

Q4 2008 Earnings Call

Company Participants

- Antonio Previtali, IR Manager
- Manoel Zaroni Torres, CEO and Acting Finance & IR Director

Other Participants

- Anderson Frey, Analyst
- Eduardo Cancian, Analyst
- Fabiano Custodio, Analyst
- Felipe Leal, Analyst
- Francisco Navarrete, Analyst
- Marcelo Britto, Analyst
- Marcio Prado, Analyst
- Marcus Sequeira, Analyst
- Reginaldo Pereira, Analyst
- Sergio Tamashiro, Analyst
- Subhojit Daripa, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(Interpreted). (technical difficulty) audio conference of Tractebel Energia. All the participants are currently connected in the listen-only mode and later we will open for the Q&A session when further instructions will be given. (Operator Instructions). This audio conference is being recorded.

I now pass the floor to Mr. Antonio Previtali, Investor Relations Manager of Tractebel Energia. Please, Mr. Previtali, you may continue.

Antonio Previtali

(Interpreted). Good morning, ladies and gentlemen. Welcome to Tractebel Energia's audio conference where we will discuss the results of the Fourth Quarter of 2008 and of the year 2008. This presentation with the respective slides will be simultaneously transmitted over the Internet on the site www.tractebelenergia.com.br in the investors section. You can also obtain a copy of the earnings release of the Company.

Before we continue, I want to clarify that any forward-looking statements that may be made during this audio conference related to the business outlook of the Company should be treated as an outlook which can depend on the economic scenario of the country, of the performance and of the regulations of the electrical industry and in addition to other variables are subject to change.

Today with us speaking from Rio is Mr. Manoel Zaroni Torres, CEO and Acting Financial and IR Director and Mr. Zaroni will comment on the performance of Tractebel on the Q4 2008 and for the fiscal year 2008. He will then take any questions you might ask.

I now pass the floor to Mr. Manoel Torres. You may proceed, Mr. Torres.

Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Good morning. We are very happy to present the results and we will start by talking about the growth of the Company.

This year -- and I'm talking about slide number five, the Sao Salvador plant was ready and we acquired Ponte de Pedra with 176 megawatts of installed capacity. We also acquired Rondonopolis and Jose Gelazio with 27 megawatts and 24 megawatts respectively. And we also acquired the Econergy project.

We are operating the Beberibe wind farm for 26 megawatts and Pedra do Sal with 18 megawatts. We are also building the small power plant of Areia Branca in Minas Gerais with 20 megawatts, the Andrade Biomass project with sugarcane bagasse that was sold in the Reserve Energy Auction. We have started to build the project in the Estreito plant, which is currently underway and should be transferred to Tractebel by year end.

Slide six shows the general outlook of the electrical industry. Tractebel is by far the largest private company of the electric industry with 6.4 megawatts of installed capacity -- gigawatts, rather, of installed capacity and is well positioned to be a consolidating agent in the electric sector.

Slide number seven shows the trend of our portfolio according to the type of customers - free customers, free market and regulated market. And we see that the trend is upwards in terms of our share in the regulated market.

Although our goal is to own 50% in the regulated market and 50% in the free market, we believe this will be 30/70 because the new concessions and the new plants have been tendered at this proportion, 30% for the free market and 70% for the regulated market. And the market itself has a share of 30% and 70%. So ultimately this is the percentage we will reach.

Slide number nine shows the supply relative to the markets and the behavior of the spot market. This shows that in a certain period there was a surplus of energy and the price trend was downwards. With the gas crisis in 2005, thermal plants started to operate in

2006, 2007 and 2008 when the system was working with a very short supply. And the natural trend was increasing the average spot price throughout the year. So a trend upwards for the short term prices. We are in March and the price is in the region of BRL108, BRL109 for this week.

Slide number eleven shows the trend of sales or rather not the sales of Tractebel Energia, which shows that our strategy to contract little by little and to leave us some energy for the long term. So on the right hand graph, you will see the example for 2012. In December 2006, 38% of our portfolio was free. In December 2007, 17% was free and in December 2008, 9.2% was free.

In the long term this reserve accounts for biological risk for thermal plants that have high variable costs. And as we approach this time and we have a better outlook we'll start selling this reserve.

Slide number 12 shows our position as of December 31, 2008. We can see that there was a reduction in purchases for resale. This reduction had to do with option contracts that we have with CST and CSA, a reduction in purchases. And also we included on this table the energy from Proinfa, 53 megawatts in 2010 and so on and so forth.

So in the bilateral sales -- the bilateral sales are not part of our regulated portfolio, with a reserve energy auction in 2010. We can also see that in Q4 2008 we had additional sales of 173 megawatts for 2011, 86 megawatts for 2012, 22 megawatts for 2013 with a minimum price of BRL135.

I would also like to highlight that the average purchasing price is higher than the average selling price, BRL107 as compared with BRL102. This was a decision made in the past. And this purchase allowed us to sell 493 megawatts in the 2006 auction for botox energy. And these were sold for 30 years for a present value of BRL143.9.

So before the question comes I would like to say that in the free market because of the crisis, this market has decreased somewhat. If we compare October 2007 with October 2008, the variation in the free market was at 4%. In November 2008, it dropped by 7.3%. In December 2008, it dropped by 17.9%. In January 2009, 13.5%.

So we see consistently that we have 110 megawatts sold to free customers. And the reduction on average for the year with the contracts we are re-negotiating with the lower consumption is 10%. That is 110 megawatts on average of which we have resold in the last adjustment auction 45 megawatts at BRL145.77 per megawatt hour, which is significantly higher than the average price of our contracts in the free market. And the remainder, we are going to wait and see.

As regards the growth, in slide 14 we see the Estreito power plant which belongs to SUEZ. We had some setbacks during construction with a contractor. They were not performing as they should and we had to make adjustments in the investment to BRL1,361m. Now things are underway and properly working and it should start operating by the end of 2010. This plant was sold in the auction A minus 5 for delivery as of 2012.

Slide 15, is the project sold in the Reserve Auction in partnership with Acucar Guarani for 33 megawatts of installed capacity, an investment of BRL95 million and startup in 2010. This is a biomass plant that was sold for BRL158.11 per megawatt hour.

Slide 16 is a bumper [ph] project. It is waiting for the regulatory decisions that will allow us to advance the project. We already have the license, the plans and I believe we are not going to start during this year. And I think it will take a bit longer to solve the problems.

Slide 17 shows the projects that we have acquired from Econergy in December 2008. Econergy was acquired by GDF SUEZ and the assets in this deal were transferred to Tractebel Energia. And these assets are the Beberibe Wind Farm in Ceara, 25.6 megawatts operating already, the Areia Branca Small Power Plant in the final phase of construction due in June and the Pedra do Sal Wind Farm in Piaui for 18 megawatts. This was inaugurated in February of this year. It's already in operation.

In slide 18, I would like to give an explanation about the price paid and the goodwill paid to SUEZ by Tractebel Energia. SUEZ acquired in the London secondary market in 2008 -- GDF SUEZ acquired the assets of Econergy. Among these assets -- it acquired for BRL140m. And among these assets the most important assets were the three projects in Brazil. According to the appraisal they were worth BRL110m.

Between June and December GDF SUEZ invested BRL80 million in Econergy to advance these projects reaching BRL190 million in the set of three assets. The acquisition of Tractebel by -- the acquisition of GDF SUEZ by Tractebel Energia had a goodwill of BRL10m, that is 5% of the transfer value which is warranted by the risks associated with construction. Pedra do Sal was late, Beberibe also. And the Proinfa contract was due to start in January. And the commercial risks associated and assumed by GDF SUEZ also justified the price paid.

We are going to talk now about the financial performance. Slide 20 shows the efficiency of the management and of the strategies that we have adopted for contracts. And although we have reduced our portfolio because of a government decision, our net revenue grew 14.6% in the last four years. And from last year 2007 to 2008, it grew 13.1%, so from BRL3.043 billion to BRL3.441b.

EBITDA also grew significantly, 14.5% on average CAGR and 17.5% from 2007 to 2008. I'm going to explain later the reasons for this growth. But I can now say that it is due to CCEE, the electricity trading chamber as a result of the acquisition of plants already in operation such as Ponte de Pedra and a revenue from fiscal things [ph] which is non-recurring.

And it grew in the long term and also from 2007 to 2008 at 6.6%, our net income on average and in the year. If we exclude the non-recurring effects of 2007 and 2008, the net income would have grown from -- would have grown 13.2%. That is the net income of 2008 is BRL1.115b.

Going now to slide 21, we have the graph that shows how we went from a net revenue in 2007 of BRL3.365 billion to BRL3.834b. That is in the electricity trading chamber we had

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an excellent result, BRL257m. And the result as a whole depends on the MRE per plant, the service charges, the generation of reactive energy, the generation outside the merit order of the thermal plant, the difference in price of spot market which can be positive or negative, the thermal substitution, that is the allocation of free energy that we sometimes buy to make it part of our portfolio of the balance for the allocation of the next year and we have to liquidate at the electricity trading chambers. So BRL257 million is a composition of all these factors.

As regards exports in 2007 we exported less and we didn't have the same revenue as in 2007. BRL98 million from Ponte de Pedra. BRL467 million has to do with an increase in 15% in the average sales price. Then we had a drop in volume BRL204m. That is the effect of a reduction of the portfolio in 250 megawatts, 6.5% of the total portfolio. And to give you an idea 160 megawatts were reduced by an ordinance. The revenue was then BRL3.834b.

The next slide shows the effects of these variations on EBITDA. Therefore we have the EBITDA in 2007 BRL1.865 billion -- BRL1.856 billion and an EBITDA of BRL2.180b.

So how did we reach BRL2.180b? EBITDA grew because of the CCEE by BRL296m, the electricity trading chamber. We had an increase in operating revenue of BRL257 million and the EBITDA grew more than that. The first time I saw it I was a bit surprised.

But in 2007 if we count the 12 months of liquidation at the electricity trading chamber, we had expenses for ten months. And in 2008 we had revenues for nine months and expenses for three months. That is our expenses increased -- that is rather, our expenses decreased and our revenues increased. This is how we reached an EBITDA of BRL296m.

Exports, as a consequence exports were reduced. Ponte de Pedra, the EBITDA relative to Ponte de Pedra. We have fees and co-fee [ph] of BRL76 million which are non-recurring. Just for this year we will have this impact. And BRL60 million are increase in expenses of staffing, personnel, service materials and others.

Now in slide number 23, we have the impact on the net income, from BRL1.046 billion to BRL1.115b. BRL195 million in the electricity trading chamber, less BRL36 million from exports plus BRL50 million from fees and co-fee, less BRL59 million in different operations, exchange variation December 31, 2007 to 2008 was less BRL75 million and BRL6m, other factors.

Slide 24 shows the financial drivers for the quarters comparing three and Fourth Quarter and effects [ph] of 2007. It's worth to see the increase in sales price.

And I'd like to highlight the EBITDA margin. This decreased as for the Fourth Quarter of '07 due to the third party purchases. We had to do this to arrange our portfolio so that we could have a different allocation in 2009 comparing to 2008. In 2008 we allocated the surplus in the beginning of the year to capture the high prices and then we distributed them. In '09, we are doing exactly the opposite. So to compare quarter by quarter is not that important because it depends on how you allocate the energy. So it goes up or down.

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In slide 25, I'm going to show what you want really to know. We have this impact on this season in our expenses. You know that we have several thermal plants that are flexible. But when they are not dispatched, when the spot price is below the variable cost, we buy energy from the market. So this generates an expense.

So I'm showing you the behavior due to this technique. Up to 2006, with the spot market - the spot price low and stable it was -- there was no sense in allocating energy because the balance would be neutral. You would lose and gain. So we decided not to do this.

In '06 we had a disruption in the structural balance of the system. We had this gas crisis, the decreased price in Argentina. Prices were more sensible. And this surprised us because our expenses they went from -- to BRL291m. And this surprised us. So we decided the business strategy in '07 as for the allocations, if they followed the contracts. So we have a result of BRL120m, BRL261 million minus BRL141m.

In 2008 we did quite well and we have a very -- a huge variation over the year. And we saw this because the variation only started in December before the allocation period. So we really had lots of energy available for the contracts in January, what made possible to have this gain of BRL15 million and with a savings of BRL196m.

So I believe for you to ask the impact -- about the impact on the strategy in '09. We cannot expect the same for last year because the level of prices up to now it's much more stable, it's growing. We are with BRL108, BRL109. So we are not expecting huge variations.

Slide 26, indebtedness and the exposure to foreign currency. From '07 to '08 we have an increase from BRL1.8 billion to 1.4 of the EBITDA. Our debt decreased in foreign exchange and we closed the year with a net debt of BRL2.5b.

In the next slide, I'm going to show how we went from BRL1.8 billion to BRL2.5b. You remember that in '08 was the year of acquisitions, when we acquired five projects. And we continued with the Sao Salvador implementation. So all acquisitions plus debt are represented by this effect of BRL1.053b, plus BRL590m. This was the value of the debt.

We also had other investments and basically Sao Salvador, a part of Andrade and CapEx for maintenance. So BRL1.1 billion of dividends that were paid. Foreign exchange gave a result of BRL156m. And with discount the operating cash flow, we have this debt going from BRL1.019 billion to BRL2.55b.

In slide 28 shows the important payment we have in '09 and then it will be paid by cash generation. And our foreign currency debt has high fluctuation and we pay this in installments. And in purple you have the values in reais. We have finance from BNDES.

And it's important to highlight that we are issuing promissory notes BRL300 million already in cash. We have already received BRL300m. And we are now issuing deferred debentures or bonus [ph] emission on BRL600 million to settle this BRL300m. So the net

debt will be BRL300 million that adding to the cash will be enough to pay the debt and to make investments. And we are already including another acquisition. In 2009 or '10, we do not expect to do any other emissions or issues. BRL600 million we have already ensured with debentures.

Investment plan, you know. We have investments in expansion and maintenance and our cash flow is enough for that. So for '09 -- 2009, we have BRL134 million maintenance CapEx. And we will invest in thermal plants because they are in huge operation and we are being pressured to keep the high level of availability.

So this BRL134 million includes the installation of a pressurized electrostatic filter in Jorge Lacerda in Unit 5 reserve, a backup rotor for the low pressure mill, moist ashes [ph] for Ponte de Pedra, automation of Unit 1 and 2, sectioners, splitters and repairs for Salto Osorio plant among others. BRL1.018 billion refers to the Estreito project for this year. BRL86 million invested in Andrade. We invested BRL10 million last year plus BRL86m. And BRL40 million that is in Econergy is in fact investment at Areia Branca and some other investments.

Finally in slide number 30, shows the payout of 68%. In five years in a row, we have been paying 55% (sic; see presentation) and this year we had to reduce to 68% due to the high investments, new investments above BRL1 billion last year and this year.

Dividend yield, it's about 5.3% and it's calculated by the average weighted price per year. If you consider the year end, this price will be a little higher.

So that's what I had to present to you. Thank you very much.

Questions And Answers

Operator

(Interpreted). Ladies and gentlemen, we open the Q&A session. (Operator Instructions).

This teleconference is exclusive for investors and market analysts. Any other questions by journalists should be forwarded to the press consultancy. We'll limit to two questions per turn.

Our first question comes from Mr. Marcus Sequeira from Deutsche Bank.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(Interpreted). Good morning. I have two questions. One has to do with the balance sheet. You have BRL700 million due this year and I think -- I believe you are going to roll over this debt. But what about the renegotiation of this debt and how will this affect the timing of the Estreito plan? What is the outlook for 2009?

What is Tractebel's strategy regarding mergers and acquisitions for 2009? Are there interesting assets for acquisition? And taking into account Estreito and the credit market which has been tricky this year, do you expect to make more acquisitions this year?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). First of all, as regards the debt, we are going to pay it. We are not going to roll it over. We are issuing debentures and we are going to pay the debt with the debentures and the cash generation.

As regards the outlook for 2009, regarding M&A, with the acquisition of Estreito and the investment in Andrade, it is not very likely that we should have appetite for a new acquisition. But we don't rule it out. If assets come up that we believe are important for the Company, we can always make use of different alternatives for an acquisition.

We believe that our shareholder, GDF SUEZ, the controlling company, they see Brazil as an important country. And this gives a possibility for increasing capital and other alternatives to make acquisitions.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(Interpreted). Do you have an idea of when Estreito is going to be transferred?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). There are some pending issues that have to be solved, so that we don't have much doubt about the date of the operation and total investment.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(Interpreted). Thank you.

Operator

Our next question comes from Mr. Fabiano Custodio from Credit Suisse.

Q - Fabiano Custodio {BIO 19222185 <GO>}

(Interpreted). Good morning. Thank you for the call. I have two questions. The first has to do to CapEx. In slide 29, when you compare the CapEx of Estreito with 2009 and 2010, there was an increase relative to the last presentation, the presentation of Q3, BRL100 million more -- BRL139 million more in 2009 and another BRL100 million in 2010. Then in slide -- why is that?

Then in slide nine, where you showed the energy balance, I would like to know what is the assumption for 2009 and 2010 in terms of the GDP.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

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(Interpreted). The increase in CapEx in Estreito is due to the adjustment in the costs of the construction work. We had a budget. We had the estimates. We hired providers of services and goods. But we had problems during the construction that were not factored in. So this is simply an adjustment in the budget.

In view of -- for example, we had to include an element that was not within the plan. We had to drain the water tables and this was not included in the construction work budget. So these are things that come up during construction work when the project is very much detailed, even though we have surprises. It is not a turnkey project you see. It's a partial turnkey. So we had to make these adjustments.

And the other question had to do with the CapEx -- no, no, the other question sorry, has to do with the GDP. Yes. The GDP to project the scenario for 2008, 2009 3.8%.

Q - Fabiano Custodio {BIO 19222185 <GO>}

(Interpreted). Thank you. So 3.5% for growth in 2008, '09, '10.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Yes, for all the years that you can see there, we calculated a GDP of 3.8%. And the elasticity factor between the GDP and the demand of 1.2 times.

Q - Fabiano Custodio {BIO 19222185 <GO>}

(Interpreted). Thank you.

Operator

(Interpreted). Our next question comes from Mr. Marcio Prado from Santander.

Q - Marcio Prado {BIO 15398968 <GO>}

(Interpreted). Good morning. I have two questions. First about information in your presentation, slide 25 about the impact of the seasonality strategy. Talking of 2008, I would like to know if I have understood it correctly. So without the strategy there would have been an expense, a cost of BRL180m. But with the strategy there was a gain of approximately BRL16m. Is this correct?

If this is the case, if I have -- can we interpret it this way, with a flat allocation, with an allocation that adheres to the contract, would the cost be in the region of BRL180m?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Exactly. You're very right, this is exactly what it is. If we had the same allocation of the contract the cost would have been BRL180m. But with the strategy we had a gain of BRL15.8m.

Q - Fabiano Custodio {BIO 19222185 <GO>}

(Interpreted). And the major variable of this cost is the spot price throughout the year. Is this correct?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Yes. It's the price. It's an expense to buy energy in the spot market.

Q - Fabiano Custodio {BIO 19222185 <GO>}

(Interpreted). Good. Thank you.

Operator

(Interpreted). Our next question is from Mr. Sergio Tamashiro from Itau.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

(Interpreted). Good morning. My first question relates to Estreito. We saw this problem, the spillway issue, but isn't this a SUEZ risk? You should have this pre-defined cost for this purchase because the price of energy has been already negotiated? So this BRL111 is the distribution and in spite of this increase of BRL111 million you have a reduction in the curve. You had more than BRL100 million reduction. Are you doing any kind of advance or, in October, it will be other operation? What is your forecast?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Well you made a right interpretation but not as a whole. When we are going to transfer we are going to a contract bank to make an assessment and the bank will consider the operation date and the total investment that is already in the works. So this will be added, incorporated in the value of the investment. So you cannot transfer risk from one side to the other. You should consider, and this invested value will be considered when you transfer. There is no other way to do so.

But we are not investing anything. SUEZ is the one who invested in Estreito. We don't have not a penny invested in Estreito.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

(Interpreted). In this CapEx 1.18 -- BRL1.018b, what -- how much will go from Tractebel to SUEZ? Or will this 100% intercompany debt?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). We have equity and BNDES debt too. This is the total investment, so by the time of the transfer we will consider equity invested by SUEZ, plus something.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

(Interpreted). So I can say 70/30?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). No, 70/30 is for the life cycle of the project, but this value contemplates all the disbursements for 2009, all these disbursements done by SUEZ. So this 70/30 ratio may be changed.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

(Interpreted). And how much are you going to have for cash balance? Maybe what is left will be paid as dividend? If you have impact will the dividends close to the minimum?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Well we shall do the math but, unfortunately, we don't have this right now. But you can consider 70/30. If there is an error it will be very small.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

(Interpreted). You mentioned that you had a reduction, 10%, in the megawatts. You -- contracted 45 and now you have 65. In this 10% reduction, what was the agreed; this 10% was reduced along the period or did you have a greater request from your customer? The demand reduction is more than this.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Well we have two types of contracts basically; one with a minimum take or pay, and the rest as a difference. We had some contracts with a 50% take or pay, so in some cases we had to renegotiate this take or pay when it was 90%.

I will give you an example. You -- we reduced take or pay and we -- the difference we sell at spot price. If the spot price is less we close it by the end of the year, if it is higher we split. So we do things like this, we have all kinds of negotiations. But in fact, this 10% is what we assume. We have calculation, methodology, but we cannot forecast.

As for February and we are using the level of activities of industries and simulation, so we think that all over the year we'll have this 10% decrease in the sales to the free customers.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

(Interpreted). So you were -- you think that you are going to use this take or pay?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Well basically, what we have to negotiate we have done already and we have a reference for the first month.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

(Interpreted). So this 45 megawatts, this difference from the price contract, this BRL50, are not totally yours? Part of it will be left for the free customers? So you will gain about BRL20, BRL25?

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A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Yes. Or I will gain or lose the difference of the spot price and the contract price, and this is marginal. Our simulation say that this is will not impact the Company's results, neither for positive nor negative.

I'd like to complement the answer. This 10% per section [ph] is Tractebel. The industry has not manifested anything in terms of reduction of energy needs in the future. They, themselves, they don't know the level of economic activity, so we don't want to reduce now and, later on, to go to the market for a higher price in energy.

And I will give you an example of a negotiation with when the customer sees a consumer reduction. Suppose I have a 100 megawatt contract with 20% take or pay, would turn to 80 megawatts if the customer consumes 70. Just the opposite of other markets, the gas market. In the power, electrical power market, we do not deliver 70, we deliver 80. But since the customer only absorbs 70, these 10 are credited and there we have at the electricity trading chamber, or there is a proposal of another buyer, suppose a trading company, to buy this energy at a higher price than the spot price, generating an extra gain.

So we have several negotiation ways, okay?

Q - Sergio Tamashiro {BIO 2274485 <GO>}

(Interpreted). So isn't there a risk, nobody reduced anywhere negotiating 110?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Yes. But our estimate is 10%. Since we go slow, we have a very conservative approach in the last adjustment auction. We could have sold this 110 megawatt, but we didn't. We have an estimate for 10% reduction, but since we are still in the beginning of the year very conservative, we decide to sell only part of this 110. In fact, we have several uncertainties. There is no defined number.

Q - Marcelo Britto {BIO 15393330 <GO>}

(technical difficulty). (Interpreted) This is the first question.

The second question has to do with the projects that are underway. Sao Salvador has just been delivered, which you have the Eenergy via [ph] and Andrade. What about the financing contracts which have been agreed upon with the development bank for this three works; Eenergy, Andrade and Sao Salvador, that could mitigate the cash flow that is impacted by the maturity of debt in 2009.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). First, Marcelo. Good morning. As regards the spot price, whenever I see this trend I say that the only thing that is assured for me is that this is not the way it's going to behave. There are so many variables. For instance, the Government decides to have a

target and generate outside the order of merit, and this affects future prices. The market goes down or up, and we have no idea of what is going to happen.

So we simulate, we do the best we can, but it's very difficult to forecast that. The trend, because it's already 108 and we are in March, the trend is upward. But maybe April, May, the Government decides to generate from other thermals, so the price is going to be flat, about the -- about the level we have now. So I would say that the normal trend is upwards because, in April or May, the dry season starts, the rainfall is very low so the reservoirs are at very low levels, and then it trends -- the trend is upwards until October. But anything can happen.

Q - Marcelo Britto {BIO 15393330 <GO>}

(Interpreted). So you would say that the spot price could be above the average of your contract?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Probably, yes.

Q - Marcelo Britto {BIO 15393330 <GO>}

(Interpreted). And as regards the debt what would you say?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Sao Salvador, we have disbursed almost 100%. There are no disbursements ahead, virtually none. And I'm talking about great figures. The Andrade project, we are negotiating the financing, some BRL60 million or BRL70m. And we have disbursed almost all for Pedra do Sal and Beberibe. And as for Areia Branca, the disbursement has reached 90% or rather 80%. So there is not much pressure on our cash position because everything will be spent on the construction work.

Operator

(Interpreted). Our next question comes from Mr. Francisco Navarrete from Goldman Sachs.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Good morning, Zaroni and Previtali. I would like to talk about investment in Estreito, just to be sure I understood correctly the answers that were given to the other questions. Relative to the increase of CapEx, the fee to be paid to GDF SUEZ after the independent audit, do you think this could be smaller in order to offset the increase in CapEx?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). I think so. You can also think that, relative to what could have been in the beginning of last year, there could be an increase in the cost of capital. So if we want to do a rolling dividend cash flow this would be lower.

Operator

(Interpreted). Our next question comes from Mr. Felipe Leal from Merrill Lynch.

Q - Felipe Leal {BIO 2015017 <GO>}

(Interpreted). Good morning. Do you have any outlooks to export energy to Argentina? Is there any expectations with this surplus of energy?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Yes. We are exporting to Uruguay. We are exporting between 120 and 200 megawatts to Uruguay. But as for what I see, we -- we are experiencing a dry period when we have our power plants in the South, although we had a decrease in gas consumption. Bolivia will have more gas to provide to Argentina because they also experience a gas reduction in Brazil consumption. So I think it's early to say that we're going to export to Argentina.

Last year, the Government opted for a swap, exporting hydropower and then receiving it back because cheaper thermal plants had been used to reach the target level to keep reservoirs in the target level. So everything can happen.

Q - Felipe Leal {BIO 2015017 <GO>}

(Interpreted). Thank you.

Operator

(technical difficulty). Excuse me, Mr. Bert [ph], go ahead please.

Q - Unidentified Participant

Yes, I had a -- just a quick question on -- a follow up on the debt. The -- was there any difficulty getting the financing? And if you can comment on the terms, the interest rate paid relative to what you've paid in the past, that would be great.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). The conditions of our promissory notes, as well as bonds, debentures, they are very similar, BRL300 million of promissory notes. We'll have 125% of CDI and debentures or bonding -- bonds, we'll have a cost building that has a ceiling of 100% of CDI. So we have this possibility of having a lower capital cost for the BRL600 million of bonds.

Q - Unidentified Participant

And I'm sorry, is that variable or is that fixed?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Fixed is the promissory note, 125% of the CDI, 60 million -- BRL600 million of bonds, they have a maximum value of 125% of CDI. But since it's a book building process, it is possible for us to have a lower value.

Q - Unidentified Participant

Okay. Thank you.

Operator

(Interpreted). Our next question comes from Mr. Subhojit Daripa from Morgan Stanley.

Q - Subhojit Daripa {BIO 3639048 <GO>}

(Interpreted). Good morning. How much you have volume reduction from January and February as for the free values? This relates to the financial part. Would you please give me more detail on derivative loss?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Well in January we have a 13.5% drop. For February we have no information, but probably it will be around the same value. We are projecting a 10% decrease for the year. But I didn't understand your questions, your question, of derivative operations because we don't have it.

Q - Subhojit Daripa {BIO 3639048 <GO>}

(Interpreted). No, you have given already these figures, but in financial expenses one of the reasons for the increase in the Fourth Quarter was something related to derivative operations. And I do confess that I don't know.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). No, no, it was exchange variation, we have a debt, we had payments. There was a dollar valuation and therefore we have this increase.

Q - Subhojit Daripa {BIO 3639048 <GO>}

(Interpreted). Okay, so I -- maybe I misunderstood. Okay.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). We have no derivatives.

Operator

(Interpreted). Our next question comes from Mr. Bruno Pascal [ph] from Citibank.

Q - Unidentified Participant

(Interpreted). Good morning. I have a question referring dividends. What is the Company's expectations to pay intermediary dividends if you consider the short term debt and the issue of debentures and cash generation of the Company for the First Quarter of 2009?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). Well we have in the presentation we are going to pay, relative to the profits of 2008, BRL580m, referring to the first half of last year, and BRL176m. And we will keep this way at least for the first half.

Q - Unidentified Participant

(Interpreted). But as for the results of the first half, do you have any expectations for payment?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). No, no. We will pay at least the minimum of 55%.

Operator

(Interpreted). Our next question comes from Mr. Reginaldo Pereira from HSBC.

Q - Reginaldo Pereira {BIO 15754056 <GO>}

(Interpreted). Good morning. My question has to do with the sales to distributors. What are the conditions of sale? Are they take or pay to trading companies? And the increase that we saw in the Paris [ph] for trading companies, is this sustainable as you see it throughout the year?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). As regards trading companies, the contracts that we have with trading companies, most of these contracts are with trading companies that are connected to concessionaires. And these have been so for a long way, unlike the previous model that this -- the concessionaires could have a self dealing [ph] of 30%. So many concessionaires have bought through their trading companies. These contracts are 100% take or pay.

Q - Reginaldo Pereira {BIO 15754056 <GO>}

(Interpreted). And what about the price?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). The price is --

Q - Reginaldo Pereira {BIO 15754056 <GO>}

(Interpreted) No. What I mean is, is the increase that we saw in Q4, can we believe that this is sustainable throughout 2009?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). These contracts, because they were signed outside the regulated environment in terms of adjustment, they have a relationship with the free consumers. They are indexed by the IGP-M. Was that the question?

Operator

(Interpreted). Our next question comes from Mr. Anderson Frey from JP Morgan.

Q - Anderson Frey {BIO 15399961 <GO>}

(Interpreted). It's actually two quick questions. One has to do with the Estreito energy which has not been negotiated in the pool auction. So I would like to know if you can -- could give us an idea, or if this energy's been negotiated in very short term contracts for the next two years?

The second question is out of curiosity relative to the sale of energy for last year. I remember that in Q3 you wrote in a press release that you had already contracts for 360,000 megawatts on average. But in Q4, you reported that you sold less than 3,400, so I think that part of it has to do with the slowdown in the free market in the -- in Q3. But the surplus energy, has it been directed to the spot market or when you trade it or direct it to the electricity trading chamber is it not included in this figure? Where does this difference come from? How can we explain it?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). So you were referring to sales actually?

Q - Anderson Frey {BIO 15399961 <GO>}

(Interpreted). Yes, correct.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). You see that there are two approaches to it. When we talk of contracts, when we show the average price of contracts, we exclude the sales in the electricity trading chamber because these are not negotiated. There is an automatic liquidation.

But in the energy balance, the energy balance is dynamic. And it always looks ahead, so at that time our outlook was for us to buy from third parties at a next level, to sell through consumers, to free consumers and variables like these. So as time goes by we are -- we make adjustments, so some of the purchases are subject to option. So if we feel, and if we forecast that the demand and our sales are not going to perform unless we see that the spot price will be too high, we then materialize and realize the purchase option.

As regards sales, we mentioned that we have made some adjustments. So we took the energy from the bilateral blocks and we sent these to the regulated sale because of the nature of these type of contracts. And we also have the reduction in the consumption of free consumers. So these are the major issues involved in the question that you made.

And your first question was relative to the --?

Q - Anderson Frey {BIO 15399961 <GO>}

(Interpreted). No, no. The sale of the Sao Salvador energy.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). At the time, we sold BRL135 per megawatt hour, which would be BRL150.5 at today's price, actually at December 31. This is in the energy balance of Sao Salvador. This is a plant for 148 megawatts on average. It was sold in the 2006 auction for delivery in 2011 for 30 years.

Q - Anderson Frey {BIO 15399961 <GO>}

(Interpreted). My question has to do with before 2011, when it's going to be working but it's not going to be delivering to the public, to the free market. It is in this average.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). You see because we had a very clear vision that the Sao Salvador operation was going to start operating earlier we sold this energy previously. So for 2009 and 2010 we have a surplus of energy that is below 140 megawatts. So this means that at least part of this energy has been sold already.

This is diluted in our sales operation and, therefore, we cannot segment it exactly in terms of the Sao Salvador sales. When we sell the energy we don't earmark the source and so those who buy from Tractebel buys energy from one of it [ph] plants or from contracts through which we purchase energy from third parties.

Operator

(Interpreted). Our next question comes from Mr. Eduardo Cancian from Itau Corretora.

Q - Eduardo Cancian {BIO 18264143 <GO>}

(Interpreted). Good morning. My doubt [ph] has to do with the strategy for contracts of Tractebel if you have the scenario which is full of uncertainties relative to the consumption expectations in 2009.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). We live in a market that is uncertain. This is why we have contracts for the long term. That gives us stability in the cash flow. And we also try to sell in the short term when the price is cheap, and sell in the long term when the price is higher. So we are currently or virtually all sold. The reduction that we foresee is there is more relative to the Salto [ph] portfolio, or 3% or 2% of the Salto portfolio. 3,006, and 3,007 megawatts, and we have 45, so this is nothing. This figure is not going to drive our sales strategy.

In the long term, we never sold the reserve for biological risk. We do simulations, we have a method and we leave a certain amount of energy unsold. We only sell it two years before and with a scenario of high spot prices we also have a reserve for the higher variable prices. Before we sold everything because we were certain that the spot price would be below the contracted prices. But today, we are not so sure, so we are not going to sell contracts for the long term. So this is more or less the strategy.

Q - Eduardo Cancian {BIO 18264143 <GO>}

(Interpreted). And just for me to understand better, you sold a considerable volume of energy in the last quarter and this energy will be available in the future, BRL135 or above that. How do you see the prices now with this new scenario? Are the prices expected to fall? What is your feeling about it?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). We don't want to win it all or lose it all. There has to be an average. That's why I think BRL135, in any scenario it's a good price. If it goes up to BRL150, I lost some. If it goes to BRL120, I make an additional BRL15. But this is not we are looking at. We think in the long run. We had the price that the concessionaires say for the auction, plus; -- in the auction, plus if I put [ph] -- so I know what the average price is for the regulated environment. Well what they can sell to their consumers.

Then I project the future price, which is my target. So when I authorize our sales people to sell energy, we have a measure for the transfer price up to 2 -- 2015, 2016. And this is our guideline.

Operator

(Interpreted). Our next question comes from Mr. Francisco Navarrete from Goldman Sachs.

Q - Francisco Navarrete {BIO 15936808 <GO>}

(Interpreted). Just a follow up on the issue here on the balance sheet, slide 12. So it is possible for us to consider that, maybe, going forward, the thermal exposure of 375 mega which is flexible, you might decide to take it out of the sales portfolio so this is not - no longer going to be sold with no exposure?

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). As I said before, I'm going to make a risk analysis, a risk calculation, I'm going to simulate and see what thermal I'm not going to sell. But not all of this figure, Lacerda 6, which is the largest one we have, had a dispatch price of BRL110. And this, for sure, if I have any contracts above it I'm going to sell.

Operator

(Interpreted). (Operator Instructions). We now close the Q&A session. And I would like to pass the floor to Mr. Manuel Arlindo Zaroni Torres for his final remarks.

A - Manoel Zaroni Torres {BIO 20231580 <GO>}

(Interpreted). I would like to leave a guidance here. According to our assessment we are not going to have any surprises in 2009, and the results will be in line with the results of 2008. We are not foreseeing difficulties, major difficulties, or rises in value.

And the only thing that we will have to do, probably, is to reduce dividend payments to 55% unless the controllers wish otherwise, which is a decision that is made by the shareholders. To run into more debt and pay dividends or, if we maintain the current indebtedness level and pay 55%, which is the minimum commitment we have.

Thank you very much for being interested in our Company, for giving us your time. And we are entirely available should you require further clarification at any time. You can call either Previtali or Felipe or myself.

Operator

(Interpreted). Tractebel Energia's audio conference is now closed. We thank you all for participating and have a nice day.

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