

## Q3 2012 Earnings Call

### Company Participants

- Antonio Previtali, Investor Relations Manager
- Corporate Participant
- Eduardo Antonio Gori Sattamini, Finance and Investor Relations Officer
- Elio Wolff, Market Relations Manager

### Other Participants

- Analyst
- Felipe Leal
- Gabriel Laera

### Presentation

#### Operator

Good morning. This is Tractebel Energia's Conference Call. All participants are connected only as listeners, and later on we will open the Q&A session, and instructions for participation will be given. [Operator Instructions]. We would like to remind you that this teleconference is being recorded.

I would now like to turn the floor to Mr. Antonio Previtali, Tractebel's Investor Relations Manager. Mr. Previtali, please go ahead.

#### Antonio Previtali

Good morning, ladies and gentlemen. Welcome to Tractebel Energia's conference call.

We will discuss the earnings release for the third quarter of 2012. This presentation and slides will be broadcast live on the company's website at [www.tractabelenergia.com.br](http://www.tractabelenergia.com.br) Investor Relations section. There, you can also obtain a copy of the earnings release as well as the presentation.

Before proceeding, I would like to clarify that all statements that may be made during this teleconference regarding business outlook of the company should be treated as forecast depending on the country's macroeconomic conditions or the performance and regulation of the electric sector, in addition to other variables, and therefore are subject to changes.

With us here we have, Mr. Antonio Sattamini, Finance and Investor Relations Director, who will talk about the performance of the company in the third quarter of 2012; and Elio Wolff, Market Relations Manager of GDF Suez Energy Latin America, who will make an update on the developments of Estreito hydro power plant. And after that, we will have the Q&A session.

Now I will turn the call to Mr. Sattamini. Please go ahead.

## **Eduardo Antonio Gori Sattamini** {BIO 16648085 <GO>}

Good morning, ladies and gentlemen. It's a great pleasure to present our earnings release and results. We will start the presentation on the slide number four, quarter highlights.

First is the net revenue from sales. We have grown 12.7% compared to the same quarter last year, an increase of R\$100 million basically due to the operations in the short-term market in the trade of energy. You will see this breakdown later on in the presentation.

We also had an increase in the EBITDA when compared to in quarter of 17.5% and also EBITDA over net revenue from sales. That comes from the higher dispatch of energy. We had a purchase position at the energy trading board that increased. In the previous quarter, we had a volume of thermoelectric energy more for exports and when we look at the cost of fuel and we see the interconnected system, we don't see -- we don't have the coal cost so that increases the EBITDA. So that will result in an EBITBA margin that is higher when compared to the previous quarter. So we had an increase of 2.7 percentage points in our margins and that also reflected on our net income which was higher by 18.1% than last year.

As for energy we had an increase of only 0.7% if we remove the exports that happened the third quarter last year, the amount of energy sold was of 6.6%, 247 megawatts average. This energy comes mainly from the increase of installed capacity at Estreito and the purchased energy for resale. And as for the average sales price of the contracts, an increase of 6.2% which also contributed to our robust results this.

As for energy production, this was a bit lower than in the same quarter of last year, especially due to very poor hydrology that cost the spot price cost to increase in our thermal plans to be put in operation. We had an increase in our system but it was offset by a reduction of 16.6 in our increase. We also had an increase in the generation of our non-conventional renewable energy, NCRE.

Now let's go to the highlights on slide number five.

On August 09, the seventh unit of Estreito HPP went into commercial operations, ensuring 97.3 of assured energy. The 3% will be, reach 100% will be obtained with the next engine we will start to operate by to the end of the year.

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Tractebel has producing record by 7,409 MW, but we, on October 18, we had 561 MW of generation, which results from the high availability obtained of the company's plants. And also due to the high consumption given the shortage of energy in the north and northeast in the country, so the southern part of the country plants are being demanded. So there, we are providing energy to those regions.

Last yesterday, we had approval by the Board, a distribution of R\$ 276 million in the form of interest on equity. That accounts for the results of 2012, but we already placed approving this interest on equity that will happened at December 31, 2012.

There is another highlight in September, we had a confirmation of a AAA rating now by Standard & Poor's is the second AAA rating that the company is given, also with, in April this year, which is an international credit rating. So now we are part of this small group of 10 Brazilian companies that has two AAA ratings by the main ratings, credit rating agencies in the world.

And finally, Tractebel was likely for the second time in its second participation as one of the 150 companies making up the 2012 Você S/A Guide - The Best Companies to work at.

It's important for us, because we are not only having good results, but having good working conditions to be a company that people admire so that we can capture better talents in the market.

Now moving to slide six. This slide is about the Provisional Measure 579 that was published on September 11 in the market. And we must say that this has been an event that had a big impact in the market, many shares from the industry felt that impact. And I would like to give you an update for those who are not familiar with it.

It's still in the Congress for being approved and there were 400 and something amendments to it, and that's in it's regular approval process. It wants to decrease the cost of energy to consumers by decreasing charges, and the purpose is to reduce the cost of energy to render the Brazilian industry more competitive and also to fight inflation.

So this is the measure that is very short term viewed, I mean has a vision of a short term. It probably will have an effect on other concessions, but the concessions covered by this were those granted before the Law 8,987, they may be extended up to 30 years, for 30 years. And that remuneration will be via tariffs for recovering costs of O&M, charges, taxes and whenever is the case for transmission and distribution network.

It's not yet clear of how the managers will be compensated for that and then what's the amount of that. It's important to trust that the concessions of Tractebel Energia have been granted out after the Law 8,987/95. Therefore they are not impacted by the Provisional Measure 579, that does not effect our concession. For your information, in this year's release, we have the expiration dates of our concession.

Just for you to have an idea, the first concession that we will mature is Tractebel Energia of GDF SUEZ that will expire on September 27, 2028. So we still have some years for our tranquility until we have to renew that and the renewal can be different from the conditions that are given by these Provisional Measure.

The reduction of charges, RGR, CCC, CDE will apply to our consumers. And that will cause the energy price to get cheaper and therefore, there may be an increase in consumption.

So now those who are not competitive and not efficient may include the production and therefore, there will be an increase in consumption. The extension of concession will be sought by regulated market consumers mainly and those in the free market will benefit from the reduction of charges. And that will be sought as of 2013 in the new tariff that will be communicated by the government.

It's also important to highlight that this measure confirm the reimbursement of mineral coal by the CDE, which has a positive impact and ensures the status quo of Tractebel Energia's plants. We will continue to operate and have the reimbursement of coal. This is a subsidy that is given to the Brazilian coal industry, whose coal is very low price, low quality and low competitively. It's not very competitive, but there is a subsidy especially for the mine in this part of the country.

Now moving to slide seven.

This is our structure, organizational structure in terms of -- here we see that name I think some International Power, GDF SUEZ and Energy International and that finalizes and consolidate the purchase process of international power that started in 2010 with the purchase of 70% of that company in the market and then the international power capital was closed in June this year.

And then the absorption of international power by GDF SUEZ is completed with the change of the company name as well as the group identity that now is back to GDF SUEZ name including in its international activity. Another important event in this chart is the acquisition of GDF SUEZ Latin America, a 0.9% share of Camargo Corrêa in the company and its interest in Jirau Brazil.

Now moving to slide eight. We have the plants that we own in our share in national presence. We have 81% of our capacity in power plants, 83% of renewable energy in our mix and 17% of thermal plants. This mix of energy allows us to capture to benefit from opportunities and to protect ourselves from the hydrology conditions. So whenever there is not enough rainfall, our thermal plant enter into operation. So we get protected against the price increase in the spot market.

We want to be in the whole country with a national participation from our local -- in the south, there was a movement to become a more nationwide company. And we are present in many regions of the country. And another important element about this is our characteristic of having grown with discipline.

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As you may see we have grown at some periods and other periods not so because that is given by the market conditions that happened from 22 to 26 after the entering rationing phase where prices and demand dropped considerably and that's up 2006 and 2007, we started to grow again when the market conditions were favorable. So this is the group's philosophy of making rational investment decisions to ensure stability for investors.

On slide nine, these are leading positions that is becoming more and more consolidated. And the idea is to show the increasing Jirau share which increases even more our leadership position in the market and we expect to maintain such leadership position and that puts us in a very interesting position to capture new opportunities in the market as well.

On slide number 10, we have a well diversified portfolio. Those who keep up with our calls you noticed that change from the second to the third quarter, we had a restatement as of 2011 concerning the breakdown of free and trading companies. We observe that in the past quarter, and we could revise that there was a major migration from free customers to the trading companies. And with that we had some distortions and then we had an exaggerated -- from free and trading companies and we had exaggerate increase in the percentage in the share of the trading companies. When we analyze, we saw that this was an instrument used by the customers to buy more and more energy through the trading companies and to have flexibility in the use of this energy in their operating units.

As of this quarter, we did a restatement of this position and now you're going to have a more clear view that is the trading companies want the free consumers, they will be now classified at free customers in the orange part of our charts. So this is a major change and then you can see that we are strengthening increasingly more disconnection with the end consumer.

And that is very important to us because that's a way of flowing the existing and adding to be that in a minus one option, where you have companies with large commercial capacity and where we tend to have increasingly lower prices.

Now moving on to slide -- on page 11. So we value the position with free customers and you can notice that we have a highly diversified portfolio, which is a strategy to increase our exposure to a specific risk and allied to a strict credit policy with satisfactory guaranties will give us a very low level of default as regard with consumers.

In this slide, you can see that there is the impact of this reclassification of free customers and our position from 1,285 MW average last quarter, now we have 1,497 average MW in this quarter.

Now moving on to slide number 13, we have an overview of the market, then we can see clearly there is an increase in the share of the thermal and the projects, specially with the power plants with small storage and risk conversion procedures, They have increased the energy prices. And in addition to that it has increased the volatility of the spot price.

On the left hand side chart, we see that we still anticipate the excess of supply, but the amounts already take into account a review of demand done by O&M of approximately 800 average megawatt in 2012. That is today we have something like 1,000 megawatt of excess in 2012.

But if we had not had this, the reduction in demand, we would be in a very tight position, due to the delay in the projects. As compared from last quarter to this quarter, we have a removal supply of 1 gigawatt referring from two plants, are more investing that were removed from the operator concerning future forecast.

On the right hand side, we still see that the demand curve is still crossing the supply by the thermals and then this makes you that when you don't have an abundant hydroelectric supply, you have very high spot prices. The thermal that were added to the system are high cost and many of them a few powers that are being dispatch it and a very high spot price.

Now let's move on to slide number 15, where we have our position for uncontracted energy which is very low, that is not a major progress in the years where we still have regional portfolio. In 2015, '16 or '17, the market is starting to understand the impact of hydrology starting 2011, 2012, we have a poor hydrology prices going up.

And there is also the expectation concerning the solution of the concessions. With that the market had become very, with a low reception or not very receptive to hiring the spot price, but pushing some consumers back to the market and the prices start having pick up or some recovery. It's not materialized but observed in terms of the level of proposal that we have seen in the marketplace.

Slide 16, we have the traditional energy borrowings with the main contracts in the regulated market. Our portfolio has operates a major changes. You can see that we have a very low variation from commercial activities are very low, and the highlight is the reduction in the margin as a result of the price levels we had last year. So margin of the average price of purchase and sales is low, but it's not significant, these are normal market adjustments.

Now talking a little bit about our expansion at Estreito Hydroelectric Power Plant in the last sales, the last units will be entry into operation till the end of the year. The insured energy of the plant was totally sold in the new energy auction in 2007 and delivery starts in 2012. There is the contracting force contributing to our earnings at a very satisfactory price almost a 162 megawatt hour.

Now in slide number 20, we talk a little bit about Jirau, and I will give the floor to Elio, who is going to talk about this project.

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

Good morning everyone. And once again I have a pleasure to talk a little bit about the Jirau project in slide 20.

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We have some important operations which, first one is the operation license. You're seeing probably in the near future and this was obtained in October 19 that allow us to fill out the reservoir taking into account the energy, the commercial operation for 2015. So we have a 100% of assured energy in 2014 first half.

The second highlight in the slide is additional loan by BNDES that was confirmed of R\$ 2.3 billion, and the financial conditions similar to original loan, the TJLP plus which today is 5.5%, and this spread is a little more than 2.4%.

So these are the features of the additional loan secured. Additionally, we had made some adjustments and the repayment profile of the original debt and the forecast was the initial amortization of second half of 2012 that was adjusted to the current schedule. So these original debt will start being amortized about the first half of 2013.

The third highlight was the acquisition of 9.9% of the project by that to a strong Camargo Corrêa where we have 60% of the project. And a withdrawal of Camargo as a partner. Camargo Corrêa is still the main contractor for the construction work but they withdraw Camargo estimated from the very beginning and the condition of the acquisition was based on the adjusted equity contribution and the conclusion is the last quarter for 2012, the conclusion of this operation.

Now moving to slide 21, some update first. Basic information about the project, 3,750 megawatt, GDF SUEZ has 60% with regards to uncontracted energy 73% is sold through 30-year PPA indexed to inflation. The first PPA starts in January 2013 and the beginning of 2016, 1,383 average megawatt, and the price in September R\$ 89.7.

The second PPA starts March 2014, 209 megawatt average. And the second PPA is R\$ 108 megawatt hour. The balance of energy available was sold to the shareholders. Each shareholders acquire each share in the uncontracted energy in the long run and GDF SUEZ, we acquired 60% of the uncontracted energy.

All of this information concerning the energy sold can be seen in the chart on the right hand side, on the lower part, and 2016 view in dark blue, the first PPA 1,383 in light blue, the second PPA is 209 PPA and the PPA from the partner GDF SUEZ corresponding to 60% and 108, Eletrosul and Chesf.

So this is the profile from the point of view of the special service company. From now on, the shareholders are responsible for trading the energy based on their share in the project.

The CapEx, not new, it's still 15.4 billion, another important point to be highlighted is a common credit, and this ongoing has been validated and we are waiting the recognition by the Brazilian government to enter in the UN and this is well advanced and we think that until 2012 and beginning 2013, we'll be registered with the UN.

And lastly, the additional assured 109 MW average and tax incentive given by the region to this project.

Now moving to slide 22, some pictures updating giving -- it's important to give visual information. And we have used a way during a constructional work is well advanced. And we anticipate the commercial operation for the beginning of 2013.

Now I give the floor to Mr. Sattamini.

### **Eduardo Antonio Gori Sattamini** {BIO 16648085 <GO>}

Now let's go back to slide 23, on the projects being developed within Tractebel. Talking about the windfarm at Porto do Delta of Trairi Wind Complex. At Porto do Delta we had a problem with the license. It was not interact with the other projects because this license was only considered given on June 18th, while the other ones had begun construction in 2009. So it's in construction at a fast pace and it's expected to become operational during the second half or first half of 2013, we have the foundations. We have received many equipments that are already on-site.

Now let's talk about the financial performance on slide 25. This slide we would like to highlight the strong performance of the company. We have the result for the last three years growing EBITDA revenues and net income but this is a behavior we have been seeing in the last eight years especially in net income. Net income has increased year-over-year - year-after-year.

So now page 26, we talk about the development of the net revenue. As mentioned on the first slide most of the contribution to this increase came from operations in the Energy Trading Board. There has been an increase in the spot price COD average for the quarter of R\$20/MW hour in 2011 to R\$131/MW hour in the third quarter of 2012. There was an increase in thermal generations which also increased our creditors positions in the Energy Trading Board.

And that has given us a total revenue in the third quarter of R\$117.3 million. This was the main set. But the average sale price went from R\$125 to R\$133 per megawatts hour. This is a net of taxes, when compared to prices of auction and market we have always to consider that you had to add 10% and 25%. And so but they contributed R\$26 million to the increase of our revenue.

Sales volume is 0.7% have increased contributed with 50 million. We always extracting the contribution of Estreito because it's the new project. Probably as of next year, Estreito will be included here because it will be a project that will be inside the company's portfolio. And we had a significant reduction in next and which dropped R\$87 million in the revenue.

So overall, we had a increase of 12.7% in the net revenue. Going to the EBITDA, once again the contribution of CCEE basically there was no difference in purchases, that was very small. It didn't influence the result the contribution to the EBITDA. 37 million came from operations, Estreito accounted 30 million, which is a margin of 90%.



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Today, the overall margin of the project is 82% EBITDA margin. It used to be 75% the beginning of the year but with 90% of this new generation, margin of generation, we are now reaching an annual margin of 82%. And the exports again, they had a negative impact which decreased the EBITDA.

In the net income change once again Energy Trading Board, CCEE operations, we had an increase in cost in Estreito very high increase, because now that it started up to operate with our machines. We have a full depreciation of assets, so the marginal contribution of Estreito was very small. We had an increase in inflation which increases our expense in terms of payable concessions for the projects. So the net income goes from 332 in the third quarter of 2011 to 392 in the third quarter of 2012, with an increase of 18.1%.

Slide 29, we have the quarterly financial drivers. This is a summary of everything that was said. The main important things are margin increase, the robust net income and the growing average sales price. I think this would be the drivers actually, the others would be results consequences of these drivers.

Slide 30, we have a picture of our indebtedness. Today, I would say it is at a non-efficient level is very low as the growth that is one point sometimes EBITDA. And we have been preparing the company for the last two years to absorb the acquisition of Jirau. So it's very likely that we will start the process when the controlling company brings the project for approval at the Board, the proposals for that to be -- when that is submitted to the Board of Directors which we will probably have in the beginning of next year, there will be a time in which the related party committee that was created by the company and the controlling company, the holding company will be able to evaluate the conditions of these transactions. And given this expectation of acquiring Jirau, we're now preparing the company for that. And I would say that today's capital structure is inefficient.

1.1 times the EBITDA is the index for the growth that EBITDA ratio. We continue with a strong cash generation from operation going from 2 billion and this amounted to 390. This is a major increase in cash generation and that can be observed in slide 31 when we show the net debt change, the cash generation from operations of 870 million. This same chart we can see that the debt -- the net debt went from 2.4%, increased by 2.4% especially given the payment of dividends in September, a 100% of the profit from the first half of the year also investments made not very high, but R\$69 million and also working capital net income, net interest which led to a 2.4% increase in the net debt.

Talking a bit about our debt profile. Our debt profile is quite well behaved, we have a very small concentration in 2014, given the 4-131 operation we had last year and we went on this second mission that will only have up to the end of 2014. After 2014, we'll have the normal level of debt. This is a very long-term loans with BNDES and this longer debt profile until then the TJLP interest rates and BNDES will show that our average debt cost has been dropping.

Last quarter we had 8.8% of that in reais that went to 8.4%, in euro 3.9 went to 3.4. And in U.S. dollars the cost remained the same.

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But we have increasingly a participation of TJLP in our indebtedness given that we have more in Brazilian currency, because most of our loans are made from BNDES. We may say that there has not been a lot of change in investments. Investments in 2012 continue with the main component being the wind farm of Trairi.

We expect to spend up to the end of 2012 more than a bit more -- a bit over 400 million, the CapEx of R\$110 million, R\$115 million. There are also some investment of 140 to finish Estreito, which will adapt to 663 investments in 2012. In 20-3 we'll finish the wind farm another 200 million. There would be a maintenance CapEx that will be a bit higher because we'll start to refurbish and remodel Salto Santiago replacing the engines and with a gain of energy. This is still being approved and as well as -- as soon as we have the approval we'll tell the market with more detailed information.

In 2013, there is an amount of 11 million that was capped from the profits, the free cash for Jirau and we're maintaining that in our investment estimates, because this will retain earnings. This is not an indication of the amount that will be paid by Jirau. But it's just an application of this packet. We have to make a disclaimer and to say what is the -- for what this fund will be allocated in terms further investments.

Now maintenance CapEx, because we will continue with this change of rotor and generators for Salto Santiago.

As for dividend policy, our minimum statutory policy 30%. We have a commitment with the market of being pay out of minimum 55%, we'll probably be very close to that percentage. This year we paid 690, a 100% of the first half of the year as you can see and we approved the payment of interest on equity. And we have a payout announced for 2012 for 966 million which based on the 1.66 billion profits until this quarter is at 91% of the payout already paid by this year's profit.

So this is the presentation for the quarter. We are now open for any questions you may have.

## Questions And Answers

### Operator

Excuse me, ladies and gentlemen we'll now start the Q&A session. [Operator Instructions]. Excuse me, our first question comes from Mr. Felipe Leal from Merrill Lynch.

**Q - Felipe Leal** {BIO 2015017 <GO>}

Good morning, everyone.

**A - Corporate Participant**

Good morning.

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

I have two questions. The first one is concerning the transfer of Jirau. I would like to understand as you have indicated that your expectation is for next year, concerning the 27% of energy that has not been contracted yet, I would like to know that in order to make a transfer, bulk energy needs to be actually contracted or you are thinking about transferring? And then you would sell this energy and I think you would as June applies to built-in, in the amount you are going to agree upon?

The second question refers to the long-term strategies. Trade is practically finished, they construct work of the wind plants are well-advanced and Jirau will be transferred with the plant in operation. So practically you are now going to have a major project under development.

So I would like to know from the company what is your expectation if you see good opportunities for growth and I imagine that the auctions next year will have good plans for you to participate or you are mostly looking at a moment where you cannot see major investment opportunities as you had in '03 and '06 and the focus will be more in the dividend payout? Thank you.

## A - Corporate Participant

So the first question as regards the reliance on the sale of the energy from Jirau that's still available for sale. No, it does not depend on the transfer. The higher the percentage of the energy so the easier will be. Because then we decrease this variable to be discussed. But no, so if and if we have a reasonable percentage of energy, the energy sold in the free market has a time frame for sale. There will always be a need to estimate and to use a premise of the remaining energy. So, this is not an impaired demand by no means.

So in fact the delay or the postponement was more due to the clarity concerning the leverage level of the project that has been solved with a signature of the long-term BNDES. So everything concluded to move in the date later on. Since we are very close to the operation, I think we are going to discuss this when the brand will start commercial operations.

The sale of energy is important. We agree. But it's going to be handled somehow at the time of the negotiation and we're going to have an agreement concerning the premise to be used for pricing.

As regards the second question, the long-term strategy. It's true after Jirau, there is no other major project under development, only the small projects being developed internally.

And this is a sign of what has happened on the marketplace in the last year. It's a very aggressive behavior on the part of the competitors accepting return rates that in our opinion were below the risks of the projects and would not compensate appropriately the risks of the projects.

As we have a strong financial discipline we phased, decided to stay out of the low profitability projects. But we're working inside our group in several projects of hydro plants.

Through the GDF SUEZ, thermoelectric you're inside Tractebel. Some jointly with GDF biomass. So in all types of sources we have projects under development. So that we may be prepared so for when the market has a more rational and technical behavior in investment decision. We'll then be able to profit from the opportunity. It's very difficult to imagine that a company with the scale traffic are the largest independent producer with a AAA rating and access to cheap capital will not be able to be competitive in the market due to the aggressive behavior of the competitors buying market share and they're entering into the marketplace.

I think that this solution concerning our growth will take place or one of the triggers for that will be the understanding that the market when you don't deliver some projects or you delay their supply, the quality, entrepreneurial quality will play an important role when the probably seen a major will make a decision. We think we're going to grow and the market will go back to more rational behavior in the near future. Thank you.

## Operator

Excuse me. The next question comes from Mr. Marina Fernanda de la Reza from JPMorgan.

## Q - Analyst

Good morning. In fact my name is Mont Reginia. I have a very quick question to you. In terms of the energy balance you talked about the margins and this attracted my attention, because what we have seen in the last quarter was the margin going up or having maintenance at higher prices. Then what attracted my attention was mainly the reduction of the margin in the last period, I think it was in 2014.

I would like to understand better why since in the period you had an additional sale, the energy there was very low, 40 average megawatts. I would like to understand how this works and why this decrease in the spread in the last period is significant or not? How do you see that?

In fact this is how, you are seeing, this is going to happen 2014, '15, '16. Would you now present the information completely?

## A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

The longer it is the quality of the information is decreased. What happens is that we told the market that in 2011 because of the low hydrology and the expectation of excess supply, the market prices were very low and reached to 85, 90 average megawatt hour and we were comfortably sold for the following years. But somehow some of our customers who had high volume came to our company to discuss some type of mechanisms that would make them to profit from the low prices on the marketplace.

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What we did was an offset system where perhaps we increased the term of the agreement or we contracted energy down the road at a price higher than we anticipated. But on the other hand we gave some deduction in the price of the energy sold to these customers in the current year and near future. So we have to analyze on a win to win basis, how we can serve our customers without harming our strategy.

So then we gave a little bit of margin to capture a greater margin in the future. So this was a movement that took place and was strongly due to the request by the customers, the trading companies at the end of 2011 and this year, because the trading companies were exposed on the market or buying at the spot markets, so fairly long-term contracts. And they were creating personal competition in the market. We tried to adjust ourselves to this competition. So this was a movement observed in 2011 beginning of 2012, but has stopped as all the midyear with a very high spots.

So we removed the possibility of the arbitrage by the trading companies and therefore these are decisional pressures. In fact, the pressure by those that are willing to take a high risk, because when they sell a longer term contract based on purchase on the short-term, they are exposed to a very high risk of a mismatch between the price of purchase and sale. And this is -- and this has happened in the market. And our high level of default and we adjusted our portfolio to this reality. But it did not have a significant impact and it shows our way of dealing with the market, pursuing the lower share that are on a win-win basis with our customers.

### Q - Analyst

Thank you. I mean I would like to clarify, a doubt that perhaps Elio can clarify concerning the Jirau energy sale contract. You said that each shareholder now will inherit a contract, the excessive contracts on Jirau. I would like to know so how is the process for selling this contract later on. And if in the case of a transfer, if the contract will continue within this list, and this obligation of selling energy will not be transferred to Tractebel. I would like to hear your opinion from these two points of view.

### A - Elio Wolff {BIO 17147591 <GO>}

Conceptually speaking one of the major upside is energy. Tractebel is the company of the Group that is most qualified to do this sale. At the time of the transfer of the project to Tractebel it's the Group's interest that Tractebel will start selling this energy or the participation of the energy in the Jirau project. It's not a commitment but the possibility of selling this energy will be Tractebel too.

### Q - Analyst

Okay. Thank you Elio, thank you Sattamini.

### Operator

Our next question comes from Ms. Gabriel Laera, Banco Espírito Santo. Your line is open Mr. Gabriel. Our next question comes from Gabriel Salas, JPMorgan.

[Technical Difficulty].

Well, it's a bit confusing when the question is English and being translated on site, because we didn't pay too much attention and neither tried.

Anyway, as for sales price for our shareholders. I think Elio may correct me if I am wrong. Since the shareholders purchases and resells it, it's different price is irrelevant, because if this is in SER, so I am getting from one pocket to the other and to get this back via dividend. So this price transaction there doesn't make much difference. And there is no inefficiencies generated. What really matters is the price of each, that each of the sponsors or investors of the project will invest, will sell their energy at. This is the price that matters for the economic aspect of the project. What's being done there basically is, making it look a corporate guarantee, making it look like a project finance. If I understand your first question well, the answer will be that.

And as for the second question, the capacity of Jirau's absorption within Tractebel's energy in the balance sheet and in covenants and whether we will need more cash or retain cash further. So far our strategy has been that since the project has not transferred yet and when we'll start discussing that which is the beginning of next year, we'll be generating more, something in addition to R\$3 billion in cash.

By then we will also be, have amortized or repaid some of our debt thereby decreasing our total indebtedness. We will have some room to acquire projects with that without reaching our covenants.

If for any reason that does not occur, our option would be to either have a transaction negotiated with the holding, the controlling shareholder. Remember that the controlling shareholder is interested in maintaining the financial solid condition of Tractebel Energia. In many events in the past, they decided to postpone the transfer or cash settlement for this transfer.

So we don't see any liquidity issues for the company. This is very clear and it also, this is detected by the rating agency's decisions on our rating and they consider this transfer as done. And also regarding their conversations with the holding company about this transfer. So we are okay with that. As for the capacity of cash generations and covenants, that would be the answer.

Our next question comes from Alejandro Kogake from Citigroup.

### **Q - Analyst**

Good morning, Previtali, Sattamini and Elio. The first question about growth today ANS presented a study from a steady reaction of the South region for thermal plant. I would like to have your view on this topic and how you plan to position yourselves?

And the second question is about the result at the Energy Trading Board CCEE. We see that COD had a very high amount in October and term of dispatches as well. So what is

your expectation for results as per city for the fourth quarter if it's we expected to be as strong as the third one?

## A - Corporate Participant

As for your first question, our understanding from the MS is that it has specific demands for some region. So therefore there is a need to make an investment in transmission. And in order to meet the needs of certain markets where you make specific regional auctions.

It has a proposition for making regional auctions and we are observing that. And we believe that if there are auctions in the south region thermal auctions, we're going to be positioned. I think we even have a comparative advantage when compared to other competitors. And there are some projects that are in development. Thermal plants, gas fuel, as well as coal fuel. I believe the government is talking about gas and will be positioned for that.

As for the second question, obviously these thoughts COD pricing high, we have this thermal dispatch and once dispatched, if I increase this purchase position at CCEE, I will have a possibility of selling it at high prices, and therefore the results will be high.

And we expect to have a high COD with a substantial increase, this is our expectation for next week, given the C&O, the prices at 290 right now and we believe it go back at something above 300. We don't know exactly the price. But it's something above 300, and now thermal are being dispatched, fully dispatched. So it's the positive outlook. I don't know if it will continue for November. But in October we see -- foresee a scenario that's similar to that of the first weeks.

## Q - Analyst

Okay thank you. Sattamini, just going back to the first question what is the stage of development of say, how long it needs to be done for the next auction?

## A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Well we don't have the license. Since we don't have the license it will take some time. There are some options that are faster, but we'll leave that to the people from development. Let them discuss it, not to create expectations ahead of time.

## Q - Analyst

Okay, thank you.

## Operator

Our next question comes from Gabriel Laera from Banco Espírito Santo.

## Q - Gabriel Laera {BIO 15686582 <GO>}

Good morning. Thank you for the call. I have three questions. I know that some of them have been addressed already. But first, our first question is about Jirau. I see this balance sheet that STR consortium figures and I see that from the total of 15.4 billion, 11.0 billion have been invested already, R\$11.0 billion.

Of these amount has to be invested and amount has been contracted with BNDES. So it's 1.6 billion there, less would come from more debt or capital injection from current partners or if you expect anything different to add up to 100.

## **A - Corporate Participant**

Would you like to answer that Elio?

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

Okay I'll try to answer. I don't if Eddie will make any comments in addition to mine.

It's natural that in that investments or capital interactions we made by partners, it's our own equity plus loans.

## **Q - Gabriel Laera** {BIO 15686582 <GO>}

Yeah. my question is there is no additional loans so the next funds would come from?

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

I'm sorry, could you repeat that?

## **Q - Gabriel Laera** {BIO 15686582 <GO>}

I am thinking, how much you have to pay in the future. The more capital injections the more you have to pay. So you're going to buy 30% of this gain, right?

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

Well, the total cost is the total cost. If it's 15 billion and I buy everything on that, you remove 60% of that, there would be 9 million debt. Either the funding comes before or after, either on equity or on debt. I'll either have to absorb the debt or pay the equity. I can pay the equity with debt or cash so the equation rounds up to the same results.

## **Q - Gabriel Laera** {BIO 15686582 <GO>}

Okay. That was the first question. Second question is how the estimation of 80% of shares complex is provided by the provisional measure would be a problem for you in future contracts?

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

Well, actually it tends to make our life easier. If you're removing energy that's sold at the free market from shell and you put that to the regulated market, so you're no longer

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meeting the needs of someone or some company, either shares itself. They will have to repurchase energy for its own contracts or it would have to let go of it, some of its contracts which will someone will, may come to us for this additional energy. So this tends to be to work in our favor.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

So you don't have anything agreed with shells or a contract with shell?

**A - Elio Wolff** {BIO 17147591 <GO>}

What do you mean contracted with shell?

**Q - Gabriel Laera** {BIO 15686582 <GO>}

You're not continue on shell?

**A - Elio Wolff** {BIO 17147591 <GO>}

We do have a contract with shell in that period. But that is a price with a very good price for shell. So, if for any reason it cannot service, it would either be replaced our own energy from Jirau.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

And you cannot just disclose the amount of figures?

**A - Elio Wolff** {BIO 17147591 <GO>}

No.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

And the last question is Tapajat. Do you have anything about the potential size of Tapajat?

**A - Corporate Participant**

Yes, this is in our radar. We are part of the group. We created a group to assess that project. I believe that all the main players in the industry are working together to identify the opportunities at Tapajat and feasibility of the project.

So, yes, we are there. We are paying attention. It's a large project, 6,000 mega. If I am not mistaken, probably a new consortium for large companies will be created; independent producers, co-producers and state-owned company.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

And there I don't -- didn't look in detail that's opinion, but there is reservoir right?

**A - Corporate Participant**

I am not top of that either because hydro power plants are conducted at GDF SUEZ but the trend is for running water. It's a small reservoir probably with a minimum water fall.

**Q - Gabriel Laera** {BIO 15686582 <GO>}

Okay that was it. Thank you.

## Operator

[Operator Instructions]. Our next question comes from Mr. Marge Lorero from Votorin Chin Corretora.

**Q - Analyst**

Good afternoon everyone. Thank you very much for the call. Sattamini, Previtali. My question is based on MP 579. Nothing has been agreed upon, but there will be a new modality concerning the asset managed by the operator. That will go back to the government in case there are plants that have not been renewed by need. You do not go to option. How you see this possibility of having a new modality of being asset operator? Have you thought about that or it's still too premature for you to have a formed opinion concerning this possibility?

**A - Corporate Participant**

We have not stopped to think about that. But the topic started being debated somehow. Obviously, it will depend on what we -- well first, how we would structure that area, their management fee. And if we somehow would be able within the tariff structure to obtain gains during the operation or not. Or how perennial the gains, the risks involved. We don't know the operations agreements that will be proposed by the government. We cannot take a position. We are going to look at them. It may be interesting and it may add something or reduce the costs through a larger scale. So we are going to consider that, not may give you any certainty. But we're going to analyze that, why not.

**Q - Analyst**

Thank you very much.

## Operator

Excuse me, ladies and gentlemen, so now we are closing the Q&A session. I would like to give the floor to Mr. Eduardo Sattamini for the final remarks. The floor, Mr. Sattamini.

**A - Eduardo Antonio Gori Sattamini** {BIO 16648085 <GO>}

I would like to thank you all for the participation in the call. The questions today. We had a reasonable number of questions, quite relevant and compelling. And then I would like to invite you for next year on February the 8th. We are going to be announcing the earnings for 2012 and we hope to give you excellent news to all of you.

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## Operator

So, the audio conference from Tractebel is closed. We would like to thank you all for the participation and have a nice afternoon. Thank you.

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