

Y 2012 Earnings Call

Company Participants

- Antonio Previtali, Investors Relations Manager
- Elio Wolff, Market Relations Manager of GDF SUEZ Latin America
- Manoel Zaroni Torres, Chief Executive Officer

Other Participants

- Felipe Leal, Analyst
- Gabriel Salas, Analyst

Presentation

Operator

Good morning. This is Tractebel Energia's conference call. All participants are connected only as listeners. And later on, we'll open the Q&A session, when further instructions for participation will be provided. (Operator Instructions) We would like to remind you that this conference call is being recorded.

Now I would turn the call over to Mr. Antonio Previtali, Tractebel's Investor Relations Manager. Please Mr. Previtali, go ahead.

Antonio Previtali

Good morning, ladies and gentlemen. Welcome to the conference call of Tractebel Energia to discuss the results of the fourth quarter and year of 2012. This presentation together with its slides is being simultaneously posted on our website at www.tractebelenergia.com.br in the Investor Relations section. In there you can also have a copy of the Company's presentation and release.

Before going on, we would like to tell you that any forward-looking statements made during this conference call relative to the Company's business outlook should be treated as forward-looking statements that depend on the country's performance and the electric factor regulation as well as some other variables, and are subject to change.

With us today are Manoel Torres, CEO; Eduardo Sattamini, Financial Officer and IR Officer will also comment on the performance of Tractebel Energia in the first quarter and year of 2012. And Elio Wolff, Market Commercial Relations, that he is going to talk about the implementation of Jirau power plant. Later on, we are going to open for Q&A.

Now I'm going to turn the call over to Manoel Zaroni Torres. Please you may go on.

Manoel Zaroni Torres {BIO 18279105 <GO>}

Well, good morning, everyone. It is a great satisfaction to be part of this conference call. And we are going to start the presentation on slide number four with the highlights in operations and financial effects of the company. Net revenue from sales grew 13.5% in the year and in the quarter 15.6%. While you remember that in the past quarter, we had very high spot prices that most of thermo variations, dislocation of electric plants by Chesf and all of this together led to the increase of 15%. EBITDA 6.8% compared to the previous year and net income 3.6% compared to the previous years and minus 3.6 compared to the fourth quarter of 2011.

Quarterly variations are due to different allocations for June quarter and we are going to explain that further on. What is important is to highlight, is that the production of minus 19.6% affected the results very little. This production indeed is related to hydroelectric plants productions and the water levels where these plants are located. So they are parts of MRE and therefore they have little weight. So to speak, in the company's bottom-line businesses, it is valued with the prices in the market.

On slide 5, as the year highlights, we would like to talk about the availability of our plants except for programmed stoppages of 98.3 at hydro plants and 89 at thermal plants and 93.8 at plant fired from complementary energy sources. It's very important to talk about this availability, these are hydro plants that are not old, because they are all a brand new in terms of equipment that they have been operating for 40-50 years. And that reflects the quality of our maintenance and investments made in terms of maintenance CapEx. So, these hydro plants when cause to perform has to perform.

Also a highlight is that the Boards of Directors approved a proposal of complementary dividend in '12, 1.5 million equivalent to 2.36 per share, or 100% of the net adjusted distributed income.

Also we continue as component of the Bovespa Corporate Sustainability Index and on October 17, we just opened Estreito hydropower plant with 97.3% of assured energy. President, Dilma Rousseff, and the Chairman of GDF SUEZ, were there with us. The company has a 40.07% share in the operation in that plant and we have seven already of eight generator units fully operational. The eighth generator unit will come into work, but three already have 97.3% of assured energy even without it.

We also had better rating, because of the solidity of cash generation and low debt level having that fitness. And so we had a long-term credit rating increased by Standard & Poor's. We went from brAA plus to brAAA and also Fitch has increased our international rating from BBB minus to BBB.

On slide six, we show the companies organization chart. I would just like to call your attention to a small additions we had compared to the previous quarter on Ibitiua

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Bioenergetica, we acquired part of that. And in 2013, MAESA is going disappear from this structure being terminated.

On the slide seven, we show Tractebel's portfolio, our distribution throughout the states with 22 plants and our growth year-on-year. You can observe that from 2011 to 2012, we had an increase of one megawatt, which is this year will be two. But as I mentioned, and it is important to show you that in our portfolio, we have 81% of hydro plants, 2% of complementary and 17% of thermal plants. And in time of drought, with low water levels and high prices, it is very important to have thermal plants in our portfolio, because they work as a hedge so to speak.

So in the fourth quarter, for example we had a generation in the country of all thermal plants.

Even those that have high operational cost and we had a dislocation of an electric plant that developed a less than their commercial availability, what we are call the assured energy. It was in the fourth quarter between 90 to 96%, which means that you have of a 100% of contract and you have to buy in this spot market. And this thermal plant, when they start dispatching that generates their capacity.

And with that, from what you buying, you partially buy your own energy from the thermal plant and helps you minimize the effect of the thermal plant, which certainly those companies that only have hydro plants would suffer higher effect in their costs, they would pay more.

On slide eight, this is showing our market share. It clearly shows that Tractebel Energia among the private suppliers is the largest by far with 6.9 gigawatts. And when Jirau comes to Tractebel, we are going to 9.3. So we are a just behind Eletrobras.

On slide nine, we show our portfolio among free customer distribution and trading companies. Our operations in the free markets and regulated market. Remember, regulated market is when we sell to distributors, basically this is related to new plant to new concessions. And basically if you what to acquire concession, you have to sell 78% to the regulated market and then the lower share you can sell to the free market. In 2012, then we had 55% in the regulated market. These are longer-term a comfort journey 15 years for thermal plant, 30 years to 35 to electric power plant for and eight years for the existing energy sold in the regulated market. And this regulated market and the free markets are industries and trading companies.

We have 34 plus 11, so 45% sold in the free market. And in 2013, we are going to be mostly half and half. The free is a way to mitigate the sales of existing energy. At existing energy, you can sell in the regulated market the A-1, generally the caps are low, because of the investments in test auctions are being with low prices. And then we thought it was not very convenient to wait for A-1 auction to sell.

So we are in growing situation in the free market where you can negotiate to have more flexible contracts and you have direct contact with the industry.

With the Law of Concession of concessions renewal, we are going to continue competitive, because the reduction of tariffs that was announced for distributors does not affect us much. We continue with factors that are so competitive that compare to the captive markets. And even in the free markets itself, most of the energy was directed to the captive market with a different focus.

We are still going to be in a good position. We are going to have less offer in -- the less supply in the free markets and so we are going to have a very good role in the free market to trade energy. We are going to be more effective there.

On slide number 10, you can see that we have already contracted in the free market. And I think this is our equity from 1,497 and in terms of the volume traded, now it's 1,740. So today we are the top trading company in the country today.

We tried to diversify our sales through many different segments in the manufacturing industry to take out the risk from the purchase there not the financial risk, because we have a quite strong credit policy that is very well executed. So in our standards, we have zero default rate according to our credit policy, because it's very strict. We have no delinquency, because of our credit policy. And the distribution in different industries, in this manner, we can mitigate the risk of manufacturing activity production.

Just to remind you that in 2009, when there was a world crisis, and some industry for example a metalogic industry consumption dropped to 50 or sometimes even to 30%. And in this manner, we tried to mitigate this type of risk.

Now on to slide 12, we'll be talking about the energy market in Brazil. The chart on the left-hand side and the blue bars are showing the difference between supply and demand. And I would like to draw your attention, then in 2001, there was more offer than we have today, but there was rationing. In '07 and '08 there was a deficit and there was no rationing. And in 2008, at the end of the year was very difficult with very low offer and supply and there was no rationing. And they will not be this year, because we have a good rain fall, very different from in.

At 2001, we had 60% of the MRT and now we have slightly more than 100 in the southeast, which is the drives. And so prices are likely to go down and therefore the risk operationally has already gone down. Also because we have more thermal plants in Brazil, we have a version mechanisms and we have more inter connections with this mission. So this is not the risk.

Future supply, if you compare to the previous quarter, it's the difference has gone down because 200 megawatts has been added to the market and 1500 has been taken from Bertin's thermal power plant, which are no longer considered in a supply. So there is a reduction in supply, but there is supply.

On the right, you can see in black demand, projections for demand and the bars are the supplies from power plants, hydro power plants, SHP in terms of reserve. It's always fair, the future is fair and are very just or very -- times be really match. And this has been a

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constant trend in Brazil and also if we calculate supply with inter connection aligns if they're not ready. In time, the suffer may go down. And there is an increasing in greater dependence to meet the demand for thermal generation. Secondary energy is likely to go down, reserves are increasing smaller. So there will be more volatility in the stock prices.

Now commercial strategy, already know the slide you've seen it before and it's showing that Tractebel has its policy and strategy to always set to always sell in spite of the price. Of course, we tried to capture the best prices, but there is a policy with sell, gradually the future energy. There is sometimes may look not good, if we look specifically to 2013, I would prefer to have 100 -- 200 megawatts already contracted. But fortunately or unfortunately, we are almost 100 contracted. And the chart on the right shows that if you look each year, the amount of energy goes down and down and that's why we need to take products in whenever necessary. We buy energy to sell especially in the free market.

Their sales for 5 to 10 years, when the price is low, when the price is high, there is a trend to buy on longer times and this is a paradox's to the third quarter. We've increased, we about 63 megawatts, we sold 27, so increased our availability in and out of 36 average megawatt for 2013.

On slide number 15, I would like to draw your attention two your points. First of all, today's prices for Estreito, it's a last line in red, seven new energy, 12 years, 256 megawatts, 162.6 real per megawatt hour. So the previous one is 181 is Sao Salvador. But in practice, the net amount is very low.

And I would like to draw your attention to a reduction in 2014 for the sale of 194 megawatts as compared to the last quarter of 2012. So comparing the two quarters, and for 2014 we have 143 megawatt in terms of sales and 420, 1521. So apparently we're buying at higher prices in 2015 than selling, 132 in contest, 133, but this 133 refers only to 215 average megawatts which is the average volume for purchase. And this is necessary because we need to reconfigure the portfolio when we needs to configure it like this. So highlighting again, as we always sell according to our policy, we have an average price, we have much higher prices and these and this one and also lower prices.

Now on slide number 17, the growth. The first power plant is Estreito, here is the picture of construction, but in fact it is already in operation and seven generators for 0.1% reflected there and 100% contracted 30 years at 162.6 real per megawatt hour.

On slide number 18, you can see that each one of the generators of our different policies for each power plant where determined by the regulator. In each new generator adds only 7 megawatts average megawatt. And this generator had an accident, it's what's supposed to go alive with that operating but one piece of the equipment was damaged and spare part had not yet been manufactured. So we have to wait repair this unit.

Now I would like Elio to talk about Jirau and to give you an update on the project.

Elio Wolff {BIO 17147591 <GO>}

Thank you very much. Good morning to everyone. It's a satisfaction to be here and talking to you, presenting the Jirau project and on slide number 19, some update.

And the first one is regards the commissioning of the units as planned for the second quarter of 2013 and then financing conditions which is no novelty. We have a total of 9.5 with an initial 7.2 plus 2.3 billion and TJLP at about 5% and spread is ranging between 2.1% and 3%.

And on slide number 20, some novelties that you're already are familiar with the projects are 3,750 megawatts in the project. And on the pie chart on the right, you can see the share most of the energy has been sold for 30 years indexed by inflation. The first PPA has an adjustment. We receive the approval from ANEEL to adjust the PPA more specifically, the PPA of power plants starting between March and May, still pending on some technical issues for the operation of the system.

The PPA amounts to 1,383 average megawatts in 2016, with a contract price of 91.5, the second PPA will start on March 14, with an amount of 209 average megawatts and the prices is 110 reais. The second PPA regards the extension of the power plant. And the balance energy that will be sold by shareholders according to the contract and here you can also see on the pie charts below, the long-term volume that we have in terms of contracted energy, which is up about 333 megawatt, average megawatt.

And CapEx, we had reported 15.4 now updating is according to indicators of the project for December 2012 is 15.7 billion. Here an interesting and positive piece of news, in late 2012, we got the approval from the Brazilian government for carbon credits. So on December 20, we filed on United Nations, we're waiting for the approval in early 2013 and what we're hoping is amount of the 6 million tones of carbon equivalents credit to start having some revenue in 2014 another important point. We're working to obtain additional energy 19 average megawatts for the region.

Now on slide number 21, some pictures to show you how the construction work is progressing.

And now I thank Zaroni and I turn it back over to him. Thank you, Zaroni.

Manoel Zaroni Torres {BIO 18279105 <GO>}

Okay. So continues the expansion on slide number 22, you can see our wind farm in Porto do Delta and Trairi. Porto do Delta, the license was late, we had a fewer problems and actually we're not building. The project is on hold waiting for an opportunity reminding you that we are selling the energy of the complex of Trairi and these four wind farms the Trairi, Fleixeiras, Guajiru, Mundau and we are selling this energy to the free market. The market of special consumer that's have 50% in the fee rate. And facilities, this is evolving well, the basis are ready, you have started assembling or building the tower. And we are

expecting to obtain our operational license in mid 2013 when we will have these 115.4 megawatts available. The energy is already being sold with three or five year contract.

We hope to have transmission lines in the basic network to transmit from the power plants once it's ready. And we are making an effort with our connection line and it connected (inaudible).

Now I'll talk about our financial performance. So -- and I am going to make the presentation and Sattamini well give me some support. So the first slide on slide 24, shows a midterm view up to 2009. So shows that net revenue EBITDA net income had a weighted average of around 12%, which is interesting 12% in net revenues, 12.2 EBITDA and net income 11.2% reaching 1.5 billion in 2012.

On slide 25, we basically show the evolution of net revenues between December 2011 and December 2012 in what you see in the bottom. So we have an addition of 293 million real, very good results in CCEE generally -- they did nothing.

We would have this amount as a negative amounts because we do have thermal companies and so we would have a negative balance sheet, because of allocation and higher generation. In thermal companies, we had a very expressive positive results here. We also have an addition of revenues due to Estreito with all the power with generates and units on, an increase in sales volume, reduction of revenues because of the lack of exports in 2012, we did not export energy very little almost nothing and 7 million of others, then we went from 4,327 to 4,912.

Also in terms of EBITDA, you can see that the percentage is not that much from 2,910 to 3,108 but again a 179 in CCEE. Estreito power plant are under 19 operations, which is volume and price. 78 exports minus 61 and then we have precised enough non-recurring results, which is a balance between provisions reserve source of this year and also a series of non-recurring effects that we had in 2011. I'm going to explain that a little further in the next slide.

But before the evolution of our net income in 2011, 1,448, 1.25 in 2012 growth of 3.6% an increase of revenues then of 13.5, 6.8 in EBITDA and 3.6 in net income. So basically, again you have to see upgradation financial results is straight to, and in straightly you can observe here that it had a growth in EBITDA, earning revenues that was important but it's -- had a drop compared to 2011. And that's basically because of financing, the increase OIBDA and because as equipment goes into operation you don't have the capitalization of investment, exports minus 40 and 77 million of non-recurring results.

We had several non-recurring events in 2011, if it weren't for these events in 2011, if we remove to these non-recurring events 2011 and 2012, this increase in net income would be about 9.6% if I'm not mistaken. And so some of these events are -- is a write-off reserves and provision of lawsuits, tax adjustments, tax or adjustments to credit, fiscal credit or tax credit. So, a series of things that took place in 2011. So again, these non-recurring events do affect the perception of growth.

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On slide 28, I would like to draw your attention to the growth of ever place of energy sold in the fourth quarter. Right in the middle of the slide, and also top in EBITDA margins right under it from 66% to 60%. EBITDA margin is basically the following, when and hydroelectric generation, you have high EBITDA margin, thermal energy you have lower margin. And when you purchase and sell energy then you have even a lower margin.

So it was in the fourth that this happens, we have higher thermal generation and higher purchase of an energy for resale and therefore a decreasing margin.

On a slide 29, we have our level of debt fitness. The growth in that fitness 3.415. If we exclude the cash, we have a net debt of 2.355, a 6% in foreign currency. EBITDA 1.1 times and generation of operating cash of 75%. That if we have a breakdown for you to have an idea, we went from 2.8 to 2.3 in terms of net debt, 1.421 in dividends, income tax and social contribution 566, new investments, Jirau's investment 355, accrued interest 236, foreign exchange 41, capitalized interest 34 minus 11 for working capital and the results of operational activities 3.187 million are getting to this amount in 2012. And we have our medium and long term debt. I would like to remind you that our debt 6% of that is exposed to foreign exchange, so 94% is in local currency, 76% of which foreign exchange two thing of interest rate of TJLP and a reduction of 5.525 represent 12 million less in terms of payments of interest.

So we have some important payments to be made in 2013 and 2014. A 513 million in 2013. 160 with the second issuance of debenture, the same is true for 2014. 626, 217 for the bank and a 164 the second issuance of debentures.

Investment, our CapEx in 2012, a 109 million on capital and so 245 of that funded, so we have OEM 81, 560 of Estreito and 113 of wind farms and some other investment in 2013. We -- once the following breakdown 989 of our own equity and 205 that's funded. 235, 237 sorry -- of OEMs, a small share Estreito and other investments. 385 for the farm complex and services of our grounds. \$500 million for future acquisitions of our share is zero in following years 2014, 2015, we just have our CapEx in OEM. Dividend policy, we pay the 100% of the distributed net income 2.37 real per share with dividend yields of 7.1 considering the average price of 2012 with the average rate of auction rates by volume. Yesterday that would represented 6.7%.

With that, I would just like to draw your attention then you have a series of slides in our presentation about sustainable development showing the some of the actions that the company has been developing both environmentally and socially, award investments made.

We have a breakdown of our balance sheet on slide 38 and then we have an explanation on allocation of thermal energy and then we show that in 2012, we had positive results in CCEE of an location of 98 million and differently from 2011 where we had some losses, because CCE is an expenditure, because thermal replacement is expenditure and we try to mitigate to that and there are years that we can get very positive results.

With that, I close my presentation and we are going now to open for any questions you may have.

Questions And Answers

Operator

Ladies and gentlemen we are going to now start the Q&A session. (Operator Instructions). Our first question comes from the Felipe Leal from the Bank of America.

Q - Felipe Leal {BIO 2015017 <GO>}

Good afternoon to everyone. I have two questions. First with regards to the wind farm, there was a delay in the construction of transmission lines and how does this affect your contract in the three market, are you already taking an initiatives to be protected from the delay inline?

And the second question, regards, Jirau, are you still working with an increase in the transfer of the assets or whether should we still component reduction of payout with a minimum of 55%?

A - Manoel Zaroni Torres {BIO 18279105 <GO>}

Good afternoon, Felipe. How are you? Felipe, as to wind farms actually we have been working in the market but actually the delay for 2013, we have already bought the energy and in the future, we have close the portfolio. And all of this is mitigated by any possible delays in the wind farm. So we're going to meet the needs of our customers and we'll manage that as time goes by.

Two, the transfer of Jirau, well the transfer of Jirau is certainly a complex issue. We have a very large project even for Tractebel Energia, this will call for major effort from all stakeholders, including and Tractebel. And certainly, a power plans that is late and recently a new schedule has been approved, for this follow-up trend. It was last week by a new, the covenants with this operation will not take place in 2013, we may thought work in 2013, but it won't be in 2013. So there is a trend for us to pay a high payout.

Q - Felipe Leal {BIO 2015017 <GO>}

Okay, thank you very much.

Operator

Our next question comes Mr. Gabriel Salas from JP Morgan.

Q - Gabriel Salas {BIO 17367038 <GO>}

Hello, I'm a Portuguese, not great so speak to English. And the first question, I have two questions, the first one regard, in a bigger context also trying to expand in the industry overall because of the MRE you have and the whole industry sort of on the same boat.

So what is your opinion, the fourth quarter and the first quarter exposure or you guys in the spot market as a buyer or would it be in money or continue or do you think the hydrality and is it enough to alleviate the other generation of companies that have highest spot prices from the very top down.

And then you just mentioned that, where there delay in the transfer of Jirau, not just delayed, but we've actually that you'd spend general -- with the transfer of Jirau plus a relatively healthy and very strong balance sheet were less than 1 and therefore EBITDA ratio and strong cash productions. Would you, does it make sense for you guys to be conservative or should we forecast that you're going to continue a proposing 100% payout? And that's it. Thank you.

A - Manoel Zaroni Torres {BIO 18279105 <GO>}

Well, your first question. And this country is hydro power complex is regulated by or where there is -- and if you should start generating a lot of thermal, it's the same lot and then you dislocate on MRE, which produces the minus 1 GRF and affects those 100% contracted in the case of Tractebel, we have thermal power plant which mitigate this risk slightly, because when we generate, it generate more than a commercial, so we buy on one side and generate on the other.

Secondly in January, probably with 413 real per average megawatts in terms of PLD price and with the allocation, we are going to have a high GSF for January and February. In March, there is a trend for spot prices to go down, but we will continue to generate, I do not believe the government will authorize stopping thermal plants, because they want to recover as much as possible all the reservoirs in the country.

So that's there is no risk in 2014, when we are going to have the World Cup and presidential elections and rainfall. Well, rains were late but they came. So we are having a slightly late summer. And third I couldn't do everything you ask about that. I would not answer to you definitely because this is part of our strategy. And now with the guide to Jirau -- Jirau certainly.

With that delay as I have answered -- explained before. And our intention and the payment of dividend is defined. Well, it's the shareholders, it's the board but we are likely to be high dividend to pay out slightly to be high until the end of the year. Thank you.

Operator

(Operator Instructions). Excuse me, now we're closing our Q&A session. I'd like to turn it over to Mr. Manoel Zaroni for his final consideration. Please Mr. Zaroni, you may proceed.

A - Manoel Zaroni Torres {BIO 18279105 <GO>}

I would like to emphasize that Tractebel had a year of 2012 that we considered very good, everything that happened in our industry because of the renewal of concessions and the lack of rain and the high prices didn't really affect Tractebel and Tractebel confession will

much are in 2028. This is the first one, so I think it's very far ahead and everything will change until then the whole country.

So the fact that we have power plants and mitigate the displacement of GSTF. And our expertise and intelligence, we have been more successful than fail in the allocation of energy. So for 2013, we're very much contracted or highly contracted but we will certainly know how to buy energy at the right time and to continue doing good businesses. So I don't think you're going to see any surprises in our results in 2013. We'll go on paying high dividend and having solid results. We have expanded a lot of our basis of free customers.

We have very high availability in the power plant. We have a growing energy price and so I'm not expecting any important novelties except if we make some major investments during the year. And then that might affect dividends, but there is nothing that I can see in the future year yet.

Thank you very much for your attention. It is always a satisfaction to talk to you.

Operator

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

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