

## Q1 2011 Earnings Call

### Company Participants

- Antonio Previtali, IR Manager
- Elio Wolff, Market relations manager
- Manoel Arlindo Zaroni Torres, CEO
- Unidentified Speaker, Unknown

### Other Participants

- Enrique Barreto, Analyst
- Felipe Lea, 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 q-and-a session, when further instructions for participation will be given. (Operator Instructions). You should be reminded that this conference call is being recorded.

Now, I would like to turn the conference over to Mr. Antonio Previtali, Tractebel Energia's Investor Relations manager. Please Mr. Previtali.

#### Antonio Previtali

Good morning, ladies and gentlemen. Welcome to Tractebel Energia's conference call where we're going to discuss the results of the First Quarter of 2011. This presentation, along with the slide presentation, is simultaneously being transmitted by the Internet in the website [www.tractebelenergia.com.br](http://www.tractebelenergia.com.br) in the Investor Relations section. There, you can also see a copy of the presentation and the Company's earnings release.

And before proceeding, I would like to clarify that all statements made in this conference regarding the business outlook of the Company should be considered forecasts that depend on the country's macroeconomic conditions, on the performance and regulation of the electric industry, and they are subject to change.

Today, with us here in Florianopolis, we have Mr. Manoel Arlindo Zaroni Torres, Chief Executive Officer, who will talk about Tractebel Energia performance in 1Q '11 and Mr. Elio

Wolff, market relations manager for GDF SUEZ Latin America who will make a presentation presenting an update on development of Jirau hydropower plant.

Afterwards, we are going to have a Q&A session. Now, I would like to turn it over to Mr. Manoel Arlindo Zaroni Torres.

## **Manoel Arlindo Zaroni Torres** {BIO 2182353 <GO>}

Good morning, everyone. We are here to talk about the results of the First Quarter and we are going to start on slide number 4 with the main highlights of the quarter and the main financial and operational indicators. As you can see, there has been an increase in net operating revenue of 8.1%. And as a consequence of that, our EBITDA grew by 17.9% and EBITDA margin has gone up from 62.1 to 67.7.

All of this is basically due to the high generation of hydropower, little thermal generation, better contract prices, and less energy being resold. So when we generate less thermal energy, we increased the EBITDA margin by less [ph] that happens to and even though it contributes to increased turnover, the margin is smaller.

So these increases, they are a result of these variations. We capped financial expenses has led to increase in the net income or net profit. So -- energy sold is a stable as we had better prices to increase revenue.

And you can also see that our average prices have gone up by 7.5% and production that happens in every rainy first half of the year or First Quarter of the year, it's more or less on average similar to the previous quarter.

On slide number 5, and a novelty here, is the change of the name of the Company that is part of the status and consortium that is now is called Companhia Energetica Estreito.

It used to be SUEZ Energia Renovave on the left and now that will have also included international power as the controller of international power in Latin America which doesn't change much, but you can see this new player in our organization chart.

On slide number 6, we are already considering 6,500 megawatts for our power plants and the highlight is that right now we have a reduction in reference energy and we call this stored [ph] energy and fiscal guarantees for the power plants that we are renewable and nonconventional. We call them complementary power plants.

And this is a reduction of wind power plants and also in some SHPs. So this adjustment has -- is then yearly. Last year was an year without much wind in the northeast. Usually when it rains a lot, it doesn't wind much. There is not much wind.

On slide number 7, I think you already know it. Nothing has changed here. On slide number 8, I would like to remind you that these blocks refer to the year and we are talking about the First Quarter only.

FINAL

But you can see that there has been a yearly growth that is significant as compared in terms of free customers and a decrease in marketing companies and distribution companies. In the First Quarter, free customers, increased in physical terms to 31% to those at about 24% as compared.

It was 24%, it went to 25% in the financial terms from 33% to 31%. As to the portfolio, you can see that we have had 1,188 average megawatts. As to the energy market on the slide number 11, there have been surprises. The year ended as a dry season, but it's been raining a lot. In March there has been the rainiest month, ever rainiest March ever.

And in the level we are considering maximum levels because usually after the rainy season we have 100% in the reservoir in the northeast and the southeast have 80% and we have a minimum bad debt. So the increase of the average consumption in Brazil is 4.8% in the First Quarter.

Considering that in the southeast it was 6.2%, and it doesn't really agree with what we've been seeing in terms of the pressure from the exchange rate is the industrial consumption in the southeast has gone up 6.7%.

And the average of the southeast is higher than the average in Brazil, where is the largest market of consumers. On slide number 11, the chart on the right, you can see that the bad debts we have a low average, but it's likely to go up because we're using more thermal power in the future.

The share of thermal power plants has been going up year-on-year in terms of offers. So we are going to use more thermal energy and higher prices too.

On slide number 13, you can see that every year we sell energy gradually. This is our strategy and we can't always make it look like a staircase as we would like. So whenever there is an opportunity we can buy for two years and then sometimes we increase more on one year or not so much on another year as you can see.

So as compared to December 31st of 2010, we have had a growth in our non-contracted energy of 17 average megawatts in 2011, 95 in 2012, we went down by 18 in '13, 19 in '14, 39 in '15, and 40 in 2016.

So I would like you to pay close attention to this bar chart and you can see that we need to start selling energy as of 2014 or 2015. I will need to improve the mix in my portfolio to be able to sell as of 2012 because this will be related to something else that we'll be talking further ahead, which is the auction contract without costs with Jirau.

On slide 14, it's quite detailed and I will ask Previtali to explain it.

**Antonio Previtali**

Bloomberg Transcript

FINAL

Well actually the purpose of slide 14 is to show how we have arrived at variation of the energy that was not in the contract anymore. It was mentioned on slide -- the previous slide. That variation does not result exclusively from sales that were made in the First Quarter because there was an increase in the energy that was no longer in contracts in 2011 and '12, that's for two years. So where does that difference come from?

In our own resources if you compare December, after the slide, 2013-2012 there is a reduction of 10 average megawatts from '13 to '16, that's the difference of PROINFA. And of course, nothing prevents that these amounts could be increased or decreased in coming years, given this behavior that Sattamini [ph] mentioned year after year. And in 2011-2012 we've had larger reduction than the 10 megawatts that I mentioned. We also had an adjustment of the schedule at Estreito reducing our own resources by 8 megawatts in 2011 and 10 megawatts in 2012.

Now going down for purchases for resale, we had an increase of 37 megawatts in 2011, 115 megawatts in 2012, and 20 megawatts in 2013 as well as in 2014. So the marketing activity is not -- has not stopped because we intend to get more energy to provide those products that Zaroni mentioned will allow us to sell more energy to be delivered in 2014 and 2015.

With regard to sales of energy at the government auction, we notice that in the PROINFA line there is a reduction of 8 megawatt to 9 megawatt that correspond to that -- the decrease in the owned resources regarding those contracts, the same contract is mentioned. And there is also a small adjustment of 2 megawatts upward regarding the first reserve auction.

And here we're talking about an increase in the reference energy of Endragi [ph] plant that's now called Ibitiua Bioenergetica. Therefore we arrive at our balances that Zaroni mentioned to you. And now I give the floor back to him so that he would talk about investments on the next page.

### **Manoel Arlindo Zaroni Torres** {BIO 2182353 <GO>}

Okay. Now page 16, we're talking about Estreito power plant. As you know, its first unit is already in an assisted operation mode. And our portfolio considered that unit would start up in May. We are taking this time to make some final fine tuning of the controls and everything because we have a very low bad debt and we will be selling BRL12 [ph] if we had generated. So we prefer to wait a little bit to set up the first unit that will be the benchmark for the other units.

Everything is okay. It's according to schedule. And the schedule for the other machines -- every machine that starts to operate improves the assured energy and the ramp-up schedule is one machine every month or every two months. The machines have been synchronized and they should start to be operation really -- operating for commercial purposes this week.

FINAL

Before turning to Elio Wolff that will talk about Jirau project, I would like to include in the minutes of this 11th meeting of the Board that there was approved a committee of transactions with related parties to analyze and recommend or not the entering into agreement of purchase of energy by the Company from Energia Sustentavel do Brasil.

This opportunity came at a good timing because we want to improve governance and transparency, so we created this committee for transactions with related parties and because for the first time we want to implement it for Jirau. That's what we expected.

But in the meantime we had this opportunity to negotiate with ESBR a option, it's a cold option, it's to be part of our portfolio. It's a quite simple contract. And the committee will be able to do everything according to the by-laws and conduct other meetings and make the reports and hire, engage consultants or not as needed. Jose Pais Rangel and Antonio Alberto Gouvea Vieira are two independent consultants.

And we can have three or five according to the by-laws and we decided to have three independent consultants or members of the Board and representatives of the Company would be Jose Luiz Jansson Laydner. And the members of the committee should present a report by June 15 based on the report on this transaction. And the recommendations of the committee will be discussed with the Board of directors of the Company.

I would now pass the floor to Elio to comment on Jirau.

### **Elio Wolff** {BIO 17147591 <GO>}

Good morning, everyone. I'm going to talk a bit about the Jirau. We are now on slide 18. No major news on this first slide. I would just like to highlight the capacity of this plant that we implemented is 3,450 megawatts, 46 machines. And we are also analyzing the additional 46 megawatts.

It's also important to mention that the amount of 65 average megawatts of assured energy, that corresponds to four turbines, and the rest is being approved. The positive news is the approval of the change in the basic project that was approved by ANEEL, the regulating agency, and then it was approved by IBRMA [ph] as well. This change from the 44 turbines to 64 -- 46 and this has been approved.

And for the second part of this slide there are no major changes. The CapEx that was presented in the last call eight by nine at a base date of December and the amount interested up to December is BRL5 billion. And additional finance is also being discussed and we wait for the definition of assured energy so we can continue with that.

Now moving to slide 19, I would like to quickly talk about sale energy. In the first block I would like to mention that Jirau project has 60% of its energy already purchased as of 2013 and its volumes and modulation are shown on the chart on the right. And as of 2016 we'll have a constant amount of 1,383 megawatts. That's the total of the project.

Bloomberg Transcript

As Sattamini has mentioned, we have the call option that's being analyzed by the independent committee. That's something new we bring today and I'd like to remind you that all the stockholders will be -- or all the partners will also have the right to analyze this project.

And ESBR is working to qualify for this new energy auction with an amount of the assured energy, we think that this will happen in the coming month and that will provide us opportunity to be part of this auction and then sell this energy that was scheduled to happen by July this year.

As to the schedule, it's important to mention everything that happened and we're going to detail on the following slides, all the occurrences. But about the schedule, it's important to emphasize and to highlight that it's still too early for us to talk about the impact of the incidence in the schedule, in the generation schedule, to be more specific. And so as soon as we reassess and adjust the situation and then we will announce the novelty.

But the good news is that our construction schedule is going to be kept and we are keeping the same pace in what we had scheduled for August and September and it's a very important land mark for us. So this commitment -- we are keeping the commitment. And we say that the deviation of the river is scheduled to be done in August-September.

Now, on slide number 20, additional information about the incident that you may -- you all may have heard about in the news, the incident from 15 through the 17th of March, in the construction site on the right bank of the river. So there was this lodging, there was destruction of many facilities sales and even the electronics case or the ATM were damaged. But this was only on the right bank so left bank remains intact.

Now on page 21, we would also like to share with you some of the work we've been doing. And the conditions in our lodgings in February 2011, reporting that the condition of our lodging facilities are very high quality. You can see the gym on the first picture. The second picture an outside vision of lodging. There is a LAN house, this is important, this is highlighted not just by the Company but from other.

Our president even mentioned, one of the very few lodgings or maybe the only one with air conditioning in all environment. So you can see air conditioning in every area. Leisure -- and then the employees may have internet access in the LAN housing, ping pong, billiards. So this really makes it possible for our employees to have recreational activity.

I would also like to emphasize another aspect. The Jirau project was and is very often visited by many external agents, the public prosecutor, NGOs, independent auditors, Brazilian and foreign people, that assured our faithful compliance to principles. And we have auditors, external auditors also assuring that compliance of the details of the environmental practices. And so this was done in the past, it's still being done. And there has never been -- we never identified any non-compliances in our site.

Now on slide number 22, just emphasizing a few points that we mentioned here, and maybe the main aspect is the first bullet. That no -- there were no causalities or no

wounded people and no piece of equipment was damaged. We assured the safety of employees. The national forces were there to assure the safety of our employees.

And the cause of the incident, we may talk about it, is that it's still being investigated by the authorities. We have not yet been able to identify the real cause of the incident and the responsibility of the construction of the -- the contractor of the Company is to assure the safety of the site and to do the maintenance of the lodging facilities. This is part of the contract with the construction company or the -- and the contractors who were doing the construction.

So there has been a gradual resumption of work. As of March 24, we have heard some good news and we're already in mid-April, we have already been able to obtain 8,000 cubic mixtures of concrete. And this shows that the good pace and evolution of the construction and other important things to be mentioned which is in the last bullet is the recognition of Jirau site as a high quality construction site.

Now on slide number 23, you can see the pictures -- some pictures of February 2011 and we should emphasize something very important, that none of our pieces of equipment were damaged. The equipments you can see here, they are still the same. So there were no losses and neither to -- and no pieces of equipment were damaged. Now I turn it back over to Antonio Previtali for him to continue our presentation.

## Antonio Previtali

Now we are going to talk about the financial performance before we move on to our Q&A session. On page 25, you can see a summary of our main indicators, main financial indicators; net income, net revenue, EBITDA and net income. I'm going to skip this because we are going to talk about each one of these indicators in detail on the following pages.

So on page 26, on the chart at the bottom we highlight how we went from ROB [ph] at the end of First Quarter 2010 to an ROB in the First Quarter 2011, the evolution. So basically this increase is explained by the average sales price which naturally bear the relationship, not only with our prices but also with volumes involved in new prices.

So in detail, with regard to supply and in terms of distribution and marketing companies, there has been a reduction in sale to distribution companies because contracts matured and these contracts had been signed before the new model. They were bi-lateral contracts with distribution companies and the beginning of regulated contract environment.

In terms of supplies, there has been a reduction of sales to marketing companies because our contracts matured and we didn't renew and there has been a price increase between the two segments. In terms of supply, sales to free customers you can see an increase in the financial volume of 45% as was [ph] mentioned before. There has been not only an increase in average sale price but also an increase in energy sold as a result of

new customers that have been included in the Company's portfolio and also higher consumption by our free customers that were existing before.

On page 27, I'm going to highlight a few points that justify the 18% increase in EBITDA from the First Quarter 2010 to the first -- as -- comparing the First Quarters of the two years, 2010 and 2011.

So one of the main factors is the reduction of BRL70 million in the energy bought to be resold as already explained before, justifying the increase in the Company's EBITDA margin and this BRL70 million are associated to approximate 286 average megawatts and has been an increase in CCEE of 13.5 million.

There has been an increase in fuel that was irrelevant, 0.3 million as a result of the purchase of coal for it to be exported. We had small exports to Uruguay as to connection charges and distribution and transmission lines there has been 2.3 million reductions as a result of the tariff revision of these agents.

And as to royalties, the payment that Tractebel made for the use of water, there was BRL7 million reduction as in an increase in hydroelectric generation. There was an increase of 1.8 million in personnel as a result of the adjustment of compensation of our employees and also an expansion in headcount already trying to make positions for the startup of Estreito and Jirau II.

In terms of third party services there has been an BRL8 million increase basically as a result of the fact that that we had low bad debts to expedite, so to speak the maintenance of the thermal plant. And we have also had an BRL8.5 million increase in depreciation and amortization, and basically as a result of the -- because Areia Branca and Ibitiua went live.

Indeed [ph] we had a very small reduction in expenses of BRL4 million -- I am sorry, actually there has been an increase in BRL4 million in expenses and that is due to the increase in the short reduction of the Company because of the reduction of thermal energy production that was smaller than the First Quarter of '10 and this increase in the short reduction was upset by an increase in the secondary energy reduction.

For January and February, we had a secondary generation on the system's 25%. We don't have March data yet and also an increase in the allocation or leases, which results in bank credit facilities which are the same when compared to the previous quarter. A higher bad debt was applied because the bad debt was 31 against 18 for the First Quarter.

On slide 28, we see a large increase in operation, in contrast with the performance of financial results that was almost flat. The combination of these two situations justifies the increase of 24% in income against an increase in 18% in EBITDA.

On page 29, I would like to highlight two points. In the upper center part when you talk about average price of energy sold, first BRL120 per megawatt hour, but it's important to



FINAL

highlight that this is the net price, net of taxes. And in the jargon of the industry when we talk about sales price for free customers, the price includes this encofin [ph] taxes, which the rate is 9.5% -- 9.25% [ph]. So the average price of Tractebel within that jargon is right above 130 megawatts hour.

I would also like to highlight and call your attention to the fact that the EBITDA margin was almost 68%, basically due to the impact brought by the reduction in marketing activities where we had naturally smaller margin.

Now on page 30, when talking about indebtedness we see that the ratio between total debt and EBITDA remained stable. And the comment here is that without considering Jirau, the leverage will decrease since the back of Estreito is already built in here in the total amount presented here, but EBITDA is not because, as Zaroni mentioned, the plant is still in the start up process and it hasn't become operational yet. So there the margins should still decrease before Jirau starts up effectively.

Now we can move to page 32 and the schedule of maturity of our debt. And the position of 2011 actually refers to March 31st so how much debt we still have based on March 31st data. This is as of March 31, 2011 of outstanding debt and we have two issues of debentures that were settled.

On the first we paid off the third issue of debentures amounting to BRL640 million and we expect a cash flow of today outgoing cash of BRL170 million for trench IGPM and that would have -- that would account for a reduction of 110 million approximately for the position of 2011.

Another comment that is relevant to the slide. With regard to the debt positioning, when we include Jirau naturally the interest of DJLP [ph] would then be bucket of [ph] of national indicators will increase somehow.

On page 33, we have some adjustments of CapEx for this quarter and these adjustments were basically due to the inclusion of wind farms. Maybe we could comment a bit more on that project in a minute. We had BRL620; BRL630 million as a CapEx for these wind farms and a bit of reduction in the maintenance CapEx. And that caused an impact and a CapEx of 2011-2012. For 2013, the difference, when compared to the figures presented at the end of 2012, has to do with the reserve that's being made for a potential purchase of Jirau.

Zaroni, would you like to make any comments on the wind farms.

**Manoel Arlindo Zaroni Torres** {BIO 2182353 <GO>}

Well the wind farm is in the northeast. We have five wind farms that are pretty much sure totally 145.5 megawatts, an average of 75 megawatts or 35 average megawatts. Porto dos Barcas wind farm in the Piaui Parnaiba is very close to another one in the complex of Trairi. There are four wind farms in SETA [ph].

Bloomberg Transcript

If everything is approved and now we are looking for special consumers to have the contracts because there is a condition we must have energy sold of about 60% in order to start and the supply, engineering and construction contracts they have been negotiated already.

And to finish our presentation on page 34 about our dividend policy over the next few weeks. We are due to announce -- will be announcing payment date both for JCT [ph] on interest, not on capital, sold for BRL220 million as complimentary dividend, BRL158.3 million. As to the complimentary dividend I would just like to remind you that next Monday, May the 2nd -- and now we have closed our presentation and we are open to answer any questions you may have to ask to us.

## Questions And Answers

### Operator

Excuse me ladies and gentlemen, we are now going to start our Q&A session. (Operator Instructions). Louis Poulin, UBS.

### Q - Enrique Barreto

Good afternoon, this is Enrique, actually. I have a question about the announcement of the call option for Jirau's energy. Could you give more details about prices? Do you have any ideas of their sale policy? Do you have anything in mind and about the vote?

This was going to abstain from voting for Jirau, what is your guidance according to the new mechanism for transfer of assets?

### A - Unidentified Speaker

We were expecting this question. Well actually, we can't talk about that right now because there's still negotiation. And we depend on the committee to analyze that. So all I can say for the time being is that it is an option without cost for Tractebel to comprise the portfolio -- to comprise -- in fact, that their portfolio so that you -- we may form products as of 2012, '13 and '14 with an option for 2013 and 2014 only. So this is all I can say for now. We need to wait. As to Jirau and so on, we still have a long time to go. I don't think this is the right time for us to talk about that.

### Q - Enrique Barreto

Okay. Thank you very much.

### Operator

Felipe Lea, Merrill Lynch.

### Q - Felipe Lea {BIO 2015017 <GO>}

Hello. Good morning to everyone. And I have two short questions about Jirau. The first one is the CapEx that you mentioned of BRL1.9 billion, whether they refer to the project with 44 or 46 turbines or 50 turbines?

And the second question; you mentioned and Elio mentioned that the possible sale of energy of Jirau in an auction at minus 3. So the idea is to sell energy referring to the assured -- additional assured energy which is still pending to be approved or maybe also talking about the sale of the original 30% almost 600 megawatts that have not been contracted yet or if they have been does it require an approval or can you already sell it?

### **A - Unidentified Speaker**

Thank you, Felipe, for your question. First of all 11.9 refers to 46 machines. It does not include the extra four additional turbines because they're still being reviewed and analyzed.

### **A - Antonio Previtali**

As to A minus 3 auction -- this is Antonio talking. It's impossible to include the 30% auction and the A minus 3 auction is for the regulated environment. And so then this has to be for the additional machines and then it's subject to approval and still under study and assessment. Thank you very much.

### **A - Unidentified Speaker**

Just to complement the amount of assured energy still being studied or under consideration and what was disclosed last year to markets is our expectation as to the operation of went up from 44 machines to 46. And the amount of approximately 190, 196 average megawatts. So again, this amount refers to the change from 44 to 46 turbines and a few other adjustments that have been made. And this is what our group expected, what shareholders expected.

### **Operator**

Vinicius Canheu, Credit Suisse.

### **Q - Vinicius Canheu {BIO 6300903 <GO>}**

Good morning, everyone. I would just like to go back to the slide 33 when Previtali was talking about CapEx. He said it is 11 in 2011-'12, there will be an increase in CapEx related to maintenance plus wind farms. And in 2013 you already have something regarding the transfer from Jirau. Did I understand it accurately, is that what you meant?

### **A - Unidentified Speaker**

Yes, you're right, Vinicius. There's a reserve for 2013. We are already forecasting Jirau's operation and it will become part of our budget. And there is no indication in addition to that.

FINAL

Please, do not try to infer which would be the goodwill whether it would be or not. So we are already testing outside resources to make that investment. So wind farms do not affect the CapEx for 2013. So let's do a quick math. If we add the CapEx of '11 and '12 in the presentation of 31/12/2010 we had 222% and this will total BRL375 million. And now if you add the two numbers 358 million plus 584 million we are talking about 944 million minus BRL375 million. Let's round that number so we are talking about BRL570 million and the CapEx forecast for the wind farm is BRL620 million to BRL 630 million so there is -- there may be a small residue for 2013.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Thank you very much.

## Operator

(Operator Instructions.) Excuse me, since there are no further questions, I would now like to give the floor to Manoel Arlindo Zaroni Torres for his final comment.

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

I thank all of you for your attendance and for your interest in our Company. And I would like to say that we probably don't have many surprises for 2012 -- for 2011, but our income and earnings is in line with the budget. And other plants are operating with a lot of energy available. Our energy allocation was done correctly in the first half of the year or the First Quarter. And I think we only have good news for the future. Thank you very much.

## Operator

The Tractebel's teleconference is -- has ended. We thank you all for attending and have a good day.

*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.*