

## Q3 2013 Earnings Call

### Company Participants

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

### Other Participants

- Felipe Leal, Analyst
- Gabriel Laera, Analyst
- Sergio Tamashiro, Analyst

### Presentation

#### Operator

Good morning. This is Tractebel Energia's Conference Call to announce their results for the third quarter of 2013. All participants are connected in listen only mode. And later on, we are going to open a Q&A session, when further instructions for your participation will be provided. (Operator Instructions) We should also remind you that this conference call is being recorded. This presentation along with its slides will be simultaneously webcast on the internet at the website, [www.tractebelenergia.com.br](http://www.tractebelenergia.com.br) in the Investor Section.

There you can also have a copy of the presentation in the company's earnings release. Before proceeding, I would like to clarify that statements made during this conference call pertaining to the company's business outlook should be treated as forecasts depending on the country's macroeconomic scenario on the performance and regulation of the electric industry, in addition to other variables and therefore, they are due to changes.

Today, we have Mr. Eduardo Sattamini, Tractebel's Finance and Investor Relations Officer; and Mr. Antonio Previtali, Investor Relations, Manager; who will be talking about the performance of Tractebel Energia in the third quarter of 2013; and Ms. Anamelia Medeiros, Market Relations Manager of GDF SUEZ Energy Latin America, who will present an update on the development of Jirau hydropower plant. Right afterwards, we are going to have a Q&A session.

Now, I would like to turn it over to Mr. Sattamini. Please Mr. Sattamini, you may go ahead.

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

FINAL

Good morning to everyone. We will talk about the third quarter of 2013 and this quarter was marked by the reduction of our recess that was created in the third quarter of this year, because of our strategy of energy allocation and also due to a period of high spot prices. And thus we will under line our main indicators, which was to disclose to you now.

Our net revenue from sales in the third quarter of 2013 is compared to the third quarter of 2012, had the raise of 2.9%. Especially, because of the increase in our sales price, which contributed with 71 million and now our price went from 138.8 to 140.8 net price.

Our EBITDA in comparing the two quarters had a reduction of 5.1% especially due to the short-term operations to cover our positions and they increase in budgets for resale. This had a direct impact on the company's EBITDA margin, which dropped 8.5 percentage points.

The net income was not so much affected, because we had a non-recurring gain, which contributed to net income with approximately R\$32 million, but if we hadn't have that non-recurring results comparing the two quarters, we would have had a reduction of 5.4% in line with the reduction in EBITDA.

In terms of energy sold, we didn't have a significant variation and production was quite high, especially due to the increase in hydro generation in 2013, as compared to the same period in 2012, when we went through a period of poor hydrology.

And now going to slide number five, the quarterly highlights. The main highlights is the approval of a payout in the form of interest on shareholders' equity in the amount of R\$0.375 per share. And now the shares were ex-interest as of November 26, 2013. And we're going to announce these interests on equity on the last day of the year and the payout will be made in next year on a date to be decided by the company's management.

On September 20th, we completed the assembly of the turbines in Guajiru Wind Complex, that along with the other 11 air generators in Trairi will total 24 air generators, which were synchronized just this morning. We had the confirmation that machines were synchronized at 10:00 AM today.

This is a quite a positive event for us. We are waiting for substation in distinct [ph] to be fully operational for us to be able to connect our power plants. And then, we are going to take advantage of this period with strong winds in the region that we'll find in October and goes into early next year. And this will contribute to our position and we'll cover part of our position that, in which we were in debt.

As of -- in 2013, Tractebel Energia received Federal Award, Environmental Award by the United States Chamber of Commerce in the category of Rational Use of Hydraulic Resources, also the Trophy for the Best Company in the Brazilian Electric industry in the tenth edition of the Isto E Dinheiro, which is a magazine. And also received an award for the electric energy highlight in the 6th Abrasca Creation of Value 2013 in the areas of

governance, transparency, risk management, socio-environmental policy, investor relations and others.

Now, this is our shareholding structure. Our -- here, we have GDF SUEZ, we are part of the new market. The highest level of covenants in the stock exchange and we've been in the industry for more than eight years. And since it was created we have been part of this in an important index, no other significant changes in our structure.

Here, where you can see our power plants, we have been changing from a regional to a more nationwide profile. But here you can see our capacity to serve those markets have been increasing and the composition of our generation portfolio has a hydro thermal feature. This means that there is a risk reductions in factor, in periods of low rain fall. And we are highlight amongst our peers. So the company's that work created in the late '90's, we see that our company was the only one that has had such a robust growth.

On page eight, you can see our leading position amongst the private generators in Brazil, we are the largest one. As we acquired a participation Energia now, with our share Energia now we are still leading by far with the possibility of consolidating our position in this industry.

On slide number nine. You can see our portfolio in terms of distribution companies, trading companies, free customers and exports. You can see here long-term outlook with contracting in terms of serving the markets too. The company's vision is that we should try to sale and increase our base of free customers.

So it just took create value to our customers and capture value for our shareholders, in order to avoid the minus one auctions, where prices usually have a cap in the prices that I determined by the government and it's not so attractive for this reason. We should also highlight that from the second to the third quarter of 2013, there was an increase in direct sales to free customers and we had 42% now we are going to 43% and there has been a reduction in sales through trading companies.

Somehow this has been following an ongoing trend of confidence in free customers or free customers in having a direct relationship with generated and the recent changes in the regulation. And the regulation was enacted earlier this year and it's defined a bilateral guarantees between sellers and buyers, sharing the risk. And so the portfolio is determined by assets and companies then have greater possibility of attracting new customers.

Now on slide number 10. As we have given considerable importance to the free market, you can see our total volume of sales has been going up year-on-year and it has the highest historical level in the free market so far. We try to diversify the different industries of the economy, so as we are not exposed to any specific risk of any given industry. So we have major international players, very large companies, multinationals that are -- have financial solidity. We also have a strict credit policy and a quite strict credit analysis policy too.

FINAL

Now, we are going to slide number 12, where we'll be talking about the economic growth and the new profile of income distribution. And this will contribute to an increase of demand in electric power. Last year, we had a quite weak economic growth rate according to our GDP, but we also saw that the behavior of construction of energy did not follow that small growth that was perceived in the economy as a whole, there is a new component, which is the new income distribution, which has been contributing in giving more electricity to energy consumption in the country.

We also have the perception that the increase in the participation of a thermal plant and the preference for hydro power plants with small storage capacity should contribute to increase the availability of energy. If you see here supply by source distribution chart on the right, you can see that the line of demand cut off in terms of thermal and electrical power and you can see that even with a long-term average of rain fall, we can no longer meet the whole system just with hydro generation.

So, thermal energy is necessary for the system, and for this reason, we can see that price levels are likely to go up more and more as we have to rely more and more on thermal energy. On the left, there is a small structural surplus, but it's a small amount, it's compared to the previous period and to 2006, we have a more robust model. And transmission capacity also reduces this need for a supply excess, but with the more robust profile may provide quite significant pressures on demand over the next few years.

We are now going to move to slide 14, and we are going to talk about our uncontracted position. In terms of uncontracted energies, as you can see on the left hand side, this position was substantially reduced especially for 2015, 2016. And this has to do with two factors. First of all, sales. We have sold more this quarter for the future years, but we also lost some balance and this is due to the shortage of supply in one of our plants.

In March of this year, the balance was suspended and we were trying to reestablish the balance. By filing for administrative in court measures, we did not report this last quarter because we had a strong hope that this would be revert, but from under an administrative point of view, the appeals are no longer available. But in the court, we continue to try, on November the 5th we are going to have a hearing in court and the balance may be reestablished.

We wanted to show that we are cautious and we've been decided to realize the balanced or the ability in the next few years and there is a pest to our conservative stance. As we got a libratory [ph] fuel fired plants, it showed to be unfeasible for operations with this very low, very poor hydrology and we decided to shut down these plants and return it to the federal government. This plant had been assigned to the company by the Federal government. So these were the two main factors that accounted for a drop in our availability.

We can now move to page 15, where we will see the energy balance and the other factors that influence our availability, especially the bilateral sales volume. There was a slight increase in 2013 of five average megawatts more sold in 2013. These variations are going to be small in 2013. For 2014, we saw an increase of 154 average megawatts in

bilateral sales in 2015, 46 average megawatts; in 2016, a 104; in 2017, 76 and as of 2018, 16.

I would like to highlight that in our energy balance, we saw small variations in the average price. But there is one variation that I would like to draw your attention to, the average purchase sales -- purchase price for 2015; the net price had a significant reduction. We had one contract for that year, for 200 average megawatts with a quite high price. This contract was signed in 2008 -- 2007, 2008 when market prices were higher. And this was a contract designed to replace our portfolio. And in 2015 or rather in 2013, we purchased for 2015 at lower prices. There was a significant reduction therefore.

Some analysts asked us, what level of price we saw. And the price was in the region of R\$120. That's why the prize, the average purchase price went from R\$139 to R\$129 per megawatt hour. We are now going to move to page 17 and we're going to talk about the expansion of the Jirau project. And for that, I would like to turn the floor over to Anamelia.

### **Anamelia Medeiros** {BIO 16881348 <GO>}

Good morning to all. On behalf of GDF SUEZ, I would like to thank you all for participating. I will give you an update of the Jirau project for the third quarter. This is a project for 3,750 megawatts of installed capacity, of which, 50 units for 75 megawatts each and assured energy granted for 2,185 average megawatts.

73% of the energy of Jirau has been contracted under 30-year PPAs to distributors. The first PPA, 1,383 average megawatt with a preliminary starting January 2013, past negotiations are with -- in course with Aneel and the second PPA is starting March 2014. The balance of energy available will be sold by the existing shareholders. This has been contracted with the shareholders and the energy will be sold as convenient.

Financing conditions are known to you all, financing is granted for R\$9.5 billion and at the interest rates as our part of the market. As we have announced, the first generating unit and started commercial operation in September 2013. Unit 29 on the left bank. Also we filled the reservoir of the engine on the right bank to allow the new start of operation of the machinery. And now we can say that most of their construction works have been completed.

This physical advance is at not more than 90%. That's a great achievement. The current CapEx of the project is 17.3 million, billion rather. This is September 2013 data. And as you know, we gave you an update in March 2013. The partnership with Mitsui is being finalized and as you know, Mitsui acquired 20% equity interest in the project. The completion of the transaction is expected for the second half of 2013. And it's now condition to the approval of the BNDES and the commercial lenders.

Cade has already granted approval to the transaction and approval as well. And Aneel as well has granted approval. As you know, the project was recorded under the Clean Development Mechanism under the Kyoto Protocol this year and we expect to generate 6 million ton credit of CO2 actual capacity. Revenues will begin to come in, in 2014, and just

FINAL

to give more color on that. Once the first machine starts operating, we will be generating revenue for carbon credits.

As you know, we are also negotiating additional options to create value such as additional assured energy and a minimum of 24.3 average megawatts have been granted by Aneel. We are also looking for additional tax incentives in the region and the Ministry of Mines and Energy has approved Jirau as a priority project for the purpose of issuing infrastructure debentures. This creates further funding possibilities.

The next slide shows how the works have been advancing. We have the filling up of the right bank powerhouse from September to October. This shows you how it has progressed and also the left bank power house, a downstream view from June through September. You see how the works have progressed.

Thank you very much, again for listening. And we will remain available to take any questions you might have. Right now, I'll turn the floor over to Mr. Sattamini.

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

Moving on to page 20. We have the smaller projects, the Trairi project. Two of the wind farms are working in sync and one of the other parts to begin commercial operations by year-end. This two wind farms will contribute to generate energy and to settle our positions in the end of the year.

On page 21, we'll see the Photovoltaic Solar Plant. This has a capacity for 3 megawatt peak. The investment is for 56.3 million. And under the R&D project, we are assessing the potential for generation of solar energy in Brazil. We have installed eight trial modules for 70 kilowatt peak each, in different regions. And you can see the distribution of these modules for assessment purposes and this is being developed with a group of Photovoltaic Research of Santa Catarina's University. The first and second on trial modules have been completed. The third and fourth trial modules are underway. The solar -- the earthworks have been done and we are going to begin the assembly of the metal structures in November this year.

Moving on to slide 23. You see the growth of the company and its financial performance. We have seen constant and consistent growth. And this is because we have a very good client portfolio and we have a very good focus on our contracting strategies. This has allowed the company to make acquisitions and research for the growth.

This growth has not been reflected in the last auctions, in terms of profitability, plus the growth in financial aggregates. Show what the company was in the past and shows that the company has been disciplined and prudent and has made appropriate decisions regarding investments.

We now move up to slide 24, where you can see net revenues. And as I mentioned, we have the average sales price, which grew 6%. This average sales price was one of the factors that accounted for 9.2% of growth. And that regards CCEE and short-term, this

Bloomberg Transcript

contributed R\$75 million. The revenue grew in the short-term market over 172 million in Q3 2013. There were no exports this year, and therefore, our revenue was hurt by R\$8 million relative to the same quarter last year.

Now moving to page 25 to talk about the EBITDA. We had -- the main component accounting; it was 48 million in terms of operations. The main factor was the impact of short-term was spot operations that contributed with 83 million and here we broke down the negative impact. And we broke down the short-term effect between CCEE and those related to provisions, related to CNPE 03, which now have a direct impact on cash. But we have been reporting it, and we have been making provisions for this new regulation.

Total today, we have 60 million in provisions, and those 60 million, as time goes by and as we find it good, we may return it to the company's or reverse it to the company's cash.

On slide number 26, when we talk about the evolution of the net income. The main component is non-recurring financial results. We had the prepayment operation of our debt to the national treasury, related to rating [ph] bonds and the Brazilian debt. And this debt had a collateral that was in company's books at the amount of the curve. And these assets had a much greater value in the markets. So when we made the prepayments, we had the financial gain of R\$49 million, which after income tax had the effect of 32 million in the company's financial results.

The operations have contributed with R\$28 million, as compared to the same quarter last year. Financial result was slightly better than last year 11 million. But then once again, we have the contribution of short-term operations and here broken down between CNPE 03 and CCEE with 54 million in our numbers. Thereby leading our net income to have grown only -- sorry 2.9%.

Now on page 27. Talking about the company's debts, we have a low indebtedness with low exposure to foreign exchange and because of the settlement of the operations that we mentioned in the previous slides has led our foreign exchange exposures and to from six to four of our total debt. Our debt is stable from 3,463 to 3,470 and the components that have increased our debt for example the continuing of investment in wind farms and for one of three one operation. And we also had the maturity of the operation with Merrill Lynch and BNDES operations as usual. And I think, we mentioned in the previous slide, our cash position in the previous quarter went down on middle, but we had the payment in late September of 764 million dividend. We had the payout of dividends.

So on page 28, you can see this. And we compared the evolution of net debt that went up by 9.2%. Especially due to this events to the payout of dividends, which took place in September. Now we also had investment in wind farms and other factors that were not so relevant, that were partially offset by the companies, the regular cash operation, that we call operational activities.

On page 29, you can see the debt profile. There is a slight concentration in 2014. There will be to transfer -- as the trends that will mature with Merrill Lynch, that will mature next year and this leads to a reasonable concentration in 2014. And then we go back to a

slightly lower level in 2015, with the regular maturities of our long-term and loans that we're contracted with BNDES, plus HSBC operations, let's say which is a short-term operation for two years. And we also have the settlement of the operation that we have in euros. That will mature in 2015, to at the end of 2015, and they are floating rate notes. And they are in euro with 3.7 cost, as you can see here in the lower left chart, in the pie-chart.

Most of our debts, as we mentioned before is in reals. Even, because our revenues are only in reals. And this is the way for us not to have a great difference between assets and liabilities, in terms of currency, which could increase the company's risk.

Now looking at the composition of the debt, most of it is related to long-term loans from BNDES here represented by TJLP, the interest rate of Brazil. Some of the operations indexed by the CDI. And then also some exposure to foreign currency floating. And this CDI, IPCA 9% of the debt. Another thing such as PSI in regional funds of development.

On page 30, you can see our CapEx. And when we look at 2013, basically we have the wind energy in the Northeast, the Trairi complex are accounting for a significant portion of our investments in 2013. We also have the Trairi [ph] and we also have a significant amount of CapEx of OEM, pertaining to renewal of the power plants in Salvador, Passo Fundo. This modernization project will take lays along 2013 and '14. So this is already represented in the estimated CapEx for us to make this modernization over the next few years.

Now on Passo, there is a minimum payout of 55%. And we've been paying 100%, since 2011. So not to retain any resources or funds in the company, unless we have a specific use. The level of estimate has been low and for this reason we have decided to pay out 100%. So this is it.

And now we'll open for questions and answers.

## Questions And Answers

### Operator

Ladies and gentlemen, we are now going to start our Q&A session. (Operator Instructions)

Our first question comes from Mr. Gabriel Laera from Itau BBA.

### Q - Gabriel Laera {BIO 15686582 <GO>}

Hello. Thank you for the opportunity. So what about Alegretes warehouse, can it be canceled? Can you explain this better towards; I can't remember it very well about the availability? I think it was in 2012, can you go back to that?



FINAL

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

Well, we have gas until March this year and there is a legal fight, so to speak with Petrobras, dispute with Petrobras. And there is -- pre-law, that covers contracting of 20-years for these PPT power plants. And at some point Petrobras decided that the contract should not be renewed according to this bigger loss. So we've been arguing or discussing about this in the court, so there is a legal dispute. And we've been trying to reestablish supply as per the bigger law, which is a degree law but today, there is an intention that Petrobras manage to have a suspend supply.

So we are discussing whether they can do that or not. So trying to be cautious, we have taken this out from the availability. So whatever happens is that we should reestablish our availability, because we wanted be cautious, we decided to take this out from our portfolio of availability. So you've taken this out at 50 source today, their operation is suspended at Aneel and automatically it's suspended at availability in CCEE.

## **Q - Gabriel Laera** {BIO 15686582 <GO>}

Thank you.

## **Operator**

Our next question comes from Sergio Tamashiro from Safra.

## **Q - Sergio Tamashiro** {BIO 2274485 <GO>}

Good morning, everyone. I have two questions. The first one for (inaudible). In the third quarter, you've announced an increase in CapEx, which was 16.3 billion or it's 17.3. But then on the other hand BNDES, still has 9.5b. And so are you going to allocate more equity, will the projects be less leveraged. And then also with regard to Mitsui, the 20%.

So you are reporting that each partner has their own PPAs. But do they have demands for this energy or will they also sale this energy in the secondary market and you have the preference right?

## **A - Unidentified Speaker**

Thank you for that question. With regard to CapEx, we announced an increase of 1 billion; the CapEx is compared to March. We are not going to renegotiate our debt with BNDES. So this allocation will be done with equity. As to Mitsui, as I said PPAs were agreed with the existing shareholders with the portion of values depending on their share in the project, as to GDF SUEZ in our share. We are talking with the marketing team of Tractebel.

So in terms of the best way to put this energy out in the market. Because they've been very successful in selling, in their free market, which provides us some access through consumers and have promote coal products that are in the company's portfolio, which makes it easier to integrate Energia portfolio. The issue of sales more specifically. We will deal with it more clearly, so soon as we are more sure about the volume of energy available, will get down.

FINAL

My question is, will Mitsui's energy compete with the energy that Tractebel feels. Well, I don't know, if I made it very clear, but GDF SUEZ still had 60% of the energy allocated to free market, where Mitsui did not stake on any obligation with regards to this energy. So this whole share will be discussed at the appropriate time to be sold and with the sales team are effect to do.

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

This is Sattamini. When you look at the contract portfolio Mitsui of SPR, Mitsui is not in the list of those who take energy. So it's a 60%. So what Mitsui bought was buying the 100% contracted assets.

**Q - Sergio Tamashiro {BIO 2274485 <GO>}**

The second question, looking at the energy balance comparing the second to the third quarter, I founded interesting in terms of owned resources it went down 124 average megawatts and 156, 157, 192, 173. So, why is equity? All resources dropping?

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

Well, as we mentioned earlier in our presentation, during this year, we've had a few setbacks, in terms of regulation and contracts too, one of them. And then there was the suspension of gas supply. So proportionally to the year this William Arjona, Alegrete to was taken from the availability. And then Arjona and Alegrete are completely out of our lists and some other changes because of the average in August.

As always in August, there is an assessment of the physical guarantee of thermal plants, because of the heat-treat and also because of the time they stop. And this is being reflected as of this quarter in the lines of the next few years in terms of our own resources. We've decided to provide information this quarter, because we think that some -- so first in August the revision and secondly, because we've thought that with some elements, we should disclose it to the market still this year, because we have been prudent.

**Operator**

Ladies and gentlemen, please be kind enough to ask only two questions. Our next question comes from Mr. Leal from Merrill Lynch.

**Q - Felipe Leal {BIO 2015017 <GO>}**

Good morning to all. I would like to know what is the status of the transmission for the wind projects, which are underway and also the transmission for Guajiru? Can you already transmit this energy?

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

As regards the wind projects, this was the main bottleneck that prevented us from synchronizing their machines. The Trairi power plant had been ready since last quarter, but we were unable to synchronize and connect because the substation was late. Once the

Bloomberg Transcript

substation was ready, which occurred this week, we were able to synchronize the plants. So as regards, the transmission of the energy from the Trairi Wind project, this has been sorted out.

Now, the Trairi Wind Farm will begin to work and the energy will be available in the system. We also have other projects in the same region and we have capacity in our lines to connect to the same substation. We have a guarantee to connection for these farms, our line is ready for the Trairi complex. As regards Jirau, I'll turn it over to Anamelia and she's going to give you the further explanation.

#### **A - Anamelia Medeiros** {BIO 16881348 <GO>}

As regards the high-voltage transmission line that connects Jirau to the Southeast system. The line began to be tested on October 10th, it's not under commercial operation yet. The estimates of the ONS [ph] is that the line should begin operating in the middle of November or at the end of November. This depends on the performance of the line in the pests.

#### **Q - Felipe Leal** {BIO 2015017 <GO>}

Thank you very much.

#### **Operator**

(Operator Instructions) We now end the Q&A session. I would like to turn the floor over to Mr. Sattamini for his final remarks. You may proceed, sir.

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

Once again, thank you all very much for participating. Thank you all very much for your questions. This makes our presentation and our call more dynamic. And in the beginning of next year, we will report on Q4, and we hope to have good results to inform you. Good afternoon to all.

#### **Operator**

Tractebel's conference call Energia -- conference call is now ended. Thank you all very much for participating. Have a nice day and thanks 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