

Q2 2014 Earnings Call

Company Participants

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

Other Participants

- Maria Carolina Carneiro, Analyst
- Miguel Rodrigues, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. This is Tractebel Energia's Conference Call, where we will discuss the Results for the Second Quarter of 2014. All participants are connected only as listeners, and later on we'll 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 the 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 a forecast, depending on the country macroeconomic 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 second quarter 2014; and Ms. Anamelia Medeiros, Market Relations Manager of GDF SUEZ Energy Latin America, who will present an update of 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 to Mr. Eduardo Sattamini. Please go ahead.

Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

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Good morning to everyone that are present here today and those that are via web or through call. I will start my presentation on page four, if you could please go to your slide number four. People for the Auditory, if they could show slide number four. I believe that we have to highlight regarding the earnings of the second quarter of 2014 is the fact that it is not a novelty that the country has been undergoing a very -- a typical hydrological period. We had a very bad hydrology, yeah, I believe the one of the two or third worst scenarios in the first semester in history with outflows that were very low in January, February, 38% of the MLT; therefore this was very low.

Now this characterize the results of the company. Just for you to have an idea we had a GSF of 5%, that means a 0.95 affecting 5% of the generation capacity in our park of, all our capacity, and this requirements around 140 or 150 megawatts average that in a 180 days, 24 hour if you see the average price of R\$680 per megawatt hour, it will be around R\$420 million of impact or revenue frustration depending on your position and on cost.

In our case I believe our costs were flat because we had an allocation strategy. This month it was more short, the first semester more long and the second semester so this will characterize the results of the company and the second quarter, because our short positions were strongly characterize between April and May, and this is why we are presenting results that are a typical. It is the first time that I present such a lower result since 2010 that I've been in the company, at the end of 2009.

Now, we will start talking about the figures, our sales net revenue increased 7.2% due to an increase of the average price, small, year. Here we had 35 megawatts average that came for purchase for reselling from trading a project and this is in the first semester.

Now, but on the other side we had a drop in our short-term market, the 42 million because when we have a short position revenues are very low; so when we present the revenue the net revenue in that month and as a matter of fact [ph], perhaps there was one of another company from the group that still had a value amounts to receive from the SEC, by enlarge I believe a position was short in the second quarter.

Now we also had an EBIT of 301 million, there was a drop of vis-a-vis the -- made the same quarter last year of R\$418 million, although the figure is the semester figure due to the cost that we have to supply our needs in contrast that we had to buy in the short-term with high prices.

You have to remember that since the month of February until the month of March, we had a ceiling price with very few exceptions and around R\$800 per megawatt hour, the margin also dropped and the net income followed -- net profit income. We're going to talk about this subsequently, but there is a reversion of expenses here with expenses, purchasing energy or the transmission system tariff that affect the EBITDA and we also have financial costs because of the obligations that we had in past contracts; that were registered and after five years the Civil Code allows us to revert these value because this collection is prescribed.

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So we will talk about this subsequently and the net income also had this participation from these components -- was affected by these components. Now, in this quarter we had -- we were the only company that still maintain provisions regarding the CNPL-3. We concluded that the past events in the past April made us feel comfortable to feel that we could follow what other companies are doing in the market and to revert these expenses. So we also had an increase of energy, so there was an increase of Trairi. the average price fell increasing with inflation around 7% and we also had greater production due to better affluence in the southern plants and due to the thermal plant.

Now on page five, what we have here would be performance highlights of the quarter. The Board of Directors approved on the 25th, the distribution of R\$380.1 million and the amount corresponds to 100% sub-net adjusted distributable income. So this is a fair price of the company's assets. So we adjust the net profit in such a way that we do not have the measures that was taken together with the dividend, an interim dividend space.

In June, Tractebel Energia signed with Alstom a contract for the supply of 36 wind turbines, model ECO122 of 2.7 megawatts of power each, for the Santa Monica Wind Complex.

This is a complex together with Trairi, these are four plants that we will talk about them subsequently. And on April 30th, the Brazilian Electricity Regulating Agency held an AO auction with negotiation of 2,046 average megawatts until the end of 2019. Of this total, 150 average megawatts were sold by Tractebel Energia at 270.69 megawatts hour. We were very created, in the section we created a partnership with an agent that would have energy in a period, where we don't have. So we were able to carry a win-win situation and therefore we captured a contract with a good value and with good timing.

Now on page six, we will talk about Tractebel is controlled by GDF SUEZ, World Leader in energy. We do not have any changes in this organizational chart, although we have not carried out any mergers or acquisitions or bought any new companies. Perhaps the only element that we said in the last quarter that we are part of Bovespa [ph] since January this year.

Now, on page seven, where we talk about our diversified portfolio of assets with strategic location, it's important we have 16% of thermal plants in our portfolio. Now when you saw a video about the thermal plants of the company, for those that were participating in the auditory, when we talk about 14% because when we consider an operation, we consider that we operate greater than our capacity. We have third-party capacity, perhaps they maybe, this is to clarify '16 versus '14. But we have a hydro portfolio with thermal participation as well as with thermal plant has the mitigation characteristic.

There are here something complementary that is favorable for the company and we have 5% of complementary energy that in biomass, we're talking about small thermal plants and wind and of course wind complexes. We've grown a lot in the wind market, especially in the free market, and you will see this throughout our presentation.

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Now growth, when we talk about growth as you know the growth of the company is a growth with financial gains and when growth opportunities appear, they have to be prepared to future income and in some moments, and some moments we don't have this. When we don't have it, we go to market nature like was the case of the evolution of Wind Complexes and then we participated in some actions where competitiveness was greater and we did not believe that it was so attractive to justify our participation.

Now, when we see page eight, this is a leading position in the generation sector. We will continue by far being and then having a leading position, our perspective is to the acquisition of Jirau, the controlling and this leading position is very important. When we talk to the government, because we are opinion makers and we intend to maintain this leading position. Of course as I mentioned before, this will allow the -- it's always attracted the market.

Now, when we go to slide nine. When there are no major changes regarding our strategies, we continue pursuing a balance portfolio, diversified portfolio between free customers and regulated market, of course the regulated market with new plants, where we're looking for long-term contracts in order to support investment to give us more reassurance in terms of investments. And in the free market by enlarge, we have a -- we work with existing energy in such a way to create value to avoid -- to sell this energy and A minus one where there is very little time in order to deliver energy and the uncertainty of cash flow then the company wouldn't be of advantage. So we want to create value with anticipated sale in the free market and adding value to the portfolio of the company.

Now on slide number 10. As we, when we talk about the free customer to the generate value in our plants -- in our existing plants, well, our pursue for selling stably to sell diversified -- in a diversified fashion with less risk where we have a strict credit policy. And this have to adapt itself to market, moment it has to adapt to the new guarantee instrument but we have had a very good performance, very interesting and we have been able to maintain a zero level of defaults here.

So we have to tried to diversify at most the industries in moments like this. We have a major participation in this -- of the cement industry but this participation in also assessed in the sense that the quality of our portfolio in this customer is very good, many of the customers are AAA customers. We never have faced any problems. They haven't even delayed their payments. Therefore, we are very reassure, very comfortable in having a major concentration of 15% of our portfolio in free customers because of the quality of our portfolio. So we don't have a strict rule, the rule is flexible according to the situation that we undergo and the quality of the customers that we have.

Now on page 12, we will talk about the energy market in Brazil supply and demand. As you can see there have been a detachment between the consumption of energy and the growth of the economy, mainly due to the income distribution. I believe that the per capita demand has increased for energy. And what we have seen here is that more and more there is a need of thermal in order to meet the demand of the energy that we've seen.

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Now this has contributed and will contribute and very recently we've observed in the market that there is a need for more thermal power and this has resulted in an increase in price in the long-term market not only the effect of the short-term market due to hydrological situation in the long-terms we see that prices will tend to increase due to a need of other sources and not hydro that is cheaper than the others.

Now when we see the market balance, the difference between supply and demand, the only thing that we can mention here, yes that there is a slight supply, additional supply, structural supply for the upcoming year. Nevertheless it is very insignificant, any hydrological variation will transform this excess of supply and deficit. Now on the other hand, if you have a familiar [ph] hydrology, this hydrology could increase the surpluses. So this is a characteristic of our system. A system where we'll have more volatility in terms of catch from here on and a more elevated pressure on prices. This is our view at least.

Now on slide 14, when we see the position of the company, the commercial position of the company, what we have here, we have a highly contracted portfolio for the upcoming two, three years. On the third year, 2017, we will have -- we will have more available energy and we are capturing, we are increasing our sales and we're verifying the increase of demand for a longer contract.

And you will realize for those that made their figures, there will be a major variation in our portfolio. So we sold a lot in the last quarters here 2017, '18. This is a result of the pressure, this purchasing pressure because of an increase of price in the market, at least the perspective that's increase the price in the market. On the right hand side, you can see that we sell energy, gradually and we sell energy when the window of opportunities emerge, we identify our commercial activity here. So, today that is here with us, he have made a great effort in order to meet the needs of the customers that have demanded major amounts in accepting better levels of prices for us in this way. Improving the cash flow of the companies in the upcoming years.

Now on slide 15, what we have here is our, here we have an energy balance where we have a position. Our contract provisions and we use this more for people to create models, or have something interesting from the past quarter would be energy purchase in order to receive purchases for resale. So in the upcoming two, three years you will see that we will try not to drop our portfolio in order to maintain reserves and for the upcoming two, three years, well we've done trading, everything that I fell, I purchase in order to have product.

So I buy two years, I sell three years and then I create product, five-year product in over six years in order to meet the needs of our current customers. We don't want to drop our portfolio and don't want to be in a selling position as happened very recently when you have to go to the market and replace energy. If you have bad hydrology, you have to end-up buying at higher prices.

Another thing that we observe in the energy balance in the contract that we already mentioned for the regulated market, where we sold 150 megawatts as of '15 and we started -- we have to deliver as of May we have 101 megawatts in 2014 when we talk

about expansion with Jirau, Jirau we have Anamelia with us in order to talk about the development of the project and then we will talk about the expansion project.

So Anamelia has the floor now.

Anamelia Medeiros {BIO 16881348 <GO>}

Good morning to everyone. Well, this is the first opportunity that I have to address you and lot have received. So questions and we have updated this information on an ongoing basis on slide 17. But you can see here, a basic data of the project that most of you are aware of, it is at 3,750 megawatt project, with 40% participation of GDF SUEZ, we're talking about 50 units of 75 megawatt each assured energy of 2,185 average megawatts regarding the commercial side of the plant.

We know that 73% of this assured energies contracted under a 30 year PPA's Index by inflation and the balance of energy available to be sold by the shareholders, before the entry of needs.

So GDF SUEZ has 60% and shares an Eletrosul 20% each, financing conditions have not yet changed. We had 9.5 billion negotiated in two different fronts, one would be 7.2 billion and the other one 2.3 billion in order to finance the expansion of the plant.

Okay, the conditions of the financing, there is a differentiation from the past announcement was the expansion of grace period, highly aligned with the debate that we have today regarding our responsibility and the entry of new machines, you know that a 100% of the debt is financed by the BNDES and 50% is financed by banks. Well, since the last announce of results we placed three additional units so today we already have 750 mega installed in commercial operation.

This is slide 18, we have two additional units being commissioned. Something that is very interesting to mention regarding Jirau, the units have been operating successfully at full power, achieving a performance above option technical requirements.

So I believe for us this is a very important data that show the quality of the management of the commissioning of the turbines -- the Chinese turbines and Brazil turbines and the success that we have had throughout this commissioning stage and beginning of the operation.

Today we have 93.3 overall project progress, 90 more than 95% on civil work and very recently we intensified night shift works in order to speed up assembly and commissioning of these units.

As the media showed in the last months, Madeira River reached average, it was above its average level for a period but Jirau is incorporated to Tractebel, this shows how interesting this is important because we have different levels in the north and other parts of the country. The level is already dropped, everything under control. We had to make

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some adaption during the fall season, there were no material damages in the plans but we have to whether, we had to increase some levels and this, the still way and this was also to avoid problems during construction.

Options to create additional value, we have additional assured energy that is still a debating point. And another thing that is in the agenda of an year would be the review of recalculation of hydraulic losses. We are using a new methodology and through this approval of a new, and this has already been observed by the Board. I believe that we will have a gain of 20 additional megas in the plants and other compensations according to ANEEL's proposal. This would be debated in the future like the optimization of the guide curve of that plant. This can result in a very good increase in the amount of assured energy.

In addition to tax incentives that are anticipated for the region, here on the right hand side of 18, you can see a panoramic view of the project. You can see the powerhouse on the right bank that is highly advanced, power house on the left bank is practically concluded. And then on the lower picture, you can see power house to left behind, internally it has been completed. So we are in a commissioning moment of these units, Jirau is such a big plant that we say that there are two plants as a matter of fact.

We have one at the left bank, one on the right bank that have very parallel sketch schedule that installed accelerating solutions and we want to have at the end of the year around 20 units now.

Now on slide 19, well I always update the pictures, it's sometimes it's difficult to see what has been done. But just for you to have an idea in the first picture, we had powerhouse. On April 14 downstream view and down and also you have downstream view on June 14. Here you can see the level of the water in April, we were in a moment of historic full level of Madeira, here you can see the level of the water. And the second picture is not the same angle but here you can see a drop in this level and here you can see the powerhouse is constructed.

Now here on the left hand side, we can see the powerhouse but as you can see that the level of the water between April and June well is different. This is what I have to update. After questions I can give the floor to our Director. Okay, now we will talk about project under construction, perhaps Ferrari, we initiated this in the beginning of the year, it was -- we want it to increase its capacity therefore from 66.5 to (inaudible) and from 23.2 megawatts average to 35.5 average megawatt.

Here we need investments of 85 million in retrofit, where we are talking about this debate discussing this we will have financing from the BNDES in order to cover these expenses. But we still don't know the conditions of this financing or the funding, but we expect to have 70%, 80% of the BNDES participation, for the funding of this expansion.

Now on page 21. We will talk about the Santa Monica Wind Complex. We also -- we initiated the construction of this complex, contracting the Alstom Wind Turbines, if we have four complex totaling 97.2 megawatt, 47.3 average megawatts, it's very similar to

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Tairi, if you see in this picture, you will see Tairi is in red one, two, three, four projects for complex is in Tairi 150 megawatts installed.

Total installed capacity and is still and then the other projects will be purple, yellow, orange, as each one with its capacity using the same type of turbines, 2.7 megawatts each one of these turbines. This investment is of approximately 460 million in total. And part of this investment is the EPC contract with Alstom and other necessary implementations and we have requested support from the BNDES for funding.

Now on page 22 we will talk about our Solar Project under construction, Cidade Azul Photovoltaic Solar Plant. I'm not going to talk about it in detail, but this is an investment in our plant of three megawatts peak located very close to (inaudible) and we have seven or eight modules of assessment of different types of technologies for photovoltaic technology.

This was financed by R&D project in order to invest and we already have our plant under operation. This plant is called Cidade Azul in operation -- in test, it is operating as a test, it's still not commercializing. Now when we go to the strategic part and the update of our operational, we will see our financial performance.

On page 24 we have a financial performance, we debated if we were going to maintain the word financial performance, although this was a bad quarter. Yes, yes, this company is very resilient, although the quarter wasn't very optimistic but I believe that due to our allocation strategy or energy allocation strategy, we will have good results in the second half of the year.

So I believe that solid financial performance really represents the capacity to pay its commitments to generate cash and this is although the company undergo adverse situations, they meet their financial performance. But I believe that we will continue offering our result at the end of the year that is highly satisfactory, this is our expectation.

Now on slide 25. We will talk -- we talk about the net revenue from sales change. Here we have the evolution, we talked about the different components here that increase the revenue. The average price increase 7%, the sales volume with 36 million in contribution with a drop of short-term revenues and this also resulted in a 7.2% evolution in EBITDA. I believe here in detail, well, what we had here.

On page 26, we saw there was a drop of R\$720 million to R\$301 million, we compare quarter-by-quarter, we have a positive contribution of our operation, the reversion of the CNPE 03 and here we have a double offer, we made 44 million of provision in 2013 and (inaudible) 55 in 2014. When we compare quarter-by-quarter, you can see that why are we more, were reverting more than 42 because we carried out.

Until the second quarter of 2013, we had only done 42 and we had July and August, where the drop -- where price calculation PLD-1 survived. So only as of July, you can see a new methodology that eliminated this potential of collecting from the CNPE, all three of the company. We still had some provisions in July, August and they've been referred it, we

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did not, these 42 in provisions of 2013 we had 54 prescribed account. This was the contract that we had with an energy supplier and they did not have this energy to supply us with we also had a transmission feed and we still have a major dispute in the court, but from the period, where we received bills or invoices, registering these invoices until we identified that the obligation was there.

And when the supplier no longer built [ph] us, we continue maintaining this because we didn't know what was going to happen as the salary [ph] was never collected from us, from the period that we accounted. And we had no legal suits with the customer, we have a prescription. We were very careful to see in all our processes and this took a long-time in order to be absolutely sure, so the attorneys told us that they would be no subsequent collection and there we could prescribe according to the Article 206 of the Civil Code.

In fuels, we had an increase, basically we let from and that contributed for a drop of EBITDA 44 million, energy purchase for resale. We had a major volume that was purchased in 2013, having as a target to have a better portfolio because we saw that we would may have a bad hydrological situation. The price in 2013 was reasonable and it was enough to cover the need for this semester and 547 million that is a short-term operation in the CC.

When you see the release, the 97 of the CNP, these are operations of short-term. They are dropping this value. So when you see the release you see 450 million quarter-after-quarter, it's 547 minus 70 million. Well, the net profit. Well, we have some changes here when we talk about prescribed assets. Why, because we had in addition to all the expense of transmission and energy, we also had to carry out the monetary correction of this obligation and this monetary correction was reverted here. You have one part will impact the EBITDA and one part impacted the financial results. CNP03, an energy project for resale everything we had a net profit of 74 million in the second quarter of 2014.

Now let's say indebtedness of the company went to 3,588 to 3,357. We had an indicator from the past 12 months of EBITDA basically because in this quarter, we places same quarter last year was better. But I believe that this will go back to normal levels. We will be very close to 1.1 and perhaps 1.2.

Now, the net debt decreased a bit we will see on slide 29 from 2,455 to 2,539 million at the end of this quarter. So we have the different components here that increased -- that made the net debt increase.

Now, on page 30, what we have here, we have the profile of our debt in terms of temporary distribution and cost. We have paid our debt and carried out some renewals. In 2014, we paid 4.41, the 98% of CDI with Bank of America. This was the last we have three tranches of \$90 million from 2015, we also have an operation which HSBC. In the debt market we have tried to carry out operation for one through one operations because the carryover is below the CDI below. In this way, we're able to control the liquidity that we need in order to manage our company.

So what we have here, we have two operation of 41, 31 with HSBC '15, '16 and then we will go back. As of '17, we will have the average payment of the BNDES that is R\$220 million and it's also within the '14, '15 and '16; and there is a component of indebtedness with BNDES. When we take a look of the breakout of indebtedness in the lower right-hand side, you will see that TJLP represents 77% of the debt indexes. Here we have a smaller share of IPCA.

There was a major drop from last quarter to this quarter that was the last payment of the debenture. There we were going to have a second issuance and now we have the Nordic Investment Bank level that we -- that we contracted in the beginning of last year. It is for IPCA -- it was IPCA plus 3.8, so you can confirm this value in our quarterly reports.

Now when we go to page 31, we can talk about investments. Well here in 2014, there are investment there are great -- there is a great amount of investment and maintenance. We have Passo Fundo Plant and Salto Santiago plant that are undergoing the maintenance of the generating units with great changes in generators and robust investments in these plans. So we also have in 2014, we have Ferrari, Santa Monica and what is important to say is that we still maintain here 650 and our own resources. The great part of these resources will confirm that the BNDES as we expect tomorrow. Well, BNDES tomorrow will have a Board meeting, we've already approved the conditions for our funding of 308 million for these retrofits.

So that would be for Salto Santiago and one part for Passo Fundo in Jorge Lacerda will also improve its electrostatic machine to increase the capacity of its machine, and there is a social investment that is also embedded, that thing is part of the company, but the BNDES is requesting to do this with specific funds from the bank. 2015, now the investment continues in operation maintenance Santa Monica, Ferrari and there is an amount that will retain in 2010 regarding the results of 511 million for Jirau and what we see, and 2015 would be the -- a moment for Jirau (inaudible) 2016.

It will depend on the process. It will depend on the will of the controller in order to debate this project. 2016, we continue with the Jirau operation and maintenance projects and we have an intensification of expenses regarding Santa Monica. We're in the implementation of the last machines of this project.

Now on page 32, dividend policy, well, the novelty -- well no novelty's for you. We would like to remind you that by law minimum payout is 30% of payable net income. We assumed our commitment with the market of minimum payout of 55 of payable net income. And we have a policy is not to retain cash. When -- so this is what we're doing, distributing the adjusted net income, this was our presentation.

I believe that, now we can go to our Q&A session.

Questions And Answers

Operator

Carolina Carneiro from Santander.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

My first question would be, if you could update us regarding the GSF scenario and the expectations in your reservoirs? And the second question, I would like to talk about bilateral sale. That seems like a high amount. If you could give us a more details regarding what is the average time for these contract and what is satisfactory, what kind of price levels are we talking about, in order for them to be satisfactory?

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

The first part of your question, we will always know that what we say isn't 100% right. Climate [ph], hydrology, the possibility of making a mistake here is major. We are now working with a very different scenario, perhaps a bit more pessimistic than the official scenario, where our surprise NEF has been very proactive in terms of giving information to the market, but perhaps we have a view that is a bit more pessimistic.

Now regarding bilateral sales, as a standard we have contracts for between six years, and in some situations we could extend itself or not, but the normal of our contracts are five or six years. And well, the prices, well, prices have surprised us. As we said, we do not have available energy to sell in '15, '16 because we already reached our reserve levels.

What we have done is trading throughout this year, when somebody asked me for 2015, 2016, I go to the market. I will look for this energy and I will sell energy to you for '17, '18, '19. This only makes sense if I'm going to sell '17, '18, '19, I'm not going to sell only for '15, '16 although the -- unless they're willing to pay for a high level of trading debt also options allows me to pay for this credit.

Here we have a -- this is an additional credit risk. So in terms of price for '17, '18, '19, what we have observed is a systematical increase. Each 15, 20 days, when I go and talk to people from trading, the prices are slightly higher. So the long-term price that I have right now will perhaps be, will not be updated. The long-term prices have been around 140 or 145, even more perhaps this week when we started doing our proposal.

As of how is the market price where, we lose and wins some. Well, if we win all of them means that our price is low. So we have to increase our price and this is how things happened on a weekly basis and this is how we do our proposal. So I don't know if I answered your question. But the prices are around R\$150 megawatt hour.

Operator

Ladies and gentlemen we will now begin the Q&A session. (Operator Instructions)

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

When I see your energy balance, we can see that next year, you have 72 average megawatts of left over and this is consistence with the second semester. Just to

understand this, the view of the company today is that next year in terms of short-term market will not be as bad as this year or from now until the end of the years, we will have, you know, remain or if you see, these figures have been low for a number of quarters, what happened.

In 2010, 2011 we had a market that was relatively balanced with the expectation of a lot of energy -- of coming in of energy in 2013 and 2014. And our idea was to increase our sales pace, our portfolio and this is what we did in that moment. So what happened was that at a given moment, we weren't able to recover.

Well, last year we were able to buy something for '14, '15 but we weren't able to recover our comfortable level. If it would be possible, I would like to have a more comfortable situation for 2015. But today it is impossible to buy energy in 2015 at reasonable prices. I'm not going to buy energy at 350 plus. Therefore, we believe that this result is not satisfactory. But I don't like to have a -- I don't want to have greater losses here.

Q - Unidentified Participant

(inaudible) J.P. Morgan. Two questions here, one regard to William Arjona [ph]. I know there is an injection that first is Petrobras is to supply with natural gas, what can we expect for 2015 regarding the contract. You're negotiating together with Petrobras will your gas contract still be valid with them?

The second question would be for Anamelia, regarding Petrobras. So both of you are developing the Jirau project, but the government will have Petrobras option this year. Now this type of asset is interested, is your focus just to finalize Jirau or are you taking a look at Petrobras for growth?

And what about Jirau's CapEx, do you have an update of the figures? This is for Anamelia, Jirau CapEx.

A - Anamelia Medeiros {BIO 16881348 <GO>}

Our contract is in, until the end of the year. I really don't know what month but we believe that this is a very proper moment for this contract and to negotiate another contract with different conditions because the pressure. The pressure for demand for thermal energy will continue. So I believe that as a matter of fact, there will be goodwill from the authorities in order to renew their contract. So we believe that this will happen. This is still an uncertain tool to us. It's not like this year that we were absolutely sure that we were going to have full supply.

Now regarding (inaudible) question, our growth continues analyzing this project from different sources for hydro, Jirau has to be concluded. We will start the process of transparency with Tractebel but within the GDF SUEZ. We do not include or exclude any of the sources. (inaudible) is being studied by the Group, we still don't know if we're going to participate or not, but we're studying GDF SUEZ is studying the Group. There's possibility now regarding CapEx, we are highly commissioned -- concentrated in the commissioning of the project. We intend to install 20, 24 units until the end of the year. What comes in

terms of cash will be used to pay the remaining of the investments and due to a number of debate that we have about the new context of the project and conversations regarding insurance. We are not disclosing our CapEx right now. So what we're going to do, we look into new doing our periodic update. But today, we've decided not to do it.

Q - Unidentified Participant

And from Santander Asset. My question is regarding of the sub-system price difference during the second quarter, this was more relevant that is normalized. What do you see for the third quarter, because do you believe that the situation will emerge again. I believe that will there be some concentration because of another period?

A - Anamelia Medeiros {BIO 16881348 <GO>}

We don't talk much about allocation. I believe that we have given you more information than we expected. So you know how our figures behave throughout the year because of the high PLDs, this year. This rollercoaster is much more accentuated. So please let's not talk about the allocations within the semester. Now, your first question was regarding price differences, right. The submarket -- their storage capacity is very little when we have great rainfall, it grows and regulates in a very short period. If there is some type of detachment, it will be for a short period of time and this is what happened when we -- there was when we -- drop than you had it in another way because another core front came in and then it dropped and now it's regulated itself.

It's leveled. We have around 19 average megawatts for the reservoirs in the south. And this is going to vary from 5,000 megawatts to 6,000 megawatts average. This shows you that anything that happens and this all -- happens are quickly. I mean we really don't know what's going to happen. Will it mean, if it's going to come, if it's going to affect the south or the Southeast.

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

So it is very difficult, weather forecast. It's very complex to work with weather forecast and when you think about the affluence, because (inaudible) may come. But sometimes you don't have rains where it is necessary, sometimes it rains in the seas, or it rains outside of the basin. Sometimes we had years where there was lots of rain in (inaudible) river doesn't have our plant -- an energy plant. So what we will have it a given -- what we believe is that something will happen in a short period. Now being aware of this, the government have maintained actions in the south to maintain the level of reservoirs because of safety because for example, if there is a lot of rain some communities could be placed in risk. You can generate for example lack of security or safety to the neighbor cities.

Operator

Miguel Rodrigues from Morgan Stanley.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

When we talk about the long-term price, Sattamini I will whatever R\$140 or R\$150 that you mentioned, have this been affected by the highest level of 2015, 2016 in average when you close a long contract of this long-term price of '17 odd. If it is the second part, if you could give us an idea of the liquidity for the period is important if this could be a long-term price reference. If you believe that this level is sustainable for megawatt hour?

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

Now, firstly, we'll talk about liquidity and we will go back to your other question. We sold. For 2019 -- for 158 is no there's something wrong here. In line 309 average megawatts for 2019, 253 for 2018, 122 for 2017. So you can see that there is a mark up here. The market is placing these price levels and is buying and they're doing business. A 150 we have a 150 from A-0. Okay. But we're talking about very significant volumes here. In the free market, in a quarter, we're talking about to sell over a 150 average megawatts in one quarter. So we have a reasonable amount of liquidity and demand and we're practicing now higher prices and the market is buying at the higher prices.

Now regarding -- if this price will justify itself at the long-term or this is just a result of the short-term fee here, we really don't know. Well, we know that there is a psychological component that concerns the consumer in the long term when they see that the short-term price is at a high price. But when you see the recent past, for example, 2007, 2008, 2009 these prices of R\$150. If you see this R\$150 are more than reasonable, we have -- our prices were 140 in 2008 you see six year inflation, now you would have a price of almost R\$200, a R\$190 with a \$1.6, 1.5 [ph] exchange rate.

My perception that is that the prices are going back to reasonable levels after a long period of pressure from cheap expansion. And this is a non-feasible price at the long-term and with good hydrological situation in 2011. So I believe that these prices are prices that are sustainable. This is my opinion at least.

Operator

We received a question through our webcast. It comes from a foreign investor. It comes in English, (inaudible) Reality part of this question or some of these questions have been answered. His first question would be how much of your commercial capacity in 2014, you allocated in your first semester?

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

This is sensitive information from a strategic point of view. Therefore, here we have a -- we give you a general view, but without any major details.

Operator

And the second question is also regarding the risk of price differences in the sub-markets. How much risk -- how much displacements you still see until the end of the year?

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

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As Sattamini said, yes if there is a materialization of the risk and there will not be price difference, this will happen in a short period of time. And he wants to know if we can hedge this, we can hedge -- the submarket hedge, where we don't have this type of hedge for this type of risk or you sell more, in the market, where you have available energy, but it is limited.

If I can add something, well an alternative here would be to have a trigger in your contract anticipating that has a certain price differentiation, the purchaser assumes. But of course you lose competitiveness in a situation like this. We have already tried to do this and while we haven't been able to do this.

So we have to deal with the situation. The only thing that you have to remember that this is a hydrological situation and in our hydrological situation this happens very rarely. We have followed up the history, and this represents a very low percentage of this adverse slight risk to the company. Yes. But, it is a risk that is totally within the long-term acceptable.

Operator

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

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

Once again, I would like to thank everybody for your interest. We have a full room today. I really don't know how many people are following us through our audio and video system, but I would also like to thank your participation as well. It was very important for you to be interested in our company to ask questions and to understand our business. That is not an easy business to understand. The energy market in Brazil, isothermal market in Brazil is very intense with many answers and we want you to understand because then we can feel, we assure that you understand correctly our market.

Thank you very much for your presentation. And we hope to have you with us during our next quarter. Thank you very much.

Operator

Tractebel conference call has come to an end. We would like to thank everybody for your participation and thank you very much for using chorus call.

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