

Q2 2011 Earnings Call

Company Participants

- Antonio Previtali, Manager
- Eduardo Sattamini, CFO, Director
- Elio Wolff, Market Relations Manager
- Unidentified Speaker, Unknown

Other Participants

- Marcio Prado, Analyst
- Marcos Severine, Analyst
- Unidentified Participant, Analyst
- Vinicius Canheu, Analyst
- Vladimir Pinto, Analyst

Presentation

Operator

Good morning. This is Tractebel Energia's Conference Call. All participants are connected in listen-only mode and later on, we will open the Q&A session when instructions for participation will be given. (Operator Instructions). You should be reminded, this conference call is being recorded. Now I would like to turn it over to Mr. Antonio Previtali, Tractebel Energia's Investor Relations Manager. Please, Mr. Previtali, you may proceed.

Antonio Previtali

Good morning, ladies and gentlemen, you are all welcome to Tractebel Energia's Conference Call, when we'll be announcing the results of the Second Quarter of 2011. This presentation, along with its slides, will be simultaneously transmitted through the Internet on www.tractebelenergia.com.br in the investor relations section. There, you can also have a copy of the presentation and the Company's earnings release.

Before proceeding, I would like to clarify that any possible forward-looking statements made during this conference call, pertaining to the Company's business prospects should be considered as forecasts, depending on the country's economic conditions, on the performance and regulation of the electric industry and therefore they are subject to change.

Today, with us, we have Mr. Eduardo Sattamini, Finance and Investor Relations Director, who will talk about the performance of Tractebel Energia in the Second Quarter of 2011

and Mr. Elio Wolff, Manager, Relations Manager -- Market Relations Manager of GDF Suez, who are going to present an update on the developments of Jirau hydropower plants. Then we will have a Q&A session. Now I would like to turn it over to Mr. Sattamini.

Eduardo Sattamini {BIO 16648085 <GO>}

Good morning, everyone, I would like to thank you all for your attendance in our call. So once again, we are going to announce to the market an excellent quarter, with exceptionally good results and a new profit record that we are expecting to have in 2011.

Now turning to page four of our presentation, where you can see the quarter highlights, with the main financial and operational indicators. We have had a 9.7% increase in operational -- net operational revenue, reaching BRL1.058 billion the Second Quarter 2011, a reflex of 13.5% and increase of EBITDA, especially because of an increase in average sales price of 20 -- 12.9% of total sales of the Company, an increase in exports amounting to BRL50 million in the quarter, and also a reduction in the energy we buy to resell and we were able to reduce it this quarter compared to the same quarter last year.

So this all translated in a higher EBITDA margin, and so we went from 63.6% (sic; see presentation slides) to 68.9%, with another very good and robust operational result. Net income, in addition to the reasons we have already mentioned for its increase, has its main factor the reduction of the financial expenses because of variation in GPM that was smaller this quarter as compared to the same quarter of last year. Just to give you an idea, GPM last year, in the same -- Second Quarter, was 2.4%. And this year, its range varied 0.7%.

So what we've been saying that inflation, as it goes up, it has a slight impact on our results, but it provides future benefits when it becomes worse.

And the financial result was also benefited from a base that was lower than -- so the debt that impacts the results had a smaller base this quarter compared to the same quarter last year. So we are comparing that to the results basis, because the debts are only partially impacting the results because only the first two machines are operating already in Estreito.

As to energy sold, we have had a reduction in energy sold because of the amount of energy that we bought for resale. We have an increase in average price of energy contracts of 11.5% and a total sale -- the total average sale price in the spot market had a higher average price, 12.9%.

In terms of production, we have the 7.7% reduction, basically due to two effects. The first one is that rainfall was slightly worse in the Second Quarter of 2011, as compared to the same quarter in 2010. And so production was smaller -- smaller, sorry, than in the previous quarter and the other regions had a much more favorable rainfall in the Second Quarter and so this led to a smaller need for thermal generation to make up for the rainfall.

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So that's why we had a smaller production by 7.7%. Also as part of the highlights, the Board of Directors approved BRL658 million interim dividend and the amount corresponds to BRL1 per share and the first time that we paid a dividend for half a year that is this amount and this is going to be paid on August 11th. The ex-dividend date is August 11th, the payment date, October the 6th.

So these changes in pay-out is because of our better cash flow, especially because of the reduction of the cost of the debt and the short-term change in the profile of the debt. And we have also had the confirmation of Jirau's transfer, which also facilitated and improved our cash flow.

Also, on April 29th, the first generator unit at Estreito went live and started up. In the beginning of the first week of July, the beginning of the Third Quarter, on May 11th, we had the issue of wind farms in the northeast, with 145.4 megawatts of installed capacity in those spaces and the attainment of an internal target that we had in terms of reaching the -- this amount of energy in projects sold to the market. And we are going to talk in more details about that when we get to the pages related to that matters.

And finally, Fitch ratings assigned an international rate of BB -- BBB; to Tractebel has reiterated the Company's AA plus long-term domestic rating, with a stable outlook, which will facilitate and provide us cheaper access to the international financial market.

Now, on slide number five, you can see here the organization chart of Tractebel Energia. Practically the only difference in relation to last quarter is the creation of the holding of our wind projects. It's the last box on to the right, it's Energia Eolicas do Nordeste and Tractebel through Tractebel Energia's Complementares holds 99.99% of its control. And here you can see the five projects that we mentioned shortly ago, the five -- and it's controlling the five new wind projects that we have just mentioned.

Now on slide six, we a balanced portfolio and we also have strategic locations. We have been expanding our reach, the reach of our plants. And for those of you who have been following up on our progress, we've concentrated in the south part of the country, but we have been enlarging our range of operations. On slide six, we have news. Estreito is going to start operating plant number five.

We kept it as being installed capacity and the total commercial capacity, although there are only two units operating, so as to prevent a change in this breakdown. We are going to update information relating to the units that start to operate, but we decided to maintain the total installed capacity and the total commercial capacity in this chart. The installed capacity of the Company is now 6,908 megawatts in 22 plants, 81% hydro, 17% thermal and 2% other forms of energy. We had a growth, since 1998, of 86%, with the inclusion of Estreito.

Moving on to slide seven, you can see our position in the market. We are the leaders in the market, in the generation industry, we are the large, private generating company in Brazil. We are going to grow 1.9% with the Jirau project. So we expect to reach 2.8 megawatts -- gigawatts, rather, installed.

This is -- we are leaders, by far, relative to the other players in the sector. This, of course, allows us to further consolidate the sector. We have this statement. We are interested in growing through M&A, if the operations are feasible.

On slide eight, you see our balanced portfolio, distributors, trading companies and free customers. As you could see last month, there was a change in the profile of the free markets. There was a substantial increase in free customers, relative to trading companies. And this was due to an increase in the trust of such customers, when hiring directly the energy generated by generating companies.

Although last year we were penetrated very strongly, the free market, we also had the effect of the contracts of San Salvador. So there was no really substantial change between the free and the regulated market. The same percentage stood. But we had a very strong activity. We sold a lot of free customers last year. And this was a successful strategy.

On slide nine, you see our free customers and the diversification in our portfolio, the segments in the industry where we operate. So this allows us to have a diversified risk profile with no concentration in a specific industry. And we are very strict in analyzing credit. So we have zero defaults today.

Moving on to slide 11, we have an energy market outlook in terms of price. On the left-hand side you see the energy market outlook and what we forecast in terms of surplus or shortage in the supply for the next two to three years. We forecast a substantial surplus and this has been contributing to put a downward pressure on the prices.

Our strategy last year was to sell more to the free market and this is, therefore, a successful strategy. Prices in the market are influenced by the prospect of a surplus of energy in the short to midterm and by favorable rainfall levels.

For the long term, our vision is a bit different. On the right-hand side, you see our forecast for supply and demand according to different sources of energy. And the demand will only be met if thermal power plants are operating to meet this demand. We have some power plants with a small water stream, so we need more thermal power plants and the trend for prices is upward.

On slide three -- 13, we see our contracts. We have always presented the graph on the right-hand side, our policy to contract the energy on a -- in a gradual way. And last year, we changed this strategy a little bit for the short term. That is, effectively, if you look at the left-hand side chart of the uncontracted energy, you will see that we are almost fully contracted until 2014.

And this was because of the visibility of the supply and demand side and a downwards trend in the prices and also because of the visibility of the energy of the Jirau project. This energy could be added to our portfolio. So we created products for sale in the mid to long term.

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The Company, therefore, negotiated with Energia Sustentavel do Brazil, controlled by GDF Suez, so as to allow us to have an option to sell energy by selling the energy of Energia Sustentavel do Brazil together with the portfolio of Tractebel Energia.

In the Board meeting last Friday, the option contract was approved. It is an option at no cost. So as Tractebel is able to sell the energy of Energia Sustentavel without -- with the energy of Tractebel, it will do so at no cost with an upside. We may have a fee as we reach prices that are good for Energia do Brazil as well.

I am now going to move to page 14. We see a little bit of our energy balance. You know it very well. We showed the variations and the changes on a quarterly basis. And what you're going to see in this quarter, relative to the previous quarter, is a small purchase of energy for resale for 2011, adjustment of contracts. We also included the energy coming from the wind farm as of 2012, in part, and 75 megawatt average in 2013.

We also added the bilateral sales for special customers and they are at a 60 megawatt average. So we reached a percentage of almost 80% of the energy of these projects that is sold already. And other changes in the portfolio, swap of contracts and so on. No substantial change in the balance and in the availability.

As to price, the price has been growing, especially with inflationary pressures on other contracts. There has -- there was a major impact in the first half of the year because of the adjustments of contracts with free customers and now we are also having price effects in the regulated markets, which are related to the date of adjustment for distribution companies.

Now, on slide number 16, where you can see that our first project, Estreito, that is under construction. It is -- has been already included in our portfolio. It -- and went live, the first unit, on April 29th, and the second unit on July 2nd. We are going to have a schedule by late August.

We have invited some analysts and investors to take part with us in -- to join us to visit the power plant and maybe then we will have the chance to see the first commissioning tests for the third unit of this project, here. The assured energy was sold in a minus five auction in '07 and it's one -- it's at 155.5 megawatt hours as of June 30th, 2011.

On page 17, you can see the ramp up of the commercial -- of the power plant of Estreito. The third unit will become operational in August and in this manner, we are going to have additional more and more turbines and gradually we are also going to increase our capacity as more and more turbines become operational.

We have the intention of having four or five units installed by the end of the year and by the end of 2012, we hope to have 75% to 85% of our installed capacity. So we completed the project in August last year and we negotiated it in 2009. We have had a third increase from BNDES at low cost. We have had a forecast of the government for the operation, the beginning of operation of Ferhakibrad [ph] and this has been contributing even more, for

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us, to increase the return of this project. Now I am going to turn to the slides about Jirau and we'll turn it over to Wolff, who is with us here.

Elio Wolff {BIO 17147591 <GO>}

So thank you all. A few updates on the Jirau project. The first slide is similar to what we presented last quarter, the capacity of the power plants is 3,450 megawatts and there is a project being analyzed for four additional units, corresponding to another 300 megawatts.

The assured energy is 1,975 average megawatts. And this corresponds to 45 turbines, which was the original project. The additional amount of assured energy, we think it will be published soon. Most likely before the auction that will take place on August 17th, as you can see, on slide number 19.

As to construction, one update that the construction is going to back to its level with 15,000 workers, the level of the river is the same, has been kept, this is important for us. We've been trying to keep it for this year, the discussions with the contractors is still going on in terms of the schedule and updates of the budget and we think -- what we think in terms of the schedule is that some units will go live in the second half of 2012 and this is being discussed with the contractors that are building the power plants. And as soon as we have more updates, we'll share them with you.

In terms of the loan, and additional funding from BNDES, is also being discussed. There have been some updates in the budget and in the schedule and obviously this all depends on the amount of assured energy.

Now, on slide number 19, the first block refers to the existing contracts. In July 2011, it's worth about BRL64. And you can see, on the chart, on the right, its evolution. A new piece of information is the qualification of six additional units for the projects, for the new auction. They are all qualified. They will take place on August 17th.

The effective amount of assured energy that we will be able to sell in the auction has not yet been published. Obviously this amount needs to be made available for the shareholders. We need to announce it to shareholders before the auction and we hope to -- we are expecting that this will take place in due time. So the price is BRL102, the cap price for Jirau. And for us to obtain that 30-year PPA, it will start in 2014.

Another positive piece of news regarding the project, obviously, this is not a concession of the group's GDF Suez, but because of its impact on the projects, we've been monitoring it and we are sharing the latest developments with you, which was environmental installation license that was issued in June 2011, and the construction is also underway. And by the second half of 2012, it will be in operation.

On slide number 20, you can see some pictures, photographs for you to see the construction. And so it's really a full team. You can see here the spill way. The spill way is expected to be ready in the second half of the year and obviously if you see the top

picture on the right-hand side, you can see that it's well under way. Now I turn it back over to Mr. Sattamini.

Eduardo Sattamini {BIO 16648085 <GO>}

Now we'll be talking about other Tractebel projects, now we have our wind project, with 145 megawatts of non-conventional renewable energy, and it will be -- and it is distributed in five units, four in CRI and one in POE. The capacity of the power plant in POE is 30 megawatts and in CRI, they amount to 115.5 megawatts.

And the total is BRL625 million, and this CapEx has been announced shortly ago. And we are really sure about the total amount to be spent and these contracts have been signed with three major suppliers and these prices have been already agreed up and adjusted. So we are not expecting any surprises in terms of budget for this project. As we said before, we have 60 average megawatts that have already been sold to A4 [ph] consumers. So -- at prices that are very attractive for the current market.

Now, financial performance of the Company on slide number 23, there has been a slight change as compared to what we presented last quarter. Last quarter, we didn't show or present a graphical representation of the BR gap and there was -- it led to a miscomparison, especially in terms of the net income, depending on the accounting system. So we have demonstrated a growth from '08 to 2010 of 6.3% a year and in the previous quarter we presented 4.4%. And this had been a non-conceptual change, but it's important for people to be able to compare on the same accounting basis.

And now, you -- we have been presenting growing profits for seven years and this is the main message of the slide. And in 2011, we are expecting to have another special year. The first six months that we have just closed now, are an evidence of that. And we should reach another record by the end of the year.

The pace of our growth in the net income, if you look at the chart, it's slightly smaller than the pace of growth of net revenue and EBITDA because of our growth, it has within it, the depreciation because of our sales assets, the cost of implementation. So it is normal that net revenues and EBITDA do not translate directly into the same rates in terms of increase of the net income.

Now on slide number 24, gross operating revenues. As we mentioned before, in the beginning of the presentation, the main factor accounting was the increase in the average sales price, the gross average sales price. If we compare quarter-on-quarter, it was BRL110 million. In exports, it was BRL50 million. And about 280 average megawatts in the quarter.

In terms of CCEE, we have had BRL25 billion [ph] smaller results as compared to the same quarter of last year, even though it is still positive by 1.6%, million comparing quarter-on-quarter. And we had a drop in volume, as we said before, as a result of less energy for resale. And we had BRL28 million down in the Second Quarter of 2011. So we

have reached a change in the gross operating revenues of BRL109 million, with a 10.2% growth in those combined numbers.

On slide number 25, you can see the EBITDA sustained effect of price. We had the same effect of -- in the operations. We also bought energy for resale at BRL52 million. This was a combined effect of BRL123 million. We also had BRL22 million contributed from exports. This is net of fuel for the coal used in exports.

This is paid for by the companies themselves. When the thermal is dispatched, it has a benefit of the CGE. And in the CCEE, we had the same results, presented in gross operating revenues. A negative impact of BRL28 million relative to the previous -- relative to the same quarter last year.

On EBITDA, we have the -- we had the effect of non-recurring results. For those of you who remember, in Q2 2010, we had BRL45 million coming from the reversal of the provision of the dispute relating to the new tax base of PIS/COFINS tax. So last year, we had a reversal of BRL45 million and in this quarter we had BRL15 million of non-recurring income coming from the disposal of the King Bell [ph] project, which took place in June this year.

With this, although we had BRL50 million more as non-recurring income, we had a reduction in the non-recurring results in Q2 2011, relative to Q2 2010. The variation quarter-on-quarter was BRL87 million, with a 13.5% growth.

In net income, basically the impact of the changes in revenue and EBITDA can be seen here. The change has to do mainly with the financial results. We had our financial revenues that was lower. We had a smaller investment balance, smaller revenue coming from delays, delayed payments from suppliers. The yield of deposits was also smaller, but we had a positive impact of the liquidation of the debentures in the beginning of the quarter.

We had a reduction of IGP-M, which has an impact on our financial expenses relating to concessions and we had BRL12 million of financial income, which was better than Q2 2010. The net result of non-recurring, the provisions have no fiscal effect. So it may not be a transfer of 34% from EBITDA to here and the result of the CCE, a variation of 33.1% in the net income quarter-on-quarter and 29% in the net income, semester-on-semester.

Also regarding the financial drivers, the energy sold had a small drop. The average price has been increasing. It grew from Q1 to Q2. It has an impact on the EBITDA margin and also growing net income.

On slide 28, you can see the indebtedness of the Company. We went back to a total debt-EBITDA level of 1.3, as had been said last quarter. We were going to prepay some debt that's matured in April and May, so our net debt EBITDA ratio dropped to 1.3.

Our cash position is reduced because of the payment of the debentures and we had foreign currency denominated debt at a very significant level because of the appreciation

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of the real relative to the dollar, which increased a little bit. But we want to sterilize the ForEx effect in our results. Because our revenues are revenues in reals.

On slide 29, you see the net debt changes. There was reduction by 3.8% and different factors contributed. The pay-out of dividends, which consumed cash, working capital changes, which is normal because of the increase in our revenue level, so our receivables are higher, our investments. We continue to make investments in the Estreito plant. Accrued interest, capitalized interest, so this all contributed to the increase in net debt.

And to decrease the net debt, we have ForEx changes, a reduction by BRL2 million, payment of debt charges dropped BRL136 million and operational activities contributed BRL709 million. In total, we have a reduction by 3.8% in the net debt.

On slide 30, you see the profile of our debt. In 2011, we had a substantial amount from the previous quarter. And the payment of these debts at higher interest rates, higher than what we have today, the third emission, where we paid BRL640 million, were at 117% of the CDI. This was higher than in 2009. The payment of the first issue of the debentures for BRL170 million were at IGP-M plus 29 [ph]. And also, we had the effect of the payment of a tranche of a subsidiary for BRL27 million. And this debt was higher at -- in 2001 at IGP-M, plus 9.41 [ph]. We paid all these most costly expenses, so this reduced our costs in reals to 9.6%, before it was 10.5% in Q1.

You will also see this impact in the composition of the debt in local currency and foreign currency, before we had 24% of the CDI. Today, only 12% of our debt is linked to the CDI, which they have 73% in TJLP. We had some debt in IGP-M. This was all paid off. And IPCA, now, is a 13% of our debt. So 75% of our debt is now linked to fixed indexes. The TJLP, although it is a variable long-term interest rate, it varies very little. So it is a low fluctuation risk -- rate.

And subsequent events, we can also mention an operation we did in July, 4131. We hired BRL230 million. It was a foreign loan, linked at the CDI with math values that are equivalent with a hedge account and we used these funds to liquidate the fourth emission of debentures. The maturity of these debentures was as of 2011, with five different maturity dates throughout the year. And we decided to pay off this debt.

It was costing 110% of the CDI and with this foreign loan of Bank of America, which swapped the CDI. The final cost of this loan was 98% of the CDI for an average maturity time that was the same as the batch with Banco do Brazil. This was yet one more measure we took to reduce the financial costs and to take advantage of a market opportunity. This was completed in July.

Now on slide number 31, you can see our schedule for CapEx, with no major changes as compared to the previous quarter, with the exception of the wind farms and basically no surprises, no new projects. Dividend policy, as we said before, our dividend policy is a minimum pay-out of 30%. And the minimum pay-out of 50% of payable net income. And whenever possible, whenever we can pay more, we will.

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We don't have any interest in holding -- withholding cash for our new investments. As we said, there have been improvements in the cash flow in the Company operational improvement, improvement in the debt profile, longer debt terms and improved loan terms too. And we also have benefits from the transfer of Jirau that is now closer to it, commercial operation. And the regular evolution of Estreito with two units becoming operational, as per the schedule.

And all these factors have made us confident, so that this year, in 2011, we could make the proposal for the payment of 100% of the distributed net income. So I think that in that sense we are closing our presentation. And now I would like to turn you back over to our investors.

Questions And Answers

Operator

Excuse me, ladies and gentlemen, we are now going to start our Q&A session. (Operator Instructions). You should be reminded this audio conference is closed for investors and market analysts. Any questions from journalists should be forwarded to the press conference services of Tractebel Energia and you should stick to the limit of two questions per turn. Our first question comes from Marcio Prado from Santander.

Q - Marcio Prado {BIO 15398968 <GO>}

Good morning, Sattamini and Elio. Two questions about Jirau. You said the new idea terms for the time for the transfer. Could you give us more details on the second half of 2012? And also the price outlook, if -- and you were more careful in terms of forecasting prices for 2012, what is your -- what are you expecting for the A minus free action in August and do you think these actions will also surprise and will be in line with a slightly more negative price vision or lower prices than we saw in previous supplies? Thank you very much.

A - Unidentified Speaker

So first, I will answer your question about Jirau. Remember that when we said that we were define a 55% pay-out, this was back in the 2009 and we expected Jirau to start up in late 2011. And actually what we are doing, we are adjusting our pay-out to reality.

Today, we are aware that the project will take place in later 2012, and we are talking about the second half because we don't yet know the precise date. We still need some time to refine for Energia Central do Brasil to come to an agreement with the contractors.

But the final date is -- will be on the second half of the year. Whether it will be in the beginning of the second half of the year, right in the middle of the year or more towards the end of the year, we do not yet have this information today.

But what is important for us is that this sort of releases our cash flow. I don't need to worry so much more. And we think that these payments will be towards the end of 2012 and when we negotiated the transfer and we will also need to apply for authorization from

CADE, BNDES and Aneel and Fostray [ph]. So that took eight months. And let's be optimistic. Let's say it takes six months in the year already for -- in 2013, until everything is completed. So this philosophy led us to change the pay-out.

As to price levels, what we have -- and we have already talked many times about prices, there is an effect of the long-term markets that is major, because of very favorable rain fall and today the prices in the market are low and we are, thank God, in the strategy that we designed last year, we had very little energy that is not contracted.

We have a long-term impact that may arise partially from new options. This is one of the price -- the pricing components and these are the new energy auctions and I think that the prices are relatively slow, still. I think that we still have an appetite from some players that will still see some prices with the projects, PPAs, to fund the projects. So the -- it -- we will need PPAs to make them their projects bankable or fundable. So I cannot tell you what will happen in those auctions. And if I did, I would make a fortune off of that.

Operator

Excuse me, our next questions come from Mr. Marcos Severine from Itau BBA.

Q - Marcos Severine {BIO 3322666 <GO>}

Good morning, Sattamini and Previtali. Two questions. The first part about renewable energy, especially wind energy. What is the annual volume that you are expecting for growth in this segment? How much do you think can be directed to the free market, to the sales for special customers' especially? Still with regards to that, could you give us some more information of the pipeline of your wind projects?

And the second question, Sattamini, regards the regulated markets. Are you working with a hypothesis of selling part of your available energy in the regulated market, further on in the future? Or will you continue to direct your attention to the free markets? Thank you very much.

A - Unidentified Speaker

Okay. Let's go by all, from the easiest to the most difficult. So we've been showing that our strategy is to try as much as possible to have contracts in the free market, which is not exposed to existing energy options and there is a participation of some people who have less possibilities of selling in the free market and that needs to have lower prices than in the regulated markets. So our strategy will be, we'll continue to try to avoid those actions -- auctions, sorry.

Yes. We do have some wind projects and we've been talking and there are some projects that are being developed by our team and some conversations with some project developers are underway, focusing on the free market. We have not had a very favorable vision of the reserve energy auctions, because of the eagerness of other players. So they need PPA, so they may fund their projects. So we think this type of competition with the type of PPA doesn't look appealing to us.

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And in terms of the volume of energy for A4 markets, today, I wouldn't be able to tell you that I mentioned exactly. All I can tell you is that, that the market, which for many years remained captive for distributors, very much because of the free market, the Brazilian free markets, is a market that is only 10 years old. So we don't have intensive power consumers. We did not have the intention of closing those possibilities so soon as the market opened.

And today, what we see is that most of these conventional free customers, those that migrate -- have migrated, the domestic market has been growing organically and the possibilities for growth in the lines, in these new customers, that today want not -- to start negotiating with distribution companies and negotiate directly with generation companies and today generation companies need to find those customers to generate business for their companies and this is a market where we see a potential for growth.

And an advantage that we have in this market is, today, we have established source for sale. We have an energy portfolio, we have cash flow, reliability, and I think that maybe the most important for these customers is the solidity of the counterparts.

Q - Marcos Severine {BIO 3322666 <GO>}

Do you think it is possible for you to sell 100, 200, 300 megawatts per year for this segment? That includes a special consumer?

A - Unidentified Speaker

To be honest, we are just testing this market. We have a reasonable level of sales in the first semester. We want to make these plans, but we intended to build a feasible -- but we still don't have a history in terms of the acceptance of these products in the market. I wouldn't be able to forecast a potential for growth in this segment.

Q - Marcos Severine {BIO 3322666 <GO>}

And a last question, what about the pipeline? What is the pipeline of projects for wind farms?

A - Unidentified Speaker

As I'm -- as I was saying, I don't have this information because I don't know how fast the market is going to react, is going to migrate. These are relatively new markets. I don't have this information. I don't know if we are going to be able to sell 150, 200 megawatt year. I don't know. We are going to pursue this market. We believe it is going to grow, but the growth of Tractebel Energia will come from the development of high-profile plants and large power plants. This is our vocation.

Q - Marcos Severine {BIO 3322666 <GO>}

Thank you.

Operator

Our next question comes from Mr. Vladimir Pinto from Bradesco.

Q - Vladimir Pinto {BIO 1554020 <GO>}

Good morning, Sattamini. I have two questions. One has to do with the dividend. There was an increase in the dividend pay-out in the first semester. Can we expect the same level in the second semester? And the second one is the following. You mentioned the pay-out of debt. What are the covenants for the debt today? What is the major covenant that we have relating to debt-EBITDA ratio?

A - Unidentified Speaker

Yes. We made a decision for the year of 2011. Our intent is to pay 100% of the distributable earnings, at complementary dividends. As regards the covenants, the more restrictive we have is of the second issue. The last portion matures in 2014 and it covers two times -- 2.5 times the EBITDA and net debt ratio.

Operator

Our next question comes from Mr. Kaike Vasconcellos [ph] from Citigroup.

Q - Unidentified Participant

Good morning. As regards the strategy to allocate energy in the year, I would like to know if you could clarify the strategy?

A - Unidentified Speaker

It was a bit low. I don't think I understood the question, but you were talking about our allocation strategy. It is very similar to a standard year strategy. We allocate less energy in Q1 -- in the first half, more energy in the second half. So far the strategy has proven appropriate, we have low prices in the First Quarter and therefore our purchases for the replacement of our short position were made at low prices.

In the second semester, if there is an increase in the spot price, we will be protected. Remember that we are normally exposed to the spot price because of our internal capacity. We have 50% flexibility in our thermal plants and therefore we are exposed. Our allocation strategy aims at reducing our exposure to the spot pricing fines [ph] to an energy is more expensive. So we expect that if the prices increase in the second semester, we are protected because we have a larger allocation in the second semester.

Operator

Our next question comes from Mr. Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good morning, Sattamini, Previtali, Elio. My question is more directed to Elio. As regards Jirau, do you -- is there still interest on the part of the consortium to sell the energy of

Jirau at BRL102 million at the auction? Or are you going to analyze it? What is the position of the company?

A - Elio Wolff {BIO 17147591 <GO>}

As regards the top price in the auction, we prefer not to make comments about it before the auction. So we can decide at the date of the auction. After the auction, we can make comments about the results and discuss about it.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Regionally, the group was not thinking about a top price for the project right?

A - Elio Wolff {BIO 17147591 <GO>}

The ceiling for the new energy auction, as regards the expansion of Jirau or any other power plant, that was an issue that we expected to come up. The way the government runs the auctions for new energy, it was this was for the Dradeep [ph] power plants in the past. This is the -- we expect this type of way of conducting and we were waiting for a definition of the ceiling.

Operator

Excuse me, Tractebel Energia's conference call has now ended. Now I would like to turn it over to the speakers. Please, you may proceed.

A - Unidentified Speaker

Once again, I would like to thank you all for your attendance, for your interest and we hope that we will be presenting on future quarters, very good results, focusing more and more your attention on Tractebel Energia. Thank you, all very much and have a good afternoon.

Operator

Tractebel Energia's conference call has now ended. We thank you very much for your attendance and have a good day. Thank you very much.

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