

## Q1 2015 Earnings Call

### Company Participants

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

### Other Participants

- Carolina Carneiro, Analyst
- Unidentified Participant

### Presentation

#### Operator

This is the Tractebel Energia Conference Call, where we will discuss the results of the First Quarter of 2015. All participants are connected now at listen-only mode, later we will open the Q&A session, when instructions for participating will be given. (Operator Instructions). We would like to remind you that this conference call is being recorded. This presentation with the respective slides will be broadcast over the Internet at [www.tractebelenergia.com.br](http://www.tractebelenergia.com.br), in the Investors section. You will also be able to obtain a copy of the presentation and the earnings release.

Before proceeding, I would like to clarify that any forward-looking statements that may be made during this conference call relating to the business outlook of the company should be treated as forecast which depend on the country's macroeconomic conditions, of the performance, of the regulation of the electric sector and other variable. And therefore they are subject to changes.

Today with us are Mr. Sattamini, IRO and CFO; and Mr. Antonio Previtali, Investor Relations Manager who will talk about the company's performance in the first quarter of 2015. We also have with us, Ms. Anamelia Medeiros, Market Relations Manager of GDF SUEZ Energy Latin America, who will present an update on the developments of the Jirau Hydropower plant. Later, they will be able to take any questions you might have.

It's now my pleasure to turn the call over to Mr. Sattamini.

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

Good morning to all. We are going to talk about the highlights of the quarter on slide four, and here you can see that the net revenue from sales was reduced by 1.5% and this is mainly related to short term operation. EBITDA increased quarter-on-quarter and the increase was by 13.8% and this has to do with the lower cost of coverage of our exposure

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in CCEE, therefore the margins, -- the EBITDA margins increased to 48.8% up from 42.2% in the same quarter of 2014.

The net income improved by 19.2% quarter-on-quarter. Net debt dropped by approximately R\$90 million. In terms of our production, we produced more energy in the first quarter of 2015 because of better hydrologic conditions, especially in the South region of the country and we had an improvement by 7.8% in net generation. In terms of energy sold, there was a slight improvement by 21 average megawatts, specially because of the coming online of Montague [ph] power plants. This power plant was not operational in the first quarter of 2014 and we also acquired the Ferrari power plant.

On slide 5, we see the highlights and as you know, our international rating was reaffirmed as B, and the long term rating was affirmed as AAA. This is very important for us, the industry is undergoing critical phase, but our ratings have been reiterated and therefore our credibility and the sound financial conditions has been reaffirmed.

We have paid interest on shareholders' equity for 223 million that is R\$0.3416 per share. The machine that had been unavailable in Jorge Lacerda B, that was a machine that added some 100 megawatts, has become operational again in February 2015. This machine had problems at the end of 2014 and for long time it was down because of the damages in the generating unit.

It is now operational and therefore our thermal generation is going back to the previous levels. This problem was covered by a business interruption insurance and we have received advancement from the insurance companies although the claim is still pending, a final resolution.

On page six, you see that there was no change in our shareholding structure, Anamelia is going to talk a little bit more about a change in the name of the group, and this will have an impact in some of the companies, but we still don't have a final information about that.

On slide 7, we see our portfolio of assets, it's a very balanced portfolio with strategic location. We are now present in 12 states, once we add Jirau, we will be operating in 13 states. 79% of our capacity is hydro electrical and we also have thermal power plants which mitigate our risk a little bit. And we also have power installed capacity, and it shows that in times when the market has a low profitability, we don't grow, we remain stable, but we are poised to grow once the conditions improve.

On slide eight, we reaffirm our leadership among the private energy generators in Brazil. We lead by far relative to the second company, we expect to grow by 2.3 gigawatts and if there is no radical change in the sector, we should continue to be vigorous, and should the consolidation take place in the sector, we are very well positioned and we are ready for it.

On slide nine, you see our balance portfolio; half of our energy is in the free market, half in the regulated market, mostly in the longer term, and the contracts were acquired by growing in new energy auction. The free market is very important for us, because that's

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the best allocation of the energy of the existing plants. This allows us to value and price our energy in a more efficient way.

There was a change in the regulation in the beginning of the year and the government is now able to carry out A-2 auction which maybe good, attractive for these existing energy, in the sense that the delivery of energy will allow us to rate [ph] the visibility on the company's cash flow.

On page 10, on slide 10 you see the free clients and how important they are for us. We have 2,144 average megawatts sold to free clients in different industries, and we diversified our presence in different industries to reduce our risk to an exposure relative to a single sector of the economy.

Our credit rating policy is very efficient. Our default rate is now zero, there are delinquencies eventually, but we do have to guarantee that the mechanisms in place [ph] to enforce our contract.

This is extremely important now, because of the slowdown in the economy. On slide 12, we will talk a little bit about the markets in Brazil, you see the prices, there is a great pressure on the prices because of thermal dispatches and greater volatility, due to the new methods to calculate the spot price and the trends, the future trends for prices is on upward trend.

We have been seeing this in the last 18 months, new plants are coming online, which are more expensive dispatch and the expectation is that the generation will take place in more expensive plants and this will drive prices up. We've been trying to capture contracts with higher prices in the longer term.

On page 14, we see the un-contracted energy and how we sell this un-contracted energy, we tried to sell it throughout the year, so as to be at a reasonable level of contracting, when we reach, when we approach the following year. This is an attempt to stabilize our cash flow and to give greater visibility in terms of cash flow.

We expect minor changes, because of these recent changes in the regulation, in the calculation of the spot price, and because of the GSS [ph] for thermal generation. So we look at the results from a closer range and we tried to keep an amount of the energy which is reasonable, especially when we look at the hydrology and the low level of the (inaudible). For 2016, today we have 9% of the energy which is un-contracted. The reservoirs are at a very low level.

They are at 35% in the interconnected system at the end of April, that is by year-end it should be 15%, 20% depending on the demand, if the demand goes up, but still very lower levels in the reservoir.

So we believe that 2016 at least in the beginning of 2016 there will be a lot of demand for thermal generation. Our feeling is that this should preserve this reserves and as things

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become a lot, become easier, we should sell this energy. This is what we expect in the next few years that is that we should wait to sell the energy because of GFS and the high cost of thermal generation.

On slide 15 we see the energy balance and as you can see there was a good commercial activity in Q1 with a reasonable amount of energy sold for 2016, 2017, there was an increasing bilateral sales in for 2016, '17 and '18 as supposed [ph] that is good sales for this first quarter. Usually we give analysts, the possibility of modeling the company's expenditures with the purchase of the energy and other factors.

Now moving to slide 17, we would like to talk about the expansion and I'll turn the floor over to Anamelia.

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

First of all good morning to all, before I give you an update on the Jirau project, I would like to inform you on the new name of the company, we announced it on Friday and GDF SUEZ is going to be called Engie. And this was reflected -- this was thought to reflect the transition of the energy markets at the global level.

This is very strong in Europe where alternative energies are growing centralized, decentralized energy is growing and consumer are now more active as generators and consumers of energy. This new name was created to allow the Group to think about new energy solution in this challenging scenario.

So from now on, you will see that the logo is going to change and as regard the operation companies, we are still analyzing how this is going to be done for the operational companies, so as to reflect market reality in the next update you will learn more about this and you will learn more about the impacts on our company.

The Jirau project has been underway since 2008; 3,750 megawatts of installed capacity and 50%, -- 40% is the percentage of GDF SUEZ. 73% of the energy is contracted through CPAs for 30 years, the balance of energy is available to be sold by the shareholders.

There have been discussions relative to the liabilities of the vandalism which took place and this has been discussed with ANNEL and at the federal level. The financing conditions are known to you all, despite the change in TJLP.

And now moving to slide 18, we have a very recent update, 26 units are in commercial operation and 3 additional units have been synchronized, that is 29 units are dispatching energy to be interconnected national system, one unit is currently under commissioning and other units are being assembled.

That is, in the second semester, we will achieve the full assured energy with the startup of the 33rd unit. The project is operating very well, in terms of performance, in terms of flow,

which is very good news, and we see that the quality assurance system, the monitoring of the turbines and the assembly, everything has been very successful so far.

The commercial obligations with the regulated markets have been achieved since November 2014 in the A-5 auction and 98% of the overall project has been completed. We've had some paper [ph] works that has to do with the second phase of the left bank, and in the right bank there is very little in terms of construction works.

In terms of creating additional value, we're still waiting for ANNEL's decision, relative to the revision of the hydraulic losses and this might give us an additional energy in the project and also we are analyzing other forms of compensation. There are tax incentives which had been guaranteed for Jirau at the time of the auction.

On slide 19, there is very little progress relative to the last update, just as you can see, we have the power house on the left hand side and also 10 additional units are being built. And they comprise the second phase of the power house.

I'll turn the floor over to Mr. Sattamini and I will remain available to take any questions you might have in the Q&A session.

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

Moving on to slide 20, we have all the projects, first is Pampa Sul which was sold in the November auction last year we sold 295 average megawatt that adds 201.98 per megawatt hour for 25 years for delivery as of January 1, 2019. This is the first phase of this plan, this plan should be for 684 average megawatt. We are looking for opportunities to develop the second phase.

In the next auction, we will be very careful to assess the conditions, and if they are favorable, we will offer the second phase. This revenue is a bit -- plant has the revenue of R\$473.3 million and the coal needed for this power plant is also assured.

On slide 21, we see the Campo Largo project, which was also sold in the A-5 auction. We sold 82.6 average megawatt for -- at a R\$135.47 per megawatt hours in a 20-year PPA for delivery as of January 1, 2019. To these capacity, we will add five wind farms and the total installed capacity will be of 327 megawatt.

The five, the we sold actually six wind farms was sold in the regulated environment and in five wind farms, the energy has already being allocated in the free-contracting environment.

On page 22, you see also the Santa Monica wind complex, which includes four farms; Estrela, Ouro Verde, Cacimbas and Santa Monica and these are projects very close to a complex that is already working and there will be a cluster of operations close to Trairi. We also have the expansion of the biomass [ph] project the Ferrari thermal power plants and we bought it in the beginning of last year with an installed capacity of 65.5 megawatts and

we are adding another 15. Part of the energy was sold in the A-5 auction for R\$202 per megawatt hour for 25 years.

In the pipeline on page 24, you see some projects, we had the Santo Agostinho project in Rio Grande do Norte for 600 megawatt. We also have the second phase of the Campo Largo complex in the year which should add another 300 megawatt to our capacity, we have the Norte Catarinense thermal power plant, which is underway now.

We're now doing the environmental study, and we also have the second phase of Pampa Sul, and this will add -- this will raise the capacity from 340 megawatts to 640 megawatts.

On slide 25 and 26 you see the financial performance of the company. In terms of the 2014 results we commented on last year, there was a reduction in net income and EBITDA in Q1.

And on slide 27, you can see the financial aggregates, you see the reduction by 1.5% in the net revenue from sales because of the short-term operation. There was a reduction by R\$269 million, that on the other hand, there was an increase on the average price it was a substantial increase which increased revenue by 210 million. So the reduction in net revenue was very small.

On page 28, you see EBITDA, we have the same components, the average price, the quantity, and its impact in the short-term operations. We had two components, one for 80 million and a recovery of revenue and cost. And this is relative to the amount that will be settled [ph] in the short term, but that was available. So we can receive that from the insurer.

Our short term is 226, and one portion has been settled at the CCEE and the other one will be recovered from the insurer. There was an increase in target or the cost, there was an increase in maintenance and service.

And our intent is to maintain our equipment with higher availability. So the cost of operation and maintenance becomes irrelevant relative to the machinery, that is we would rather spend more in maintenance and bring the maintenance works forward, so that the stoppage crime decreases. We have here suppliers, a provision for suppliers of fuel, we have been allocating this provisions for some quarters now and also the energy purchase or resale, which was a bit higher this quarter than in the first quarter of 2014.

When you see on page 29, the net income, we have the same components of the, -- that you saw in the EBITDA. And there was an increasing financial cost especially having to grow with the monetary adjustments on that and concession payable and our income went to 345 in the first quarter of 2015.

On page 30, you see the debt level growths that remain more or less stable, there was a change in the indicators of net debt over EBITDA, last quarter it was 1.4 times. In this quarter it's 1.3 times and net debt over EBITDA is 0.7 in Q1 because this was a better

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quarter relative to Q1, 2014 there was no significant change in the investment level, but there was a slight improvement quarter-on-quarter.

Our cash position is very robust for this year, we decided to maintain a higher cash position. We have some investments which will begin to be made this year, and we want to maintain liquidity to reduce the company's need to raise funds in the market as we think market will be more challenging this year.

On slide 31, we see the net debt change in the major component, monetary variation on debt, income tax and social contribution, the dividend, investments which were made and obviously these were the -- obviously the elements which accounted for an increase in the debts were also offset by the operations we also had a hedge operation for those project we contracted in November last year.

On the day we sold energy in the auction, the company made a hedge operation to buy imported equipment, those equipments which were denominated in dollar and this way we protected the company from foreign exchange valuation. And this is included in the best (inaudible) offset by the hedge.

On slide 32, we have the debt profile and it's a small concentration in 2016 and this has to deal with operations we did last year under 4131. This is a direct loan with foreign banks and we had a swap with the representatives of the Bank or with the bank itself, and we made a swap from dollars to CDI. All the operations were below the CDI varying from 96% to 99% of the CDI.

These operations will give way to longer term financing operations in 2015 and 2016 we will be contracting longer-term debt, once the market is more favorable to fund the project which are underway. Santa Monica, Campo Largo and in this project of course the NGS participate with some funding and we will be contracting this funding with the NGS in 2015 and 2016.

On slide 33, we'll see the CapEx estimation. For the project which we have already mentioned, we have a very extended maintenance project for R\$300 million per year, and in this project we also include gains in assured energy and efficiency gains, in addition to the ordinary maintenance required by the brands to maintain their availability and performance.

Slide 34, no new, this is just to show you that we decided on the payout of 55% and this was a prudent decision to preserve our cash position. As the scenario improves, the controlling shareholders and the company should call back to the maximum payment of dividend.

This is what we had to say today and we now are going to open for the Q&A session.

## Questions And Answers

## Operator

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

## Q - Unidentified Participant

Good morning to all, good morning, Sattamini. I have some questions for you. First, I would like to talk about the provision for (inaudible) 77 million which basically accounts for the difference between the CDU of the plants and the CDU indicated by Federal. What is your expectation relative to the next few quarters? Will this provision be made again or not, so this is the first question. The second question, if you allow me actually with the Pampa Sul power plant is there any change of the company participating in the A-5 auction and also, including the natural gas power plant, I would imagine that this plant is not according to schedule, that it should be postponed a little bit and my last question has to do with the GSF.

In the last two months, the market discussed the possibility of the government designing some kind of solution for GSF or a reduction in the account, do you have any recent updates on that? And do you believe that the (inaudible) proposal could be accepted or are the generators thinking about any other proposal?

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

I'm going to take the first question and I'm going to say that we would rather not talk about the areas on our plant. This is a method being discussed in an arbitration receiving and we prefer not to talk about it. We are being very conservative when we present ourselves relative to this plants.

As regards to number two, yes we want to develop the second phase of the project, the timing, there is an optimal timing for us to make a better use of the resources available. That is if we built the two plants at the same time, we need twice as much the staff and twice as much the equipment. But if we start the second phase later, we might optimize equipments and labor.

So that's what we're looking at, at a certain point, we will make a decision on implementing the project or not as long as the prices are satisfactory. As regards to natural gas project, this has been going on for some time. We have been maintaining it in the back burner and as solutions for gas come up and become more visible, we may accelerate that.

It will be difficult for us now to make the plants available this year, but in the next 18 months, if we have gas available at cheap and low prices and long-term contracting view, we might start this in the north of Santa Catarina. As regards to GFS, we as generators are looking for a solution, with the regulators with the Ministry of Energy and it's difficult.

We all know that if this charge is taken off the generators, they would go to the government or to the users, we believe that the government is concerned about its fiscal



balance, so they don't want to takeover this charge.

As regards to consumer, they have been also suffering due to tariff increases, so we are working with the regulators and the government to find a creative solution. A unique solution this is what we have been working on. I think the discussions are progressing, the government understands that when there are unforeseen risks, this risk has to be dealt with so as not supposed with to the development of the projects that are important for the country. So the generators and the government are flexible in terms of looking for more creative solutions, I would say.

## Operator

Our next question comes from Ms. Carolina Carneiro from Santander.

### Q - Carolina Carneiro

Just a follow-up on the gas project, you just said Sattamini that for this year it's a bit difficult to see this project come online, but that may be in 18 months, the project may become viable. Also you have been talking about negotiating a short term contract for injection in the grid, is it possible? And what has been negotiated for the debt auction this year? Would a solution like that make gas project viable?

The implicit cost and the sealing established for the auction -- do you think there is, there can be a compromise between that and also do you have any update on the assignment of the GBS with -- to Tractebel?

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

The gas project is not something that we are contemplating for this year. All the players are discussing possibilities with Petrobras, the contracting of capacity in size and so on this is not allocated, so I cannot help you with that.

As regards to Jirau, as you all know, there is a regulatory issue there pending with ANNEL and as long as this issue is not clear it is difficult for the GDF SUEZ to define the condition for the transfer, GDF SUEZ depends on the decision to be issued by the regulator. There is a protection for the FG not to be punished for the delays until the issue is effectively discussed, there is a provision for that in course, but it's very difficult to give you a time frame. If I were to give an opinion at the end of 2015, we should have a solution for the case, and then we will have some tight time to mobilize the internal parts [ph] internal community, we would have to hire consultant to discuss that in greater detail as if it were an ordinary M&A without the formalities.

This would then allow us to define a price range to negotiate with the controlling shareholder. This is a long process, I don't expect that to last less than nine or 10 months. So at last, these assets could be transferred at the end of 2016.

Obviously if we think that a solution for Jirau and for the liabilities supporting that this has reached at the second semester of this year.

## Q - Carolina Carneiro

I have a last question, if you allow me could you talk about the new bilateral contract, the balance sheet? I would like to know about the price trends, the price -- are the prices going to change, I don't believe they will change, but what about the market liquidity for new contracts and what levels of price could we expect?

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

There is a demand for the long term and you can see that from the quantities that we have sold in bilateral contracts. You will see that there was an increase in sales, prices have been going up, we might be reaching a balanced structural price at 160 per megawatt hour. The short term price is more subject to variations in hydrology and a drop in demand, so it's subject to fluctuation, especially in 2016, 2017 it went up and then down, but it's just a very high price because of the expectation of difficult hydrology conditions in 2016.

If the rain fall is not the ordinary rainfall level could be a very difficult scenario. In the short term, the price is high therefore for 2016 - '17, and then it dropped to R\$160 per megawatt hour, which is in line with the price of expansion. This price is according to the future prices of distributors and is in line with the expansion of the system.

## Q - Carolina Carneiro

Thank you so much.

## Operator

(Operator Instructions) The conference call is now closed -- the Q&A session is now closed. I would like to turn the floor over to Mr. Sattamini for his final remarks.

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

I would like to thank you all for participating. Thank you all for your questions, 2015 is a challenging year for the industry and for the company, the GFS issue is an issue that concerns us a lot, although the result in Q1 was satisfactory, we see with concern the energy deficit, please don't multiply this result by four because although we are working to mitigate the impact of GFS, I mean it's a difficult year, we are looking for solutions together with the government. Difficulties also bring opportunities and we have been able to capture many opportunities and contract energy at attractive prices in the longer term.

And this has to be taken into account. Thank you so much for attending this conference call.

## Operator

Tractebel Energia's conference call is now ended. Thank you all for participating and have a nice day. Thanks for using Chorus Call.

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