

Q4 2011 Earnings Call

Company Participants

- Antonio Previtali, IR Manager
- Eduardo Sattamini, Finance and IR Director
- Elio Wolff, Market Relations Manager
- Unidentified Speaker, Unknown

Other Participants

- Reginaldo Pereira, Analyst
- Unidentified Participant, Analyst
- Vinicius Canheu, Analyst
- Vladimir Pinto, Analyst

Presentation

Operator

This is Tractebel Energia's Conference Call. All participants are connected in the 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 would like to remind you that this conference call is being recorded.

Now, I would turn over the call to Mr. Antonio Previtali, Tractebel's Investor Relations Manager. Please, Mr. Previtali, go ahead.

Antonio Previtali

Good afternoon, ladies and gentlemen. Welcome to Tractebel Energia conference call, where we are going to discuss the results for the 4Q '11 and the 12 months of 2011. This presentation, followed by slides, will be simultaneously webcast at www.tractebelenergia.com.br Investor Relations section. In there, you will also be able to have a copy of the presentation and of the Company's earnings release.

Before proceeding, I would like to clarify that all statements made during this conference call relative to the Company's business outlook should be considered forward-looking statements depending on the country macroeconomic conditions, the performance, and the regulation of the electric sector in addition to other variables, and therefore subject to changes.

With us are Eduardo Sattamini, Finance and Investor Relations Director, who will talk about the performance of Tractebel in the 4Q and 2011, and Elio Wolff, Market Relations Manager of IPR GDF SUEZ Energy in Latin America, who will present the update of the development of Jirau hydropower plant. Later on, we are going to be part of the Q&A session.

I'll turn the call over to Eduardo Sattamini. Please, Mr. Sattamini.

Eduardo Sattamini {BIO 16648085 <GO>}

Well. Good afternoon everyone. It is a pleasure to show once more extraordinary results for the Company and I am going to start the presentation on page four for the highlights of the year.

The first highlight is the Board of Directors approved complementary dividends pay-out relative to BRL517.3 million, BRL0.79 per share, and with the total dividends regarding 2011 will be equivalent to 100% of the adjustable distributable net income. And operationally wise, the trends achieved some 98.3% of accumulated annual uptime ratio. Excluding turnovers -- turnarounds in that hydroelectric generation, accounted for 98.6%, generation 97.2%, and complementary plants 93.4%.

Tractebel remained in the Corporate Sustainability Index of BOVESPA released in the end of 2011. It was a pleasure to see that we are still there. We have been seeking continuous improvement in the Company's governance and sustainability and this index has been reflecting that with our participation since the first issue in 2005.

In 2011, we also had the startup of the operations at Estreito, a hydropower plant of 1,087 megawatts capacity, of which 40.07% are assigned to the Company. It is a consortium, we are going to talk a little further on about the implementation stages. We have already implemented four generating units as sharing 75% of the total assured energy and the other four units are going to be installed in the year of 2012.

The Company also obtained its first ever investment grade rating. We had the possibility of having issuance to the foreign market last year. We took advantage of a situation of liquidity in the foreign markets and with that we saw grading assessment and Fitch Ratings gave us the rating of BBB-, which is the first level of investment grading. We also had the confirmation of a AA+ rating with a positive by us --- by Standard & Poor's.

Another very important highlight for the sustainability of the business is the Company's participation in the best companies to work of Exame Guide and Voce S/A. In our first participation last year, we were selected as one of the 150 companies in the country. And by taking a look at scores we can say that we were among the 35 best companies to work for. So our --- we were in the 34th position based on the scores that we calculated.

We are going to skip slide five talking about the quarter highlights. Here you will have the main financial and operational indexes. We had a reduction of 1% in our net operating revenue, but this reduction makes sense because of some contracts that were signed in

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the previous period of lower prices between 2004 and 2006. This contract had been signed and they matured in the year of 2011, more specifically in the Fourth Quarter of 2011.

And these contracts were not recomposed, because they were at very, very low prices. And so we could reduce the amount of bought energy, so the volume of sold energy was reduced marginally, you can see by energy sold, the fifth line in the table in the Fourth Quarter of 2010 slightly above the Fourth Quarter of 2011. But to offset that, we had average prices in the energy contracts of about 9%. So this is part of our management strategy for the contract portfolio and that has been conducted very successfully by our commercial team.

As for our EBITDA margin, we reached almost 70% -- 69.9% in the 4Q 2011 that reflected in reduction of our thermoelectric dispatch. You know that we have the very hydrologic favorable year in 2011. And with that we did not have the need for thermoelectric generations and therefore our margin grew.

Well we are going now to page 6, just to remind you that Tractebel is part of GDF SUEZ, International Power. As the French-Belgium controller, we have International Power English that is listed in the London Stock Exchange that controls the international energy assets of the Group. And the Company holds through its local holding 68.71% of Tractebel Energia. It also holds the control of Energia Sustentavel do Brasil with a share of 50.1% of that Company. This is a Company that is developing the Jirau project that we are going to talk about further on.

On page 7, we talk about our portfolio of assets with strategic location. Today, we have almost 77,000 megawatts installed, 6,908 in round numbers in 22 plants operated by the Company. In that 81% are hydroelectric, 17% thermoelectric and 2% complementary. So we see that most of our capacity is anchored in renewable sources, which also shows the effect of sustainability of our businesses in the long term.

We are the Company that most grew since its privatization compared to the Companies that were privatized at the time in the 1990s. We had a growth of 86% since Tractebel Energia was created. Then we are located today at the time of Jirau we are basically in the south area of the country, but we decided to develop and expand and today we are a nationwide player.

Going to slide number 8, we continue to keep our leading position in the generation sector. We are the largest private player in the Brazilian electric markets and we hope to continue being so because of the expected growth based on our projects and the projects of our competitors. Today, we have 6.9 gigawatts installed and with the transfer of the Jirau project, the idea by the end of the construction is to have 8.9 gigawatts installed. Today, this is almost three times above the second position in the ranking of private companies. And we suppose that in the next two, three years, we are going to continue so unless there is a very stronger movement of a merger or a consolidation.

Going to slide number 9, we talk about our diversified portfolio. The idea is to maintain a diversified portfolio among free consumers at the free and the regulated market. The idea is to focus on the free market and that brings us future results, because it does not exposes us to the settlement of existing energy, two auctions of A minus 1 that are conducted by the government for the placement of this existing energy.

So what happens is that in -1 auctions, you have standard products, prices tends to be lower, because these auctions are populated by companies that have a little lesser commercial capacity and flexibility in the market. So it's a market that we have been extending our participation, so that we have a very profitable way out for our existing energy. And it's naturally complemented by the regulated markets through which we can develop companies in the recent past.

So we are going to slide 10, when we talk about the diversification of our free customers' portfolio, because of the importance of this segment in the Company's future. We had an increase of this portfolios of 65 megawatts average. The year of 2010 was not extremely interesting because of the movement of the free markets. We had low prices in the spot market throughout the year. And with that, the likelihood for customers to higher energy went down and that generated a pressure for prices to go down and we are going to talk a bit more about that later on in our presentation.

On slide 12, we are going to talk about economic growth in the energy market. Again, economic growth pressures prices up, but what we can observe on the right side of this slide number 12 is that we have the demand curve, which is the solid black line that is based on the estimates of a new CNS and that crosses supply at the level of thermoelectric planes. If we pile up difference thinking of the dispatch cost, we can see that today without very favorable hydrology we would have to dispatch thermoelectric to meet the demand. That gives the high volatility to the markets and the provision for bad debt. You are going to have a higher volatility of prices that also generates a higher cost of dispatch and in the long term is to have pressures for higher prices if things continue as so.

If you look at the slide on the left or the chart on the left on the same slide in the medium and short term, we are forecasting excess offer and this is -- the balance is this excess supply and demand that we forecast based on the monthly members of our operations based on the ONS' numbers.

And you can see that along the months of 2012, '13, and '14, there will be a surplus and so this is very much related to the favorable rainfall as we said before. It makes that in the very short-term contracting prices have a pressure downwards.

And in this manner, the Company has noted still during 2010, we intensified our sales to the free market and we reduced very much our available of sold energy, so that we wouldn't be exposed to these low energy prices that we think will happen in the future once there are future delays of the implementation of power plants are also because of rainfall and still refers the low price trend.

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So this is -- leads us to see on slide 14, our power availability for contracting on the coming years. In the bar chart on the left on slide number 14, you can see a very small amount of our available energy of the Group of Tractebel Group, in terms of percentages 2%, 7%, 13% in 2015 showing that our strategy has been appropriate since 2010.

We did not have any significant changes in the percentages from last quarter to this quarter, because our strategy, if you see on the right of the slide, is the slow contracting of energy as we see or as windows of opportunity open considering the prices that are the customary prices of the market. And as we are in a very comfortable contract situation, we are going to wait for the best timing in the markets so that we sell future energy for 2015, '16 and '17 when we will have a relevant level of un-contracting.

Now on page 15, you are talking about the energy balance and there is a small adjustment in our own resources, because of changes in the schedule. And if you look at the schedule for the windmill or wind power plant, and then there has been small movement in terms of purchasing and in terms of products. And there has been a slight reduction in the volume of auctions by the government, because there is a compensation in some contracts and thereby reducing the contracted amount, but no significant changes.

So we had six mega of sold contracts. There has been some sale activity as I told you before. We are not likely to sell very much, because of the low prices in the market, but we are retaining our customers thinking of the future. We have had total sales as compared to the -- comparing the fourth and the Third Quarter of 2010 of 63 megawatts for 2012 and so on.

Now, talking a little bit about our growth projects, the operation that started already, on page 17, you can see Estreito hydro project for turbines have started and all other four plants will start up until 2014 and this project had a total amount of its energy sold in long-term agreements with the government for 30 years to BRL159.50 and this price was good for December 31, 2011 and this is all already in effect. We are obtaining revenue based on these contracts.

On slide number 18, you can see a little bit more in more detail about this hydropower plant and this is how the government determines that the assured energy of the first generating units based on the volume of water that is available should always be superior to the volume of assured energy of the latest units.

On slide number 19, you can see Jirau project. Elio will be talking about it. So this project is part of our presentation, because this is a project that will be transferred to Tractebel. This is a business model that today is prevalent in our industry and Elio is going to talk about the development about -- of this project.

Elio Wolff {BIO 17147591 <GO>}

Thank you very much, Sattamini. Good morning, to everyone. The first thing I would like to say about the announcement of our presentation now on slide 20 should be aware that now we will announce the updates on Jirau, at the same time as the announcement of

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International Power that I made in London, and that's why Tractebel slides or Jirau slides inside Tractebel presentation were only announced or release this morning and that's why they weren't released last night, because we had to release them at the same time as they were released in London.

Now, talking about more about Jirau, now on slide number 19 the project today has the capacity of 3,750 megawatts already confirmed with its expansion already confirmed by 51.1% owned by IPR with assured energy 2,185 average megawatts. Just to remind you that the additional megawatts that we are waiting for the definition of the Ministry and we are expecting to obtain that approval for Jirau.

Of this 2,185, 73% has already been contracted in the long term. And if you look at the chart on the right, the blue and yellow bars and if you add those two numbers, you will get to 73% of contracted energy in the long term for 30 years. The first PPA, the public private agreement, of the contracted share that will start in 2013, as you can see on the blue bar in the chart on the right, and the second PPA will start on March 2014 at contract price of 104 megawatts hour.

And you can see in the yellow in the chart on the right, uncontracted energy, we think that we'll be selling in the free markets or in future auctions. As we said before, the project to start phased commissioning, it has been scheduled for the Second Quarter or second half of 2012 along with Camargo Correa and now we have confirmed the schedule. And it has been signed -- the contract has been signed.

And very rapidly, as you can see the amount of assured energy of 2013, we will rapidly reach the significant amount of energy, especially because of the past capacity to take action. And as you remember well Jirau project, the amount of assured energy per turbine is very high and so the assured energy will be there fast reach. So when we get to 30 or 32 machine once this goes live or starts operating, we will reach the full amount of assured energy. The other important project, carbon credits and we think we'll be able to register that in SCCC and the project will be transferred to Tractebel along with the commercial operation of the power plant and we are expecting this to happen in late 2012 or early 2013.

Now, going to slide number 20, some more updates on the schedule and cost of the project and confirming what I said in the previous slide, there have been developments in our agreements or discussions with Camargo Correa. Now we are more comfortable to announce the adjusted CapEx. And so long as we had an agreement with Camargo, we would disclose to you new CapEx numbers and the CapEx is BRL15.1 billion based on December 2011.

Then if we compare this CapEx with the CapEx that had been announced before, which was BRL11.9 billion in December 2010 and this updated to December 2011 considering the parametric formulas of the contracts would be BRL12.5 billion and then we add the expansion that we are estimating to be BRL1 billion, and the balance especially related to the change of scope and social environmental investments and adjustments in operation schedule.

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It's important to mention that this year was important for the project for International Power and also for Tractebel Energia accompanied as those assets will be transferred to Tractebel and will provide a significant contribution through the EBITDA. It has 445 megawatts already contracted practically assured.

Another important thing that is worth mentioning and emphasizing is that is very important for the project not just for Jirau, but also for Santo Antonio if that's the entrepreneur of the line has been announcing in the press that their time to start the line will be in the last quarter -- Third Quarter, sorry, of 2012. It is well underway. It has been developing well. We think they will be able to meet this deadline and everything will work perfectly.

Another important is the additional energy of 19 average megawatts and waiting for the regulator to give us an answer and we also like to confirm that the project has tax incentives in the region, thereby creating or adding value to the project. Some pictures here to show the construction on the right of the slide, so the left bank power house, downstream view, and here the right bank of the spillway, downstream view, the spillway already going under it confirming what we had already told you before that the river was deviated in September 2011 and since September 2011 the water has running under the spillway.

Now, I turn it back over to Sattamini.

Eduardo Sattamini {BIO 16648085 <GO>}

Now, on page 21, talking about our projects --- in wind projects under construction. We have five under construction, four in CRI and one in PLV to space in the Northeast of Brazil.

And actually in Sierra [ph], it already has license for installation issued in October 2011 and we started construction in two wind farms, Guajiru and Trairi. These wind farms are meant to be contracted by the free market as a priority. And in these five parks, a significant amount is covered by three and four-year contracts with free customers. And our idea is to reach the market of special customers of the customers who can only buy energy from renewable wind sources such as wind, auto-voltaic, biomass, and hydropower. And this is a market that makes it possible for us to charge higher prices, because they --- we have higher prices for distribution companies.

And so now, we are seeking the slightly more profitable market considering all the wind projects that are on auction that provided a slightly lower return as compared to what was acceptable by the investor.

We'll now go to page 23 talking about our financial performance. Here again shows the consistent and constant grow of the Company with net revenues, EBITDA, net income with growth close to two digits, net income with net growth of two digits, and that has to do with the start of operations of some projects, projects that we invested in 2009 Areia Branca, Ibitiua, and now these projects are starting to generate higher results. So EBITDA has now -- and net income will have higher growth than net revenues. This is a trend that

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is being reversed. Last year, we had lots of investments, but the plants were not in operation yet.

On page 24, we elaborate a bit more about our net operating revenues. There are components that made it grow 5.5%. We have average sales price, which is very important. The average price of the year went above BRL112.6 million, up from BRL112 million to BRL127 million. We had exports comparing 2010 to 2011, we -- a lot better, we had BRL153 million compared to BRL30 million in 2010. So we had the contribution of Estreito plants and it's new four pieces of equipment and we had the reduction of volume was that so if we obviously get Estreito and exports our volume is higher than last year for the whole year, the Fourth Quarter was not, but that represents the maturity of some contracts that we had and the reduction of energy [ph] for resale that impacted our EBITDA.

We also have the reduction of BRL172 million in the operations of energy, because of the hydrology that we had. So we did not have this year this gain of allocation of energy that we had in 2010. So comparing year-on-year, we had a reduction of revenues and you are going to see on slide 25. That does effect, had an effecting revenues of BRL172 million plus BRL15 million, BRL16 million and we have the effect of BRL187 million negative in our EBITDA.

Operations, basically because of price we had some non-recurring events. We had that the EBITDA contribution in Estreito with BRL66 million showing a margin of EBITDA for the project of 76% and we had an EBITDA margin of 37% in exports with BRL46 million of absolute contribution of EBITDA in the year of 2011. With that, our EBITDA grew in the year 11.4%.

Going to the solution of our net income, we had in addition to the factors mentioned before, we had a reduction of financial costs, because of the reduction of the volume of our debt and a reduction of the cost of our debt, a fruit of two components, first, a reduction of the CDI rates and also some changes in the settlement of more expensive debts and the contracting of lower debts. We had an event of the payment of a debenture in the fourth issue that was 110% of the CDI and we had an operation last quarter that reduced the cost of the CDI to 98% of the CDI and that's again reduced the financial cost this year.

The other components we already mentioned, these are just exports Estreito, where we have very high burdens in Estreito, because the debt is very recent, the volume of debt is very high. We had the effect of CCEE of BRL123 million and that led us to a growth of net income of 19.5% to a BRL1.448 billion, as we mentioned in the beginning of the presentation.

Going to page 27, we talk about our key financial drivers that we have a reduction of energy sold from the third to the Fourth Quarter basically describing the issue of exports; exports concentrated in the second and intensified in the Third Quarter of 2011.

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In the average price of energy sold, we do not have exports here because the exports can distort here the price. This is based on the cost of generation and the increase in exports is based on the thermoelectric numbers. So that could distort the average price for your analysis. So exports are excluded here. So this is net of exports and you are going to see that there was a minor reduction from the third to Fourth Quarter.

What's that these adjustments of contract, we have contract with little possibilities, but there was not the significant changing prices of contracts, but rather in the volume of conception, contracts of higher or lower volume in each of the quarter. So just for you to understand, we've learned about a fair analysis just because we wanted to understand, why the practice had gone back, but that's reflected on our net revenues again slightly below the Third Quarter.

Starting EBITDA, we had an improved basically because of the reduction of fuel of energy sold and that generated an improvement in our EBITDA going from BRL725 million to BRL766 million and very significant if we compare to the Fourth Quarter of 2010 EBITDA margin, 70% as we mentioned leading to a net income in the Fourth Quarter of BRL450 million compared to BRL332 million in the Third Quarter, again based on the reduction of financial expenses as we mentioned.

Going to slide 28, this is the behavior of our indebtedness. We have a very low level of indebtedness with an exchange exposure that is very low. Today, we have a ratio of 1.3 compared to EBITDA, a very low indebtedness for a company of long-term investments like ours, foreign currency accounts just for 6% and this is still an indebtedness that remains the negotiation of traded bonds by a state-owned company, so we cannot settle this debt, but it does not have a significant impact. We had the foreign exchange valuation in 2011. In evaluation, the dollar rate went from BRL166 million to BRL177 million, but that did not generate a major impact in our results. So why the impact is reduced and we can live with this -- we can live with this without the long-term hedge, because this is a very long-term debt, some will mature in 2028.

Well with that we have a net debt of BRL2.9 billion growth that of BRL3.6 billion. And on slide 29, we show then the variations of our net debt. Here, we can see that we went from BRL3.3 billion in the end of 2010 to BRL2.9 billion in the end of 2011. We had BRL1 billion in the pay-out of dividends, a reduction of cash and availability of course. We take BRL599 million in taxes.

We had investments of BRL361 million, accrued interest of BRL243 million, capitalized interest of BRL101 million, foreign exchange variation BRL53 million, and a minor variation negative variation in our working capital. All that offset by the 6, 7 other items and generation of cash. And if you take a look again our net debt is BRL2.9 billion, which shows the Company's capacity of dealing with its obligations and generating cash.

On page 30, we again take a look of the profile or debt composition of currency, so you see the debt profile we have a slight concentration, especially in the second issuance of debt in the next three years, but fully compatible, again very low, I think compared to the

capacity of generation of cash for the Company BRL400 million in 2012 and BRL492 million in 2013 and BRL602 million in 2014.

Then we go to lower levels basically, the amount of the debt that we have with the BMDS and longer-term debts, where we concentrate some years just for you to have an idea for the future. The cost of debt 6% in foreign currency, but the cost of euro 4.7% and dollar 5%. In reais we have 94% of our total indebtedness with a cost of 9.2% in reais today compared to 2010 that was 10.4%. So because of the reduction of interest rates in Brazil, CDI and also based on our actions in negotiating with more expensive debts.

The composition of debt with again talk about local currency, basically most of its concentrated on TJLP, BNDES is the provider of financing for future and long-term investments in the country with very appealing rates that really faster future investments and as a player of infrastructure that Tractebel prioritizes this kind of source for its long-term investment.

Going to slide 31, we are going to talk about our expansion plan and maintenance. We do not have the Jirau here. Historically, we'll only include a project of when it is already negotiated. So this happened to Estreito you only added Estreito in the investment plan when the transaction had been already contracted with the controlling company, the same will be true for Jirau when we have the whole process negotiated and we have to go through all the licensing committees. We have to have independent members of our Board of Directors. They are going to discuss the basis of transfer prices with the controlling company and then after this is contracted and agreed, then we are going to have the members in our expansion plan and also our CapEx plan.

So just taking a look for 2012, most of the investments are in wind farms BRL800 million, some of it in Estreito because of the four machines that still need to be implemented, some infrastructure work, and we have BRL180 million approximately in investments for maintenance. We have a major retrofit in the plants of Santiago and Passo Fundo to be started in 2012 and 2013, basic investment is Jirau. We did not use a provision of -- for 2011 that was not completed, so we are going to have that in 2012 and 2013, but for Jirau this is included in 2013 and with that the maintenance plan for investments in the Company in 2013 and 2014, basically the investments are in maintenance.

Now, on slide number 32, we will be talking about our dividend policy, we were just reinforcing that the minimum pay-out level according to our by-laws is 30% and then we have had a minimum pay-out of 50% in 2011 just reinforcing what we have always told the market that we'd not retain and resources unnecessary, because the Company has very good rating and has access to markets we distribute 100% thereby totally BRL2.19 per share and which represents for 2011 a dividend of 8.2%.

Now, I would like to thank you and now we are going to turnover to our Q&A session.

Questions And Answers

Operator

Excuse me, ladies and gentlemen we are now going to start our Q&A session. (Operator Instructions). Mr. Vladimir Pinto, Bradesco.

Q - Vladimir Pinto {BIO 1554020 <GO>}

Hello. Good afternoon, Previtali, Sattamini, and Elio. I have two questions. The first one about dividend, how -- what is the outlook for 2012? You know that there is a pressure for the payment of Jirau. Are you going to try to return some cash for that or are you going to keep your policy as we saw last year?

And secondly --- my second question is about the sale of free energy of Jirau, and we know that there is large amount of free energy available in 2013 and '14. How are you dealing with it and the presentation shows that there is some pressure in the market next year?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Vladimir, this is Sattamini. I am first going to answer the question of dividend regarding Tractebel Energia. Well the idea is for us to go back to paying a lot 50% as our commitment precisely due to the reasons I said, because we need to buy the project. We are interested to buy the project, the Jirau project, and we will go back to trying to raise our cash, so that we may make those expenses. As to Jirau, I am going to turn it over Elio, so that he may answer your question.

A - Elio Wolff {BIO 17147591 <GO>}

Hi Vladimir. For 2013-2014, they will be more critical years in terms of uncontracted energies, now that we have come to an agreement with Camargo Correa. We know more about it. So we are more comfortable to move forward in terms of the sale, especially with regard to 2013. And right now we are discussing this with the shareholders and we are trying to find alternatives to sell this energy. And as I said before this maybe free energy or auctions, but it's always important to emphasize that we have expected volumes for 2013-2014, but in the long term we see that our volumes are quite reasonable if you look at BRL593 million, which is a total amount. It's very much manageable in terms of the portfolio of our Group in Brazil. And in the long term we are not so much worried, but yes, this is during the short term there is some pressure in the market, a negative pressure in terms of energy prices. This is challenging, but we believe that we might address well this energy. Thank you very much.

Operator

Sergio Koltec [ph], Goldman Sachs.

Q - Unidentified Participant

Good afternoon, to everyone. I have two very brief questions. The first one is for Elio about Jirau. Could you tell more to us about this additional BRL1 billion? When I do the math here considering the previous reference of CapEx and I consider the original

approach of 3.3 gigawatts, I guess, to an average price per installed megawatt base is \$2.2 million more or less. When I look at the additional turbines 1.415 billion megawatts is 58% of that amount about BRL1.3 million historically at least the reference that we have is that once you look at group of power plants, this is about 33%, 40% of the total amount of the construction. And here I can see 60%. So there is BRL1 billion is already consolidated those additional 90 megawatts or not?

A - Elio Wolff {BIO 17147591 <GO>}

Well the BRL1 billion are in terms of the additional machine. So it's our budget for this additional investment and it includes not just the 2.9 of assured energy of the additional amount, but also the expectation of this additional energy. When it is going to be effectively allocated? Well we are still discussing that with the Ministry, but yes, it does include and we are expecting to have additional assured energy.

Q - Unidentified Participant

Another question more for Sattamini, comparing your CapEx plan that you have announced now, the updated in the one and Third Quarter for 2011, you ended up having a smaller number and in 2011 you have our guidance of BRL360 million and you closed and there is a difference of BRL140 million. Once you carry it forward to 2012, you have BRL131 million extra. So the number BRL413 million is stable in the guidance of BRL605 million.

And my question is so from '11 to '12 why there is a discrepancy and could you give us a better idea of this BRL605 million, because if I understand it correctly, you are including an amount that should be carried over or related to the transfer of Jirau and some additional amounts related to maintenance. Could you breakdown the BRL605 million?

A - Eduardo Sattamini {BIO 16648085 <GO>}

So the BRL605 million, so we have what has been retained for Jirau has already been retained in 2010. It doesn't mean that I will pay everything, then BRL88 million for maintenance and BRL6 million that are still remaining from Estreito and BRL511 million for Jirau. So even though the project is an operation, there is some infrastructure, some minor construction that are still being done now that power plant is fully operational.

As to the difference in CapEx, I am sorry I couldn't keep up with your calculation, but these are investments that were not made from 2011 and were transferred to 2012 something related to wind farms, something related to Estreito, and also part of it a slight adjustment once we redo the calculation, we have also to adjust prices. So there is no significant amount that has changed that there are no [ph] effects what you are trying to find, but this is the explanation I can give you for now.

Q - Unidentified Participant

Thank you, Sattamini. If you could give us an indications of BRL411 million?

A - Eduardo Sattamini {BIO 16648085 <GO>}

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It's not BRL411 million -- its BRL511 million was the amount repaid. If you look at 2010, in 2010, we had profit retention for future purchase of Jirau, and this amount you're going to see in a minute. So the Board of Directors decided about that and this was then later ratified in the shareholders' meeting. So this amount was reserved because then we thought that the transfer would take place in 2011.

In 2011, we effectively could not do the transfer yet and obviously the money was retained, it stayed on the cash -- in the Company's cash and now it has been reallocated for investment in Jirau, which it is purpose that will most likely be done in 2013 investment. We are going -- because we are going to complete construction and everything late this year. Then there is all the paperwork or the bureaucracy in terms of approval by the government and many regulation agencies. It takes some while for everything to go through all these decision instances. And we think that this will only effectively take place in 2013, so the BRL511 million, I should not say this is a reference, because everything will be recalculated.

BRL511 million was the amount that we calculated back then and we calculated 50%. We paid out 50%. We retained that what we could do back then was BRL511 million, but BRL511 million, it has relationship whatsoever with Jirau's price. We'd only -- when it's ready we will be able come to an agreement about the price with the regulator.

Q - Unidentified Participant

Thank you very much.

Operator

Alisha Ricogat [ph], Citigroup.

Q - Unidentified Participant

My first question is also with regards to Jirau, I would like you to give us a bit more detail in relation to the increase of CapEx, especially the BRL1.6 billion, which is changing scope and schedule. So I would like to know why there was this increase of CapEx.

And the second question is with regards to energy prices, I was taking a look at release of International Power and they give indication that the price in the free market dropped by BRL30 per megawatt hour if you compare last year to what we see today in the market? Then I would like to understand if they are talking about settlement price differences, the prices in the free market, what here this reference would be and what would be the current amount? Thank you very much.

A - Unidentified Speaker

Well first with regard to CapEx, well the BRL1.6 million includes environmental investments that are additional. You have to understand that this project does not have a closed price, yet we have estimates and a closed price for each item, concrete installations and et cetera. And as the construction evolves, these items are paid depending on markets truly realized.

So this BRL1.6 million of the amount that is being discussed in the reimbursement of insurance, we might have some recovery there and we have an important part of additional contingencies in this BRL1.6 million. So we include an additional contingency for the completion of the construction, also that's all in the BRL1.6 million. As for energy prices and the guidance that we had abroad, this is basically with the objective of guiding investors as for expectations that are forecast, that were made in the past.

In fact when we had the merger, the market had some kind of guidance for the years of 2012 and 2013, and international calls sells the obligation of updating the market as for the forecast for 2013 compared to what was released before. And that's why you had BRL30 per megawatt hours, perhaps I can help, I didn't take part in the preparation of the slide, but just so you still have an idea of what we experienced in direct value to think of prices of 2010 of BRL120 million and BRL130 million that we are talking in 2010.

Today, we are talking in the short term of BRL95 million to BRL100 million, which is a quite low price. I think this price is going up as projects are made available, but this is more or less along this line. Yes, just to reiterate it, it has nothing to do with settlement price differences it has the prices of energy for future years.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Reginaldo Pereira, HSBC.

Q - Reginaldo Pereira {BIO 15754056 <GO>}

My question is also about the investments in Jirau. This increase now, how will this be monitored in terms of financing and what the final capital structure of the project is going to be like?

A - Unidentified Speaker

Well we have mentioned in the slides, but there is very advanced discussion with BNDES, still have an additional credit line. This has been growing on for some months now and I believe in the next months we are going to have some positive news about an additional credit line that will cover not only expansion, but cost variations. So the amount, because it is still being discussed, we prefer to wait for completing negotiations with BNDES to give you more information on that.

Q - Reginaldo Pereira {BIO 15754056 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions). Vinicius Canheu, Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

I would like to ask about auctions A minus 3 and A minus 5, do you have any opinion about the possibility of having these auctions in this period, especially minus 5, because we still have the problems with licensing that we had last year. So do you have any expectation or any thoughts on that?

A - Unidentified Speaker

Well maybe people of International Power can even give you a better answer on that about the developments that can happen, especially (inaudible) and this. We believe that the government focus is perhaps not this if you see the excess supply that we have in the short term. The government is in the quite a comfortable position to stretch these times a bit. I am not really following this process. I know that the licenses are a problem. I think they are going to be come back to the A minus 3, because the government once still hold the auctions every years, but perhaps the appetite for quantity is not as big, because of the situation that we have in the markets now.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. Thank you.

Operator

Sergio Tamachiru [ph], Sastabank [ph].

Q - Unidentified Participant

Sattamini, could you give us more details in terms of how you are going to take the loan for the purchase, so if you have a BRL15 billion CapEx, BRL7.600 billion more or less. So your next debt here of BRL3 billion will go up to more than BRL11.5 billion -- BRL10.5 billion, BRL11 billion more or less. So how are you thinking about it in terms of loans you are going to take from banks? And just to remind you that special yield with the next few years in the near future until 2015 most of the energy of Jirau will not yet be contracted. So is this a problem, so transfers will not be made until PPAs are signed? So what is the financial solution?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Thank you very much. So you mentioned something very important. So until we have a price definition, it's difficult to decide how to fund it. Just to remind you with BRL7.6 billion regarding, so there is a BRL5 billion additional, we already have a net debt of approximately BRL13 billion and we are taking about a net debt totaling BRL8 billion with EBITDA generation amounting to BRL3 billion, so 2 point something more or less that we are talking about.

So it's still quite reasonable and so there is BNDES that would be BRL2.6 billion, BRL1.5 billion more or less EBITDA and it would make sense to do it through debt or through the payment with the companies on cash or whether we would do some type of reduction for this acquisition. We have not yet decided that. And I think the capital structure for the

acquisition will be discussed in the related parties committee and now also the definition, the details of negotiation. Let's say, there is something that we are -- prices are very uncertain and there will be some sort of mechanism and compensation from one side to the other.

So this will be discussed. This will be a matter of the related parties committee and let's say it's about BRL100 and we may determine that as a relative price and to create mechanisms for the compensation of prices, so that controllers in the controlled companies in the international and GDF SUEZ may have a system for the pricing.

So these are things that will be discussed in the related parties committee, and our ideas that may be considered. I am not saying that is going to be the returned back [ph], but this -- there are may uncertain points in the project yet and one of the main uncertainty is related to this schedule and we are doing transaction and it's very close to the commercial operation with the project in commercial operation, but we will try to handle all other uncertainties, so that this is a business considering the size of the project, so that this is good for any investor, whether they are investors from Tractebel Energia or investors from International Power GDF SUEZ.

I understand as the acquisition of Jirau is a fact, so you are going to get supported 2.5, 3 times your EBITDA. So this has been agreed on already. Now, what about future new investments? So this you will be taking place in A minus 3 -- A minus 3, A minus 5 auctions. So 2.5 or 3 times EBITDA is the large number. So 3.5 times EBITDA would be a reasonable indebtedness for long-term investors in infrastructure. So we haven't yet decided is whether new projects will be able to offer a profitability which will justify our allocation of funds, which we haven't been seeing in the recent past. And you can see that in previous actions for the past two years more or less, we have not yet really entered and participated. We have only participated so as to gain knowledge and to be in the market, but we have a very strict, the financial discipline that is very well decided inside the Group, that does not permit us adventures. So when we get to a level -- when there is something that we have below what we consider reasonable we are not in, we are out.

Q - Unidentified Participant

Along those lines and considering low interest rates, what sounds reasonable for you one limit in terms of what does the controller find reasonable, what was being talked?

A - Eduardo Sattamini {BIO 16648085 <GO>}

We have been talking about where the market today, the Company with these features would be close to 3.5 times EBITDA. To keep the liquidity and risk levels that we have today, which is the AA+ Brazil and BBB; International.

Q - Unidentified Participant

Just for my understanding it's not very clear to me. This BRL511 million that have been retained for Jirau in 2010, this cash --- this is your cash or will it just be used to pay the BRL15.1 million or BRL7.6 million?

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A - Eduardo Sattamini {BIO 16648085 <GO>}

The funds they are cash meant or allocated Jirau project. They can be allocated to complement later investments, because we are going to buy, but we'll still need cash to complement the construction. Once we buy it, there will be four operation units, but still we'll have 46 to implement. So we'll need to spend. We'll keep on having to have expenses. So it can be to complement cash, can be resources meant for the project, but not we haven't yet decided how its going to be used, so instead of being 7.6 it would be less. You are not going to pay the full amount of the construction instead of paying 2.6, I could pay 2 point, I don't know, something. I pay 1 and the rest I will take in as investments -- future investments.

So at the moment, we will decide what is the amount, what is the equity, and we'll do the transaction based and once we get to the present value of equities higher, there is a slight premium, if it's smaller there is a discount. So we'll be working on that. And this is the work of the related parties committee. So this BRL511 million, the (inaudible) funds that were retained based on 55 allocation and we had 45, 55 and that's what we get back then.

Operator

(Operator Instructions). Gabriel Liotta [ph], Spirito Central Bank [ph].

Q - Unidentified Participant

I would like to talk a little bit about Jirau, but in terms of Tractebel not buying, but think of Tractebel today. So I got the information through (just the) ITR about the consortium that with BRL2.5 billion equity already allocated. So you are going pay BRL1.250 billion for the equity that has been already allocated by GDF. Of the 15.6 minus this amount is this what you will need to have in terms of debt, so we will need further allocation after the project?

A - Unidentified Speaker

Well that has not been defined yet. It might be indebtedness, that's with the market, with the controller itself depending on my capacity to generate cash. It can be an increasing capital. Let's suppose that the controller once or can increase its share or open the possibility of increase the share of the capital of the Company for some reasons. Let's suppose it's the time that I think that the international markets not attracted yet and they are going to invest otherwise. So this depends a lot. We have our analysis. We have options that are analyzed, but that will depend on the scenario at the moment of the transaction. What is important that we do have access we have willingness.

The controller is not best for cost of money [ph]. They have already considered the capacity or the possibility of increasing capital. I don't know if this is going to be, when we have to make the decision or not. If that's the situation that is going to be confirmed or not that we have a myriad of options open. So I wouldn't like you to stick to just a model, because that will be solved according to the model of negotiation and transfer that is more suitable at that time.

Q - Unidentified Participant

Okay. But another point then, I understand that there is nothing defined, but the definition of this point will result in the maintenance of lower payout for a longer time. Is that correct? Is that a correct interpretation?

A - Unidentified Speaker

Well I can have an increasing capital and maybe allocate less of my cash flow and continue with a high pay-out, but then I'm calling capital --- I'm calling capital from investors to give it back later on. So these movements that you're mentioning are correct and we also have to identify the interest of investors as a whole.

Q - Unidentified Participant

And given this positioning what's the timing then that we are going to see. Are these meetings going to be held in the First Quarter? Is it something for the future?

A - Unidentified Speaker

I think that by the end of the First Quarter we are going to start talking about that. So this is one of the targets that we had aligned in the end of the year. This committee is something new to us. We don't know exactly what the dynamics is going to be. They are going to hire advisors. There is a whole new dynamic that we have to learn about and lots of work, deep analysis. So I think that we will have to start sometime at the end of the First Quarter, so that they have the time to be ready in the end of 2012 to negotiate and complete the transaction.

Q - Unidentified Participant

Okay. So just about Jirau and perhaps Elio can help me with that, the BRL1.6 billion is it in the account, it's higher future CapEx with which counterpart, is it additional capacity or is it in the initial area margins or an associated to a bit of change of scope to technical changes in the project. How do you interpret that and how do you see this BRL1.6 billion being made feasible, the idea is really that how feasible is this?

A - Elio Wolff {BIO 17147591 <GO>}

So just to recap this BRL1.6 million, they encompass a significant amount of additional contingencies that we added to the project that still have more assurance and tranquillity in execution. So it's very difficult to talk about isolated factors of a project. In a project some things go right and some not so much, so there are other extremely positive projects in the project that are going to be made feasible very soon.

We have carbon credits. I believe that these credits will generate a significant amount of revenues for the project. We have the additional credit line that is going to come out. We have the assured energy, additional energy. So all these, what I can say Gabriel [ph] again is that, our project of the size of this magnitude. Well naturally we'll have things that go very well and others that did not go so well. We had a delay in the beginning of operations, so all that goes into one basket. And in the end of the day, we do believe in

the project. We personally convinced it is a good project and that we are going to deliver as planned.

Now, things changed. Things evolved jury implementation and even in start of operations that are things that are going to be made material and once again very hard to isolate this one sector and try to analyze it.

Q - Unidentified Participant

Okay. I don't want to take much more of your time, but by the end of December this year, how much percent of the construction will have been completed in terms of CapEx of -- spent amounts of money?

A - Elio Wolff {BIO 17147591 <GO>}

In our presentation, we have for December 2011 of BRL15 billion, BRL8.4 billion were spent, so note two of slide 20. And by the end of this year, so we would have 100% for 2012. No, no, no, most of the construction work will be finalized, so you'll stop with civil construction, but you have the installation of turbines and then turbines will take 2013 and to the end of 2014. So it's true that a large amount will be finalized, but it's not 100% to note.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Well we are now closing our Q&A session. I would like to turn the call over to Mr. Eduardo Sattamini for his final remarks. Please Mr. Sattamini, you may go on.

A - Eduardo Sattamini {BIO 16648085 <GO>}

I would like to thank you all for participating, for joining us today, especially your questions. They really help provide the better understanding of our business in Brazil both of Tractebel, of International Power and we continue in the next releases and your attention to our results. Thank you very much and best regards.

Operator

Tractebel's conference call is now closed. We thank you for participating and have a good afternoon. Thank you.

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