotiation at market value. It's different.

FINAL

Q - Mariana Coelho {BIO 16262980 <GO>}

(interpreted) Okay. I understand. And the rationale then is different from what is adopted when transferring those assets to Tractebel later on?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Yes, because again, this agreement was established when the consortium was incorporated.

A - Antonio Previtali

(interpreted) Mariana, Previtali here. Let me just complement or adjust what you said. Indeed, it was published in the press that the total capacity of the generation of Estreito would be completed by 2012, which is not true. I'm sorry, Jirau. Jirau has 46 turbines, the first of which will start operations possibly in May, as Sattamini mentioned and it is not possible for all the remainder turbines to start operations by 2012. We believe the last turbine will start operations in 2014, so it is not a correct piece of information.

Q - Mariana Coelho {BIO 16262980 <GO>}

(interpreted) Okay. Thank you very much.

Operator

(interpreted) Our next question comes from Sevra Tomashi [ph] from Safran [ph].

Q - Unidentified Participant

(interpreted) Good morning, everyone. Decisions on investments you take conservative premises that we see and in several relationships, there is a conflict of interest between the controlling company and operating company. I would like to understand the best of your decision-making process. When there is this kind of investment, if the controlling partners, GDF SUEZ, abstains from holding, that is it goes outside the room and you only have the minority. If they do take part is there the possibility of, in the next event, they not take part in the decision making?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Well until today GDF SUEZ has always voted and it should not wave its right as a controlling company. There must be a balance between minority and majority partners and balance also comes from the exercising of every party's rights. I do not know and I cannot answer on behalf of the controller if they are going to vote on Estreito's strengths or not. We believe they can and should vote.

Q - Unidentified Participant

(interpreted) Okay. Thank you very much.

Operator

Bloomberg Transcript

(interpreted) Excuse me. Our next question comes from Marcelo Britto.

Q - Marcelo Britto {BIO 15393330 <GO>}

(interpreted) Well I have two questions. The first about your strategy of monthly allocations for '09. It seems clearly that it was planned to have better results with higher spot prices for the second semester, which did not happen. In December now, you have the two trades to your strategy or outline strategy for 2010. The question is -- is it focusing on looking at a lower spot for 2010? That's the first question.

And the second question goes back to the case of Jirau. And it seems clearly that the benefit of an eventual anticipation could be through the payment of a consortium construction company and not through the equity, and the data that we had in the press is that the benefit of the construction company is not at the equity. It is in the form of payments, which is a bit explained by what you said in terms of the construction. Is that correct?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Could you repeat the second question?

Q - Marcelo Britto {BIO 15393330 <GO>}

(interpreted) Well the news says that they are selling their share in Jirau and because of this anticipation, they could make in the equity an amount that is above book value. Is there any payment of renewable or sustainable energy consortium to be made or is the benefit only in the price that they can get through the equity of their share?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Well the first the question -- the monthly allocation. The company is exposed to spot prices. So usually, the strategy of utilization is -- for allocation is for you to decrease this exposure. At the beginning of the year, we had very low amounts of PLC, so we exposed ourselves in the beginning of the year.

We cannot speak out our strategy because it can be captured by our competitors. But we can say that we allocated little energy for January. But for the remainder of the year, I'm not going to tell you what we are going to do. But basically, our allocation strategy is not for anything rather than protecting ourselves from unfavorable variations or expectations of unfavorable variations and the price for settlement of differences.

As for premiums for the construction companies, there is an anticipation, I really don't know. I believe so. Almost all contracts of hydro plant construction, if there is an anticipation of construction, generally there are premiums of performance included. But I really do not know if there is anything that has been negotiated between sustainable energy and Camargo Correa.

Q - Marcelo Britto {BIO 15393330 <GO>}

(interpreted) Okay. And for allocation, are you thinking of a spot price that is lower than what was observed in '09?

A - Antonio Previtali

(interpreted) Well Marcelo, this is Previtali speaking. This is a very difficult question for us to answer. The strategy for this year indeed took into consideration the fact that we started the year with a volume of reservoir at levels very high. Today, reservoirs in the southeast have 77% of their maximum level, which is a considerable amount. And also affluent metro energy, that is very high, that is. It's just whole and water that is coming into the reservoirs.

Of course, we can have a reversal of this at any time. Maybe not as important, but also the recovery of demand can be a relevant item or factor for the variation of spot prices. And I think that for now this is all we can tell you. As for our strategy, we believe that you can expect a lower allocation for January and, as a consequence, what was below average for the year being allocated for the next months, waiting for an elevation of spot prices.

But it's just so very premature to make any analysis with regards to the behavior of spots. You can see that in the northeast, this week is part left to the floor level, so any comments about that takes into consideration uncertainty, and it is what Sattamini mentioned. The main objective of this strategy is to mitigate expenses, costs that we have at the CCEE committee, having an income at CCEE is something difficult for Tractebel.

You know that we are a company that is in a short position because its electric complex is fully hired and we have a thermal electric generation that generally reaches 60% or 65% of the commercial capacity of this thermal electric company. So we could not expect for '09 to have such good results as we had in '08.

Q - Marcelo Britto {BIO 15393330 <GO>}

(interpreted) Okay. Thank you very much.

Operator

(interpreted) Excuse me. Our next question comes from Ms. Maura Shaughnessy with MFS.

Q - Maura Shaughnessy {BIO 1872375 <GO>}

It's Maura Shaughnessy from MFS. Thank you very much for taking my call. I was just wondering if I could just discuss two issues. I mean, it seems strange to me that the Estreito deal, which is less than 5% of your total capacity is the focus of 99.9% of investor concern. And it's kind of unique that GDF, which owns 70% of your company lost more money in Tractebel's stock going down than it will ever make in that Estreito project.

And as by the questions today as well as the questions -- 99.9% of the questions of the Company, this whole transfer pricing mechanism, it clearly doesn't work and it's not benefiting GDF because GDF shareholders don't even care and it sure as heck is not helping Tractebel's share performance. And I was hoping to hear a more robust answer from the management team as to how this process is going to be fixed or ended.

And I'd like to hear a lot more about the Company's understanding of that because at the end of the day, if Tractebel management is getting paid in GDF stock, that seems like a very bizarre set of circumstances. The generation profile, the cash profile of this company is very strong and yet this transfer price mechanism and the way the management is incented with GDF stock, not Tractebel stock is just quite bizarre. I'd like a response to my comment, please.

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) I think you have caught the quite important aspects for us to clarify. In fact, the reflex of the transfer of Estreito was seen by Tractebel's administration and also by GDF SUEZ with great surprise. We did not expect the markets to react so intently in relation to an asset that doesn't have such an important share in the overall picture of the Company. In spite of that, the Company's management and it's controller, GDF SUEZ, are reassessing and reanalyzing the strengths and weaknesses of this model and reflecting and thinking or considering about any possible changes.

You're not saying that we are committed to change, but we have a commitment towards reassessing, reevaluating the model, and this will be done and is already being done. We have not yet come to a conclusion and at the conclusion, as we reach the conclusion, this will be announced to the market. What we can say is that the controller is sensitive to this reaction of the market and will be taking -- will be doing something about that.

Q - Maura Shaughnessy {BIO 1872375 <GO>}

Well I mean, I'm not sure what that means. As far as I could tell, Tractebel stock was the worst performing stock in the Brazilian utility space last year and again, you talked about the tremendous change in demand. You have a tremendous cash flow profile over the next couple of years and yet, 99.9% of the concern is about this transfer price mechanism. Then, that one day that this was announced, GDF lost more in Tractebel's stock than it will ever make in that one project, which is less than 5% of your total capacity.

So do we have a timeline as to when this is going to be addressed because I don't frankly even understand why Tractebel is a public company if GDF is going to be playing these sort of games. And so, perhaps can you be a little bit more specific on the timeline and when we will be hearing how this process is going to change and how the full value in Tractebel can be realized?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Maura, I cannot be precise in terms of the timeline on such an important issue and model that has been used for 10 years that has provided return to all investors. The whole thing was to keep the stability in the return of the company.

FINAL

What we can say is that we are thinking about that and it might be important to go back to a mentioned in terms of compensation of the officers of Tractebel Energia and that they are -- it's related to the share, to the stock of GDF SUEZ. It's not even 15% of the variable compensation. It's a very small share. It might be as much as 5% of the total compensation that the executive officers get.

But in terms of being precise, what we are committed to is to think about that, reconsider and to evaluate the changes that we find that are pertinent. And I cannot mention any specific basis. This is being discussed. We have to take our time to do that because last year the market suffered. There was a large sales volume.

There was an investor that had been selling since August. He needed cash for other ventures he was taking part, and he sold our stock. So the effect of the model and of the actions have to be analyzed with time. We cannot do it overnight. What we can say is that you need to be willing and, as I just mentioned, will be made as they sound reasonable.

Q - Maura Shaughnessy {BIO 1872375 <GO>}

Well thank you very much. I mean, buyers and sellers --

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) And as we think they will have a positive --

Q - Maura Shaughnessy {BIO 1872375 <GO>}

-- buyers and sellers come into stocks every day. That's what happens and this is just such a crucial area for the company to address. And we're -- I think everyone on this call would be really looking forward to the company addressing it as soon as possible. Thank you very much.

Operator

(interpreted) Excuse me. Our next question comes from Mr. Rafael Quintanilha from Brascan Corretora.

Q - Rafael Quintanilha {BIO 3027624 <GO>}

(interpreted) Good morning, everyone. I have two questions. The first one regards Jirau. What about the sales of free energy in the venture? Have you negotiated any shares or that there's any price? And the second question regards energy prices you mentioned between 125 to 150. How do you compare that to the last two more recent months? Have prices changed? How do you see the evolution of the market? Do you see any recovery in consumption?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Well Jirau free energy -- today the marketing is being -- there is a difference between partners in terms of how we are going to sell that energy. It's not been contracted yet today. In terms of energy prices, we have not felt any changes in price

Bloomberg Transcript

levels and we expected -- and we expect that as manufacturing activity goes back up again and recovers, we are going to see an increase in demand. But we have not yet felt that in our every day work.

Q - Rafael Quintanilha {BIO 3027624 <GO>}

(interpreted) Thank you.

Operator

(interpreted) Excuse me. Our next question comes from Mr. Felipe Mattar from Barclays Capital.

Q - Felipe Mattar {BIO 1900681 <GO>}

(interpreted) Good morning, everyone. I have two questions. The first one, could you explain a little bit better -- you said, you mentioned something about that you're keeping your 55% dividend policy in 2010 and your net debt. Is once your EBITDA while new projects they do and potentially an acquisition of Jirau? They should not raise your level of indebtedness. So could you explain to me in more details? We have seen a few recent images of semi is also [ph] when interesting times -- five -- four or five years interesting rates -- CDI plus 1.9.

And so, my question is why do you still have this dividend policy for 2010 in terms of a more competitive price. How does this keep the profitability of the Company's project and how does it have an impact on your balance? So how -- why do you keep it at 55% considering your low leverage and also the opening of the local debenture market and also considering that the debt of the new projects are not a burden on your balance sheet?

The second question is about Jirau also regarding contracts and trying to understand a little bit the expectation that you have in terms of free energy. And especially considering that the debt that you are negotiating with BNDES calls for certain covenants and protections that consider a certain -- a level of contracting in the free market at a certain price level.

So as you expected, the first turbines are going to live in 2012 at some point in the second half of 2010 or the first half of 2011. BNDES would require that this energy be contracted in the free market. So could you please explain what would be the maximum time so it wouldn't interfere in the leverage level contracted with BNDES and in the free market?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Well Felipe, yes, for your first question in the business of the dividends, I would just like to make a correction. That will change all the calculations. BNDES -- that's our project finance in the consolidated goals into our covenants. So if you adapt -- make the adaptation, you see that we are going to be close to the covenant of the first and second emission of debentures, which is 2.5 times EBITDA.

FINAL

So we will not take the full capacity of indebtedness to pay out dividends right now and leave eventual opportunities to be missed. We are talking about our projects in our portfolio already and in small projects that are forecasted. So it would be irresponsible, I think, to reach the top of the covenants now and then miss possible opportunities in the future.

The second point, as for the energy of Jirau, I can say that some point in time we will need to hire. The market is still not suitable for us to reach the price levels that we wanted and energy as renewable energy has to wait. It has waited so far because it was able to do so, probably that was some offers of purchase that came to the market and it thought it was not the suitable moment to sell.

Q - Felipe Mattar {BIO 1900681 <GO>}

(interpreted) Okay, Eduardo, just a follow-up in your first question. So your debentures today, covenants considered the consolidated debt. Even the project finance part not being burdensome to your corporate credit, is that correct?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Yes.

Q - Felipe Mattar {BIO 1900681 <GO>}

(interpreted) Okay. Thank you very much.

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Okay. Thank you.

Operator

(interpreted) Excuse me. Our next question comes from Mr. Henry Cobbe with Nevsky.

Q - Henry Cobbe {BIO 5513843 <GO>}

Hi there. Thanks very much for the call. A few further questions if it's possible. Just on the delay, the indemnity payment that you received of BRL35 million on the delays, is it like there will be any more such payments if there are further delays? And the second question, inside the CapEx budget for 2010, do you include the premium that is being paid to SUEZ? And lastly, on the carbon side, do you expect that kind of BRL6 million income to be a recurring number?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Please, Mr. Harry, can you repeat it?

Q - Henry Cobbe {BIO 5513843 <GO>}

Bloomberg Transcript

Sure. The BRL35 million you received as an indemnity payment in the last construction, is it likely that you will continue receiving such payments if construction is delayed further? And on the carbon profits of BRL6 million, is that a recurring number? And lastly, on the CapEx, does that include the premium payments to SUEZ?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Well you had a last question is that I really -- I just missed the last question. But anyway, I am going to answer the first and second and then see if everything is okay. Well the penalty for delays in the construction of Sao Salvador plans was calculated after the company and the plant when into operation. So the calculation was made. We negotiated with the construction company. The penalty is paid and the plant is in operation already. So it's not going to be recurring. There will be no new payments because the plant is generating energy, income, and EBITDA.

In fact, the delay was a delay based on the schedule negotiated with the construction company, although the company started -- or the plant started operations before what we had arranged with the pull of distributors and before what we had committed with NEU. As for CapEx and you talked about the premium, page two, the GDF SUEZ, yes, the total amount is including the premium because that is part of the price of acquisition of the project.

And the last question, if I'm not mistaken, you're asking about covenants that I really didn't get it. Could you repeat it, please?

Q - Henry Cobbe {BIO 5513843 <GO>}

Is that a recurring number you expect?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Are you talking about covenant credits? Okay, I got it.

Q - Henry Cobbe {BIO 5513843 <GO>}

The project on covenants.

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) No. These are contracts that we have with largest [ph]. They happen every once in awhile and the credits were sold and accumulated for a certain time. I don't know how many credits are still around, but they are calculated on the effective generation of the largest plant. So they suffer variations and are not recurring, not in the volume that we had this year.

Q - Henry Cobbe {BIO 5513843 <GO>}

Okay. Thank you very much indeed.

Operator

(interpreted) Our next question comes from Anderson Frey from JPMorgan.

Q - Anderson Frey {BIO 15399961 <GO>}

(interpreted) Good afternoon, Previtali, Sattamini. I would just like to understand a bit better your views on the short market or short-term market of Energia. I saw that in your balance you decreased the marginal price of energy sale that expect for this year. You increased the average purchase price.

So I would like to know how do you see price and demand in the very short term and how confident you are for the guidance for this energy balance that you have. In the past, you had to revise that sales for the free market along the year and how confident you are for this market in the year. Do you think we should expect more upside or downside for the short-term prices? Thank you.

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Well Anderson, with regard to energy balance that we showed in the quarter, the average sales purchase price -- let me just check. The average purchase price is exactly the same for 2010 -- BRLO.10 higher for 2011. And in sales, we have an increase of BRLO.40 for 2010 and 2011.

This regards some adjustments of prices that we had. I think these prices are going to be completely stable as compared to the balance sheet that was released in the end of September. In this energy amount we are going to have sales and purchase prices for 2012 and as for the expectation of sales along the year of 2010.

A - Antonio Previtali

(interpreted) As Sattamini mentioned, we have some additional sales in the Fourth Quarter -- 30, 40 megawatts in the beginning of -- to begin to be delivered in 2012. Not such significant increase as we had in the Third Quarter, which, if I'm not mistaken, was 120 megawatts or 130 megawatts on average.

But with again this resumed consumption that official numbers have been showing and based on what Sattamini mentioned, we expect free consumers to come back to the negotiation desk and really anticipate their needs for energy from now on. So we are very optimistic. Eventually, even having higher prices, depending on consumers appetite, so have higher prices compared to the 125 megawatts, 130 megawatts that we talked about for the 30 additional megawatts that we had in the Fourth Quarter '09.

Q - Anderson Frey {BIO 15399961 <GO>}

(interpreted) Okay. Thank you very much.

Operator

FINAL

Bloomberg Transcript

(interpreted) Excuse me. Our next question comes from Mr. Diego Moreno [ph] from Merrill Lynch.

Q - Unidentified Participant

(interpreted) Good morning, everyone. My question about Bellemonte [ph] project and we see that we didn't hear much about you. So what do you think about the project, prices? Do you think that the project is really feasible and viable? Can you say something about Bellemonte?

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) Tractebel is not involved in Bellemonte. Development is being made through GDF SUEZ. What we know is that GDF SUEZ has been working on this project for awhile. This price of BRL68 per megawatt hour would somehow -- it somehow disappointed us. It doesn't make it feasible. And what you can expect is that if at any point GDF SUEZ goes into this project, this is because prices have been adequate and this is a game that we need to play until the end. We need to discuss and to leave opportunities open so that we may, at any time, define our position.

You don't need to leave the project immediately, but what you need to bear in mind is that if you decide to go into the project at any point, it's because they have shown the appropriate features, governance, prices. This is something that will happen and negotiations will go on along the process. There are major disagreements in construction amounts.

There may be changes in the project that might reduce those prices. This is somehow a struggle between contractors and builders that will take place until the end of the process. But anyhow, I think that the message that GDF will only come to a decision and only take a position if the project shows economic features that will provide an appropriate return.

Q - Unidentified Participant

(interpreted) Thank you very much.

Operator

(interpreted) We are now closing our Q&A session. I would like now to turn it over to Mr. Eduardo Sattamini for his final consideration.

A - Eduardo Sattamini {BIO 16648085 <GO>}

(interpreted) I would like to thank everyone for your attendance for the intelligent questions that gave us the opportunity to clarify many aspects of our strategy. And we are available to answer any further questions you may have by email. Please just get in contact with us. Thank you. And have a good afternoon.

Operator

(interpreted) Tractebel Energia Conference Call is now closed. We thank you all for your participation and have a nice day. Thank you.

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript