

Y 2013 Earnings Call

Company Participants

- Anamelia Medeiros, Market Relations Manager
- Eduardo Antonio Gori Sattamini, Finance and Investor Relations Officer
- Manoel Arlindo Zaroni Torres, Chief Executive Officer

Other Participants

- Carlos Rivero, Analyst
- Gabriel Laera, Analyst
- Sandra Boente, Analyst
- Sergio Tamashiro, Analyst

Presentation

Operator

Good morning. This is Tractebel Energia's Conference Call; here we are going to discuss company earnings for the fourth quarter 2013 and full year. All participants are connected in listen-only mode. Later on we will open for Q&A, then further instructions will be provided. (Operator Instructions) We would like to remind you that this conference is being recorded. The presentation followed by slides will be simultaneously webcast at www.tractebelenergia.com.br Investor Section. There, you can also find a copy of the company's presentation and the earnings release.

Before going on, we would like to let you know that any statements made during this conference call relative to the company's business outlook should be treated as forecasts depending that on the country's macroeconomic conditions and the performance and regulation of electric sector, besides other variables; therefore, they are due to changes.

With us today are Mr. Manoel Arlindo Zaroni Torres, CEO; and Eduardo Sattamini, Chief Financial Officer and Chief Investor Relations Officer, that we'll talk about the company's performance for the full-year 2013 and fourth quarter 2013, as well as, Anamelia Medeiros, Market Relations Manager of GDF SUEZ Energy Latin America, who will make a presentation on the update and on the developments of Jirau. Later on, they are going to answer the questions you may have.

Now, we are going to turn the call over to Mr. Torres. Please, you may go on.

Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

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Well, good morning, everyone. With me here today are Anamelia, Sattamini and our Investors' Relations Officer. Before I start, I'd like to make some comments talking about the highlights of the company on slide number four and going to make some comments.

You see that annual revenues in energy sales grew by 3.4% [ph] compared to 2013 -- 2012. Compared to forecast, it dropped to 1.9, dropped 8.5 percentage points. Net income was down 3.6, it went down to 1,436.7 and in the last quarter, it went down 33.6%. Sold energy of the business had an increase and an average churn sold that grew by 5%. I'd like to highlight two things. First, that's comparing results quarter-on-quarter in a generation company is not the best comparison that we can have, and I've always said that; because we may make a mistake in the evaluation of the company, because each quarter has a very specific characteristic. Each quarter varies from year to year, because the company's average business in terms of commercial capacity can be allocated on a monthly basis.

You may, in the quarter, be a seller and in another quarter be a buyer. And you also have the maintenance as well. Thermal energies, you have a different allocation. So, in one quarter you may have very good results and in the other met poor results, because in one quarter you're buying, and in the other quarter you are selling. So the comparison doesn't make much sense. What is important is for us to compare the basis of the business, the annual result and watch that; our long-term contracts, our short-term contracts and marginally, the results of our positive or negative expositions entity.

2013 was a very atypical year for us and for the energy business as a whole. It started out -- it all started in 2012, more specifically in September '11 in Provisional Measure 579 that tend -- or established the landmark for the renewal of concessions, advancing the renewal of concessions of the power plants and transmission lines and also establishing a quota system. That allied to a draft period may does get to January in a situation in which the quota system did not make to, we couldn't make the allocation of expenses and we have to do that in the end of January, beginning of February, if I'm not mistaken.

At that point, everybody averaging due the price of January, which was BRL413 and something. And the other characteristic is that Copel and Cemig DCS [ph] did not join the quota system and so these companies had lots of free energy.

On the other hand, in the policy of selling energy gradually in contracts, the company had made a decision in 2010 that in the period between 2013 and 2015, when the concessions would mature for most of the hydro power plants and we would go back to the regulated free market in -- of 9,000 Megawatt that had been contracted in the auctions of 2004. Therefore, for 10 years, we would have the return of these megawatts. And we will tap the growth of new plants that would be in operation based on a growth of 5.2% a year.

So, our strategy was designed at a time we thought that the price would be low and that we should seize the opportunity in 2010 of selling as much energy as possible that year. What happened was exactly the opposite. We had a very high price because of a drought period in the end of 2012 and the beginning of January, exactly as we are experiencing today this year. And we had a process of almost ex-post allocation for January and we

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knew that along the year, we would hardly have prices as high as BRL413, not even with regulatory changes, we could get there. And so, it was a correct decision to allocate at the time a lot of energy for January.

Now, clearly you will remember that in January, we've had a hydro generation AGFF [ph] of 25% because, everybody allocated a lot. So, when you allocate and generation is not as good, it's almost as if you are multiplying your base 4.75 [ph] and the concept that we had to be exposed for a few months. And we were exposed in April and May and in the end of the year in October, November and December we had very high exposure in a policy that was studied and thought of in terms of allocation.

On top of that we also had two important facts. In January, we lost the datas of (inaudible) because of lack of guests that was a correct decision of the regulatory agency and also of generation. And with that we didn't have enough balance and were exposed in the month that we mentioned. If we did not have any regulatory changes, we would have a gain of 9 million approximately in the allocation that we made.

Because, there was a regulatory change due to the provisional measure of March, we had two new facts. First, there was a division of cost of the thermal generation and it has to be paid in two installments, so that we had two different prices in the spot market, we call delta in spot market. So though that we're exposed with pay delta in spot market and the others would pay according to an apportionment in their participation in the market. That would be good for (inaudible). We mitigated our delta spot price by buying energy in the market.

With that, we had better results; better sale and we basically had small expenses in the delta spot prices. And the other part of the apportionment as you know we have our association of the independent producers of energy and there is an injunction that does not make us make the payments. But anyway, the provisions, there's amount of 54 million because of the CNPE 03 that is addition of to my strategy.

In addition to that because of the different methodology for the calculation of spot prices into one [ph], you anticipate thermal generation in the model and with that it increased prices. So we went from a gain of 9 million in the same allocation to extensive of 106 million in the year. So the action was incredibly different to us, it's a difference of a 115 million. So a 115 million plus 54 is 169 that is the effect of NPE 03 in Tractebel's strategy compared to our exposure was a 170 million. Of course, we did everything we could in March, April, May when we are exposed, we had allocated the maintenance of the SUEZ second phase and we postponed that and we haven't done it yet.

So Tractebel does half of those advantages to the competitive edge of being able of working with its thermal energies almost that as they were a hedge to protect allocation if things don't go as planned. But historically, we have had good results. So this is an overall scenario with regard to our sales volumes, availability of plants and prices. We continue to be quite consistent and we are convinced that our strategy last year was correct. What happens is that we were affected by something that was unexpected but the rules of the game were changed in the middle of the game.

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Anyway, we are going to slide number five; and I would just like to mention a few highlights of the year. The Board of Directors yesterday approved the payout of complementary dividends for the year of 2013, the amount of 461.8 million. This accounts for 0.70 per share for the whole of the fiscal year. Tractebel is going to make a payout of 1,474 million, which is equivalent to BRL2.25 per share or that means, as we have been doing in recent years, a 100% of net adjusted distributable income. And this offset the reassessment of asset that we had to do because of the implementation of IFRS in the Brazilian model.

And why are we paying out these dividends? Well, of the transfer of Jirau is not going to happen this year for sure. And we have forecasted investments and we closed the acquisition of Ferrari just for the generation of sugarcane biomass fired plant with 65 megawatts and commercial capacity of 23.2 average megawatts with a capacity to increase our capacity for net energy, because our indebtedness is 1.1 our EBITDA. We opted to payout the dividend of a 100% because our indebtedness is very low.

So in the year 2013, we started the commercial operations of Trairi and Guajiru wind farms with 55.4 megawatts of installed capacity. If we look today, we have Fleixeiras with 30 megawatts and Mundau that will probably start-up operations next week. So altogether, we are talking about 115 megawatts for the whole of the complex.

In addition, we have the operation of all machines in the phases used plant, the last one starting up operations last year. This year, we were able to do our job and approved the incorporation in the end of the year in the General Shareholders' Meeting of December 30 of the incorporation of Companhia Energetica Sao Salvador. This is a policy that we are always pursuing.

Because, the company has been trading lots of subsidiaries, altogether 32 and each project we are talking about a new company with very high administrative costs and sometimes we have some cash, because of some reasons you cannot payout dividends and then we go into their corporations. So whenever it's possible, we go for incorporation.

If you go to the next slide, you'll have a box to the left side and it is where Sao Salvador should be. I should also say that on January 6, company shared joined the Bovespa index thus increasing their liquidity. Slide six then is our organization chart. Our controller GDF SUEZ with 68.71% and then our subsidiaries. I don't have much to say here. This is a very complex governance structure that we have been consolidated and we have our systems in place to control that. Each one of the companies is managed by someone from Tractebel itself, generally accumulating to position, size and more.

On slide seven, we have several pieces of information; our geographic distribution. We work in basically eight states throughout Brazil. We grew significantly, but you see that there are periods that we don't have a much growth because, we do have a very responsible strategy of growth. We do not startup plants or buy plants just for the sake of growing. We want to grow consistently and our energy mix; 80% hydro power plants, 17% thermal and 3% complementary.

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Right now, we have the requisites of Ferrari that should -- it started this year with the construction also of the Santa Monica that is next to Trairi wind complex with a 102 megawatts. And also we have the 3 megawatts that should start operations in March. We should be connecting it in the system in March.

On slide eight, we have our position compared to our peers. We are, by far, the largest private player in the Brazilian generating market and we want to be the largest of all. But we do have to seek opportunities and we are prepared for that. We have solidity in our revenues. We have a controller that believes, and in fact, in Brazil and so we have Jirau in our pipeline that is probably going to come to us in 2015 after all this are mitigated in terms of construction and incremental energy. So it's probably going to be trends that are incorporated to Tractebel. So we are going to come to 8.500 [ph] gigawatts when that happens. So we are always seeking good opportunities.

On slide nine we have our portfolio and strategy. Our portfolio for many years now has been keeping this idea of 50% in the regulated market that gets more predictability of cash in the long term and more consistent cash flow in the long term and the free market that we have been advancing a lot in the free market. Today, we are one of the largest traders of energy in the country and we are now even making trading operations, because we have sold all our portfolios and we have to buy to sell because industries ask us all the time for our portfolio that the solidity of Tractebel has led the company to be a champion of sales in the market.

So we have for this year projected 47% in the free market and in terms of trade to companies, there are some trading companies from very high yield producers and in the past we consider them trading companies. But now we are considering them free market industrial clients, because we are selling to the industry and also with a change of rule and with a very high spot market changes in guarantees, this portion has been decreasing considerably. On the next slide -- going back, sometimes, we still -- we have to sell to custom clients do only buy from trading companies.

On this next slide, anyway, we have the diversification of our portfolio. Our free customers total sales volume for 2014 is 1,930 average megawatts. Our revenues have been quite consistent, and with this we need to gauge risks in the industry. This number of 16.4% in the cement industry, for instance, for us, it is not really a number for us to be apprehensive of. Because in here, we have three very large companies which are among our top 10 buyers of energy (inaudible).

Well, now, I'm going to talk a bit about the energy market in Brazil. Everybody is afraid of rationing of energy, what's going to happen? Well, structurally the market is balanced. We have more ensured energy than market. The market is growing especially in the residential area because of better income distribution in the country. For you to have an idea, Brazil has this portion's best the per capita consumption in the Northeast, is half of the Southeast. So there is -- so lots of room for us to grow consumption. But of course, for that we need lots of investments.

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Brazil needs thermal power plants, we need base energy for us not to depend only on wind and water, only on nature and we also have to have for residuals. And we have a situation with the auctions that we have been participating. We have wind energy that cannot operate because of lack of connections, lack of lines; that affects supply and so we are going through a very, very dry period, which is of concern.

On slide 14 we show our commercial strategy. We've always tried to work on a gradually basis, thinking of the future. This is a characteristic of the company and it has to do with our country. We have 70%, 80% installed capacity of hydro power plants, and if you think of our commercial capacity, you are talking about 57% of the installed capacity, whenever you have too much water; you're going to have low prices. So we have to have this policy of ours, which is correct.

Of course, I would like to have a lot of free energy and I only have 108 megawatts this year and we are getting guests for the Arjona plant. We are now -- we are operating about a 170 megawatts that our strategy is for future years to sell and we have a very good level of contracts in 2014, better yet in 2015 with expectation of receiving the energy from Jirau, at least, a free part of that and et cetera.

On slide 15, we have our energy balance based on what we said, you are going to see that we register our portfolio but the purchases of energy continues to be high. And we are already having trading operations to complete our portfolio and to be able to sell to our clients. Our average price is very good, BRL140, for long term prices this is a very good average.

Now, I'm going to turn the call to Anamelia that he is going to talk about the Jirau construction.

Anamelia Medeiros {BIO 16881348 <GO>}

Well, first of all, good morning. Thank you, Zaroni, Sattamini. I'm going to start with slide 17. Some technical information you already aware of, it's a project of 3,750 megawatts project, 40% of GDF SUEZ, 50 units, 75 megawatts each assured energy of 2,185 average megawatt. 73% contracted under 30-year PPAs, indexed by inflation and start of supply of PPAs is subject to the decision of Aneel, because of discussions on force majeure recognition. The balance of energy available is going to be sold by the shareholders and CapEx of the project in December 2013 was 17.4 billion, compared to the last presentation, there was an adjustment of inflation from September to December.

Financing conditions remain the same; total financing from the BNDES 9.5 billion considering interest rate TJLP plus spread; amortization of 20 years; our grace period that was postponed until September 2014 in line with the discussions that we are having with Aneel about the force majeure recognition.

Going to slide 18, we have some good news; we started commercial operation of the plant in September and in fact wherein we started our generating units number two and three; they are both connected. And we have one more unit that was synchronized to the

grid in February. So we have four units connected and dispatched to the National Interlinked System. Two additional units are already being tested and should start operations very soon.

We are talking about the start of the first of the two 600 kV transmission lines for November 2014 and about seeing the status of work; we have 90% overall project progress including 95% on civil works.

Partnership with Mitsui; well, we also have the pleasure to announce that it was closed. The financial closing of the transaction was performed on January 16, 2014, following the approval of BNDES and commercial lenders.

About option to create additional value, the additional assured energy is still being considered, as well as other forms of compensation as proposed by and now in the discussion of our additional assured energy and we have been having the discussion for two years, in addition to additional long-term tax incentives in the region and the possibility of issuing infrastructure debentures, thus creating funding possibilities.

On slide 19 we have an update of some images of the Power house, right bank, downstream view and downstream view. You see that in recent months from September to today, we have advanced a lot, of course, in terms of works. It's a little harder to see because, the work is very well advanced and we are now more concentrated on the assembly of units.

I turn the call back to Manoel Zaroni that he is going to continue the explanation on Tractebel Energy.

Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

Well, just to add, we are now on the Madeira river. You have the flow of the river at 50,000 cubic meters per second. Imagine if we didn't have the end desirable effect, if the plant was ready, we would have all the power that would be needed for the plant to operate. We need about 25,000 cubic meters per second for generation. So we would be contributing with Jirau and San Antonio for the situation that we have in the Southeast. But this is just could press off for the future. This can happen in the coming years that our clients essentially ready by then.

Well, going back to our projects under construction I've already mentioned, the Trairi wind complex, which is almost finished and we should start the Santa Monica, the commercial operation of Mundau next week. The energy of this complex is sold through the special consumers market and the company has been having a performance that is quite outstanding. It's very windy and the units are very good. So they are Siemens units manufactured in Denmark and they have a capacity factor of 70% more than the hydro power plants. So we are quite impressed with the performance since the beginning of operations. The investment was BRL540 million and so the operation followed within budget.

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The solar project for our photovoltaic solar plant of Cidade Azul; this is a project in which we installed modules for assessment. They are trial modules of 70 kilowatts p each set in different locations of the map. First was set, which type of technology would have the best performance, just for you to have an idea. The photovoltaic panel may recognize different types of energy fan, wind, moisture, hours of light from one region to the other and so we are conducting this study throughout the country. And also we are already starting this plant of 3 megawatts, which is next to the Jorge Lacerda complex.

And for the financial performance, I'm going to ask to Sattamini to give you a bit more details on what I mentioned.

Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

So we are going to start with slide 23, where we have a history of our financial performance; net revenues, EBITDA and net income along the years. On slide 24, we break down our net revenues from sales, and here we make an assessment per quarter in the upper part of the slide. And then we compare the quarter of the previous to the year of this release.

So what we can see is that there was very good contribution of the average sales price which was in line with inflation above 5%. We went from a 132 to 179.97 [ph] which contributes to 290 in net revenues from sale. On the other hand, we had higher revenues of 278 million in short-terms operations, including CCEE; we went to 298.3 to 566.4. We had 19 million in the increase of the sales volumes, a 112 megawatts averaged more in 2013 compared to 2012. That has led us to grow 13.4% in net revenue as Zaroni has mentioned in the beginning of the presentation; that's reaching a total amount of 5,569 million.

When we go to EBITDA, we see a reduction of 1.9, basically explained by short-term operations including the provision for CNPE 03 that accounted the sum of 262 [ph] plus 54 negative which is 316 [ph] that we also have to talk about the contributions of operations, which was 259. With that, we had EBITDA of 3,043 million in the year of 2013.

On slide 26, when we talk about the evolution of our net income, last year we added 160 in operation, we had 52 million of non-recurring operations, 52 million is the net amount of that suits against (inaudible) that came from the rational period that was indexed by monetary correction of the payments made to (inaudible) BRL29 million plus the change of advanced settlement of our debts with the national treasury, because of the renegotiation of the Brazilian debts with the Brazil Bond of 49 million that we announced in the third quarter of 2013, the 78 million growth after income tax become 52 million, which was the contribution of these two operations; as for our financial results, a very, very little variation.

Here, again we have the provision of CNPE 03, now net amount then we had a very important fact, which was the impairment that we had in the assets of Charqueadas, we will also have some small impairments in discussion because of regulatory changes, expectation of higher spot prices in the future and then we had an impairment in

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Charqueadas of approximate 67 million basically because of resolution 500 of Aneel that reduced the reimbursement of coal for that plant because of efficiency.

Short term operations as we mentioned, we had debt results and that accounted for the company net amount of BRL173 million. With that, we have a decrease of the 3.6% in net income.

On slide 27 we talk a bit about indebtedness; our net debt changed really little from the third to the fourth quarter, it added 25 million only. We continue with the indicator of 1.1 net debt-EBITDA ratio and we closed the year with cash of 1.224 billion, basically to cope with the payments of income tax, a payment of dividends on -- and also interest on equity that backed to going 2,271 million.

It's also important to highlight that our debt regarding foreign currency is only 4% of the total debt and because of costs for hedges of these operations and the expectation of exchange rate devaluation; the company has a policy not to have that debt hedged. This is in Euros, maturity in 2015 and the cost of the hedge would be higher than the benefit that we have today. It brings a little volatility to our results and we decided not to hedge it.

On page 28 we show the evolution of the net debt. Contributions to the cash; we had a 1.500 billion payment dividends in 2013, interest on equity is relative to 2012, complementary dividends and also interim dividend payouts. We had investments of 559 million including the modernization of Sao Salvador [ph], Passo Fundo plants, the Trairi wind complex and Estreito, completion will take income tax of 547 and other variations related to interest and currency variations that we had along the year. We had 3,124 million and we go from 2,355 million to 2,271 million of total net debt.

On the next page we have our debt profile. We have a bit of a concentration in 2014 of operations that were recently contracted. We have funding contracted with Merrill Lynch and Bank of America. We have two installments to mature in 2014. We had the last installment of the debenture of the second issuance and with that we close debentures in the company. This is to be matured in May and a normal recurrent amounts of the BNDES funding.

2015, we have one installment of HSBC on basis of 4131, 99.9% of the CDI and 203 million relative to regular BNDES funds, and that we mentioned of a BRL125 million that is relative to the amount in Euros that will mature in 2015. Cost of that is a bit higher compared to the CDI of last quarter that has to do with an increase in the government's Selic rates and real economy rates and with that we had increasing cost in reais. But it's important to mention that most of our debt is still connected to TJLP and spread with basically fixed interest, given the policy of the government to keep the TJLP which funds the infrastructure of the country. So still is kept at low levels to really softer investments in infrastructure.

On page 30 we talk about our investments, CapEx projections. Last year, we invested 685 million, most of it in maintenance CapEx for Sao Salvador and Passo Fundo. We also had the Trairi, Estreito plant and other smaller investments for 2014, we have a CapEx of

approximately 489 million, most of it will go to maintenance, thermal, Trairi plants, acquisition of Ferrari that was completed yesterday. Financially speaking, we had the financial closing yesterday and other minor investments.

Well, on page 31, we have dividends; remember that by-law minimum payout is 30% of payable net income. We have management commitments of minimum payouts of 55% that we have a policy of not to retain cash, it's not necessary. If there are no relevant investments and we do have good generation of cash, we try to payout as many dividends as possible.

So again, the shareholders will have a meeting on days of -- and probably we're going to have a full payout profit of 2013, which is BRL2.26 per share, with a dividend yield of 6.3%, and today would be 6.6%, but we are talking about prices in December.

I'm going to go back to Zaroni for his final consideration.

Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

I think that we have to open for Q&A. Our presentation is over. I would first like to make a comment, I was taking a look at my papers last year, we had three different methodologies to calculate stock prices. January to April, we had a risk operation curve of two years. From May to August, after CNPE 03, we went to almost five years of the operation curve. That's already caused an increase in stock prices of 170 to 210 and so 40% to 50%. So in September, with Passo [ph], you can have an increase of up to BRL150 on stock prices. But at the time we could no longer change the strategy, we had already designed it so that's really brought a loss for Tractebel.

Okay. Q&A, would anyone like to ask a question. We are here for you.

Questions And Answers

Operator

Ladies and gentlemen we will now start the Q&A. (Operator Instructions) Our first question comes from Sergio Tamashiro from Safra Banc.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Good morning, everyone. My first question is with regards to the risk of energy rationing and how this will adapt to your seasonalization? I think that you allocated again more energy for January and February, but how do you see this year? Your GSF, January was probably below one, but what do you think it's going to be like along the year and also the spot prices, just a general market for you?

And second about contracts; what do you see especially in the contracts that you are signing now for 2016, 2017? Are you having an increase of prices because of this higher

risk that may be a bit more, the current prices are going up, are they staying at the same level and what level is that?

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

Hello, Sergio. We are going to start with the last part of your question and then we are going to move forward. Well, our analysis here is that the market is very sensitive to the spot prices and when the spot prices are high, contract prices are very high as well. And that kind that stays in the contract price for about three years after that prices become a bit more structured because we are having auctions and people will accept having Manoel at 84, selling wind energy at a 120.

So long term prices stay at a BRL110 not more than that. Prices for 2015 went up, because of the situation we described about today. So we have consistency of price in the short term and they are connected to the spot price market. As for rationing, well, we have two call and engines for them to make the rain dance, because it doesn't rain. We are going to have to have some kind rationing. Reserves are going to dry out, it's just a matter of maths, how much your supply is, what your demand is and Brazil Bovespa do not go to zero. Otherwise, it is an uncontrollable situation and we do not have any other resources. And this is going to happen by mid-March I believe; this is when we are going to move. So prior to we're going to continue hide the whole of the year, probably they are going to go down slightly, but not much. What I hope is that we do not have any other government measure, because the situation is difficult.

We are spending a fortune in thermal plants, distributor companies are all exposed, there are small generating units that were misguided that are too exposed and they're going to go bankrupt if nothing happens. Lots of small generators, every now and then I ask for -- I am asked for help, because they don't have energy to sell, so there is a complex situation.

We designed our allocation strategy, we think we did right. We had substantial results in January. And as I believe boys, it may sound GSF is being less, low than we expected. And basically, what's happening is that, traditionally in our country, we cannot increase tariffs. So we have record prices and record consumptions at the same time. So we have to generate energy, otherwise we cannot meet our loads. And with that the whole hydroelectric system generates close to a share energy, we are not having a GSF that is too low.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

And do you think that you're going to be at one until the end of the year?

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

It's hard to say. We cannot have clear signs that it's going to rain and things are going to change. If things stay as it is, we are going to have to add some kind of rationing, official or not.

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Q - Sergio Tamashiro {BIO 2274485 <GO>}

I understand from previous experiences, I remembered that distributors kept their loans after they had compensation. Do you think that this is what is going to happen or everyone; generating companies, producers will have a drop of energy?

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

If we have rationing, we are going to reduce contracts, everyone and this is already provided in contracts.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Sandra Boente from HSBC. We would like to inform you that you can only ask two questions. Thank you very much.

Q - Sandra Boente {BIO 1511861 <GO>}

Good morning. Thank you very much for the opportunity. I have about three very short questions. The first is a follow-up of the answer of that Eduardo and you said that by mid-March you're talking that situation is going to be maintained. So you're talking about the rains for the year and so you think that they're going to still have insufficient rain, and therefore prices should not go down. Perhaps, we should think of a high costs -- high prices until the end of the year or are we going to start with the rationing to avoid the crisis?

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

Well, the price is established in a five year projection. So when you know that in Brazil the wet period of the South region goes until March. So, if you have water in as it was, you are going to have lower prices for the future. And you have major plants that do start preparations along these five years that will reflect also the calculation of the prices. So demand will -- tries to find out the optimum point between generating thermal energy today or standing water that's how the model works.

So if it rains on average in March, April; prices tend to go down. If it doesn't rain, then we'll have to have some kind of energy rationing and then you decrease the load, you lower the price, because you offer less energy.

Q - Sandra Boente {BIO 1511861 <GO>}

And what do you mean of a non-official rationing is it a blackout?

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

Well, we shouldn't say this things out loud. It's a very complex decision, this is an electro year. We know that the energy sector is quite sensitive for the industry and for society.

Q - Sandra Boente {BIO 1511861 <GO>}

And the other question was about --

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

Sandra, let me just tell you something. I was Superintendent in Furans for 10 years and you will have other ways of cutting loads, you lower voltage frequency; there are other ways of decreasing loads.

Q - Sandra Boente {BIO 1511861 <GO>}

Okay. Okay. So the other question would be resolution number 3. Do you still think that it can affect the companies? Can it be extended in 2014, because of expectation of a need of funding for the industry? And there is even a more greater need than last year; do you think there is a risk?

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

Not 03, but quite honestly, I am very afraid of another measure, which I don't know what it can be along the year, in the coming months, depending on the situation. I'm very afraid.

Q - Sandra Boente {BIO 1511861 <GO>}

Okay. And the last question then that would be to Anamelia. Thank you very much Dr -- Mr. Zaroni. It's about Jirau and the ramp-up of the plants. And so how many generating units are you planning to have in commercial operation by the end of 2014 and by the end of 2015?

A - Anamelia Medeiros {BIO 16881348 <GO>}

Well, as I mentioned, right now, we have three units in commercial operation and one unit is connected to the network, so all together four. We have two under commissioning and more units to come in. The assembling and installation or the focus of the company and this is being done in parallel. So with that, we can perhaps have 16 to 18 units in 2014. Of course, the schedules can be revisited based on the performance and an acceleration of the learning curves. We have just finished three units and we have still being tested. We have others to be in the pipeline to start test. So we are working very fast. And now things are happening are lot faster than they did in the beginning.

Q - Sandra Boente {BIO 1511861 <GO>}

And for 2015, do you have an objective?

A - Anamelia Medeiros {BIO 16881348 <GO>}

Well, right now, I would prefer to focus on these that are closer to us in 2014, because performance acceleration of learning curves can change any estimates that I give for 2015.

Q - Sandra Boente {BIO 1511861 <GO>}

Okay. Thank you. And you are negotiating with a new -- about the dates with regard to PPA. I had understood that you had a waiver and that it is expired, so what happened? Are you negotiating another waiver, is that receiving, so should you be buying in the spot market? What is the situation today?

A - Anamelia Medeiros {BIO 16881348 <GO>}

Well. This discussion is going on for a few months in line with the events that we had in 2011, 2012, and now decided to delay in 22 of October; a delay for the commercial obligations and so the merit of the decision is discussed. So Aneel decided to have a (inaudible), should produce evidences about the current status and the impact of the events of '11 and '12 in the schedule of the work.

So the agency is still analyzing our report and whenever they make a decision, we are going to know when the PPAs are going to start. Now, if Aneel's decision does not reflect correctly, the effects of the event, it can be complemented by a legal decision based on the independent review of technicians that were appointed by the courts.

So it's basically in impasse now and to Aneel decides what to say; that could be in this case end up having a decision that's basically denied the rights to postpone the schedule or denied a waiver and then you would have a retroactive obligation of supplementing the PPA since the September 1. Well, in theory, everything can happen, but just to make it clear, the decision is being analyzed by Aneel. They are collecting evidence to try to base the decision better. It takes time, it's a complex case. But in the context of discussions about responsibility, so we did have an injunction that add for the suspension of commercial obligations and investigation of the events that we had of force majeure and the impact of this event in our schedules. The injunction was accepted and now commercial obligations are suspended and any anticipation about the level of exposure will depend on Aneel's final decision and the decision of the legal area.

Q - Sandra Boente {BIO 1511861 <GO>}

Okay. Thank you very much, Anamelia and the whole Tractebel team.

Operator

Our next question comes from Gabriel Laera from Itau BBA.

Q - Gabriel Laera {BIO 15686582 <GO>}

Hello. Good morning. Thanks for the opportunity. Congratulations on your presentation. I'd like to apologize that I'm going to ask three questions. First, Mr. Zaroni, you are talking about the change of rules. How could the rules of the MCP [ph] be changed, would be changing marginal cost for an accumulated average price, in our math it would be 330? That would be my first question.

The second question is, do you really think that a level of 23%, 24% of consolidated reservoirs projected for November 2014 be problematic? Would that be a sign or the beginning of a sign for the government that they should plan or think up something? And

how much do you think there is of optimism in clearing a draft for the coming energy for the next years or do you think that they are doing the right math, because they have valid (inaudible) with an increase of 6% of consolidated loads in one year?

And finally, I apologize that I have one more question; and when you have too much water in the Madeira River and which you are seeing that since the beginning of January, February. Does it affect operations in a negative manner? We see that there are the height of water is higher than it should?

A - Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

You asked four questions, not three.

Q - Gabriel Laera {BIO 15686582 <GO>}

I'm sorry. Its three topics, four questions. I am sorry.

A - Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

Well, the excess water of Madeira and in any plant is not good. You have the consequences; you increase the level of downstream. That said Jirau is okay. We are taking all the precautions not to have problems, we continue to do wear it off and the machines there so far are working without a problem. I would not like to make comments about what's going on in San Antonio, because I don't feel I'm an expert in that.

Now, if you think of things, there is risk aversion mechanism, as we had K2, K5, you have to deserve for what better do and then. You have a model of 50% of the worst scenarios in the model. So you have to increase process according to a methodology that is not exactly a differential, but it is based on a model. And basically this is what for this is for to anticipate thermal generation, for you to have a bit more safety in the system, for you to have more thermal plants and have a less burdens in systemic services.

Measures to be taken, well, there are several; they can be financial measures and they can be regulatory measures to change the rules of the game. But the situation we are experiencing now, they announced a primary surplus of 1.9. I don't know how they are going to get to that. That remains to be seen. So they can say, well, now, it's now going to be 50% or not as they do think rationing, the marginal cost is BRL1,800 that should be the cost and what is the rule that they create that rules on the NCP. Because, I think that in addition to the dispatch of cost, there is evaluation of energy that's unfortunately is in the hands of state-owned companies that did not accept the provisional measures.

Could they change rules because, NCP is using a variable that is not correct. It's not that, it's not correct. It's that things have to be done with a purpose, the problems when you changed rules in the middle of the game. Now there is a model and you can work within the model, or you can think of alternative rules like an objective level is not in the model. This is the model that was approved, it is used but on addition to that now they have target levels that you're going to part to. There are additions that create new scenarios almost sideways. They create a new limit, so the problem now is not even that, it is a financial problem; who is going to pay for the bill?

Q - Gabriel Laera {BIO 15686582 <GO>}

Okay. But the level of 24 of November, can you just comment on that?

A - Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

It can be a problem, but it cannot be a problem. Let me remind you, in 1999, the equivalent reservoirs in the end of December were at 19%. It rained; it poured rain in my native -- in my hometown, I say this is a preserved reservoir close in the south of Minas Gerais that they closed three months back. And we had floods, huge, and we have an incredible contribution bathing in the water of the Rio Grande, generates energy, it yields 14 megawatt per cubic kilometers in the Grande River and then in the Parana river.

And year was okay. The next year 2001, that was from '99 to 2000, in 2001, the year ended up 20% and we had a rain of 60% of average in the summer and we had rationing. So it is what we have today, yes. The lower the level, the more you depend on the rain. We are not going to have an increase, a substantial increase of thermal plants or other sources in this year. What we can have is more machines in Jirau and in San Antonio we have a line that is ready. And we know that the Madeira River in the end of the year, it rains and it goes up, because we have the defrosts in everything and so you have significant contribution in the summer and that may have in the filling of the reservoirs of the Southeast. So maybe in the future, we are going to have a better scenario? Yeah, I think the model is thinking about that. So you're talking about the 24th of November, so 20% in the end of the year might be a problem and perhaps, it's not a problem. And that's the dilemma of the operator.

Q - Gabriel Laera {BIO 15686582 <GO>}

Okay. Very good. Thank you very much.

Operator

Our next question comes from Carlos Rivero from UBS.

Q - Carlos Rivero {BIO 18461979 <GO>}

Hello. Good morning. Good morning, everyone. I'd like to have a bit more details on the provisioning for the established [ph] clients. How you think about -- you talked about that, I would like to know about Aneel's regulations, are you talking about that issuance and if you were to sell the plant in 2016 [ph] is that the amount you would be receiving, do you want to sell the plant in 2016?

A - Anamelia Medeiros {BIO 16881348 <GO>}

Well, Aneel resolution 500 established the efficiency that each client, coal client should have. And if they don't reduce efficiency, there is a reduction in the reimbursement of coal. These are old clients that were built almost like an insurance for the electric system for periods of the draft. And they are entitled to reimbursement (inaudible) on coal until 2027. So in this resolution they established that, Santiago is a plant that has a frequency

comparison. It is 50 years old, you're talking about small units of 18 megawatts and it was an economic feasibility study; the price of energy versus costs with less subsidies of coal.

Of course, we did our accounts internally in a very prudent manner considering provisions, calculations for the future, coal reimbursement, how much it costs to operate it O&M. And we had to stop a bit of equipment because of environmental reasons, this increases costs.

Well from here to 2016, we are studying all the regulatory measures, all the technical measures to know -- cost reduction measures, to know if it is feasible to have those plants in operation. If it's not feasible, we have no other choice but closing it.

Q - Carlos Rivero {BIO 18461979 <GO>}

Okay. Thank you very much.

Operator

We are now closing the Q&A session. We will turn the call over to Mr. Zaroni for his final consideration. Please Mr. Zaroni, you may go on.

A - Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

Well, the message, I have for you is the following; the country's electrical sector is going through difficulties, but Tractebel is a very solid company. We have consistent energy limits, our clients operate well with a high level of availability. I can use this level almost as a hedge for prices. We have a very high level of contracts; we are starting with Guajiru. We are going to start co-generation of Ferrari. We are being able in our negotiations with Petrobras to keep our gas supply in Arjona and we believe that more than ever necessary for the national system and thus bring improvements for our results.

And we are working very hard to be able to have new projects and to be able to grow, because we generated huge cash of more than 3 billion a year. We have very low indebtedness level and our ambition is to be even bigger of a company in the future, but we want to grow that responsibility.

Operator

Tractebel's conference call is now closed. We thank you very much for joining us and wish you a good afternoon. Thank you for using Chorus Call.

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