

Q1 2014 Earnings Call

Company Participants

- Anamelia Medeiros, Market Relations Manager
- Eduardo Sattamini, Chief Financial Officer and Chief Investor Relations

Other Participants

- Kaike Vasconcellos, Analyst
- Marcos Severine, Analyst
- Sandra Boente, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good morning. This is Tractebel Energia's Conference Call, where we will discuss the Results for the First Quarter 2014. All participants are connected only as listeners, and later on we will open the Q&A session, when instructions for participation will be given. (Operator Instructions) We should remember that this teleconference is being recorded. This presentation followed by slides will be simultaneously transmitted through the Internet through www.tractebelenergia.com.br, Investors 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 teleconference regarding business outlook of the company should be treated as forecast, depending on the country economic conditions of the performance and the regulation of the electric sector besides other variables. Therefore, they are due to changes.

With us are Mr. Eduardo Sattamini, Tractebel's Chief Financial Officer and Chief Investor Relations Officer; and Mr. Antonio Previtali, Tractebel's Investor Relations Manager who will talk about the company's performance in the first quarter 2014; and Ms. Anamelia Medeiros, Market Relations Manager of GDF SUEZ Energy Latin America, who will present an update on the development of the Jirau Hydropower plant. Right after, we will have the Q&A session.

It is now my pleasure to turn the call over to Mr. Eduardo Sattamini. Please go ahead.

Eduardo Sattamini {BIO 16648085 <GO>}

FINAL

Good morning to everyone. First and foremost, my first comment of this quarter is that, we always remember that the comparison amongst quarters are damaged by the allocation strategy that maybe different from one quarter to the other. This is what we observed between the first quarter of 2013, where we had a stronger allocation in the first quarter of 2013, and this allocation was done in February, this was regarding January 2013.

Something that didn't happen this year, we didn't have the possibility of doing this with -- regarding the allocations. So I don't know, we have a different allocation which left energy allocated. As it was already announced by the press release during the weekend, it is very clear that our position, it is much more reassuring for the second semester and we will have to observe this impact, okay. A lower allocation in the first semester 2014.

Now, let's go to page number four. Slide number four, we will talk about our net revenue. Our net revenue increased 18.1% and this is something that we observe every time we carry out an allocation. We create revenue and then subsequently our cost, it is as if we were doing trading, but this is training with delivered energy and received allocated throughout time. So the revenue increases more than the readjustments of our contract, the increase of our sales portfolio, and this is something that we observed, you can observe we had a price increase in net sales that was 6%, here we have an increase of energy 2.4%, but the sales was 18.1%. This net revenue from sales of 18.1%. What else -- what could cause an increase of revenue? Short-term operation, this is what contributed for an increase of net revenues from sales, we have contribution of about 155 million comparing quarter-after-quarter.

The EBITDA, it dropped due to our position as a buyer in the short-term operation. We increased our purchases amongst quarters almost R\$300 million, and we also sold to retail, we had long-term contracts that were done last year. And we increased our sales volume, it was R\$90 million and expenses. This quarter EBITDA margin also dropped significantly as we increased the trading activity or location activity, my margin tend to drop naturally. If this also contributes to a drop in margin, what else (inaudible) the thermal electrical generation. You have to remember that from the component of fuel that increased to 23 million regarding the first quarter last year.

Last year, we had a parallelization from the beginning of March, it only operated two months of the first quarter 2013, and here it operated wholly, this is an aspect that is favorable to that. This plant have been withdrawn from our portfolio. Net profit dropped 31 almost 32%. We have our financial expenses that increased due to the increase of inflation, just for you to have an idea. Inflation measured by GPN in the first quarter of 2013, it was 0.84% in the first quarter 2014, 2.5% of the inflation in according to IPCI, we didn't have such as significant increase, but it was a 1.9 to 2.2 approximately. These are the main highlights, performance highlights. Energy, so the energy we already mentioned, the production this year was higher, much higher due to the high demand from the first quarter. We had 32% of thermal energy more than 2013, and what do we have this quarter is the fourth quarter of last year, we were able to increase our production 26.6. So we have -- our power generating plants have high performance and that this generalization sometimes doesn't translate into results.

FINAL

Let's go to page five, where we will talk about the performance highlights of the quarter. Tractebel Energia generating complex produced, on January 22, established a new record. We produced 8,031.6 megawatts of instantaneous of 2.6% compared to the past record of 7,824.5 megawatts of generation. We had Fleixeiros I Wind Farm, it was authorized by the Aneel to startup in commercial operation. This was on January 28.

In the first quarter, we concluded the acquisition of the total capital of Ferrari Termoeletrica with installed capacity of 60.5 megawatts [ph] and commercial capacity of 23.2 average megawatt.

And subsequent events, the Mundau Wind Farm of Trairi complex, its startup was on April 1st. Trairi today is totally operational adding a 115.4 megawatts of installed capacity to the company. As subsequent event, Board of Directors approval was given one for the start of a construction work on the Santa Monica Complex. So you will be able to see that there was an increase in our CapEx guidance, 97.2 megawatts of installed capacity, Trairi, this is very close to Trairi, Ceara. We also had the acquisition of approximately 150 megawatts related to five wind projects to be developed in the state of Bahia. And ten wind generation projects with the joint installed capacity of up to 300 megawatts at an investment of 35.1 million.

Now on slide six. We tried to present our organization chart regarding our control. Here, you could see that Tractebel is controlled by GDF SUEZ Latin American participations with 68.7% [ph] of the company. We participate in Novo Mercado. The shares are part of the sustainability index already nine years since its creation, and we have not had any significant changes in controllers or neither in our subsidiaries.

On slide seven. Here, we have a diversified portfolio of assets. Here, you can see complementary increase; here, we have the Ferrari, Trairi; we have an increase of the share of non-conventional energy. And we also had a drop in our thermal capacity excluding Alegrete. This quarter, we had parallelized decline, we asked authorization to Aneel to terminate the operation of this plant, and now Aneel in the first quarter authorized us to cancel this authorization. So this is leading us to 7,024 megawatts of installed capacity distributed through a number of plants and the number of energy sources as you can see on the map.

On slide eight. We would like to draw attention to our leading position in the generation sector. We continue being the biggest company, and the second, we intend to continue this way, and we are highly positioned for business opportunity that may appear in the market. Slide eight. Regarding -- here we had a breakdown.

Slide nine. The diversified portfolio among free customer, distribution and trading companies. Here we see an apparent drop; in reality, this is a change in the breakout of the distribution when we see 2013 to 2014, it doesn't mean that we reduced our contract. What we did have was an sales increase in the resource market to the free market, and this is why the free market increased and gained more importance. It is, what we like to highlight the free market for us is very important because this way we don't sell energy in auctions, that's that minus one, where there is not good predictability on sales free

Bloomberg Transcript

market allows us to sell the forehand energy that doesn't have a contract in one year. This is how we guarantee the cash flow of our company.

Now we go to slide number 10, we would like to remind you as you pay attention to the free market, we should pay attention to credit policy and to the management and risk management of our trade portfolio. The policy is due to a great diversification of the economy factors, so that the company doesn't run any systematic risk of any of the factors of the economy. You can see here that we have a higher concentration in the cement industry more than other industries because credit assessment of the companies that are part of the portfolio, these are AAA customers, international customers, highly credible customers, very solid customers.

Now, when we go to slide 12, where we do not have had any significant changes from the last quarter to this quarter in the energy market in Brazil, and our structural position. And regarding the slide on the right hand side, it would be supply distribution by source. We identified the more and more we depend on thermal power plants, we are searching this right now. The thermal generation becoming more important, so this tend to increase the cost of energy. As you have a greater need of thermal power, I believe that this position has shown us for agility in our system with thermal power plant increasing their costs. So after a certain level the prices increase significantly. This year now increases significantly and taking our PLD to elevated level.

Now, when we go to slide 14, we will talk about our energy. Here we have almost fully contracted, as you can see we are almost fully sold, not totally, but still we continue with our strategy of having a high level of contracts, and the company is making the best of the opportunities windows to where the price of long-term contract sales increases. And this is part of our portfolio, long term portfolio. If you compare it to the past quarter, you will be able to see that for 2016, compared to last quarter, we sold 100 -- we reduced 191 megawatt. If we compare 2017, we will see a 163 megawatts in change of portfolio 157 for 2018, and then another change for 2019.

On our slide 15, when we see energy balance, here these increases as you can see are clear, and sales increase here when we see 2016, and bilateral sales they increased 249 megawatts, now for 2017 they increased to 200 [ph] 971 from 2018, the commercial activity of the company is highly active while we're trying to make the best of this movement in the market where we have higher prices.

And including thermal power plant in Brazilian may dreg, due to the current situation and the ideal -- and we want to have other sources of energy in the future that probably will be more expensive and we'll give more reassurance to the system.

So now let's talk about our expansion of the company's capacity. Our first project would be Jirau project, and I would like to give the floor to Anamelia, that will update you regarding this project.

Anamelia Medeiros {BIO 16881348 <GO>}

Good morning to everyone. On slide 17, I am updating our projects, these are data known about the installed capacity of Jirau Hydro project, 3,750 megawatt, 50 units, 75 megawatt each, 73% of the company contracted under 30-year PPAs and the balance of the energy available to be sold by the shareholders is 60% whereas 20%, lesser about 20% share. The financing conditions now, there was no update in the company's CapEx as it was amounts 17.4 billion.

The novelty regarding the last earnings release are on slide 18, its mainly regarding the amounts. So the operation -- we have 7 units of operation, 525 megawatts in commercial and one more unit was synchronized to the grid in April amounting to eight units connected to the National Interlinked System. Two additional units already being tested, that may go in operation next month. 92% overall project progress, if we include civil works, the progress is about 95% where it is involved in the past month. While Madeira River reached its historical maximum flow of 59,000 cubic meters per second on March 24, and is currently decreasing in the later stage that they're at 46,200 cubic meters per second in April, so the level of the river is dropping.

Partnership with Mitsui financial closing of the transaction set on January 16, 2014, following the approval by BNDES and commercial lenders. Options to create additional value, what's going to be our additional assured energy and other forms of compensation proposed by the regulator at the end of 2013, additional long-term tax incentives in the region. And MME has approved Jirau HPP as a priority project with the purpose of issuing infrastructure debentures, thus creating other funding possibilities.

Here Hydro project under construction is more difficult with progress to the test. Here we have January 2014, April 2014, there is something interesting that showed the level of Madeira River that it reached maximum record here with the power house from the left bank and power house from the right bank. These are the presentations that I had. And I would like to give the floor.

Eduardo Sattamini {BIO 16648085 <GO>}

Okay. We will talk about Ferrari Thermal Power Plant. In December 2013, Ferrari TPP was acquired. It is alone a biomass unit located in the State of Sao Paulo, city of Pirassununga that have an installed capacity of 65.5 megawatt. But it has an expansion that will be carried out that will actually an addition 15 megawatt and that the company decided to proceed with this project. Today this plant has 23.2 megawatt average contract -- 18 in reserve energy auctions and alternative energy. And this expansion and the remaining energy is being sold by the company in long-term contracts together with special customers. The customers that can buy power only from biomass power plant, non-conventional renewable biomass energy. The expansion, we can -- on top of that, it can invest further 85 million in a retrofit.

On page 21, we have the new wind complexes. Something that we discussed in the past meeting. This complex, this new Santa Monica Wind Complex will have a capacity of 97.2 megawatts installed commercial capacity of 47.3 and it's comprised of four plants. Cacimbas, Estrela, Santa Monica and Ouro Verdo, these are projects that you will follow

up in the upcoming months. The company will invest 460 million in this complex and its start-up is expected for 2016.

Page 22. This is a new source of generation, We have photovoltaic solar plant; we took advantage of the research and development project of Aneel. We tested different technologies in different parts of the country and a solar plant of 3 megawatts pretty close to Jorge Lacerda. This first photovoltaic plant will give us experience in order to access new investments in the area of solar energy.

Now, when we go to slide 24. When we talk about our financial performance. I will read that, and it's something important to mention now is that although 2013 was a year full of problems with regulatory changes where we had a lack of gas, where we had lots of movement against normal activities of the company. Our result wasn't bad as it could have been in a moment, in such a weak moment.

Well, the message here is to talk about the resilience of our results. Today, we had a bad quarter compared to the first quarter 2013. Nevertheless, perhaps an interesting characteristic here is to see what happened in 2013. We had a good result in the first quarter, and little by little by little we delivered, and this year I believe we will have a different situation. We will have to -- throughout the year we will improve, and our position is to sell more during the second semester, so I believe that our results will recover in the second semester of this year.

Now, the evolution of net revenue on slide 25. As we mentioned, a very important component here of our revenue in short-term operation we generate recognition when we allocate or it's practically a trading in different moments, so here we had an increase of our short-term revenue a 162 million to 317 million, 55 [ph] million of differently to different quarters, our average price was 82 million from 137.33 going to 144.54 and average 6% of increase. And we also had a sales volume increase of results of Trairi and energy purchase of 22 million, this is why our total net revenue from R\$1.39 billion to R\$1.64 billion.

Now when we go to slide 26, the evolution of our EBITDA you can see this strong impact of our short-term operations. What does this mean? We had an increase on the expenses. Short-term expenses buying energy from -- that was 300 million, we bought energy in the first quarter of 2014, 380 million when we compare to the first quarter 2013, we see a difference of R\$300 million.

This impacted that our EBITDA and our net EBITDA, 219 minus 155 of revenue be effective of 144 million that we see in our short-term operation, energy bought to resale, for resale 90 million, now it's 265 in the first quarter of 2014, and fuel 23 million what we said is effectively we -- when we talk about 27 net income change, here we have components that affected the EBITDA. That are known by average short-term operations energy purchase for resale of fuels, but we had 14 million financial result, 3 million were our result.

Financing our concessions, you know how we account our concession, they represent our debt and they suffer the readjustment of inflation. More or less, we're talking about 16

FINAL

million in these expenses with concessions. And normal operation 57 million, showing that our operation is healthy, of course, we have to also consider short-term impacts.

When we go to slide 28, we can realize that our limited indebtedness and low exposure to foreign exchange goes to 1.3. This is the reflection of the first quarter. We can say the debt did not increase, they're increased very little, and this affected this indicator that was better in 2013 than 2014, but we have low indebtedness, our rating has been maintained, our company is still considered AAA in Brazil and BBB abroad.

Our net debt 2,455 you can see on page 29, the net debt change from the end of last year to or till the end of this quarter, we paid income taxes, we have to pay dividend. We had the acquisition of Ferrari, a 161 million other investment, also Trairi investments in the recovery of assets. And net debt inherited from acquisition, so the net debt increased from the end of last year to the end of the quarter 8%.

Now regarding the profile of the debt, here we have a concentration of -- in 2014. Here we have the second issuing of the debentures in May, we have two -- we have an operation with the Bank of America Merrill Lynch of 421 with cost below CDI. That one quota matures in January and July, and 200 million of BNDES is something that we'll see at the long-term 2017, 2018, 2019, 200 and something million; it is the standard of normal debt with long-term financing and funding from BNDES. Here, 2015, we also have with HSBC below the CDI level, and 2016 the same thing BNDES and the difference, the operation of 432 with HSBC at 98% of the CDI.

We are also finding the best way to finance the company's activities with the best cost, and sometimes we've a negative carrying cost like, with 4131, our debt, it is linked to TJLP. This value will increase unless we desire to rollout the debt due to a need for cash or because the company to invest.

Now talking about investments. We go to page 31, where we have updated on our expansion plan and maintenance CapEx. Here we have Ferrari, Santa Monica; so, a great part of the investment Ferrari approximately a 180 million in acquisitions and that inheritance in addition to the investments that will be done for expansion 40 million will be impacted in the first stage.

And we have already started the investment; we've started -- we also have a major investment of OEM that you have followed for Santa. It will be retrofitted by the Passo Fundo, Santiago where we're requesting funding for BNDES; we have already send a letter and we are a priority, we're in negotiation to sign the funding contract. So the amount that appears, so then 128 million, 48 million are financed because the 41 were debt.

These are -- this is the debt inherited by the Ferrari project and we're still there about 677 million, part of it will be financed. This long-term financing contract with BNDES and we are almost at the point of signing this contract. I hope to give you news in -- during the next quarter. Now 2015, you can see that we have OEM, we are retrofitting by Passo Fundo, Salto Santiago, we will join with the sales out there, it's also being going through retrofits,

FINAL

we will have Santa Monica and Ferrari for 2013. And 511 million are the 511 million that we had in 2010 from the profit of that there will be used by Jirau one of the profit expense.

As we are sure that in 2014 this transference will not take place, due to time, due to the processes that we have to carry out to the communities where we will have to hire independent advisors, so that they can carry out the independent assessment and to give a different median external view of this transparent. So this is a time-consuming time then it has to be approved by Aneel for absolutely, so although we had initiated this process this year, we would not have been able to financially transfer this in 2014.

That is why we included 2015. This doesn't mean that the date of transparent has been established for 2015. As I said, this will depend on the moment, the moment when the controlling can be the mother company, the parent company that has the participation in Jirau, they will see when there are no more risk. We started seeing that the turbines, when they start -- when they go into commissioning, they should reassure the parent company, and when they see that they have been mitigated, this project will be sent to the board.

And now we go to page 32, where we talk about our dividend policy. For most of you it's not a normal, so we have by-law minimum payout of 30%. We have management commitment of a minimum pay out of 55% of payable net income, and we have paid a 100% of our dividend profit. Now of course, as we've made investment, we will use that policy, we will have to diminish the policy of 100%.

Now I give the floor to our coordination to define -- now we will go to our Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions). Our first question comes from Marcos Severine, JP Morgan.

Q - Marcos Severine {BIO 3322666 <GO>}

Good morning. (inaudible) I have three questions. The first question would be William Arjona. You know that since last year, you are operating in terms based on an injunction, so you continue receiving fuel from Petrobras. So what is -- what is your expectation regarding William Arjona, you're negotiating with Petrobras -- some contract of gas supply, and you were participating in the auction minus one for this -- or you will continue operating based on this injunction, if there is a possibility of reverting -- of lifting this injunction.

The second question here would be regarding GSF that was negative in the first quarter; probably this year I would like to see your outlook of the GSF for 2014, another concern would be the upcoming years. So as you -- as we see biomass plants wind farm, the new

Bloomberg Transcript

hydro plants. Probably the GSF will be more negative throughout the next year. Do you think this will change your strategy in terms of contracts?

Do you intend to have a higher amount of uncontracted energy to cover the risk that it deals with the change of the energy metrics. And what would be, how much uncontracted energy would you have 5%-10% and now energy trading strategy there was carried out in different trade channel in Jirau, are you going to stay with the part of this uncontracted energy, what could you tell us regarding this? Thank you very much, and I apologize if I abused in the amount of questions.

A - Eduardo Sattamini {BIO 16648085 <GO>}

Thank you very much for your questions. Well, let's start, okay, with your first question. You are right. This is the legal matter on the contrary, we have an injunction from Petrobras, that allowed it not to fulfill the contract that it is in first date. We have no legal action from Petrobras. We have not observed any new action to suspend gas to Arjona, and this gas will be received this year. It will continue in our portfolio, it continues outside of our portfolio as a precaution measure, but we believe that Petrobras will not take new legal measures in order to suspend the supply of this gas, because we need thermal plants in the country.

The country needs it, and it would be irresponsible to suspend it. Of course, we are negotiating -- we will try to negotiate extension of the contract. So that, I believe that this is the proper moment, Tractebel help with the government, because we want this plan to maintain itself in our portfolio for the future. Then, we are already in conversations with Petrobras together with the assistance of them in history. So we want to guarantee the operation of this plant.

Q - Marcos Severine {BIO 3322666 <GO>}

What about your auction minus zero?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Nothing for the auction minus zero. We, today, we have tried to approach, but there was no time to negotiate with Petrobras, our contract of five years to offer this plant at A-O, our idea of A-O is different. As you can see, we approved this in our Board, but this is our portfolio with other players to be -- to deliver energy, to diminish the exposure of the distributor. But this is something that we're trying to do with other players, and if we were able to do this, we will participate in A-O with this structure.

Now regarding the negative GSF. Well, the expectation for the rest of the year is difficult. This is a \$1 million question that we will have. We really don't know what the demand will be; we know that some players already dropping their demand in order to capture value in their contracted energy. I believe that during this weekend, they were talking about the drop of the Enel's activity and selling its energy surplus. But we really don't have a very clear view of how much this will be or how much this will represent, and if there will be a drop in the number; this will impact strongly at GSF. We do know that there is an elevated thermal electrical production. These plants start for maintenance, these thermal plants,

FINAL

they are susceptible to breaking over periodic thermalization. And this percentage or the volume of generation doesn't got up to the top until the end of the year, we expect between 14, 15 megawatts average dispatched frequently. But the GSF will depend on the affected demand that we observe in the market.

And this is the great question that we have. As you can see we have increased our purchase portfolio. We still have -- we can still absorb this GSF. What is the impact? We have a question about this GSF. Well, right now it is difficult to say something, perhaps each one of you should interpret what the government is going to do.

I believe that the government will not encourage a strong demand of energy, because there are number of infrastructure or a number of things regarding the infrastructure being well, because we have the world cover in every end this will impact the strategy of the government, because this is our presidential year. But there can be a drop in demand, but we do not believe that this is a significant volume because of these factors.

Now regarding Jirau. Well, for that, I could give the floor to Anamelia, so she can answer the question. Anamelia, could you talk about the commercial strategy of Jirau?

A - Anamelia Medeiros {BIO 16881348 <GO>}

Well. As all of you are aware, Jirau currently has its commercial obligation suspended, because we have an injunction in place. The available energy and contracted energy, it is being liquidated by PLD. We already have debate regarding the allocation of this energy and it's part of GDF SUEZ, but the strategy of future allocation will depend on the results of this debate and our market yield, and that certainly will be defined in the future moment, and probably after Jirau transfers to Tractebel Energia. Just adding something here. Here, we have followed commercial activity of Jirau and the participation of GDF SUEZ in the plant's output, but there are still matters that haven't been defined like responsibility. We do not have a clear view of the amount of energy that we have available to sell. So due to this reason we have not, we do not have a strong commercialization action in this energy, and until we resolve this matter, so, and until, we feel we are sure with the energy volumes, we really don't know what is going to happen.

Q - Marcos Severine {BIO 3322666 <GO>}

Thank you very much.

Operator

Our next question comes from Kaike Vasconcellos, with Citigroup.

Q - Kaike Vasconcellos

Good morning to everyone. Just a clarification. How do you see the energy market in medium, long-term demand, liquidation long-term contracts? How do you see the market?

Bloomberg Transcript

FINAL

A - Eduardo Sattamini {BIO 16648085 <GO>}

Hi, Kaike. Well, as we already mentioned, we sell energy as the opportunity when that is open. And now, we have a very interesting window of operation; we already seen this, the price of energies are growing for '16 '17 in long-term, more long-term. We felt like 20% of increase in long-term prices; this is a reflection of the greatest demand for contracts. Today, you have many people concerned with the situation seeing that their activity may depend, if they have a contract. If they have contracted energy, and this is bringing a greater volume of buyers to the market, because they want to hedge their position at a long term. So the number of contracts increase, the price of contracts also increase due to that.

In terms of price, before the long-term price was around 110, 115, and today we're talking long term contract 130, 135, and rising. We observed that as the solution that are being found, generated greater energy cost in short, medium term to the consumer due to the expansion of the sources that are variable operation cost higher. So we can see another growth, we can see a trend of prices increasing and this has favored the long-term contracts.

Operator

(Operator Instructions).

A - Eduardo Sattamini {BIO 16648085 <GO>}

I would just like to add something to Kaike's question. When I talk about the price of energy on long-term that was 17, 18 -- 15, 16, there were no transaction, there was no energy available for the market, okay. For fixed price, perhaps, you will be able to buy the PLD or the very high price, and the transaction isn't materialized 16 is already suffering pressure. So as I said, the level of prices will be something around the 130, 135. As I mentioned.

Operator

Our next question comes from Sandra Boente from HSBC.

Q - Sandra Boente {BIO 1511861 <GO>}

Good morning to everyone. Thank you very much for this conference call. I would like to have a deal of your review in, when in November you decided about energy allocation for 2014, and what has changed it? What's surprise made you change the allocation of this energy?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Okay, let's go here. I'm going to try to help you, because we don't tell you how we allocated the energy. Because we don't want to lose our bargaining power, when we buy this energy. What happened in December? In December we had very close -- very close to an LTE, showing us that our figures were normal. We looked into the future, there was an expectation of January not being very good month like December. So, perhaps we

FINAL

carry out our project, perhaps in January will be a bit higher, but nothing showed us that February and March would be months as bad as were. So there was no reason. There was no reason why we wouldn't think that the rain would come and then the level of the reservoirs would be normalized, and so this is the view that we have. We thought that everything was going to be different. And this is why the allocation wasn't going to be better than the second semester, because the -- was started in April, at the end of April or beginning of May, June. So here we -- here the reservoirs would drop and as the levels of the reservoirs would drop, the price calculation model which was higher PLD on the second semester.

So this is what you generally think about. This is a normal way of thinking. And this is what we've been reallocating to our energy. So we are not always right. We are almost right. But are not always, what does this mean? It means that this change the result of the entire year. And there is always possibility of recovering ourselves depending on PLDs and perhaps we will still see good results this year. So let's just wait and see what happens. I believe that we will recover something during the second semester of this year.

Q - Sandra Boente {BIO 1511861 <GO>}

Okay. Tractebel was a sector by a large generating association. Do you start to work with weather forecast. Do you have a view medium-term, long-term?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Yes, we do have a model, but they're not accurate, because this is not a very accurate area, that's not highly defined. We do have seen -- we have technicians. We have technicians that are our employees, that basically dedicate themselves to study the way their temperature behavior and how this can influence the amount of rain, and how this can influence our business directly? It is very difficult to forecast. This is 100%. What we try to do is to protect ourselves actually, but you can always protect yourself 100%. Okay?

Q - Sandra Boente {BIO 1511861 <GO>}

Okay, thank you very much. Thank you very much for your answer.

Operator

(Operator Instructions) Our next question comes from Sandra Boente, from HSBC.

A - Anamelia Medeiros {BIO 16881348 <GO>}

Now at this last moment, Anamelia, shares an update of what we have in the Aneel negotiation regarding the trade and the possibility of penalties. How is this negotiation going with Aneel, since the last earnings release, we haven't received any update, Aneel is still at safe assessing. The obligations have been suspended due to the injunction that is in force. So we -- I still don't have an update. Nothing different since what I said last time. Okay?

Q - Sandra Boente {BIO 1511861 <GO>}

Does that company have an expectation, when Aneel will give you an answer, do you have a fast deadline?

A - Eduardo Sattamini {BIO 16648085 <GO>}

No, of course we would like to define this as soon as possible, nevertheless, this is not what exactly going to happen, we have other things within our agenda. And now there are things within Aneel's agenda that are even more important.

Q - Sandra Boente {BIO 1511861 <GO>}

Okay. Thank you.

A - Eduardo Sattamini {BIO 16648085 <GO>}

Thank you very much.

Operator

Our next question is from Vinicius Canheu of Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

A very brief question here. How much thermal energy available will you have during this year? I wanted to have what about maintenance adjustments complete such the 150, [ph] 900 megawatts average or is it different?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Well, we're trying to maintain in the future to have higher availability of course with a prudent operation, we have been played the long-term maintenance operation, see, that generally we do 45 days and we inspect. We, what we're doing is small parallelization, because small parallelization in the thermal plant, it happens continuously because the piping sometimes has a bore, so you have to stop two, three days in order to replace this part of pipeline and of course during this parallelization, you take advantage to do your inspections and verify and see if there is no other thing that you can do to collect, okay. So what we have is we have an idea of having approximately 600, 600 and something megawatt average delivered continuously.

Q - Vinicius Canheu {BIO 6300903 <GO>}

And this, Arjona, does this include Arjona?

A - Eduardo Sattamini {BIO 16648085 <GO>}

We had 720; we had 720 megawatt average generated during the first quarter, 720 megawatts. The first quarter -- never, but this is growth generation. We consider the maintenance, I think that both are conservative. We improved and we're talking about 600 megawatts because 718, you have to consider Arjona gas generation although, it's not in the portfolio. So 700 and something per year, already includes Arjona and the average of the year, okay. This can oscillate a bit.

Operator

This concludes today's question-and-answer session. I would like to invite Mr. Eduardo Sattamini to proceed with his closing statements. Please go ahead.

A - Eduardo Sattamini {BIO 16648085 <GO>}

Thank you very much for your questions, for your participation. We will continue updating the market and we will continue with our conference call, and we expect an improvement during the second semester of this year. Thank you very much and everybody have a good afternoon.

Operator

That does conclude the Tractebel Energia's conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.

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.

FINAL

Bloomberg Transcript