

Q2 2009 Earnings Call

Company Participants

- Antonio Previtali, IR Manager
- Manoel Arlindo Zaroni Torres, CFO, IR Director and CEO

Other Participants

- Felipe Leal, Analyst
- Gustavo Gattass, Analyst
- Marcio Prado, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. This is Tractebel Energia conference call.

(Operator Instructions).

I will now hand it over to Mr. Antonio Previtali, IR Manager of Tractebel Energia.

Please, Mr. Previtali, you have the floor.

Antonio Previtali

Good morning, ladies and gentlemen.

Welcome to Tractebel Energia conference call where we are going to discuss the results of the Second Quarter of '09. This presentation as well as its slides will be simultaneously webcasted on the internet at www.tractebelenergia.com.br in the investor section. There you can also have a copy of the Company's earnings release.

Before we go on, I would like to let you know that any forward-looking statements made during this conference call, relative to the Company's business outlook should be regarded as forward-looking statements that depend on the country's economic scenario, the performance and regulation of the energy industry in addition to other variables and are therefore subject to changes.

Today our hosts [ph] are Mr. Manoel Arlindo Zaroni Torres, our current CFO and IR director and CEO. Initially, Mr. Zaroni will comment on the performance of Tractebel Energia the 2Q '09 and then we will open for the Q&A session.

Please, Mr. Manoel Zaroni, you have the floor.

Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

Good morning, everyone.

The results of the First Quarter continue to be solid according to expected as our projections. And we have a slight increase in the price of energy sold and also an increase in the quantity that was marketed. And our cost and operating costs remained having reductions as the controlled quarter -- as compared to the control quarter.

As our highlight on slide number four, I would like to give you the numbers with a bit more detail. Physical sales -- 1.3% above 2Q '08 totaling 3,473 megawatts. The drop of [ph] consumption for free consumers in the Second Quarter '09, within our projections, was 12% below 2Q '08. Average price -- gross average price of contract, BRL121.27 per kilowatt hour, 11% above the same period of the previous year.

EBITDA -- BRL526.9 million, 20.2% above the 2Q '08. Occurring in the year the amount of BRL996.1 million. Gross profit -- BRL263.3 million, an addition of 20% compared to the same period in 2Q '08. Net profit was BRL497.2 million. And we are looking at payout of 50% of the results of the first half of the year, but we are still maintaining our guidance of a payout of 55% for the average of the year.

On slide five, you can see the structure. We have lots of companies and you see on the left that we create a new company called Tractebel Energias Comercializadora Ltda. that, in this case, we generally reorganized our corporate governance and got all these complementary renewed energies -- renewable energies that are accompanied with a fiscal purpose and they are all under the umbrella of this Company so that we can have better governance. So they all have the same bylaws, the same procedures, the same board composition. And that helps the Group as a whole have better governance or internal governance.

On slide six, we can see our 19 plants, from one to eight our hydroelectric plants. And on the right you have the map of Brazil with our permits. In orange, we have thermal electric plants, and in green, our complementary plants. In that we have Estreito under construction, the white one. It should start operations this month.

And Andrade, the project with what [ph] that will start working in the beginning of the crop [ph] of April last year, with sugar cane baggers [ph]. As we are growing, we continue to be and with the new project, we will be the largest private generator in Brazil. We are growing very fast and we expect to continue in the same position.

On slide eight, I would like to observe the distribution of our portfolio with our regulated consumers, marketers and free clients. And you can see that from '08 to '09 the reduction happens not because of reduction of consumption, but a reduction of hires because we decreased the portfolio available for hires with free customers.

And this year we are starting our contracts of sales in Cana Brava and Machadinho for the regulated market in the total of 874 megawatts average and then we are going to increase our sales to free consumers, as I mentioned in other occasions. Our trend is to have a 30-70 ratio, which is not exactly what we want. We want to have more energy sold among free customers that are more flexible and maximize the efficiency of our portfolio.

On slide nine, you can see the segmentation of our industries and the industries we sell to, to distribute our risk, the risk of the business of the industry, reflecting in electric energy and we do not have any default to today, although the financial crisis -- or despite the financial crisis, we have very good credit analysis process and we had no problems with that so far.

On slide 11, you already know, on the left the bars show the difference between offer and demand. As you can see there is a trend -- supply and demand -- there is a tendency of today having leftovers for this year and the following years, considering the market -- 3.3% lower. With PLD does not depend on the market alone, but on the natural resources and the rain. And today we can see that we had a year with floods in the Southeast, in the Northeast, periods of drought in the South, but periods of much rain. And month by month, it's well above the average, especially in the Southeast, which is the driver of the price.

Then on the right, we just show you that we have a per capita consumption that's still very low compared to other countries. And that, in fact, we have room to increase consumption substantially to -- for the electric consumption in the country. That is we have flexibility. No matter what you think of the GDP growth, the increase of energy is higher and that means more investments and more businesses.

On slide 13, we have our profile of hired energy and to hire. This is a growing curve as it should be. We are buying more to create product and we are selling it gradually. If you see, year on year, on the right, every year we decrease the quantity of energy that we have to sell. And this is going to continue along those lines. There are periods that we stop selling, we hold it a little. We wait for better opportunities. We wait for the market. The market is very sensitive to price and time and sometimes we avoid closing deals because the prices are very low.

On slide 14, we have our energy balance. You can see a growth in price for the next years. Our purchasing prices are somewhat stable. These are contracts that have already been signed. But for sales, we can renew prices. And you have all prices on the right of the regulated contracts and also of the energy of Proinfa. And you can see that the quantity of energy bought for 2010 is going to grow a lot -- 70 megawatts -- and 100 megawatts in 2011 compared to the previous quarter. And this is basically for us to organize our portfolio.

In terms of growth, you can see here a very nice picture and these are the sources for Estreito plants. There are 15 pillars. They are almost ready and we have only -- we have just started to lower the structure. You can see outside there is some movement so as to make it possible to deviate the river in September. Construction work is within schedule and we expect to go live in early '10.

On slide 17, you can see on the right our Areia Branca project. The reservoir is full and I think we should go live this month. And we are going to go live this month. And co-generation with Andrade distillery is when [ph] scheduled, too, and we are setting up the structure. And we are going to go live in April next year.

Financial results on slide 19 is consistent. Our net income is growing 8.1% per year on the First Quarter. In the Second Quarter, in relation to the Second Quarter '08, 8.1%. EBITDA is also growing year on year with 20.2% semester on semester and net profit has increased 20% in relation to the same semester '09.

Slide 20 shows where our results come from in terms of the results of the growth operating profit. It comes basically from our sale prices and from new operations that we have with new companies. And at the top we have BRL856 million to BRL930 million, the gross operating result, as compared to the same period last year.

We have introduced a new chart to show that we should not make any comparisons between quarters because this, depending on how you allocate energy, this varies a lot from one quarter to the other. Just to give you an idea, we had 28% last year in the First Quarter and 23% in '07. And this year we are going to have something similar to that. This shows only the first semester. But if everything remains the same it will be 25%. So this is to show you that there is a seasonal effect on these results.

The same thing happens, I have said a few times, that the result of EBITDA is not -- sorry, is not to wait. In slide 21, you can see the evolution of EBITDA and BRL75 million is the most significant number as a result of the operations on the whole, which is also related to the new companies. EBITDA, 32%. In contrast in '08, if you compare, it will be 23.5%, if you divide by four. And I go back to the theme that it is not significant. It's not relevant to compare one quarter to the other.

In slide 22, you can see the evolution of net profit, which is a consequence of EBITDA. There are no financial surprises here. It has grown 22%, basically. And the financial result is a result of variations in the exchange rate and you have variation in the valuation of our currency, BRL36 million, CCEE and other companies, too.

On slide 23, you can see our financial drivers for the quarter. We have here an increase in the energy sold in relation to the Second Quarter '08 and a reduction in relation to the First Quarter '09. The average price has been growing in relation to '08 and also in relation to the First Quarter. Net revenue has dropped slightly and this is affected by our results of CCEE. We have had an outstanding performance in the First Quarter. EBITDA is consistent, has been growing.

FINAL

EBITDA margin has also been growing and margin EBITDA, it depends very much on the amount of thermal generation and on how much energy we buy to market. And this reduces EBITDA margin. And as we have had it at, more or less, at the same level and we generate little thermal energy. So the EBITDA margin goes up in the second half of the year. And the net income -- and the net profit has also grown in relation to the two quarters. Indebtedness, on slide 24. You can see our indebtedness profile. On June 30, our debt was BRL3.07 billion and BRL427 million in cash with a net debt of BRL2.6 billion and 9% in foreign currency. The debt totals 1.5 times the EBITDA for the period.

This shows the evolution, on slide 25, or the involution, rather, of the results in relation to the First Quarter '09 as we had BRL2.8 billion to BRL2.6 billion in terms of debt. And in fact, we had more investment, we paid dividends and usable [ph] capital and the exchange variation and monetary variation has also contributed for the debt to go down and also the valuation of the real and our operating activities in the prior quarter we had an interval between debentures and paying the commercial papers. And now we have already paid them and the rest doesn't really -- is not significant.

On slide 26, you can see our investments in maintenance and expansion. In fact, you can see the investments and also EBITDA and evolution of EBITDA and evolution of net income so that you can compare our cash generation. We have BRL684 million invested of our own capital and BRL929 million related to debt, basically with BNDES for '09. And this is the forecast.

On slide 27, you can see the debt profile. And what catches our attention, the maturity of the long-term debt, basically, a very low rate for the debt. And in national currency, almost half related to TJOP [ph] and also from a funding from BNDES. And for 2011, we have BRL6 million debentures that we have just hired last quarter.

On slide 28, our dividend policy remains the same -- statutory, 20%, the adjusted net income, our commitment of paying at least 50% of the adjusted net income and symmetrical or biyearly frequency. The first semester we are going to pay 70% with a payout of BRL0.53 per share and 3% of dividend.

Well our last slide. There's an overview about the qualities and advantages of Tractebel Energia that you can have a look. Thank you very much. I am now available for questions.

Questions And Answers

Operator

(Operator Instructions).

Our first question comes from Deutsche Bank.

Q - Unidentified Participant

Good morning, everyone. I just have a question about your opinion.

What is the trends for the free markets? On the one hand, we have a weaker demand this year. We don't know when the demand is going to get better and we also have TIFU and the possible increase of energy in the free market.

So what's your opinion about the market? What do you think is going to happen in the next year in terms of supply and demands in the country? Is it basically along the lines of the same projects that are going to start operation and also about thermal oil plants that started operations last year.

Thank you.

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

Well I'm going to try to summarize your question and answer it little by little.

Well if demand continues growing within expectation, we are going to still have some leftovers, some energy left. It does not mean it is an operating remain or an excess. In Brazil we depend on nature. We depend on the rain. PLD is going to continue low.

I don't expect much for next year. But the free market, I always say, if you become a customer, you will no longer be a consumer. You are going to continue expanding. Every day we have companies, industries trying to buy energy and there was a reduction in consumption. But no one asked to cancel contract terms 2010 on and we have no default.

So I see market normal and an expectation of recovery, even on the side of industries themselves.

With regards to TIFU, we don't know in terms of increase of revenues of BRL120 million to BRL360 million. If you really do your math, this is really nothing. It's a very low volume. For the amount of energy that we have in TIFU, well, it means that you're going to pay a bit more for the energy. Granted, that is half the energy generated minus the consumption that they have in Paraguay. So there was an increase from \$1.2 [ph] -- to the number -- I'm not quite sure, but I think it's a bit more than that.

And they tabled [ph] this number, which is still very low. TIFU, the bulk of it comes from capacity, from dollar per kilowatt per month. And when TIFU sells in the free market, well, there are a series of things to happen. When distributors bought in the option of A minus 5, they considered their share of TIFU discounting from the market. And what is going to happen if this no longer exists?

Q - Unidentified Participant

And the second question is -- I ask Mr. Antonio Previtali would you buy energy from Paraguay in dollars and what is the reliability that your supplier will have?

And what is the capacity to meet the market, to reach the Brazilian market, to compete with Brazilian companies?

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

I don't think Paraguay really is capable of doing that and I'm not afraid of them.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Our next question comes from Visancto Vilendi [ph] from Farrtoco Hetura [ph].

Q - Unidentified Participant

Good morning, everyone. I have a question regarding these results.

When we see hydroelectric generation, of course, it was not high because we had a dry period. And when we look at thermal electrical generation in terms of cost, you can see that it has not -- it was not so expressive.

What leads us to believe that you have bought a reasonable amount of energy in MRE at BRL8, even below the average of spot in a period? Could you tell us the amount of energy that you have bought from the MRE and what you expect from now in terms of the amount, whether it should remain at the same level or not, considering that reserve was -- are now with better levels in the South?

Thank you.

Well in fact, this mechanism it stands for that purpose, in fact, MRE, is the -- so that you don't have that kind of risk. So sometimes we buy. Sometimes we sell.

It's that by power plant, by leased energy and then we do for the entire system. And this goes into the accounting. And there are many other things that influence such as system services, insurance, compensation of assets.

So we prefer not to disclose that number, but I will tell you that it was quite a lot for the first semester. And now in the South it's better and the reservoir that is equivalent is very small.

And you change from one regimen to the other very fast. For one month we had Machadinho idle and now we are -- Machadinho is operational again. So the system is done to operate in that manner. And as the price is just the OEM price, this affects very little our performance, our bottom line.

Thank you very much.

Operator

Excuse me. Our next question comes from Felipe Leal from Merrill Lynch.

Q - Felipe Leal {BIO 2015017 <GO>}

Good morning, everyone. I have two questions.

First, I would like to know if we have any news about the Estreito transfer process.

And the second is about your energy balance. You said that you bought 70 megawatts average for 2010, for 2011, 2012. Do you think this indicates higher demand from your customers or is it just part of your strategy?

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

Well. Good morning, Felipe.

Estreito continues in the same situation. We are waiting for the deviation of the river and then we are going to hire a bank to work with the financial team and then make the transfer in the end of the year, November or December, for this Estreito transfer.

And the buying of energy, well, in the short term, this is basically to give more flexibility for the Company due to seasonality. We buy, do not sell, and then we assess volumes according to our capacity for seasonalization because you imagine sometimes we can have lots sold or bought. Then we have this problem of the balance [ph].

And so the buying for 2010, 2011, 2012 is to have a solid portfolio for us to have the product. Sometimes we have a customer that wants a product to start in 2011. And if we do not have energy, we cannot sell to have this composition later on. And that's why we are engaging in purchasing and adjusting our portfolio.

Q - Felipe Leal {BIO 2015017 <GO>}

Okay. Thank you very much.

Operator

Excuse me.

Our next question comes from Mr. Marcos Evelini [ph] from Itau.

Q - Unidentified Participant

Good morning, Zaroni. Good morning, Previtali. I have two questions.

One is related to thermal power plants. And whenever there is thermal dispatch, it's more Tractebel margins have a significant growth and I could also see that in July your thermal dispatch agreed with the average of the Third Quarter, the monthly average.

FINAL

Bloomberg Transcript

And my question is do you believe the thermal dispatch for August and September? Do you think it will remain at this level?

Could you work with the scenario in which we will still have a high thermal dispatch in the Third Quarter and, as a consequence, the EBITDA margin will also be higher than it would be if dispatches were lower?

And the second question regards the volume of energy for -- to make seasonal. So considering the amount of purchases that you have done along the quarter, in prior quarters, the volume of energy to be seasonal in '10 will be greater than this year.

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

Good morning.

In fact, when we have higher thermal dispatch, I have higher margins because the cost, even considering CCEE, the cost is higher than the cost of the thermal electric. So if you had only thermal, the margin would be 50-60. If you have only hydroelectric, it would be 70-80.

So I don't really understand your question and what you mean?

Q - Unidentified Participant

Well the issue is just to complement, Zaroni.

As you have your strategy of seasonalization and you were buying in the first semester, in the Second Quarter. Because of seasonalization, the spot prices are lower because of that. So you were having a reimbursement of your fuel sources and this is different.

If you didn't have a reimbursement, your margins would be even smaller because of that. And you also have the slide in your presentation where you comment 63% EBITDA also considering your thermal dispatch.

A - Antonio Previtali

This is Previtali.

Let me try to answer your question. Let's start with seasonalization.

Well in fact, we have adopted, as we had said before, we had already decided to use a lighter or milder seasonalization and a lower allocation in the first two quarters of this year -- of the year, and therefore there would be more funds for the two subsequent quarters, the third and fourth of '09.

But on the other hand, we do not expect very high spot prices anymore in the second semester of this year because of the short-term excesses. That Zaroni has mentioned

FINAL

Bloomberg Transcript

already. So this is the first point.

In terms of thermal electrical dispatch, it has been very important -- it was very important the Second Quarter to meet [ph] of the South region because the capacity of transmission from the Southeast to the South was already no limit.

As the levels of reserves [ph] in the Southeast were high and, as Zaroni also mentioned, and the driver in terms of capacity and storage in the country is to be in the Southeast, the Southeast sometimes even managed to transmit 3,500 megawatts to the South. So the thermal electric generation was necessary so as to comprise and to meet the demand of the South.

Now with the recovery of the level of reserve ones, now in the South you see, on Friday the South already had 76% of its storage capacity. Three weeks before it was 30% something capacity.

With this improvement, maybe it will not be so necessary for us to continue dispatching thermal electric. Of course, it depends on the weather and how much rain we have from now on and also whether there will be any additional exports to Argentina.

Then thermal electrical power of Tractebel will take place not to meet the demands of the domestic market, but for export, which so far we cannot make any forecast. And Zaroni is going to complement.

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

And there is also another aspect, Marco.

If you are assistance operator, you note that we do not only dispatched because of problems. We see numbers because of energy reasons, reservoir levels. If you are generating very little in region, which is what happened in the South and you are transferring a very large block of energy, you will have to have a basis of time because if anything happens, if there is any problem in the transmission line, the system is going to be disconnected as a whole.

And that's why we also dispatch lots of thermal energy in the South in the First Quarter, first to have operating conditions that would be better. Not to depend exclusively on interconnection.

Q - Unidentified Participant

So just to be very clear, there is reimbursement of part of the fuel used in the thermal electric company?

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

For call [ph], yes, we have full reimbursement to meet the domestic markets. We do not have reimbursements for exports.

So we had an expense with yields for the generation of thermal electric plans a lot lower than in 2Q '09 compared to 2Q '08 because last year we had significant exports. And this year we didn't.

Q - Unidentified Participant

Okay.

So when I take a look at your dispatch or shipment in July that on average was close to what we saw in the Second Quarter in the complex of Sortilesetta [ph], I understand that there was reimbursement of the fuel.

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

Yes. For the domestic markets, yes, practically everything because we have very little export levels.

Operator

Excuse me. Our next question comes from Mr. Gustavo Gattass from Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good morning, Zaroni and Previtali.

I have a few questions to ask you. The first one, I would just like for you to tell us more about your purchase strategy to cover any possible needs. I'm going to ask an indirect question.

Between the First Quarter and the Second Quarter, the price that you published for the price contracted for purchases, is it normal or is it just suffering the impact of the additional contract?

Because when you do the math for difference [ph] it sounds like you hired energy by almost BRL140 and this is an inflationary effect by the contractors that will, in fact, after contract itself.

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

Well Gustavo, your reference in terms of the increase of the average purchase price of energy to be resold in 2011. In fact, there is a quarterly adjustment whenever we update the table and we try to do those adjustments.

But the increase in relation to the table that was available in the First Quarter '09. And in fact, there's a composition of two factors. Most of the increase is related to purchasing energy at a higher average price, but not the price that you mentioned, not BRL140. And that's the results that -- what leads to the second reason.

FINAL

The second reason is slightly more technical and it regards the following. When we purchase power to resell, there is an effect associated to the taxes [ph]. We are entitled to use credit [ph] for the energy that we bought.

And there is one that's more technical aspect that I mentioned. We were expecting to have thermal electric exposure in the future that would be slightly higher. What thermal electric exposure is the deficit that we cannot generate and we have to buy so as to meet our contracts, to comply with our contracts.

It's a natural opposition that we have at CCEE because in the thermal electric plants we are almost fully sold and the level of generation sometimes is lower.

So for the situation today or over the past few years has been structural for Tractebel and therefore we were at -- with a level of thermal electric exposure. As the market dropped, we revised those studies and we have identified that our exposure from now on will be lower.

And when that happens, we end up having a benefit of fiscal things in the energy that we buy to resell, which is differentiated. And it drove up the number in relation to the prior number, that the prior number was BRL106, BRL108 to BRL114 that you are mentioning there.

So yes, it does have an impact in the energy that is bought at a slightly higher price and there is another impact that is a result of this phenomenon that I have just mentioned.

Q - Gustavo Gattass {BIO 1702868 <GO>}

So what you mean is that when you revive your projections, you are effectively allocating fiscal things and that calculation, you cause an impact in the price of energy. It was attenuated somehow.

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

Okay. This is always considered. We try to have the average price so that you can just multiply that value by the quantity of an edge that you buy in the model of all analysts. You have something that is closer to reality.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

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

My -- another thing that is important for you to take into account is the price of energy sold is above 3,900 megawatt on average. And our price for buying is BRL389. And so if you only calculate BRL140, BRL130, if you dilute it in 3,900, it's just very little.

So in a sale contract, you have all different kinds of contracts. If you compare what I am selling now with what I am buying now, it is compatible. I have margin. But if I compare with my average, I might need to buy at a higher price than my average.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. This is along the line I wanted to ask my second question. But -- and I wanted to understand from you what should we think about your strategy for the years to come? We see energy available for higher [ph] -- increase a little. The energy available is considerably flat.

So would it be reasonable to believe that you will try to buy large amounts of energy in the market or are you going to be a bit more cautious and work with whatever you have?

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

Well I'm going to say something. We do not like decreased price. We always want to grow. Then you figure out.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Marcio Prado from Santander.

Q - Marcio Prado {BIO 15398968 <GO>}

Well. Good morning, Zaroni, Previtali. I would like to go back and just clarify about I had -- about your exposure and the reimbursement of fuel.

With the normalization of reservoirs in the South region, is it reasonable to expect that the thermal electric dependence decreases and therefore the reimbursement of fuels also decreases.

Just for me to try to understand a bit about the impact on the third and Fourth Quarters. And the second question is a comment that I would ask Zaroni and Previtali to make about the NS plan [ph] that was released by the end of July only with projections of spot prices around BRL80 in 2010 and then BRL100 for 2011. I would like you to comment a bit on your views about this plan and what you think about the prices of PLD until 2013, released by NS.

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

Well by contract, we are mandated to acquire a fixed amount of coal per month. And we have reimbursements of this volume. The quantity of thermal energy to be generated is probably going to be low. But I buy the same amount of coal. So I have a seasonalization

of coal as well because, indeed, when we have lower volumes I buy because I will have it stock when I have to generate more.

So the expenses in terms of CCEE reimbursements is going to continue constant and generation is going to be low unless we have an electric problem. You have to replace something or control voltage. This is going to be low.

A - Antonio Previtali

Let me just add to Zaroni's comment before we move onto your second question.

You have to remember that the profile seasonalization of the second half of the year is different from the first half of the year. If you think of the macro scenario, thinking of the whole half of the year, not month to month, we will probably allocate more hydraulic resources than the first half of the year.

Thus, whatever the spot price is going to be, it's going to be settled -- settling a surplus and not a deficit, therefore, impacting positively on our revenues.

Q - Marcio Prado {BIO 15398968 <GO>}

Well if I may, I wanted to word it differently, although you answered it perfectly. In addition to export, we see that generation of thermal electric plants were strong, even without exports.

And that did not reflect on the PLD prices of the South. It was very close to previous price. When you have thermal electric plants generation for technical reasons, what happens [ph] is it why it was close to the Southeast.

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

Well thermal electric plants are dispatched based on the marginal operating cost. And if you think of the PDL value, this is very close. And it is not lower than the variable cost of producing energy in the thermal energy. And it's not dispatched, we say, by merit.

And this is what happened. It was dispatched for electric reasons, for reasons of the system. And in this case, we do not build a price. And it just stayed up as the whole of the system.

Q - Marcio Prado {BIO 15398968 <GO>}

As to the projection of ANS [ph], of PLD.

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

I am sure that those numbers are not going to happen. There's an average of 2,000 series in the history and everything. You can have much greater amounts than that or much smaller amounts. It will depend on summer rains.

Q - Marcio Prado {BIO 15398968 <GO>}

Thank you very much, Zaroni.

Operator

Excuse me.

Our next question comes from Credit Suisse.

Q - Unidentified Participant

Hello. Good morning, Zaroni and Previtali.

Zaroni, you mentioned earlier in your presentation that the market for the coming years will have a physical excess of energy for the contract market.

I would just like to understand if that proposal that free customers could return energy contracts, not return, but resell some of the energy contracts that they have, could that change this dynamics and change the market?

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

I am completely against returning from -- related to contracts that were assigned in the past. So then you would need to renegotiate the contract. But you need some flexibility.

For new contracts as a policy, I'm completely in favor. It's like demand and supply. And so industrial customers can buy and if they are not using it, they can resell it. But as a generator, I will sell at different conditions so that I do not have to arbitrate on our contract.

So I am in favor, for new contracts, to have more liquidity in the market, but I would change the format of our contract. And if we have contracts that -- past contracts, we cannot change that unless we renegotiate.

Q - Unidentified Participant

And how far are you in the negotiations of that proposal today?

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

Well it has been better as the PDL and prices are very low. Right now people don't want to sell it anymore.

Q - Unidentified Participant

Thank you very much.

Operator

(Operator Instructions).

We will now close our Q&A session.

I'm going to pass the floor to Manoel Arlindo Zaroni Torres for his final considerations.

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

Well I thank you all for your attendance at Tractebel Energia's conference call. I could say that our intention is to pay out the 55% unless we have initial crisis [ph], the expectation of results change or we delay some kind of investments.

Company results are consistent. I don't think we are going to have any surprises until the end of the year. We are going to have a short cost PDL that is relatively low, which on the one hand, we don't get too much money.

On the other hand, we will substantially reduce the reduce the risks of the Company because we have 20% of thermal energy. And sometimes when prices are in the threshold of variable costs and spot prices, sometimes we have higher expenses.

And it's important that you understand that this is part of our activity and we will always live with that. There will always be variations up or down.

And I showed you, in other occasions, we have a maximum ceiling of BRL360 million of expenses and it can be zero. And sometimes we have the surprises we had in the past that I don't think we are going to have again of having some gain in allocation. Allocation is made for us to protect thermal replacements.

Well good day, everyone, and thank you very much.

Operator

Tractebel conference call is now closed. We thank you for your attendance and have a nice day.

Thank you very much.

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