

## Q2 2013 Earnings Call

### Company Participants

- Eduardo Antonio Gori Sattamini, Finance and Investor Relations Director
- Elio Wolff, Market Relations Manager
- Manoel Zaroni Torres, Chief Executive Officer

### Other Participants

- Carolina Carneiro, Analyst
- Marcio Brito, Analyst
- Miguel Rodrigues, Analyst
- Unidentified Participant
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good afternoon. This is Tractebel Energia's Conference Call where we will discuss the results for the second quarter '13. All participants are connected only in the listening mode. And later on, we will open the Q&A session, when instruction for participation will be given. (Operator Instructions)

You should remember that this conference call is being recorded. This presentation followed by slides will be simultaneously transmitted through the internet, through the website, [www.tractebelenergia.com.br](http://www.tractebelenergia.com.br), Investor Section.

A slide presentation and the company's earnings release are also available on that website. Before proceeding, I would like to clarify that all statements that may be made during this conference call regarding business outlook of the company should be treated as forecast depending on the country's macroeconomic conditions of the performance and the regulation of the electric sector in addition to other variables. Therefore, they are due to changes.

With us today we have Manoel Zaroni Torres, Chief Executive Officer, Mr. Eduardo Sattamini, Executive Officer, Mr. Eduardo Sattamini, Finance and Investor Relations Director of Tractebel Energia for the second quarter 2013; and Elio Wolff, Market Relations Manager of GDF SUEZ Energy Latin America, who will present an update on the development of the Jirau Hydro Power Plant. Right after, they will have the Q&A session. Now, it's my pleasure to turn the call over to Mr. Zaroni. Please go ahead.

## Manoel Zaroni Torres {BIO 18279105 <GO>}

Good afternoon. I am going to present the result as announced. First, I will speak earlier then I will speak again and then Sattamini who will address the financial information. So I am going to start in slide number four.

The highlights of the quarter. On the left hand column, we have quarter-on-quarter, the variation on the right hand, the semester 13 and 12 and the changes. So then we can say that revenue from sales went up and also grew 13.5% in the first half. The EBITDA went down in the second quarter '13 as compared the 2012 as a result of the strategic concerning energy allocation and the short term purchases.

And in the financial, it went up and so it was in a short division in the first quarter along the hydrology changed a lot. Then we also had a regulatory change. The resolution that forced us to buy energy in the short term to decrease our position and that's why the EBITDA went down. In the quarter and the semester, it went up, the EBITDA and net revenue from sales in the short term. The net income went down a little bit where we had a financial gain, non-recurring financial gain and that we had severance from the EBITDA and the profit in the semester, the profit was 11.9% which is quite relevant. Energy sold, it also went up in both quarters and in the semester after the net price also went up, and also this production grows. We had a high thermal and hydro in the second quarter.

In slide number 5, the highlights of the quarter that is in the meeting of the 30th of June we approved the 100% day out totaling 767.6 million in interim dividend based on the first half 2013 corresponding to 1.1759 per share. I would like to highlight that the dividends that are received remain here and our channel to the Jirau construction where we are making a lot of investment with our own capital.

In June, we completed the assembly of the wind generators at the first Trairi Wind Farm, one of the wind farms under construction in the state Ceara. And we are scheduled to have Jirau and Fleixeiras[ph] until the end of the year. We are not in operation, because the transition is delayed.

In May, we started a construction of the first trial module, they are small modules, 70 kilowatts peak and the implementation of the Solar Photovoltaic Plant of 3 megawatts peak and that's being constructed adjacent to the Jorge Lacerda Thermoelectric Complex in the Capivari de Baixo, State of Santa Catarina. This project is under Aneel's research and development program and the main participant is Tractebel Energia, and it totals 50 million and the COD of this plant is scheduled for December, and 25 million has been invested by Tractebel.

Once again, Tractebel was a winner of the Transparency Trophy Awards granted by Anefac, Fipecafi, Serasa Experian for the quality of the company's financial statements. Tractebel was selected in the company with sales up to 5 billion category.

And slide number 6, we have the organization chart or the structure of the group. The only significant change was in the sustainable energy of Brazil and GDF fabulous strategic

partnership with Mitsui and sold 20% targeted participation in Jirau, and it now has only 40% of the Jirau hydro plant that will be transferred into future to Tractebel Energia energy.

In slide number 7, we see a diversified portfolio of assets, an 86% growth in this period over 10 years, and it shows that we are no longer a regional company, but a company that has ramifications all over Brazil from Ceara to Mato Grosso do Sul [ph], which is quite complex to maintain the culture and the management of the company with the same values in all of these regions, which is painstaking and specially within this 6909 megawatt with our 22 plants, we have complementary between thermal and hydro, the fact that we have thermal electric plants, but it takes us when we have low hydrology peers with a high thermal generation.

In slide number 8, we see our position as compared to our counter parts in Brazil, by far we are the largest private player in the Brazilian market, 6900 megawatts and when megawatt -- when Jirau comes and the force would be 8.5 megawatts. We are in the same size of Cemig, and CESP, and Copel. But probably we are going to be bigger than they are. So therefore, you can see we are well positioned to capture new business opportunities and consolidate the company.

In slide number 9, we can see the profile of our portfolio. Today, we are one of the largest energy trading companies in Brazil. In our portfolio, we have estimated for 2013, 61% sold in the regulated market. If we had all the sales in auction, we have to sell at least 70%. In the beginning it was 100 including the energy sold in the regulated market, so we can see that we've also progressed in the industry market and special markets, we've 41% sold to the industry and 9% to trading companies, sometimes the trading companies that vehicle to reach the end consumer and it's something that gives us liquidity in the marketplace and this provide us some stability and flexibility in our portfolio, stability in the long run, with our new energy and the contracts we have with the distributing companies for eight years and flexibility in markets for business opportunities in the energy sold to end consumers.

And with that we also minimize the risk on the other side, on the buyer side. As we can see in slide number 10, our portfolio is highly diversified. Today, we have 1,721 average megawatts sold in the free market and we have a large diversification in our portfolio on the purchase side, minimizing the business risk when there is any economic or financial issue or industrial issues that we are not strongly affected, and we have a credit analysis system which is very efficient because we have no default cases and a 13.5% that's sold to Cement, our clients are big (inaudible) so this is the type of portfolio we believe in.

Now I'm going to talk a little bit about the energy market in Brazil. It's a single slide, but we can follow extensively. We have a slide with two charts on left hand side, we can see the bars that represent the difference between the supply, the structure of supply and the market. And it was very high, became negative in 7, 8 and went up and then if we compare with the previous quarter, this margin is being reduced in a dangerous way, because their plants that were sold in auctions and they're delaying the construction work, and this is not very meaningful in the short run as we have -- the basis of our system is hydroelectric power and we have installed capacity, if we have water, it may even be

FINAL

negative here and nothing will happen as it took place in 7 and 8. We have machines to generate energy, if we have the necessary items. In the case of O1, we can reach our rationing phase because the volume of the thermo plant was very small and it's still small, but it's prone to grow.

On the right-hand side, in black we can see the growth of the demand. In red, the variation of the stock price on an yearly base, and the bar that's sources of energy, hydro plant. And as we can see, the thermal participation is growing and we have an flexible and flexible, and that generates when we don't have thermal in secondary. But as you can see, and this peak is a type 1 and this brings volatility to the short term price.

Little bit about our sales strategy. In slide 14, we can see that we are contracted practically until 2015 and our policy is to market gradually the future availability or the market, the free market is relatively small. And the contracting is done within three, four, five year's time frame. So therefore, we have to be at the market at all times to follow up the market behavior as related to price and also to increase the client base. So in fact, we try to identify more enterprise is good but we also sell when the price is low because this may mean a good sale in the future.

So we have a price average. And on the right hand side, the chart shows precisely that we sell gradually; for the sake of example, if we take 2015, we had contract at the end of 09, 28%, 15%, 13%, at the end of 2012, 10%. So at each quarter the figure changes and then its starts going down, this ladder starts going down a little bit.

In slide number 15, have the energy balance. The portfolio of our proprietary resources is stable, here we're not taking to account the Jirau energy and the purchases, and we look in the medium and long run they also go down, but as we sell we also buy at all times in order to sell later on. Then we have the total resources, about 4,200 average megawatts for 2013.

And here we have the regulated contract for eight years the existing energy 30 years are the new energy and the adjusted prices are here on the right hand side based on June 2013 from December 04 up to the most recent plant, the 167, then we have the bilateral sales that incorporate all three consumers plus two contracts that we have with distribution companies entered into before this model of auction. So the balance, the prices also are going up, a R\$139.2. The net sale price and the purchase related to 597 is 126.

So now talking about the expansion, then I'll turn over to Elio to talk about Jirau.

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

Good afternoon to all. Thank you very much for turning the floor over to me, I just wanted to make an announcement as of the next quarter or rather in August, I will take new position at GDF Suez, I'll be CFO for Central America. And this will take place as of August. My replacement will be Anamelia Medeiros, whom you're going to meet very shortly. She has been with the group since 2009 and she has led many of the projects to

register and to file for carbon projects, and she was also a leader in the Jirau project. She will add value to the company, no doubt about that.

Speaking of the Jirau project. On slide 17, you are aware of that project already, 3750 megawatt of installed capacity and GDF SUEZ owns -- we'll own 40% of that under certain conditions. This should take place in the second semester and Mitsui will own 20% of the project.

Most of the energy of the project has been contracted for 30 years, we buy distributed companies through two PPAs. The first PPA in 2016 will achieve 1,383 megawatt average in prices which are 94.4 per megawatt hour current prices, and in view of the decision of an yield to recognize the new schedule for the Jirau plant. This will be adapted to start -- the contract will be adapted to start when the Jirau plant starts working. The PPA will be aligned with the startup of this plant.

The second PPA will begin in March 2014 for 2,209 megawatt average with a price of 114 megawatt hour. The balance of energy has been sold by the existing shareholders. The profile is on the right hand side, it shows the volume of energy contacted by each of the shareholders. We rely on financing for R\$9.5 billion under the TJLP plus spread as you can see on the slide.

On slide 18, I'm going to give you an update on the Jirau project. The severe construction works are nearly completed, the assembly works are progressing very fast. You see the reservoir on the left bank is factory four, the energization of the back-feed, the commissioning of the sub-station, we have a dedicated line that we're building for 100 kilometers, LT3 is ready already. Then we have three branches, which are practically ready. The substation is ready, and the first transformer is already there. I just wanted to stress the fact that commissioning has started and commercial operations is due for Q3 2013 between August and September.

Also as we got the commercial operation. Aneel's decision tries to align the commercial operation of the plant and the transmission line. It well understands that this should take place during Q3 in August or September of this year.

As regard to CapEx R\$16.3 billion, the same amount that we had disclosed in the previous quarter, our partnership with Mitsui, as we said, GDF SUEZ sold 20% of its interest to Mitsui, it's a strategic partnership for the Group, and this was announced in May 2013.

There are some pending condition, so we still need the approval of Aneel, BNDES and the commercial lenders, this should take place in the second semester of this year. This sale should be completed in the second semester and we also need the approval of the anti-trust agency.

As regard the carbon credit, Anamelia is going to replace me, but we finalized the filing and Jirau is the largest renewable energy product in the world to be filled under the frame work convention. We were very successful, we had confirmation of the filing in the beginning of this year, but it was filed in December of 2012. We are now operating full

capacity, it will generate 6 million tons of carbon credits per year. So a very expressive amount, it's a very important project.

Now, we have some additional issues, we are developing options to add further value to the projects, additional energy 90 megawatt average and Aneel recently announced the minimum of 24 megawatts average as one of the compensations that Jirau is going to receive, so at least 24, and this has already been approved by Aneel.

And as regard to the tax incentives regarding the location of Jirau and the fact that the project is a priority as regards the issuing of infrastructure debentures. You can see the pictures on the transformer amount in left bank.

Moving on the slide 19, you can see the control building, factory regime, electrical gallery, the power house close to completion to allow us (Technical Difficulty) has been made available and we had brought energy. So we're covered until it starts operating, you see the four pictures, these are real pictures of the size, 80 meter tower generative for 2.3 megawatt each.

Next slide is slide number 21, you see the solar project under construction in the Photovoltaic Solar Plant called Nova Aurora, and this is a research and development project, which includes seven different technologies in eight places, in eight locations you see the map of Brazil, and we want to see how these technologies behave in view of the position in the globe and in Brazil. How the technology behaves and which technology performs best.

The capacity factor varies according to the number of hours of sunshine, the wind, the temperature, the humidity, there are variations that have to do with these factors in the capacity factor. We invested 56.3 million in this R&D project, we have partners, and each of the modules will have 70 kilowatt peak, that means the installed capacity, the maximum power that introduces. This is done in partnership with the Federal University of Santa Catarina, and under this project we've also installed this Photovoltaic Solar Plant for three megawatt, which is -- which you're going to be able to know and to see in local.

I'm going to talk about the financial performance, and I'm going to turn over to Sattamini, who is going to explain our financial performance.

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

Good afternoon to all. Let's move to the duller part of the presentation, but part of which is also very important.

On slide 23, we introduced the performance of the company in the last few years and we emphasize the CAGR in the main financial aggregate seeing that revenue EBITDA in net income. And although in this quarter there was a decrease in the EBITDA that only explained that this has to do with our allocation with our allocation strategy, but we still had growth in this quarter.

FINAL

On page 24, we see a brief analysis of the revenue variation quarter-on-quarter, and especially we see the positive effects of the average sales price and the sales volume. The average price grew 5.1%, the sales volume grew 6.4% and in short term operations we had a decrease in revenue by 54 million in the previous year, in the same quarter the revenue was 102 million in CCEE, and in short term trading whereas this year we have a revenue of approximately 48, that's what this difference is. And we have other elements, especially the sale of ashes from Lacerda Complex.

On page 25, we see the changes in EBITDA. We have a contribution from operations of 102 million, and we see here the first piece of news in the quarter, there was an impact coming from the provision for CNPE 03, it's the mechanism for the division of costs of generation from thermal out of the merit order. And this is the precautionary measure, a conservative measure, we made a provision for this fund.

Although our attorneys say, and also the attorneys of the association they belong to, they say that the possibility of losing this law process loss to this very remote. And in the short term operations, which is the main element that had an impact on our EBITDA, it has to do with purchases to cover our short position in the CCEE.

As regard to our net income, we were successful and we received currency adjustment over payments received at that time, the growth effect was 29 million and the net result was 19 million. We had an improvement in the financial results and we also had a net effect of CNPE 03, and also the effect of the short-term trading operations and the CCEE.

Our net income had a reduction in the quarter by 5.3%.

As regard to our debt, the level of indebtedness is very low, which is kind of inefficient, but this is the strategy that the company has been pursuing. In view of the potential acquisition Jirau, Jirau is a very large enterprise, this will bring with it a high volume of debt and although this has been reduced with the reduction of our stake in Jirau, it still is relevant in terms of debt. We have been putting the company in a position of low indebtedness to face this new commitment.

The important thing also on this slide is that the indebtedness in foreign denominated currency is very low, our long-term debt with the national treasury, we inherited some of this debts from the plate of Eletrosul and part of the debt we inherited so to speak, and we also have that maturing in 2015 for floating rate notes, but a very low volume.

The net indebtedness of the company is 2.5 million of which approximately 0.75, if that comes with 0.75 of the companies EBITDA. Net debt dropped by 12% quarter-on-quarter, we also paid interest on equity capital, we made investments in Estreito and Enthiri [ph] which are beginning to operate shortly. Accrued interest, income tax and social contribution, net income paid, foreign exchange variation and other elements. As a positive impact, we had operational activities and we have working capital change, which was negative.

FINAL

And with this, we account for the reduction in net debt. As regard to the profile of the debt, it is a long profile, we have some short-term operations to come in 2014, we have to pay the last part of the debentures issuance which we negotiated the covenants for last year.

We have an operation at 98% of the CDI as well and the rest has to do with financing operations under BNDES, and it has to do with our repayment program for this BNDES. We also had some contribution in 2014, but a very small amount. The cost of the debt is quite comfortable, most of it is linked to the TJLP 75%, 13% under the CDI. This loan operation will show up to CDI. We have IPCA for the second emission, the second issuance and we also have the Midwest fund, this regional fund is available on the tax incentive programs.

On slide 30, we see our investment plan, and in 2013 we're going to continue to invest in wind plants, which are going to take most of these funds. We also are doing some restructuring in the Santiago and Passo Fundo plants. In Salto Santiago, we are going to increase the amount of assured energy, and we also have some funds here earmarked for the Estreito plant. We still have some investments in infrastructure that have to be made although all the turbines are now working.

In 2014 most of the investment has to do with maintenance and operation in Salto Santiago and Passo Fundo. And in 2010 we made this reserve and we have to maintain that in our investment program, because it has to do with Jirau. So this color, which is not solid is a provision that we made in 2010 and that we have to keep fair, since the settlement of the Jirau transaction will take place only in 2014, we keep that amount of 511 there.

On slide 31, you see our history of payout of dividends. We always pay a minimum of -- we have to pay 30%. But we always pay a minimum of 55% and we have been paying dividends twice a year, in September, October and then between March and June. We have interim dividends and we have complementary dividends between March and June, depending on the cash position and on the company's obligations. We have a decision of paying 100% over the income of the first semester, we will pay 3.4% in the fourth semester, which would give you a little bit more than that if annualized. This was the presentation we had to make today, and we are now going to open for the Q&A session.

## Questions And Answers

### Operator

(Operator Instructions) We would like to open the Q&A session for the audience. Please state your name and affiliation before you ask the question, please.

### Q - Unidentified Participant

Thank you very much for the chance, I'm Leandro Campos[ph] from Deutsche Bank. I would like to know what your strategy is, and how do you see the risk for the fact that the captive market has an increased draw in view of the reduction in energy rates, and how



does that present a risk to you? I mean, the clients might migrate from the free to the captive market?

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

When the announcement was made of provisional measure 579 for the early renewal of the concessions and the code of regime, the first thing we did was to calculate what the price, what the rate would be for the distributors. That's a cap for us to a certain extent, and at that point a few distributors were competitive with our energy sold in the free market. After that without the adherence of Cemig, CESP and Copel to their plan and with worsening of the hydrology and with the high dispatch of thermals, the effect of the rate reduction in the bills has been practically offset this week. There is a huge cry in Santa Catarina the less we'll 14% of increase in their bills. And also we have no control on that prize. If the price is high in the auction, companies that contracting the regulated market are subject to the valuation. For example, the increase in the dollar that plays a very important role in the Brazilian energy portfolio with the rise of the dollar all distributors will be affected in their prices.

I can say to you that for sure even though there has been a reduction in the bill, we have to be very competitive and it's a lot better to buy energy from the free market than stay in the captive market.

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

In addition to the flexibility, the ability to negotiate to be treated as a customer, and not as a consumer. So you should take all of that into account.

### **Q - Carolina Carneiro**

Good afternoon. Carolina Carneiro from Santander. I would like you to talk about the energy balance that you have published on it. We noticed that there were some, say 98MW in 2015 less in 2014 and 2016, I would like you to comment on this market and the level of price that you would be finding today.

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

If you think that as we get closer to 2015, there is more negotiation in this market and in if the price level seems more attractive. Now I'm going to talk in the presentation about that, but I would like to say that the price for the year and the following year so far as the inference of this spot price, as we are in -- last year the prices are very high, the long-term price is linked to the expansion so the marginal price of expansion, therefore, it has less influence of the spot markets and the projection of the average price of the distribution companies, and then new projects that are entering and the hydroelectric plants have presented a good price. The reference we used today if we see that their metrics will expand probably with the gas, hydro plants and the wind power plants, and we have a mix of all that trying to define the future price, but in fact, the price is the price the market is willing to pay. So I would say that overall the price is high today is high for next year, but then it's going down, and for the future it will be around a R\$110 and R\$130.

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

And it doesn't mean that the rest will come true. This is based on our willingness to sell, when we get there it may be higher or lower depending on the short-term price.

**Q - Miguel Rodrigues** {BIO 16533007 <GO>}

Good afternoon, everyone. Miguel Rodrigues from Morgan Stanley. My questions is to Elio, I would like you to comment on this upside for Jirau with the negotiation with the Bolivian government. Correct me if I'm wrong, but Aneel say that Jirau will not receive the 24 megawatt from San Antonio is the negotiation had a positive effect for Jirau. So I would like you to confirm this information.

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

First of all it seems -- for us and to put this into the context with Aneel decided define, San Antonio has its expansion plan. It's going to use six suggestion machine in the way I knew found for the analysis surface for this San Antonio expansion was to create a compensate, a minimum compensation mechanism of 24 average megawatts that will be channeled from San Antonio to Jirau, but putting everything in the context of expansion. As regards to Bolivia in negotiations, this is part of our expectation.

As we said in the beginning, part of what has been identified as Jirau energy was a 90 average megawatt. This is our expectation. In addition to the 24, the Bolivian energy will try to supplement, and we can exceed that 90 average megawatt. We should not stay as 57 or 24 we may exceed 90, 24 was created within the context of the expansion for the San Antonio plan.

**Q - Miguel Rodrigues** {BIO 16533007 <GO>}

And can you give us any update concerning the negotiations with Bolivia concerning the timing?

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

No, it's hard to say. There are two governments involved, it's not an easy discussion and we have no details to share at this point, the negotiation will continue to progress. I have no details to give you at this point.

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

Good afternoon. Vinicius Canheu from Credit Suisse. A quick question, concerning the expansion of the company's current portfolio. We saw selective places on the wind plans in the last two years, and I would like to know within the company's expansion project apart from Jirau, is there anything in terms of expansion in the wind power plant, more in this scenario of the wind power plants and the auctions.

And concerning the winds power, how is the price spread for this special client and for the normal free system is between R\$15, R\$20 reals. Do you see any supply in this market and

making this spread slightly bigger. I would like you to comment on these two topics?  
Thank you.

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

Okay, let's go part by part. Firstly, Tractebel had some projects in each portfolio. And together with the Trairi complex, we have this Santa Monica project, which has been licensed and we're trying to make it feasible to participate in their reserve auction that will be held this month. There is another project that we bought in by year, which is a large area and we have the possibility of having solar and wind plants.

These projects have not being licensed, they are under review. We also have -- that is and we've already bought some land for our coal well for the inhabitant through the pumper project in the region of (inaudible) and probably we're not going to obtain the license for the auction -- in time for this auction. And we think that as the dollar rate went up and 140 determined as cap by government is very low for the coal well considering that all certain pieces of equipment are important and there is no financing for the pieces of equipment. In addition to that, we are also starting a gas project, but here in Brazil we rely on Petrobras. And we have a strategic area, we have bought the land lot close to the port, but I cannot say that it's going to materialize. It's still far away, it's only a project. As to the spread, it varies between R\$20 and R\$30 depending on the situation.

The last one's were at R\$28. The market will improve, because last week, the retail trading company has been approved and this will boost the market since we to need to register with CCEE each is small consumer individually.

The trading company can create a portfolio of clients and it manages the difference and settles at once representing the portfolio, we are going to act as a distributing company, and this will boost this market and there is room for growth in this market. I don't know if I had answered your question or not.

### **Operator**

Okay. We have a question that has been forwarded through the webcast, it comes from (inaudible) who is an investor.

### **Q - Unidentified Participant**

Why is the transfer of Jirau is scheduled only for 2014 since the plant will start generating in the next few months?

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

Well. As a concept, why Jirau belongs to -- and not Tractebel? Conceptually as any large project starts with GDF and this is a protection for Tractebel, and there is a related party, so maybe that protects the interest of the minority investors and give transparency and good governance for this transfer. So the basic transfer is that the plant will be transferred after all the major risks have been mitigated. As the plant saves several undesirable situations than everything you are aware of and many events that I knew itself

understands as on the part that the responsibility on the part of the entrepreneur and there is a delay for the transmission line that will bring energy to the plant, and the plant is a huge construction work, you are going to see that it's a huge project. A person said that it's bigger than the Taupo from the Jirau construction point of view of 15 machines and this is a very complicated where that has logs and certain and therefore we have to wait for the project to move ahead for the machines to enter into operation to start discussing the transfer within the principle that the major risk have already been mitigated which is the basic concept of the business model elected by GDF SUEZ for Tractebel energy.

## Operator

We have a second question coming from Henna Alberta asked through the webcast.

## Q - Unidentified Participant

Do you see a long-term risk for Tractebel's business model with the individual generation of energy, and by that he refers Photovoltaic in the homes, in the buildings and so on and so forth.

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

Well, I think that everybody who works in this area or companies that have a generation activity have to think about the distributed generation in the future. We're analyzing in the photovoltaic, the solar energy and probably we are going to do something in order to capture this market. This does not have anything to do with a business model, the business model is the same for everyone to make major investment.

It's a change of paradigm that will not go away, but we are going to have a portion of the business which will be the distributed generation with the advent of smart grid or smart meters. In the future, we are going to have that and we cannot ignore that, we have to incorporate that in the companies plan to develop this activity maybe through a subsidiary company or something of that kind.

## Q - Unidentified Participant

Good afternoon, (inaudible) I would like to ask two questions. In fact there would be three. We are going to discuss with all three, the new PLD form in another meeting throughout the day. Now going to the questions linked to the profit consist and trying to understand the provisions all received by Tractebel that has provisioned effects of resolution. If the company has not bought energy in the short-run? To generate the exposure it had concerning the overall location the first quarter, would the company have provision it's energy through the PLD II concerning the provisioning?

And the second question concerning Jirau. In his presentation, he mentioned two PPA's and I would like him to talk about them, and also mentioned some president conditions on the agreement between two and the mid group. I think it's a private agreement, but I would like him to dwell this topic a little further.

FINAL

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

Well, the provision, just bear in mind, reminding you, the energy allocation strategy was done in January, we had a very high spot price at that point. So therefore, we were better in January and we became purchaser in some other months, this NPO was issued on March 3rd and would be import as of April.

So we bought the short-term energy to minimize this effect. So how does this resolution works in NPO 3? Basically we have an amount for thermal generation, half should be recovered through delta PLD or spot price, which would be paid through those were exposed and half would be this apportion among everybody's provided to the marketing in the marketplace. All the generating companies and customers, we had two installments to pay.

One, the system service charges that depends only on this thermal generation not this part and the delta PLD depends on your exposure. What we did, we bought the short-term energy, as we were afraid, we bought with no spread at all with negative margin and a small spread from those who were short on cash and try to become to have liquidity and we bought -- we didn't buy everything. And then we decided to postpone the maintenance of -- let's say that see for the second half, so we did whatever was possible to mitigate, but even so we had some leftovers. So we calculated with a delta PLD or spot price, that gives us this type of exposure.

## A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

And just to add to this explanation, the other part of the provision has to do with a division with the rest of the agents. Delta spot price is there, when we were exposed, but also we have a provision for the responsibility to pay on the part of the generators and this has been suspended by an injunction. So these are the two parts that compose the provision. I'll turn the floor to Elio now.

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

The first question has to do with the two PPA's. The first PPA was the one that arose from the auction in 2008, it was supposed to start in January and it's going to be adjusted according to the plan schedule. It's going to stock in August or September together with the operations of the plan to add comprises 1,313.

And then the second PPA in August 2011, when we expanded the plant 3,450, it was actually 3,150 and we achieved more 209 average megawatts, which was sold flat as of March 2014. As of March 2014 we begin the second PPA.

As regard to the preceding conditions for me is two years agreement, we have obtained the approval of the antitrust authorities and M&A acquisition that has to be approved by different agencies and bank, that has approved in 1st of June, now we've required the approval of Aneel and NDS and of the commercial lenders, which should take place in the second semester.

With regard to the amount of the transaction, it was featured in the news that value had to do with the accounting value with a book value of the project, I don't know if this was said official by SUEZ or it was just something that we saw in the news. In May when we announced the transaction, we mentioned the value of the transaction on the value of equity as 100%, R\$5.7 billion at December 31, 2012, which has to do with the book value.

## Operator

We have one more question coming via the webcast. And it comes from Marcio Brito, Jardim Botânico Investments.

### Q - Marcio Brito {BIO 1702854 <GO>}

And the funds that would be used to pay the indemnification of the concession were used to fund the CVA of the distributors. Since the government has changed the rules once and divided assets with the generators. Do you think that in order best surprise should could come for the generator?

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

We were promised that this would not happen that was the promise from the Minister. They promised that they would not change the parameters of the CVA within the same year. They are also unhappy with the suits filed in the court by generators and business associations, who are challenging the decision made by the government.

And this causes somewhere an investors where a bit scared with this type of attitude, and the government ran a big risk with that, lots of thermals were dispatched that the expenses very high, and conceptually it is not a good practice to generate lots of thermal energy before the summer, because then it's rain, and diesel, oil goes under this way.

That's what happened with the Taipu, but you never know what's going to happen going forward. There was not much that could be done, they had announced a reduction in the rate then they incurred at this high expenses, but we think that this has been announced to fix in March, very complex changes, and this creates uncertainty from a regulatory point of view, which leads to certain unrest in the market.

We now made a provision which affects our balance sheet, some people don't know what to do, CCEE also is in an awkward position, they cannot account for those who are -- who have filed suits, and we think that this has been understood. And that we are not going to be faced with more surprises, that's a good surprise. Today, we saw a statement from Aneel's Director proposing to contract per volume and not by capacity which makes sense.

When we contracted according to the capacity, the ways the variation of the spot price or thermal dispatches falls under consumer this high increase above inflation of the less is this because they might have a lot of contract or according to the capacity and they're having to pay this very high spot price or rather thermal generation prices.

FINAL

The model has improved. In my opinion, something that is good practice is to improve the model, the model can change, the model can be improved, it can be made worse, but the model is how you adapt a process, but decisions that retract or that reflecting in the same year, this doesn't make sense. You cannot make decisions and say, well, these decisions -- if the decisions are valid going forward, fine, we can prepare for that, but when they retract or if they break the logic of the business that's what we don't think it's a good idea.

## Operator

We now close the Q&A session. I would like to turn the floor to Mr. Manoel Zaroni for his final remarks. You may proceed sir.

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

I would like to thank you all very much for participating and for taking interest in the result of the company. I would also like to thank those who gave us the chance to give you further explanation on how we see the company's results and the industry. Thank you very much for your questions.

And our message here is that Tractebel in this year has low debt, generates high cash, distributes good dividends. It's a very sound company, good governance, the controller is the largest producer of energy worldwide and we believe in Brazil. We will always look for new investments, we will be creative and responsible. We are not going to invest just for the sake of investment, we are rather going to invest to create value to the shareholders and stakeholders. Thank you very much.

## Operator

Tractebel's conference call is now ended. Thank you all very much for participating, and have a nice afternoon. Thank you.

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