

## Q3 2010 Earnings Call

### Company Participants

- Antonio Previtali, IR Manager
- Eduardo Sattamini, Finance & IR Director
- Elio Wolff, Market Relations Manager for GDF SUEZ

### Other Participants

- David Fajkarz, Analyst
- Diogo Amaral, Analyst
- Leandro Cappa, Analyst
- Marcelo Britto, Analyst
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Morning. This is Tractebel Energia's Conference Call. All participants are connected as listen-only mode and later on, we will open the Q&A session when instructions for participation will be given. (Operator Instructions). We should remind you that 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, go ahead.

#### Antonio Previtali

Good morning, ladies and gentlemen. You are welcome to Tractebel Energia Conference Call where we will announce the results of the Third Quarter of 2010.

This presentation, along with its lines, will be simultaneously webcast through the website [www.tractebelenergia.com.br](http://www.tractebelenergia.com.br) in the Investor Relations section. There, you can also have a presentation of the Company's earnings release.

Before proceeding, I would like to clarify that any possible forward-looking statements made during this conference call regarding the business outlook of the Company should be considered just as forecasts; that they depend on the countries' macroeconomic condition, on the performance and regulation of the electric industry and, therefore, they are subject to change.

Today, here in Florianopolis, we have with us Mr. Eduardo Sattamini, Chief Financial and Investor Relations Officer, who will talk about the performance of Tractebel Energia in the Third Quarter 2010; and Elio Wolff, Market Relations Manager for GDF SUEZ in Latin America, who will present an update on the developments of Jirau HPP. Then, we will answer any questions you may have.

Now I will turn it over to Mr. Eduardo Sattamini.

## **Eduardo Sattamini** {BIO 16648085 <GO>}

Good morning, ladies and gentlemen. It's a great pleasure for me to start our conference call to announce the results of the Third Quarter of 2010, and there have been interesting impacts in terms of the results of the Company, starting on slide four of our presentation with the main highlights of the quarter.

Then we have had 22% in net operating revenue compared to the same quarter last year, especially because of an increase in the average sales prices of power contracts. There are new plants that entered in operation, higher sales volume and also from exports. These are the main aspects that drove up our net operating revenue.

EBITDA didn't follow the same line. It went up by 17%, slightly less than the net operating revenue, very much because of the energy we bought to resale, and also because of thermal generation on our gas power plants. We do not have a return for the fuel or a refund for the fuel.

Then in terms of net income, it's 13.4% because of a higher inflation in the quarter compared to the same quarter last year, when we had a slight deflation in '09 with a 2% inflation in 2010. And this obviously affects our financial results, because of the debts we have that are indexed by the inflation.

In terms of energy sold, we had a slight improve of 5.3% as compared to the contracted volume comparing 2010 to 2009. In terms of average price of energy contracts, we had a 7.4% difference.

And as -- in terms of operating performance we have hit another record, generating 5,470 megawatts, a capacity factor of 93.8%. Also this quarter, we approved BRL220 million interest on shareholders' equity, which is equivalent to RBL0.337 per share and we are expecting to have a 55% payout for 2010.

Another highlight of this quarter with regards to subsequent events in 2010, on October 19, in our Extraordinary Shareholders' Meeting, we approved unanimously that SUEZ Energia Renovavel, which holds 40.07% of Consorcio Estreito Energia, in charge of construction of Estreito HPP.

Now on slide five, you can see our shareholding structure of Tractebel Energia and its controlling Company. The change here is that SUEZ Energia Renovavel is now part of the

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companies controlled by Tractebel Energia and it became effective in August after the approval by Aneel, both BNDES approved it. And we should also emphasize that yet, we have not completed the operation of international power and that's why you do not have it here in this organization chart yet.

Now on slide six, no major changes; we have 21 power plants that are operated by the Company and divided between hydropower, thermal and complementary; 79% hydro and 18% thermal.

Now on slide number seven, you can see Tractebel Energia is the largest private player in the Brazilian generating market as compared to its competitors. Today, we lead the market.

In the quarter, we also have the expectation in terms -- we are presenting the growth estimate of our competitors, and you can see that the Company remains as a leader and will remain as a leader for a while if we keep the expected growth and compared to our installed capacity. And that's why we're also positioned as a possible agent to consolidate the industry.

Now on slide number eight, you can see our portfolio; a balanced portfolio among free customers, distribution and trading companies. And here we should stress, as we mentioned the last quarters, that maturity of free consumers is changing its profile slightly in terms of distribution of our portfolio and for these consumers, considering that they are having a slightly larger share compared to trading companies. So part of the energy that we used to sell through trading companies, now today, we are selling directly to end customers and this is better for us than having customers buying from the trading company.

On slide number nine, the diversification of our portfolio and you can see a risk reduction in different industries of the economy. We have a strict credit assessment policy, which permits us having a zero default reality.

There is also real growth; year-on-year 12.3% and overall 9% growth and they represent an ever greater growth in our industry, and we have -- it has an important share in our portfolio, as you can see in industrial industry or manufacturing industry.

Now we have our forecast for the energy -- for the electric energy market. We expect it to grow very much. The growth will contribute for the demand for electric power to go up and then for us to meet the growing demand, we'll be conditioned to effective growth of offer.

What do I mean? If you look at the chart on the right, you will see that us meeting the demand of 2011 depends very much on the startup of new power plants. And the same thing happens in 2012 and '12, '13 and '14. So what you can see here is that even though there is a structural surplus that you can see on the chart on the left, it depends basically on the startup of new power plants to supply this demand.

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Now on slide number 13, you can see the energy for delivery in the medium term is almost fully contracted. And you will see that our availability up to 2013 is quite small. It goes slightly up in 2014 and 2015, but this is part of our marketing strategy. Tractebel Energia's markets year-on-year, we market our power little by little. We are always present and active in the market and in this manner, we want to reduce our exposure risk to the price of one specific year. This is one risk mitigation policy that our Company has.

Now on slide 14, Elio will be talking in more detail about our energy balance and our position, and you will see that we have had a considerable reduction in our balance. As you could notice in the previous slide, we have had 137 in our balance in 2011 of 137 [ph] average megawatts and 168 [ph] average megawatts in 2013, 246 [ph] in 2014 and 252 [ph] average megawatts in '15.

You can also note that all average sales prices have increased slightly and they have gone up as compared to the reported in the Second Quarter of 2010.

Now talking about our growth, I'll talk a little bit our Estreito project on slide number 16. The novelty on this slide is that now, this month, we have started to present updates on our CapEx on a total investment and there have been minor changes.

There was a change with regards to the information of the nominal value at a given time and this represented a difference between when we -- BRL48 million difference in terms of what we used to report in the past. We also have had a social investment that was approved that will be 100% funded by BNDES worth BRL32 million. And we also had a net deviation of CapEx of BRL11 million so far. So our update -- up to date CapEx at the prices of the Third Quarter 2010 is BRL2,181 million.

On slide 17, you can see the works and the status. The axis of the Kaplan turbine is here. We also have the general view of the spillway, all of the locks -- most of the locks are already mounted. We have the water intake with the retention grids, which have been mounted already. And you have a general view of the project; the substation, the power house, the dam and the spillway. 2011 is the date expected for startup and we trust that the schedule will be fulfilled.

We will now move to the Jirau, a hydro power plant under construction and I will turn over to Elio from GDF SUEZ.

**Elio Wolff** {BIO 17147591 <GO>}

Good morning. I'm going to talk a little bit about the Jirau hydro project. It's under construction and on slide 18, I will -- it is located in the Madeira River, 120 kilometers from Porto Velho.

The capacity was originally for 3,300 megawatts, but the shareholders decide to increase it to 3,450. So we are currently building for 3,450 plus an additional 300 megawatts which are under analysis. Depending on the assured energy associated with this 300 megawatts, the assured energy of the plant now is 1,975 average megawatts.

44 turbines; we have commissioned 44 plus two turbines. This is what has been committed and we are analyzing the implementation of additional four turbines.

As regards the CapEx, updated data for June 2010 amounts to BRL11.4 billion, of which BRL3.5 billion have been invested -- or rather allocated to the project. The BNDES current financing is for BRL7.2 billion. There is an additional line of credit being discussed with BNDES.

On the right-hand side, you have the shareholding structure ESBR. GDF will hold 50.1% of the project. Camargo Correa, 9.9%; Eletrosul 20%; and Chesf 20%. Camargo Correa is well underway in the negotiations, to sell its stake, and is going to sell half of its stake.

Relative to the CapEx breakdown, I would like to highlight the amount for investment in social and environmental project; some 10%, which is considerable, bearing in mind that it's an BRL11.9 billion (sic; see presentation).

And moving onto slide 19. In the first block, as you know, the PPA price, that was signed in the regulated environment, for 70% of the energy is for BRL79 per megawatt hour, for June 2010. And the prices will escalate, according to the right-hand side.

As regards the free energy; on October 20, an auction was carried out. This auction is just the first stage to sell this free energy, and 23 players participated in the auction. The minimum price for five products was between BRL130 and BRL140, and no energy was sold yet in this auction. So from the free energy, for Jirau, none of this free energy was sold.

The auction is seen by the Group as a first stage to sell energy; and in a certain way, it was a positive result for the Group. It gave us an additional perception, relative to the price of energy in the market.

On the bottom of slide 19, you can see the schedules on the start-up of the plant. In 2012, the first unit's going to begin to operate. In 2013, the 27th unit will start to operate; which accounts for 100% of the assured energy.

On slide 20, you see some pictures, some photographs of the Jirau power plant; the spillway; the power house 1, on the right bank; the lodging, also the right bank; and the new Mutum Parana, that has been built in this place.

We are now going to talk about the financial performance of Tractebel Energia. On slide 22, we are showing a constant growth of our financial aggregates, especially relative to Q3 2010. The results relative to 2009 were impacted by the start up of new power plants; an increase in the average sales price, as we have seen; a rise in the volume purchased for resale; an improvement in the transactions carried out in the CCEE; and also, more inflation and increase in energy export.

I'm going to give you more some details about the aggregate. On page 23, you see the changes in the gross operating revenue. There was an increase of 23.4%. The first block of increase comes from the transactions in the CCEE, coming from the results of our allocation policy. We have a very accurate and appropriate policy.

In this quarter, too, there was a high volume of dispatch in our thermals; an operating procedure in the short-term; and the PLD, the spot price was also very high. So we had a very good result from our transactions in the two CCEE.

We also had the effect of an increase in the average sales price, because of contractor readjustments; and the new contracts, at higher prices than the expiring contracts. We also had the impact of the new power plants Ibitu Bio [ph] Areia Branca; and an increase in the sales volume. Also, the impact of exports. This is an additional result from exports, relative to the Q3 '09 and others. So the gross operating revenue was BRL1,213 million in Q3 2010.

Relative to EBITDA, it was impacted by the same accounts. The transactions in the CCEE, average sales price. And what I would like to highlight is the block relative [ph] -- to do with the reducers of the EBITDA margin. That is, the energy purchased for resale, and the fuel expenses in generation; BRL58 million and BRL12 million negative impact respectively. The EBITDA then was BRL572 million in '09, and is now BRL670 million in Q3 2010.

As regards the net income, on slide 25; this was basically impacted by the same components. And I would like to highlight the financial results. They were lower than the financial results of Q3 '09. The difference was BRL9 million negative. And this is due to a higher inflation, and to more depreciation of our assets; so BRL4 million impact. It might be also important to highlight that, in Q3 -- that Q3 has an impact in 2010, and it accounts for 38%; which is a substantial result for Tractebel Energia.

As regards the financial data, on slide 26, we have the average price. So you can have an idea of the increase in the average price. It went from BRL108 in Q2 2010, to BRL117.9 in Q3 2010. This has to do with the readjustment of contracts, and we were able to close contracts with higher prices than the old contracts.

This had an impact on the EBITDA generation; BRL670 million. This was also due to the higher volume in the CCEE, with an impact of BRL324 million in the net revenue -- in the net income, sorry; which is very high, relative to the previous quarters.

Moving now to the indebtedness of the Company, on page 27. We have the impact of the acquisition of SUEZ Energia Renovavel. Our debt was BRL3,065 million in the second semester of 2009; to BRL4,276 million in Q3 2010. BRL1,160 million are for the acquisition of SUEZ Energia Renovavel; and BRL50 million are for the Ibitiua project; for which we made disbursements in Q3.

As regards the cash position, BRL1,174 million in September 30. We paid dividend. We also paid the second portion of SUEZ Energia Renovavel. And as a result, we have a net position of BRL614 [ph] million.

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As regards the debt, at the end of the second semester of 2010, we had the net debt of BRL2.204 billion. We had a debt of Estreito BRL2.161 [ph] billion. And now the new projects -- now the projects of Estreito and maintenance CapEx basically also. We had interest in FX change, with BRL51 million; and operational activities with cash generation; reducing the debt by BRL505 million.

And we also had a negative change in working capital, especially because of the release of core deposits, or the Escrow [ph] over [ph] contracts. And this was reported in the extraordinary results of the Second Quarter. And the net debt totaled GBP3.101 billion at the end of the Third Quarter.

Now on slide number 29, you can see the debt profile. We can also see a slight difference, in compared -- as compared -- in relation to 2011, because it's added obligations in terms of maturity of loans also as a consequence of the acquisition of SUEZ Energia Renovavel, whose loans are going to mature; the loans from BNDES, and they're going to mature in the second half of 2011.

The cost of the debt has also had a substantial decrease. We have had 10.9% to 10% this quarter, as a reflex of the acquisition of the debt of SUEZ Energia Renovavel; which reduced the total cost of our liabilities in reals.

Another effect that you can see, in terms of the acquisition of the debt, is an increase of the debt indexed by TJLP, which, in the Second Quarter 2010 was 40%; now it's 57% of our debt. So it's a cheaper debt that reduces the capital cost of indebtedness of Tractebel Energia.

On slide number 30, you can see our expansion plan and our investment in CapEx. And you can see a slight marginal reduction of our expected CapEx, from BRL2,203 million [ph] and then in terms of our debt funded by loans and our own capital, or equity funded, especially in the Third Quarter. We -- the contracts will take place in the Fourth Quarter of 2010, but we approved the supplemental -- a supplementary loan for Estreito projects worth BRL308 million. This -- we had not expected this, but we are reaching it in the Fourth Quarter of 2010.

To our dividend policy; our dividend policy we're still committed, with a minimum payout of 30% of the net income. We're also paying BRL0.78 per share, which is equivalent to 60% of our profit up to the Third Quarter of 2010. And we also announced the distribution of interest on shareholders' equity, worth BRL220 million; which means BRL0.337 per share. And in total, we are going to have BRL844.2 million to be distributed regarding the business period.

So this was the presentation. Now, we're going to go to our Q&A session.

## Questions And Answers

### Operator

(Operator Instructions). Mr. Canheu from Credit Suisse.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Good morning. Thanks for the presentation. My question has to do with new contracts that, as you showed in your balance, there were also the sale of new contracts. And you expected BRL120 per megawatt hour in the previous quarter. Can you give us an indication relative to these new contracts? Are they at the same level? Are they at a higher level, at a lower level?

And the second question has to do with thermal generation. I would like to understand what happened with this thermal generation? Was it outside the order of merit? What is the situation for 4Q?

**A - Eduardo Sattamini** {BIO 16648085 <GO>}

First question relative to the price level. New contracts were at a higher level relative to Q2. There was a small improvement. And in a way, what we saw in terms of price, in this quarter, was a price of 130 megawatt hours. Some contracts had a deviation of more or less than contract in view of the flexibility, the allocation of energy in the year and the modulation required by the customers.

So it is important, depending on the need of customers and our availability. Prices may vary, but the price was a little bit above the price of our Q2 2010.

Relative to William Arjona [ph], it was dispatched outside the merit order. We're using the short-term operating procedure most of the time. And on Q4 what we are seeing or rather what we were seeing until last week was the number of dispatches, the quantity.

**Operator**

Mr. Leandro Cappa from Deutsche Bank.

**Q - Leandro Cappa** {BIO 17871464 <GO>}

Good morning, I have two questions to Elio.

First, with the change of San Antonio for the 70.5 quota determined by Aneel, is it going to impact Jirau and the total profitability of the project?

And can you talk about the difference between the price offered and the minimum price in the auction of Jirau's energy?

**A - Elio Wolff** {BIO 17147591 <GO>}

Thank you very much. Well as to the first point, the information we have relative to the quota of San Antonio, this was in the press today, and it's important to EDSR was not formally notified. But the assured energy of Jirau, it is a legitimate process; the regulation



was just recently established. And the two plants, together with the other plants that are filing for additional assured energy, they are awaiting the process that is being conducted by the regulatory agencies. So we would rather wait for the feedback and for the results of the discussions held together with regulatory agency.

Well as to the auction prices, as we said in the presentation, the minimum price was in the region of BRL130/BRL140. And our feeling was that prices should be between BRL120 or BRL130. This is why no negotiations, no transactions were carried out in the auction.

## Operator

(Operator Instructions). Mr. Fajkarz from Raymond James.

### Q - David Fajkarz {BIO 16675965 <GO>}

Good morning. I would just like to complement the question to Elio. Considering the result of the auction, do you intend to change your strategy of lowering prices? Or do you have any other strategy you're [ph] waiting for prices to get to that level? Do you have that type of expectation? Thank you very much.

### A - Elio Wolff {BIO 17147591 <GO>}

Well actually, as I had said before, the auction was the first phase that we took, the first step. There are other ways that we are going to consider from now on; we are already considering and we may take part in a new energy auction. And these are actions that the Group will take from now on.

Obviously, we always try to maximize to make the most of the sale of the energy and to try to capitalize the best value for the energy in the market. What we also identified in the auction is that the products and the way these products were offered did not fully meet market demand with regards to modulation and aspects that may be dealt directly with the customer and thereby to absorb better value.

Here you mention an important aspect. When you go to an auction you need to define products. And to define products, you lose the opportunity of individually meeting the needs of your customers. So you focus your contracts more on price. And this might be an explanation. This is something that we learned in the process. Thank you very much.

## Operator

Mr. Diogo Amaral from Banco Safra.

### Q - Diogo Amaral {BIO 16170864 <GO>}

Good morning, (inaudible) Previtali and Sattamini. About operating costs this quarter, I noted that in terms of manageable costs, PMSO [ph] there was a significant increase, as you mentioned in the release; the increase with expenses from third party services.

From now on, do you think this is going to be a recurring basis or that number include non-recurring events, just so we have an idea whether this is going to continue?

**A - Eduardo Sattamini** {BIO 16648085 <GO>}

Some of these facts that we may comment on, there was an impact of the increase of our expenses with personnel. And our higher personnel expense is because of the hiring of new people with the start up of Estreito [ph] power plants next year.

As to third party services, this is not recurring. This is specific to services recently hired for the turbines in our power plants. And we are not expecting for them to continue to recur in the future. So we do not think this is a permanent entry in our level of expenses. Thank you very much.

**Operator**

Mr. Marcelo Britto from Citigroup.

**Q - Marcelo Britto** {BIO 15393330 <GO>}

Good morning. My question has to do with Jirau. So in addition of the return, what are the consequences of not contracting the anticipation?

The funding, the BNDES, were they counting on the anticipation of delivery or were they only counting on the long-term contracting?

**A - Eduardo Sattamini** {BIO 16648085 <GO>}

These actually are two questions, so the first has to go with why we didn't sell --

**Q - Marcelo Britto** {BIO 15393330 <GO>}

No. What are the effects of not contracting in the short-term for you to close the financing project with the BNDES or the anticipation actually.

**A - Eduardo Sattamini** {BIO 16648085 <GO>}

We don't think that we are not going to contract. Our expectation is that we are going to get efforts to sell this energy. And of course, we want to contract this energy in the best possible position.

Relative to BNDES, of course, there are commitments before the BNDES that have to be met. And they're going to be dealt with as the facts arise. So the conditions of the BNDES, of course, will be met.

**Q - Marcelo Britto** {BIO 15393330 <GO>}

So the funding agency was counting on the anticipation of the project, is that correct?

**A - Eduardo Sattamini** {BIO 16648085 <GO>}

One part of the anticipation is part of the revenue and is linked to the funding.

**Operator**

(Operator Instructions). We are now ending our Q&A session. Now I would like to turn it over to Mr. Eduardo Sattamini for his closing remarks.

**A - Eduardo Sattamini** {BIO 16648085 <GO>}

Once again, I would like to thank you all for attending our call. We hope that we have excellent results on our Fourth Quarter too and to close 2010 with an outstanding performance for our shareholders and to announce a good dividend for 2011. Thank you, all very much.

**Operator**

Tractebel Energia conference call has now ended. We thank you all for your participation. Have a good day. Thank you.

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