

Q2 2010 Earnings Call

Company Participants

- Antonio Previtali, IR Manager
- Eduardo Sattamini, Finance & IR Director
- Unidentified Speaker, Unknown

Other Participants

- Carolina Carneiro, Analyst
- Gustavo Gattass, Analyst
- Marcelo Britto, Analyst
- Sergio Tamashiro, Analyst
- Unidentified Participant, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good morning. This is Tractebel Energia's conference call. All participants are connected in listen-only mode and later on we are going to open the Q&A session, when further instructions are going to be provided. (Operator Instructions). We remind you that this conference call is being recorded.

I'm going to turn it over now to Antonio Previtali, Investors Relation Manager for Tractebel.

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 2010.

This presentation, as well as its slides, is going to be webcasted at www.tractebelenergia.com.br at the Investor section. There, you also have a copy of the Company's earnings results.

But before proceeding, I would like to clarify that any of the statements made during this conference call, relative to the Company's business outlook, should be treated as forward-looking statement and depend on the country's economic situation, the performance of the electric sector and other variables and, therefore, are subject to change.

With us is Eduardo Sattamini, Financial Director, Investor Relations Director that will talk about the performance of the Second Quarter 2010. Then we are going to have the Q&A session. Please, Mr. Sattamini, you may go on.

Eduardo Sattamini {BIO 16648085 <GO>}

Good morning, everyone. First, I'm sorry I have a cold; the changing temperature in the South gave me this cold, so I apologize.

Well I'm going to start talking about the highlights of the quarter and then Previtali is going to talk about our results and then we are going to be open for questions and answers.

So we are going to start with slide number four, where we show the main financial and operational numbers. We had substantial increase in our net operating revenue of 15.4%. Basically, well, we are talking about the energy sold and the new plant. Also, this result was impacted by the high flow in our plants generating a high level of electric energy.

Also, we had a non-recurrent event, an inversion of a court decision, M468 that dealt with fiscal things in long-term contracts. And as a result, we had a growth in our EBITDA margin going from 63.1% to 64.4%.

As negative points, we had the maintenance of high inflation indexes in the Second Quarter. We had the variation of 2.84% in IGBM in this quarter, which had a negative impact in our net expenses in the way that we account for our concession. And that had a negative impact then in our net income that grew only by 3.1%, but still a very good result.

As for energy sold, our average megawatts we have an increase of 13.3%, average price of energy contracts dropped by 0.4%, especially because of short-term contracts with commercialization companies and with that, we had to maintain our reserve for -- to support the existing contract and face or cope with worst times.

Well main highlights; we've broke the instantaneous generation records with a capacity factor of 93.1% and 7,000 megawatts. In the end of May, we started operations at Ibitiua Bioenergetica, with 33 megawatts. We have an increase in our ratings both by Standard & Poor's and Fitch, being a AA plus in both companies.

We approved a dividend payout of BRL286.1 million, which accounts for 55% of net income, keeping our promise then of maintaining a dividend payout at this level.

And it's important to highlight that the Company, together with parent company, will hold a meeting with investors and capital market professionals to disclose initiatives in its governance to be applied to related party transactions. This is going to be at InterContinental Sao Paulo Hotel on October 1, 9.00 am.

So Previtali, I am going to turn it over to you and then we are going to be open for questions.

Antonio Previtali

Okay, moving on, we have page five, our organization chart. Basically, no changes as compared to what we showed in the previous quarter.

Eventually, in the next quarters, we might have a rearrangement to the operation that is involving international power and just with international. Those new companies, that is be called new International Power, is going to be controlled by GDF SUEZ about 70% share.

On page six, we show the location and the main characteristics of our plants. The only change compared to the slide we showed you in the previous quarter was the inclusion of the thermal plant of Ibitiúva. It was then under construction and now it is up in operation. Then it is located in the light green chart in the left. With that, Tractebel has installed capacity of 6,469 megawatts of which 82% in terms of capacity of generation associated to renewable energy. This capacity has been has an expansion of 74% -- has been having an expansion of 74% since 1998.

On page seven, we have on the left a comparison on Tractebel and the main private customers in generation of a private energy in the country. We have a small adjustment in Tractebel that went from 6.4 to 6.5. If we consider 2.2 gigawatts of installed capacity, Tractebel should be 8.6 not 8.7 as the sum would make us believe. This is just rounding the numbers.

On the right, we have the comparison with private customers and also State-owned customers. And again, Tractebel has a stake in terms of installed capacity in the market of 6.6% nationwide.

Next on page eight also, no major change in terms of client breakdown not only in 2010 but 2011. I think the main message in the slide is that we are going to observe a reduction of the amount sold to free customers from 2010 to 2011, a consequent increase in free customers.

And that, in our view, has a relation to the fact that free customers today feel more comfortable to contact directly generating companies, not feeling the needs of the support that they find in commercialization companies. And due to this comfort that we have, I think the maturity of the market makes free customers choose -- come to us directly more often.

Going on, on page nine, we do not have any major alteration once again in the sales breakdown to free customers. So that portion in orange that we saw in slide eight for 2010 is broken down here on page nine. So we have a policy of dilute risks through also the different industries in the economy. We continue with a zero level of default rates, so we again expect very healthy results for the Company further on.

Okay. Now we are going to talk about the energy market in Brazil. The first slide with information is on page 11. To the left, you can see the energy market of Brazil as a whole. The vertical bars in blue show the difference between supply and demand, and the

orange line shows the average price of contracts signed under the regulated environment.

Brazil continues to have a supply volume not much different in terms of reserve volumes from what it has been showing most recently, which gives us the comfort that at least until 2012 we are going to have no problems with supply and demand, taking into consideration the level of rainfall that we are going to have in the following years.

To the right, we updated the chart that shows supply distribution by source. So we have in black a line that shows the country's demand -- official demand past and future, and the bars show the different offers that we have, the different supplies.

So if we go back to 2002 or 2001, let's just start with 2002, because that started with the rationing of energy. But basically, our demand was met with electric power plants. And as major electric power plant started operational that did not have a capacity of the storage that was in pace with their capacity to provide energy. Then we started to have a need of other source of generation, not to jeopardize the supply of the country.

And this is what we are going to be seeing from now on, a new supply based on electric power plants. We have hydropower plants, but also other sources that will guarantee that we are going to have a reliable system. In 2010 it's no different. We show the need of a thermal power plant to help to cater to the demand.

Next block of our presentation has to do with the sales strategy, and on page 13, on the left-hand side, we see the un-contracted energy of Tractebel Energia. Here we have very good news. The market was a bit restless in the last two or three quarters, because of the fact that Tractebel had not been able to sell this energy.

And in Q2 what Sattamini and myself, and the area of Investor Relations had thought would be the case that is, the psychological effect of having short-term prices which are higher made free consumers negotiate or be willing to negotiate.

And also, the demand and heated consumption, especially in the industrial sector, until August, and this is not firm data, but consolidated until July there was a two digit growth relative to the same period of 2009. And this, of course, makes those who want to buy energy apprehensive. So the figures of Tractebel now show a reduction in the un-contracted energy.

In 2011 in Q1 we have 263 megawatts of un-contracted energy, which are now 171 megawatts; that is 4.4%. In 2012 in Q1 we had 281 megawatts, 7.2% of the capacity which was un-contracted, and now we have 189 megawatts, that is 4.8%. For 2013 in Q1 2010 we have 414 megawatts un-contracted, 10.6% of the total which is now 284 megawatts on average; that is 7.3%.

For 2014 there was a more significant decline from 269 megawatts on average in Q1 to 641 megawatts now, and a reduction, in relative terms, of 22.5% in Q1 this year to 16.6% of

the total of our availability now; and for 2015 a reduction from 1,054 megawatts to 887 megawatts at the end of Q2 this year from 27.6% to 23.2%.

On the right-hand side this chart shows that it has been our practice to sell energy in a gradual manner, trying to identify windows of opportunity, as we call them, when we see that consumers are more prone to acquiring energy.

And on page 14, we have more detail about the availabilities. So on page 14 you see the position of the energy balance or as of June 30. Our own resources, the energy for sale from our own plants, with no change, relative to the last position, purchased for resale, the energy we buy from third parties for resale with no change relative to Q1.

And the first change is going to be found in bilateral sales. In 2011 there was a reduction by 92 megawatts, because of the sales to free consumers. And these 92 megawatts are also the same volumes sold for 2012, 130 megawatts were sold in Q2 for 2013, 228 megawatts were sold in Q2 for 2014. 130 megawatts were sold for 2013. And 167 megawatts were sold in Q2 for delivery in 2015. Therefore, we have the balance; that balance that I just mentioned in the previous slide, on slide 13.

The average sales price, a natural trend in view of the updating of these prices in time, and what we can say is that the sales made in Q2 have generated BRL125 per megawatt hour. And it's important to stress that every negotiation has a different logic. The purchasers have different interests; some need more flexibility. Others need an upward trend in the prices. Others look for a flat curve. So this reference amount -- this reference value has to be considered by you as something flexible in view of the characteristics of the delivery of this energy.

Another issue in this negotiation is whether we have to carry out a diagnosis in the energy, looking for more efficiency in consumption if the contract includes a clause for renewal or not. And complying with our standards, the average term is more or less five years, five more or less one, in view of this flexibility that customers and we require.

As regards the growth of Tractebel on page 16, we have information about Estreito. There is a mistake here. We are saying that the approval of the operation was granted by the end of July, and we can now transfer the shares and call for the Shareholders' Meeting. Maybe the transfer yes, but the summon for the general Shareholders' Meeting is going to take place in the beginning of Q4. We believe this is going to take place in October this year. We have a picture, this is a recent picture, and it shows the construction is in a very advanced stage.

And just to remind you, the share of GDF SUEZ in this project for 256 megawatts was sold in A minus five auction for a 30 year period, delivery as of October 2012 at a price as of June 30 of BRL145.75 per megawatt hour priced in reais.

Despite the obligation of delivering this energy to the pool of distributors as of January 2012, we expect the plant to begin operating in Q1 2011, so anything that is generated in

terms of energy until January 2012 is energy that can be sold to the free market. And 256 megawatts is also considered in our energy balance.

On page 17 we have information about Jirau. And unlike Estreito, the energy of Jirau is not included in our energy balance. And the reason for that is that we need greater predictability on where the project is going to be transferred. An estimate of today, based on our learning curve of other projects that were transferred so far, is that GDF SUEZ' share, 50.1%, should be transferred to Tractebel by year end 2012 -- 2011 or beginning of 2012.

This photograph shows that concrete works are now underway of the steelway [ph]. The installed capacity considering 46 turbines or 3,450 megawatts assured energy above 2,000 megawatts. This is the commercial capacity. And based on this, if we apply 50.1% we have the take of the GDF SUEZ Group.

Let us now talk about the financial performance of Tractebel. I'm going to continue with the presentation. On slide 19, as you can see, we have been managing the portfolio very efficiently and we are creating more EBITDA and volume.

But it's worth saying that, relative to Q2 2009, we had a significant impact -- good impact in terms of price and volume. The increase of the volume purchased for resale, which has an impact on our costs, an increase in affluence, which will also impact our costs as we have to pay higher royalties when the volume of generation increases. So there is an improvement in the operating result, because of the higher revenue in the Chamber of Compensation of Energy. And there was also more inflation and non-recurring events. I'm going to speak about this in greater detail now.

On slide 20, gross operating revenue change, we had a 15.6% increase. In view of the energy we purchased for resale, which was BRL88 million of the total of BRL145 million we had above Q2 2009. Also, the new plants started operating after Q2 2009, and a small contribution from exports. We exported BRL6 million, relative to BRL5 million in the previous quarter.

In the CCEE we were net sales -- sellers, whereas in the previous quarter we had been net purchasers. And this is going to have an impact in the change in EBITDA, as you will be able to see in the next slide.

I'm going to explain -- to complement's Sattamini's explanation. In the new plant we had BRL31 million additional in the net gross revenue, and we have 139 average megawatts -- additional megawatts in the CCEE in addition to MAE. There was also a very strong generation from Tractebel. Hydro generation was 283% higher than the generation in Q2 2009.

For those of you who don't remember, Q1 2009 was a time of drought in the southern region and under the CCEE the system as a whole, Tractebel's generation was very strong. But the hydro system in Brazil, as a whole, was also very strong. And there was a secondary generation of 18%, so there was an increase in revenue because of a

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secondary generation. And just to remind you, it's liquidated at spot price; BRL41 per megawatt hour was the average of the quarter.

And here sales volume average price, there was an increment of BRL88 million relative to Q2 2009. And the energy purchased for resale accounted for 300 megawatts on average relative to Q2 2009. And as regards prices, there was an increase in average prices for distributors and for free consumers alike. Whereas [ph] the sales to trade companies because of the reason Sattamini explained, the trade companies because of the sales for the closing of the month at the spot price with the margin, this gave rise to a financial impact. So when we had the average price, there was a reduction by 0.4% relative to Q2 2009.

Moving to EBITDA and its changes, there was an impact from CCEE, as Previtali just explained, but the important thing is that we were net sellers. In Q2 2010 with a volume of BRL26.6 million -- BRL23.6 million of net sales in Q2 2010, relative to purchases in Q2 2009 of BRL34.9 million, BRL51.5 million in terms of purchase and sales. And this gives us a net BRL59 million after the PIS and Cofins tax deduction as regards the generation of EBITDA, as a result of the operations and transactions in the CCEE.

We also had a favorable ruling in a lawsuit, which allowed us to have another BRL46 million. This was the reversal of expenses with PIS and Cofins tax in the long-term contracts. We had a reduction in the operations. Part of the gains from operations will be reflected in the CCEE and in the new power plant. So actually this BRL26 million arose from the business we had in Q2 2009. And the new plant contributed BRL15 million to the generation of EBITDA and we now have an EBITDA of BRL621 million in Q2 2010.

As regards net income change, the impact of CCEE is now BRL39 million. We had a negative financial result of BRL28 million, because of the exchange rate variation and the inflation. And it's important to say that the impact of non-recurring effects on the net income was BRL41 million, coming from the favorable ruling.

And we also lost another ruling, which had to do with a waiver of interest and a monetary updating in the social contribution of net profit. This was in 1998. This suit was reversed. And there was also a loss in Q2 2009 of BRL24 million, which was the remuneration of bond guaranteed by a loan.

So the effect of these in the result of this quarter was BRL17 million, but when we compare it with the effect of Q2 2009, the effect is positive on BRL41 million.

Another additional comment; under the non-recurring effect is that this loss of BRL13.3 million from a lawsuit, this was not provisioned for, because Tractebel had been successful in courts in lower courts. So we thought we were going to win this lawsuit, but this is a decision that is not subject to appeals any more.

And now moving to page 23 then, we have some flashes of some financial drivers always showing the quarter to date, 12 months before and the previous quarter. And I think that

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what is interesting is an increase of the EBITDA margin in 1 percentage point compared to the Second Quarter '09. And also, the first set of information which regards energy sold.

I always like to remind you all that energy sold is naturally an important driver, but it is not a fundamental. And why not? Because we account for it as energy sold. That's energy that's (inaudible) from a commercial agreement, a contract. And eventually, Tractebel has some energy that was not sold, but was sold at spot prices and it is large part in the concept that we use as energy sold. However, the energy sold that the spot markets can generate even a better price. So it is -- we have to be cautious when we assess the results of a company that generates energy and lots of [ph] energy, based on energy sold.

On page 24, I'm going to talk a bit about our indebtedness. The Company's indebtedness continues very low. If we compare our total debt, compared to EBITDA of the past quarters -- four quarters, by the of June this year, Tractebel had a ratio of 1.3 times. Indebted in foreign currency continues also very low, 10%. And we can see that our total debt of BRL3,065 million accompanying the end of the Second Quarter has a cash equivalent of BRL861 million; so a net debt of BRL2.2 billion in the end of June.

On page 25, we show the graphic point [ph] showing how our net debt changed from the last -- at the end of 2009 to this quarter, due to operational activities BRL360 million; an increase of BRL250 million in dividends; interest on own capital, the main amounts that we can see.

On page 26, on the top part of the slide, we have our schedule for the maturity of our loans. We had set adjustments to 2010 in the presentation that showed -- the presentation at the First Quarter of 2010, we were including the amounts for 2010, the amounts of the Second Quarter. And now, at the end of the Second Quarter, we have only the debt associated to the second Q 2010.

Also, the cost of debt, 93% in reals, in Brazilian reals, with a cost of 10.9%; 3% with euros at a cost of 4%; 4% in dollars, at an average cost of 4.9%.

And also, in the lower part, the composition of debt in local currency, with a much higher rate. And here, we have TJLP with 40%, long-term interest rates, which is used with the BNDF [ph].

On page 27, we have no changes, compared our expectation of CapEx for 2010 and the following year. Naturally, most of the CapEx of 2010 is connected to the transfer in (inaudible). Of the portion that is funded with debt, we have an amount that's close to BRL1 billion associated to our debt with (inaudible). And as I mentioned, no major changes, compared to the first Q 2010.

We'll go into page 28. We have our dividend policy. And once again, according to our by-laws, we have a payout every year of 30% of payable net income. But also [ph] management has a commitment to have a minimum payout of 55%. We already met this commitment in the first half of 2010, and we have a scheduled payment of twice a year.

At the RCA, we had last [ph] week, we approved the payout of BRL286.1 million, which is BRL0.438 per share. As for the payout of dividend, this is going to happen on October 15, and the shares are going to become ex-dividends as of October 1. Once again, I would like to reassure that we paid 55% of the net income of the first half of 2010, which totaled BRL520 million.

On page 29, we inform you that Tractebel, together with GDF SUEZ, is going to hold a meeting with investors and capital market professionals, to announce initiatives in its governance, with regard to transactions involving related parties. The date is going to be October 1, 2010, starting at 9.00 a.m. Brazilian time. The place is going to be the InterContinental Hotel at Al. Santos, Sao Paulo. And if you cannot attend the meeting in person, you can have access to it, either through an audio conference or webcast. And here on the slide you have data to access the conference.

We wanted to have the meeting in August. However, we had some difficulty to find availability in the agenda of some [ph] key executives, due to the fact that this process requires the attendance of these professionals.

And in addition, as you all know, we are going to have an energy auction on 25th and 26th of renewable sources. And Tractebel has some projects; we are going to take part in the auction. Then, we thought it would be best to postpone this meeting a little with investors and capital market professionals.

Well basically, this is what we wanted to tell you. And now, we are going to open for your questions. Thank you very much.

Questions And Answers

Operator

(Operator Instructions). Carolina Carneiro from Santander.

Q - Carolina Carneiro

Good morning, everyone. Congratulations on your results. My company is about the participation of the said company in the action at the end of the month of renewable energy. We saw in your meeting of the Board that you could participate with five projects in this auction. We would like to confirm this information, and also to hear your expectations about the auction, now that you have information about ceiling prices.

And what is your expectation with regards to the amounts that are going to be purchased or hired by the Government in these options?

A - Unidentified Speaker

Okay, Carolina, thanks for you question. We have been working on the projects that we already had in the end of last year. What we did was to improve the efficiency of our

project, gaining time to negotiate with suppliers. So today, we are in a position that I believe is very competitive. Although ceiling prices are low, we believe that we are going to be successful with some of our projects.

As for the quantity, well, there is some doubt about the position of the Government. In fact, there are two options. We are going to participate in the renewable energy with wind energy, but then we have alternative energies' auction too, which can change the quantities of both auctions. We generate some doubt in which are the amounts that the Government are going to be using for each one of the auctions, and that's why we cannot really precise our expectations in terms of amount.

Q - Carolina Carneiro

Okay. Thank you very much. Can I ask you just another question? You gave us lots of data related to the contracts that you recently closed with bilateral purchases, with a price of about 105 megawatt hour average price. I would like you to tell us about your expectation of the free market as a whole; if you see that as an isolated move of the different players, or if in the second half, you are going to have a market more heated as a whole? Any [ph] prices reproducible from now on?

A - Unidentified Speaker

Well we have been feeling that there has been growing interest in the market. We always say there is a very important psychological factor. In fact, free consumers have a need of energy; when they see prices in the short-term grow, they are much likely to buy energy. And this is something that we believe is going to continue. I think the Third Quarter we are even going to sell more.

Q - Carolina Carneiro

Okay. Thank you very much.

A - Unidentified Speaker

Well that obviously will reflect on prices.

Q - Carolina Carneiro

Okay. Thank you very much.

Operator

Mr. Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good morning, Sattamini, Previtali. Thanks for this call. I have two questions. The first has to do with these contracts, about terms and prices. And for the new contracts, do you have these contracts concentrating in a sector of the economy, or have you diversified among different industries?

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And my second question has to do with the auction, where the power of the three plants was sold. The Group didn't even make a bid for the projects of the plants, if I'm not mistaken. If this is the case, can you give us more elements for being absent to this auction?

A - Unidentified Speaker

As regards the first question, we have maintained a strategy; we have diversified among different industries in our portfolio. This is a risk management mechanism that we have in place, so we don't want to concentrate risks in a specific industry. There was diversification in different industries.

As regards the second question A minus five, GDF SUEZ didn't deposit any guarantee for the auctions. What we have been seeing in these recent auctions is there is a great appetite on the part of players for new contracts, new plans, new works with different drivers, which are not the drivers of private investors.

We saw the auction in Belo Monte, with the engineering companies, participating. And in the A minus five auctions in June, the profile was about the same. The agents, the players were the same; State-owned companies and construction companies. They are driven by different things, that are not the same things that motivate private investors to invest in electricity. This is why we were absent.

Q - Vinicius Canheu {BIO 6300903 <GO>}

So just for me to understand this last point better, do you have a doubt relative to the return that the ceiling price would bring to the Group? Or did you think it was too competitive, so it was better not even to deposit guarantee?

A - Unidentified Speaker

I think the first is the most likely scenario.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Thank you.

Operator

Mr. Sergio Tamashiro from Itau Bank.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Good morning, Sattamini, Previtali, everyone. I would like to know a bit more about your disclosure on October 1. Now with the coming of International Power, are you going to have the disclosure according to the policy of those companies? Or -- and also, if International Power has the same policy of international investments? You always say that GDF is the one that makes investments throughout the world. It is first through GDF and then you have this transfer. Is that a policy for International Power as well, or is there a possibility of change?

And also, Previtali, you have mentioned that this is a joint disclosure of Tractebel and GDF. Are you going to have members of International Power as well?

And the second question is about the purchasing of energy in the long-term. You said that things are getting better, but recently, AES Tiete confirmed that it's no longer going to have the amendments of its energy contracts with Electro Power [ph]. Has this decision affected the long time energy markets, because you have more room for operation, you have a surplus?

A - Unidentified Speaker

Well as for the first question about our meeting in October, International Power does not generate an impact. So we haven't had any change of indirect or direct control. In fact, GDF SUEZ created a means between the control of GDF SUEZ Far East and GDF SUEZ Brazil. GDF SUEZ America has the control of Tractebel, and it's going to remain so. And GDF SUEZ International continues to be the parent company of Tractebel Energia. So we don't expect any change in the management and behavior of our parent company.

So there is no impact of this operation on what is going to be announced on October 1. Likewise, there might be executives from International Power in the meeting, because they are members of GDF SUEZ International. So I think this is the best answer I can give you.

As for the decision of AES Tiete and the surplus in the market. I think that we have some structure surplus, but that's not much more. The energy of AES Tiete is going to leave the captive market and go into the free market, perhaps; or even stay in the captive market. That depends on the decisions of AES Tiete itself.

We effectively haven't felt an increase of competition or a change in the competition scenario, because of this is not something that we have been feeling in terms of changes of market, due to AES Tiete's decision.

And just to complement that, in 2016 under the eyes of free consumers, if you use those spaces [ph] our experience and our learning curve in Tractebel is a very remote period, so the making of decisions for future purchases generally does not take place so early. So in terms of the likelihood of consumption for these consumers, this is not something that we really can identify as a trend, especially a change of the rental placement in the market of the 1,300 megawatts.

What we are seeing is that the ones that are going to buy in 2016 are not going to decide this to buy today, just further on. And AES will just stop purchasing this energy in 2016. So today this really does not pose an impact for the market.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay, understood. Their energy, is it considered old energy? Is that right? That is it can only be used in the auctions of old energy, is that correct?

A - Unidentified Speaker

Yes.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay. Thank you very much.

Operator

Marcos [ph] Severine from Itau Securities.

Q - Unidentified Participant

Good morning, Sattamini, Previtali good morning. I would like to talk to you about the growth strategy. You have always invested heavily in hydro generation, and in the last two years you have invested in wind energy projects. My question has to do with this.

In the last A minus five auction we saw that the initial return of the projects, without considering the competition, was between 12% and 13%. It was a leverage return -- an actual return. But when we see the competition and we see the discounts, the return was below 10%.

So my question has to do with this. In basis of this new scenario for returns do you think it is aligned with the expectation of return of Tractebel and of GDF? Or are these returns too low and we shouldn't see this scenario hold, that is Tractebel bidding in the next auction?

Then the second question has to do with other sources of energy. You have been investing heavily in wind energy, but apart from that what can we expect in terms of growth? Do you have any plans for thermal in the south-east of the country; any additional projects including biomass? I would like to understand this scenario.

And the last question, on page 11 I saw your scenario for supply and demand of electricity, and I wanted to understand the average GDP that you are considering. Is it 5%, 5.5%, 4%, 4.5%? How do you see that?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Okay. As regards Tractebel or GDF Suez bidding in new auctions the decision is always made taking into account the creation of value for the shareholders. So once the minimum returns are not achieved, whatever the source, the decision is not to bid and distribute dividend.

Of course, if we cannot create value above the value expected by the shareholders we then distribute dividends and let them do as they please. It is a very simple answer, but it demonstrates the philosophy of the Company and its shareholders.

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As regards other sources, we have wind energy and we have been looking at thermals as well, but always under the same philosophy. We have to be ready to capture opportunities that add value for our shareholders. This is our philosophy.

And as regards our projection for GDP growth, as Previtali said, this is the official demand curve. This is the demand we receive based on the monthly plan of operation, and this is based on EPE. And it's based on the same indicators. EPE is considering an average GDP growth in the next years of 5.5%.

So as regards the supply you have 4,000 megawatts of wind -- of fuel-fired energies, which are -- present a bit of a real problem. Yes. This is the scenario considered by the ONE, or rather the ONF [ph], the national system operator.

Q - Unidentified Participant

Can we expect any review on the expectation of return from the part of Suez?

The macro economic scenario of the country has changed in the last few years, so the cost of capital has declined. And can we then expect a reduction? Are you going to bid in the next auctions? Are you going to adjust the expectation of return?

A - Unidentified Speaker

The expectation of return is always established in a technical way. When the risk rates, or the market rates decline obviously the return rate declines too. It is a technical decision. So if there is a reduction in the cost of capital we can capture that and use this also in the required rates of return.

Operator

Mr. Marcelo Britto from Citigroup.

Q - Marcelo Britto {BIO 15393330 <GO>}

Good morning, Sattamini, Previtali. My question is a bit more conceptual. In your plan you have a bottleneck of transmission. You have a surplus and then you have a deficit to 2015. And most of energy is going to be not under contract; in fact, probably will reach to a spot rate that is higher and more volatile. And it seems to me that the higher spot prices is more interesting to you, because you have a higher part of your generation being sold at the spot market. Can you confirm that?

A - Unidentified Speaker

Well Marcelo, as Tractebel's major hydro electric plants are located in the south of Brazil, some of them have the right of having the allocation of energy in other markets. This was an item, or a possibility that was given to us during the concession of project [ph]. And so what I can say is that we do have some flexibility with this regard.

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Now it is true, there is an expectation of a more volatile spot price in the future, and I think that the picture that we have, or the chart that we have on page 11 on the right-hand side, enables us to get to this conclusion. Especially as we move onto the second half of each one of the years, then it is harder for spot prices to be much volatile in the rain period, which generally takes place from December of one year to April of the next year.

And Tractebel really does not like risks, as you know. We are players that really want to have a contract with a certain anticipation and we do not want to let a higher volume of the Company to be settled at the spot market because of the volatility. It may happen if you have a spot of 600 megawatt hours it's very good. But it can be a problem in your financial results if you have to settle at floor prices.

One of the things that we are assessing at Tractebel was a possible volatility of the spot prices, is to think of a part of -- if we're going to continue selling at 100% part of our thermal electric power, because there are plants with higher prices. These plants have a lower possibility of dispatch. And if you -- when the Company buys energy at the spot price -- well, because of the whole introduction we talked about that, we might have more volatile spot prices.

So what can happen is that we can have a seasonal elevation of prices. Again, the hydro power plants of the Company have to have an additional expertise to see to this portion of thermal electric energy that is not sold. But I really think that the Company management does not want to leave the total energy of Tractebel uncontracted. But the structural deficit of the south has to do with the uncontract of M14/M15 [ph]. I'm not sure.

Q - Marcelo Britto {BIO 15393330 <GO>}

Okay. Thank you.

Operator

Mr. Gattass from BTG Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(Interpreted). Good morning, Previtali and Sattamini. I have two brief questions. The first one, I don't know if I'm being too picky here, but you mentioned that you set the meeting for October 1, and then you also mentioned that the general Shareholders' Meeting is going to take place in Q4.

You said that the conditions of Estreito wouldn't change, but I would like to ask that again. Is there any chance that the conditions of transfer of Estreito could change? This is my first question.

And the second question is just to follow-up on the discussion about the additional contracts for this quarter. These contracts are still contracts linked to index factors and is the inflation being passed on to these contracts or is anything changing there?

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A - Unidentified Speaker

Thank you for your question. As regards the general Shareholders' Meeting and the transfer -- or rather the scheduling of the Shareholders' Meeting and the transfer of Estreito, of course, there is a relation there. We are going to hold the meeting with you on October 1, and our intention is to explain how the process will continue.

It won't have any impact on Estreito; Estreito is a legal and perfect act. But there is a relation in terms of demonstrating the responsibility of the controlling shareholders in that they want to address the concerns, and this, of course, will have an impact on the Shareholders' Meeting. We don't want to leave investors without explanations before we bring Estreito to the general Shareholders' Meeting. There is a relationship, but no new element is going to be applied to Estreito. It is a legal and perfect act.

And as regards the inflation index attached contracts, yes, they do have such a clause.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thank you very much.

Operator

(Operator Instructions). If there are no further questions, I would like to pass the floor to Mr. Previtali for his final remarks.

A - Antonio Previtali

Thank you, all for participating. Sattamini, myself and our Investor Relations department are entirely available to take any questions or concerns you might have. Thank you very much and have a nice day.

Operator

Tractebel Energia's conference call is now closed. We thank you all for participating, and have a nice day. Thank you.

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