

Q3 2014 Earnings Call

Company Participants

- Anamelia Medeiros, Manager of Market Relations for GDF SUEZ Energy Latin America
- Eduardo Antonio Gori Sattamini, Investor Relations Officer and Chief Financial Officer
- Manoel Arlindo Zaroni Torres, Chief Executive Officer

Other Participants

- Carlos Remeika, Analyst
- Marcos Severini, Analyst
- Paulo Ferreira, Analyst
- Pedro Manfredini, Analyst
- Sergio Tamashiro, Analyst
- Tatiane Shibata, Analyst

Presentation

Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Good morning. This is Tractebel Energia's Conference Call, where we will discuss the results for the third quarter 2014. All participants are connected in listen-only mode and later we will open a Q&A session, when further instructions for participation will be provided. (Operator Instructions) Have in mind that this teleconference is being recorded. This presentation followed by slides will be simultaneously transmitted over the Internet at the following URL, www.tractebelenergia.com.br, Investors section, a slide presentation, and a company's earnings release are also available at the same website.

Before proceeding, I would like to clarify that all statements that may be made during this conference regarding the business outlook of the company should be treated as forecast, depending therefore on the country's macroeconomic conditions, on the performance and on the regulation of the electric sector besides other variables. Therefore, they may be due to changes.

With us we have Mr. Manoel Zaroni Torres, CEO; and Mr. Eduardo Sattamini, CFO and IRO. They will both talk about the company's performance in the third quarter 2014. And also Ms. Anamelia Medeiros, Market Relations Manager of GDF SUEZ Energy Latin America, who will present an update on the developments of the Jirau Hydropower plant. After that we will have a Q&A session.

I'll now give the floor over to Mr. Zaroni Torres. Please sir, you may proceed.

Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

Good morning, everyone. Thank you for participating and joining us in this call. We will move straight to the highlights. Slide number four, where we have a comparison of quarter-on-quarter '13 and '14 third quarter. It's not a very relevant comparison, because we have conditions which are completely different in the electric sector, mainly it's always best to compare the year-to-date numbers.

However, we have net revenues from sales, which have grown significantly. We will detail those numbers further along the presentation. And for the nine months, we also have an increase of 16.3%, EBITDA grew 25.8%, when compared to the same quarter of last year. And for the nine months figure, we had a drop when we compare the nine months of last year, 16%. The same thing goes for margin.

The net income showed an improvement. As we had announced, we were short in the first half and long in the second half, so that's where that improvement comes from.

And the PLDs are above the expected figures in the second half. So it is a difficult situation in the electric sector as we know. For the nine month period, we are still 21.7% below last year's results.

Sold energies saw an increase as well. The net price -- whenever you have short-term and high price that will increase the price in the short run. And that leads the clients to have -- to be more really to pay more, because there is a shortage of offering.

So the average price in the year increased 7% in the first nine months 7.8 when compared to last year's third quarter.

Production showed also a relevant increase, basically because of thermal generation. And we also had a few periods where we had good hydrology conditions in the south and a bit of a surplus actually. So plants are working at a maximum, especially in the southern region of the country.

On slide number five, as I highlight our performance, we had a beginning of the commercial operations of our first photovoltaic plant, 3 megawatts. It is located close to Jorge Lacerda Thermoelectric Complex. It may not be the best place between the other regions we had, but because it is an experimental plant rather than a commercial plant, per se, so it's located by, i.e. where we have enough personnel to take all the measurements and study, so that falls under within a R&D project.

And then on September the 25th, Tractebel was elected a highlight of the 18th Transparency Trophy awarded by Anefac, Fipecafi and Serasa Experian for the quality of its financial statements concerning 2013. We are in the category of companies with net sales up to 5 billion. It's the fifth award we've received and we deem that as a very important award, because that shows that we are using good practices in terms of financial statements in the company.

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The Board of Directors also approved last Friday, October the 24th, payment of credit of interest on shareholders' equity for the period ranging from January the 1st to December 31, 2014, in the amount of 223 million or 0.3416356453 per share. This will be traded ex-interest on shareholders' equity as of November 26 and the payday for that has been delegated for the company's management to decide.

On slide number six, the company's structure. No significant changes have been observed when compared to the previous quarter, pretty much the same structure.

On slide number seven, we have an installed capacity of 7,027, with 27 plants operated and with a portfolio where we have 79% of hydroelectric powers and the others mainly thermal and we are increasing our share in complementary plans. And that shows that we grow whenever we can and we have periods where we do not see any growth, because we are taking conservative responsible steps towards growth. And the map shows our geographical diversification. We are present from south to north all over the country, as you can see.

On slide number eight, we are by far the largest private player in the generating market in Brazil, way ahead of the other players in the electric sector. And Eletrobras remains as the number one company in terms of installed capacity. We are at a size approximately same as Cemig and Petrobras as well with 5% as you can see on the pie chart on the right.

On slide number nine, we have our -- a breakdown of our portfolio by breakdown by client. For 2014, we have about 48% in the captive market, that includes distributors, that's predictable, talking about long-term contract, but they are also, they are regulated contract.

The remaining 51%, 46 plus 5% we are talking about free market, where we have shorter term contracts from 3 to 5 years, most of them and that allows us more flexibility in terms of negotiations.

To minimize the risk that we have in the free market, we try to diversify our portfolio the best we can. So on slide number ten, we have just that a distribution of our portfolio. We have 16.5% little above than what we would like to in the cement area, but we're talking about large companies, and default level is close to zero. Some of them are actually partners of Tractebel. We manage to sell conventional energy for them as well.

The energy market in Brazil, now moving onto the next slide, even though there is a slowdown in the sector, the consumption is going up because we have an increase in the residential sector category. So this is the third year where we have a shortage of rain, where we have the largest reservoirs in the southeastern part of Brazil, so the third year in a row with below average rain precipitation. It should have started raining by now, it hasn't -- it has started raining in the wrong places as you are aware. So our PLD is very high.

And because of that major transfers from one agent to another, different settlements, some are making a lot of gains and others not so much. But we have had high prices for

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too long and that sort of disorganizes the industry in terms of economics and finance. So that's why we see companies going through very, very difficult times.

Tractebel has managed to maintain some balance because of the thermal generation, power generation. We have a policy where we work on our reserves, so we managed to have some balance, even though most players are feeling the adverse effects on GSF, which is very high this year because of a drop in the market and of the high thermal generation. And also to a high level of risk aversion. We had the elections just now. There was no measure towards rationing.

So we are getting closely here with reservoirs at a very, very low level. And we're going to have to pray for rain in the summer. It has to rain something close to 70% above the average, otherwise we'll have another year coming on with very high prices. And this might lead to chaos in the electric sector, because we've spent a lot of money to continue to provide energy.

On the left chart, on the blue bars, you can see difference between -- of supply and demand. There are periods, as you can see, like in 2001 where we had 6,000 megawatts of surplus than we had on rationing period. And then in 26 to 28, there was a deficit and there was no rationing.

And for this year, our structural surplus is at around 3,000 megawatts, which is not enough. When you consider thermal plants, we have about 7,000 megawatts at very high prices. And we have to use that to meet markets' demand. So the energy coming from the reservoir accounts for a large part. Hydroelectric plants have -- why is the capacity or the average capacity of the assured energy.

So if -- when we have water, we can generate a lot more. So in the period, in the summer time, in the normal summer period, we can get to 20,000, 30,000 megawatts on top of the assured energy, which is a lot more than the whole thermal generation in the country.

Then in the dry period, we don't have that. If we had a way to accumulate together the water, when we have the water, we wouldn't have to go through the difficult times we are seeing now.

Sales strategy on slide 14 remains very much the same as well. Gradual sales, as the free market is limited, the energy auctions are always A-1. We had a zero last year. We had proposed to have A-2 auctions, that's one of the changes, which we deem as necessary to improve supply. But we can see that year-by-year we are decreasing our future uncontracted energy and you can see that on the right-hand side of the chart.

On the left side, we have the uncontracted energy, which is very low in 2014, 2015. And then it starts going up. We have not factored in the additional thermal generation. This is assured energy balance. So this is what we have in terms of hedge, when we have a difficult year as next year seems to be. Additional generation from thermal plant plus other sources, which have not been factored in here.

On slide 15, energy balance shows that we have purchased a lot of energy for 2014. And with that, we managed to have some interesting level of reserve. We also had failures in two plants; Jorge Lacerda B. We had a short circuit in a generator. We'll only be back in operation by November or December. We also have regulated the contracts and this year the energy price at 149.9.

And the purchase price a little above the sales price. But in the short-term, when we look at the energy we bought last year, we can cover our portfolio. So the result overall in the portfolio is positive.

Now I'll give the floor to Anamelia, who will be talking about the Jirau plant, which is doing really well fortunately.

Anamelia Medeiros {BIO 16881348 <GO>}

Good morning, everyone. The idea is to give you an update on the Jirau project. As you all know, it is a 3,750 megawatts project, 40% of which is belonging to GDF SUEZ. The project includes 2,185 average megawatt. Out of which 73% are contracted under long-term PPAs, 30 years indexed by inflation and the balance of available energy will be marketed by the shareholders; 60%, GDF SUEZ; 20%, Chesf; 20%, Eletrobras.

Our focus now is on operation of the units. We now have 15 commercially operating units. Unit number 16 will start working by tomorrow. We believe that ANEEL will issue the authorization this week. We have three additional units under testing and the plant has been showing good operating performance, including at the full capacity, which will be tested in the beginning of the year with the flood in the Madeira River.

If we have 239 of the waiver, we would be in compliance with our commercial obligations concerning the A-5 auction, which will take place in mid-November, 2014. So construction has advanced well. The commissioning process is also advancing in line with our expectations and concerning options to create additional value concerning the assured energy.

We are still waiting for a definition from ANEEL concerning the reviews for the hydraulic losses. And as you all know, today the focus is the discussion on the waiver. We expect to have some definition in the coming months. Then also tax incentives, which we expect to have in that region.

On slide number 19, as I usually do, I tried to show comparison through images. So we have aerial pictures from the powerhouse in June 2014, the power house on the right bank on October '14, if you look at October '14. So there has been a reduction, you can see in the level of the river, but also an advancement in the power house in the right bank.

As for the left bank, power house which was already at an advanced stage, it's more difficult to see changes because their focus is in the internal areas of the power house, but you can also notice a decrease in the level of water.

At the end of the presentation, I will be available for questions. Thank you. I'll now give the floor back to Manoel Zaroni.

Manoel Arlindo Zaroni Torres {BIO 2182353 <GO>}

Moving on with our presentation, we are going to slide number 20, concerning expansion. Jirau belongs to GDF SUEZ and the other projects are under Tractebel. The thermal plant, now the Ferrari, which we acquired this year is a biomass plant based on sugarcane bagasse. It's located in the State of Sao Paulo, in the city of Pirassununga. And it has an installed capacity of 65 megawatts and a commercial capacity of 23 average megawatts, which is uncontracted.

We are investing 85 million to modernize and expand the plant capacity to 80.5 megawatts and a commercial capacity of 35.6 average megawatt. So that is around 12 average megawatts available by the first half of 2015. We expect to have the COD for that biomass plant.

On the next slide number 21, we have started building the wind project in Santa Monica. It's located by Trairi in the state of Ceara. It's comprised of four plants with a total installed capacity of 97.2 megawatt, with 47.8 average megawatt as reference. The energy in fact is already sold to special plants with between 0.5 and 3 megawatts of installed capacity.

The plant will be requiring investments of about 460 million. We have already started works, we already have our installation license and energy will be made available by 2016. The transmission lines have been completed. We have hired the wind -- contracted the wind generators. There are 36 wind generators from Alstom with a capacity of 2.7 megawatts each, that picture shows a long aerial view, Estrela 29.7; Ouro Verde 29.7; Cacimbas 18.9; and Santa Monica 18.9 megawatt in the state of Ceara.

On slide number 22, our solar project. The picture shows nice image of the project. And in the background you can see the chimney from where the smoke stack from Jorge Lacerda. We expect an investment of 56.3 million. We are still mapping the situation in Brazil and using different technologies and trying to assess how different solar panels operate.

Those panels have different characteristics in terms of quality and in terms of efficiency. And also the different regions have different temperature variations, humidity variations, wind variations. So the idea is to try and identify for each region, which type of photovoltaic technology is best, that's the objective here. And so this plant, we'll have three megawatts from installed capacity in the spot market.

And we also decided to show what we have in our portfolio in terms of development, that's slide number 23. These are projects which are in the pipeline that have been acquired and have been assessed.

We have Pampa Sul with installed capacity two times 340 megawatt commercial capacity and 293 megawatts per unit. We are waiting for the license. We are negotiating contracts,

civil works contract, other equipment and assets also being negotiated. And our idea if all goes well is to be able to participate in the next A-5 auction.

We also have the Campo Largo project in Bahia, installed capacity of 626 megawatt, commercial capacity at 300 average megawatt, a very significant investment in this project. It is broken down also in wind projects up to 30 megawatt. And we are also trying to get something ready to participate in the next auction.

Santo Agostinho in the state of Rio Grande with installed capacity of 600 megawatt, so there is significant room for us to expand in the wind segment and also a project, which is just starting the Termo Catarinense in the state of Santa Catarina 600 megawatt. And the idea is also to work on this going forward as a future opportunity.

Now I give the floor to Sattamini to talk a little more in detail about the company's financial performance.

Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

We're going to start with -- good morning, everyone. First of all, we'll go to slide number 25. We have once again arrows going up, which is very nice. You can see the changes quarter-on-quarter. Zaroni has mentioned, has talked about some of the indicators, but we are now have resumed our annual growth by the third quarter. The year has worked opposite than what we saw last year. We had some margins last year that we had to use, so we have a different year 2014. It was started very lean and we are "Putting on Weight" starting in the third quarter, as we had somewhat anticipated in the previous calls of this year.

As we move on to page 26, we can see the net revenue from sales. That shows the growth of 22.6% quarter-on-quarter. And Zaroni also mentioned this in the beginning of his presentation and the breakdown of that growth. The first point was the insurance for business interruption which we entered as revenue. And sometimes we were short in that figure. We were -- in other words, we are not long enough because of machine breakdown and then the insurance covers that type of event, but we call business interruption.

We had an increase in 99 million concerning the average price of sales, which ran to 151.70 per megawatt hour. We have an increase of 74 million, concerning 12 million and 13 million average megawatt above when we compare quarter-on-quarter.

And in the short-term operations, we had revenue for CCEE in the short-term of 219.4 million as compared to 172 million in the same period of last year, leading to a net result of 47 million in short-term operations.

I'm going to talk about EBITDA. It's important to understand that when we do it quarter-on-quarter, it's not really clear. We present this on a quarter-by-quarter basis -- base, because the market wants to see that, but it's more important to notice that the year-to-date has been improving. The second -- our EBITDA was minus 37.4% when we compare

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to first half of last year. And now our EBITDA is at minus 16.1%. In other words, we see a gradual recovery of our results.

But the EBITDA change on slide 27, 150 million coming from the company's normal operations, pricing amount availability of equipment we also have R\$147 million concerning short-term trading and it's composed of short-term CCEE with 129 and CNPE 03 at 18, that adds up to 147. Those R\$18 million mean the reversal of the expense which we had in the third quarter of 2013. So the 129 plus 18 equals 147 in terms of change of result between the third quarter 2014 and 2013 in short-term operation.

As I mentioned before, because of our Jorge Lacerda and the insurance conservative with R\$101 million, we also had an increase in the expenses with fuel, mainly because of William Arjona operation in 2013. We did not have a gas supply. We started having a gas supply at the end of 2013, beginning of 2014. So there was an increase in the expenses concerning the purchase of that gas and the purchase energy for resale, R\$147 million, specifically with 353 megawatts which were purchased in the market, so that's the EBITDA change resulting 25%.

If we move on to the net income evolution, also in the year-to-date, we have the situation where before we had in the second quarter, minus 151 when compared to last year. And this comparison already shows a decrease to minus 21 showing a recovery in terms of net income as well.

And in breakdown of net income when we compare third quarter last year with third quarter this year, 110 concerning operations and short-term trading 97. We have Jorge Lacerda review with 67. The financial result, minus R\$8 million, due mainly to the fact that we had an extraordinary event in the second half of 2013, which was the prepayment of a debt. Otherwise, we will have a better financial result at R\$25 million. We had an increase in field, as I mentioned, and energy purchased for resale at 97. So with 34 increase in terms of net income when we compare quarter-on-quarter.

Moving on to slide number 29, where we show our indebtedness level. Our foreign exchange exposure is very high, 4% and also we have a contracted hedge energy, hedge operations. So the hedge is working for us. We had a decrease in the gross debt from the second quarter to the third quarter, down to 367, a significant decrease in gross debt.

We had an improvement in our indicator in the previous quarter, where we were 1.4 times, now we are at 1.2 times EBITDA. And our net revenue has dropped to 2,580 -- actually it was at 250 -- 2,580. We see the change in the next slide. It actually went up a little bit.

We had a payout of dividend, which is an important component in terms of cash. We had a variation in working capital at 536. We had investments, which were made in the plant, both in the new plants and then existing plants, we paid income tax and social contribution. There was also foreign exchange variation. We also had operating results. Still the net debt increased 7.1% coming from 2,409 million to 2,580 million, a very comfortable level, way below EBITDA.

Moving on to page 31, we have the profile of the debt. Well behaved, if you will. We still have some amortization to take place this year. No large operation until the end of the year. In 2015, we have a swap in foreign exchange for CDI at \$200 million.

And for 2016, we have another one of those operations and this will change the profile for 2015 and 2016 when compared to the future years. Then we only have those long-term BNDES finances head around R\$220 million yearly.

A breakdown of the debt. As I said, low foreign exchange exposure, 96% of the debt is in reais made up of 8%, while considering CDI TJLP most of our debt is in TJLP, which means long-term financing. CDI, which is the second most important installment concerning very short-term operations, two years usually. And when you have IPCA transaction which was contracted with NIB, Northern Investment Bank, which will mature in October 2022, which is totally compatible with our assets, most of them are in PCA.

Moving on to page 32, we talk about investments. And we can see that for 2014, our investments are at 658, similar to the first half of this year. Most of it going through maintenance and operation. Operations, we have revamped the plants of Passo Fundo and Santiago, something at around R\$500 million.

We also have spent substantial amount in 2015 for maintenance. They appear here as own resources, the orange bar, but we are about to close a deal with (inaudible) which will cover most of those revamping operations. And also the investments in the wind plants and biomass plants and they are ongoing, and they're also represented in those bars.

Moving on to slide 33. We maintain our policy of paying 100% of the distributable income as dividend. This will go on until we have investments that will justify the repayment. So we would not repay resources unless we have a project which demands that.

We generate cash, if we do not have larger projects the tendencies for us to provide a 100% dividend payout. For the first half, we have defined in November 26th for the payout and we have also a schedule and this was approved by the Board in the last meeting. The payment on interest on equity which is expected to happen in the beginning of 2015 at 35 -- R\$34 per share.

This is what I had to say in terms of financials. I give the floor back to the operator for the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question comes from Mr. Marcos Severini from JPMorgan.

Q - Marcos Severini

Good morning, Zaroni and good morning, everyone. Thank you for the call. I have two questions. The first is about your expectations in terms of GSF for 2015, especially concerning a scenario of economic slowdown, lower consumption, what numbers do you expect in this scenario, if you're trying to be in line with what we saw this year?

And the second question has to do with energy prices. We have seen a strong growth in the price of energy in 2014, which reflected non-favorable hydrologic scenario, but also constant issues with supply and demand vis-a-vis some generating, transmitting projects. If we have, next year, a better hydrological scenario, next year, would you say that there will be a drop in the long-term price of energy, which will again reflect favorable hydrology or do you see a maintenance of those price levels? I'm talking about 130, 140. Or do you expect those prices to follow, if we have good hydrology condition?

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

Okay. Marcos, this is Zaroni speaking. I think we will close the year in a very complicated situation. Reservoirs in the southeast region are dropping at a rate of 0.3% a day. But we know that we have some contribution coming from Jirau and Santo Antonio that energy goes the southeast. And this will help to fill reservoirs, perhaps, or you are going out to enter a more humid period in that region. So it usually rains in the summer every year.

There is also water at Madeira River. So we don't know about the load, sometimes the load increases because of temperature level. But our assessments for next year will depend on what will happen between January and April.

As you know, January and April amount to 60% of the year in terms of rainfall. So if we have good rainfall, we can have reservoirs at good levels by April, even if we generate 11,000 megawatts from the thermal plant.

And so in another words, it's difficult to say. If we do not have rains, we will have rationing.

If it rains an average level, we will survive to the year and this will reflect in the PLD. Today, the price of energy for 2015 is way above what you mentioned. Today, we can have something around 350 and up to R\$500 for 2015 contract and that prices start to go down.

But the consumers are sensibly -- when the price in the long-term is too high, the clients will be susceptible, the fact that there is -- there might be energy shortage, then the price in the short-term also increase. If we have a deluge, if it rains, if it pours, things will change. If we have 110% to 120% of our average, this will amount to a lot more than all thermal plants put together throughout the country. So with a much stronger effect, though and that's something unpredictable by now.

And of course, GSF will depend on -- that's an area, right. What will happen to hydroelectric generation if we have less float and the same amount of generation, the GSF will be at a level close to what we have this year.

If we have more rainfall than last thermal generation, the GSF will be smaller, I'd say, smaller by 0.5%. So that's a question which is difficult to answer directly, I can comment on it, but it's mainly speculation. It depends on the hydrological scenario we have going forward.

Q - Marcos Severini

Thank you. If I could ask one final question concerning the contract that you have for Jirau. Any new update concerning that?

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

We have gas now, because we have an injunction in court. Right now, we do not have a contract for the gas, but there is a decree that assures gas supply for 20-year, so based on that, and given the difficulties in terms of negotiating the Petrobras, we were forced to file for an injunction.

And now that injunction has been upheld by the judge and we believe on half to be so, because when a Presidential Decree is no longer valid that means serious difficulty for the country. So that's what we believe in. We build a plant based on a Presidential Decree. So there was no change concerning that injunction. The other party hasn't moved, so we have the same status as the last time.

Q - Marcos Severini

Yes. Exactly. Exactly. Okay. Thank you.

Operator

Once again, the press question should be forwarded to the company's Press Relations office. Our next question comes from Mr. Paulo Ferreira from Bradesco BBI.

Q - Paulo Ferreira {BIO 18941383 <GO>}

Good morning. Thank you for the call. My question has to do with the new PLD regulation. What are your opinion about ANEEL's new proposal? And if this new proposal is actually going to practice, what consequences will the company see going forward?

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

ANEEL's proposal can be divided in two parts. First, the reduction of PLD itself, which means a decrease in the stress level of the industry. You will have lower prices, but you are giving out the wrong signal, because we have a shortage of the product anyway, still decreasing prices. We have some reservations about that, and also about the technical basis for that decision.

So we think something should be done and it's to be better -- the thing that the scenario needs to be better assessed. And there is the more perverse if you will, part of that equation is, who is going to put the bill between the thermal dispatches and PLD. The

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proposal is to divide the bill, the check among everyone, and that's not consistent. We are totally against it and we're going to go all the way to prove that.

Suppose I'm a green company, I have a wind park, a wind plants, and in the month where I cannot produce reference energy I will have to pay for an oil-based thermal plant, that makes absolutely no sense. Now imagine we have only one exposed agent, will they have to play the total bill for the whole thermal plant, again it is a process which we consider going in the wrong direction, it's a bad copy of CNPE 03 and we totally disagree with it. The consequences for the company are easy to understand, if you bring the prices, the PLD price down as we expect to have a certain level of GSF next year, the effect for the company in the short term is positive.

But the effect in the mid long-term is negative, because it means that with lower energy prices we'll have a higher difficulty to contract and a smaller willingness on the part of times to purchase new contract. So it's negative in the long term. Thank you.

Operator

Our next question comes from Mr. Carlos Remeika with Covalis Capital.

Q - Carlos Remeika {BIO 21121022 <GO>}

Good morning. Thank you very much for taking my question. I have one other technical question on the provisions, see fractioning would be announced, but not yet implemented, would you have to make a provision for it similar to ESS that was done before?

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

With the ESS which has been proposed right now has not been regulated. It's not definite, it is a potential guideline, which is not going through public hearings.

Obviously, if next year this becomes a regulation for the sector and if we are not successful as we were when we had CNPE 03 successful in getting an injunction and being able to be sure that the company's arguments are robust and based on the current legislation, we will have to have provisions, right.

But we believe that today the regulation in the sector event if the regulation comes out of the public hearings as it was proposed, it also harbors legal royalties if you will, and we will resort to the same solid arguments we use before to go to court and we will be confident that we won't be charged for that in the future.

So in the end, we need no provision, but we will have to assess that with our legal counsel or legal department and we will follow their advice, our attorney's advice, as to the probability of losing the legal case. As a complement, this is our only speaking now. We understand that what's been proposed is the creation of a new tax burden, which is not acceptable. ANEEL cannot simply go and do that.

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Q - Carlos Remeika {BIO 21121022 <GO>}

I see. If I may, could I follow-up a little bit on the rationing itself. I understand ISA's case, but for example, if rationing rules would be announced, say, with implementation next year, would you need to create a provision?

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

You're talking about the rationing?

Q - Carlos Remeika {BIO 21121022 <GO>}

Yes.

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

Okay. I understand now. The impact the rationing would have has been reducing our contracted volumes. In other words, it would impact in the volume of our revenue arising from the contract. On the other hand, if I have energy above that contracted level I could use the short-term market to sell that energy and would be having to sum the spot price. So there would be no reason to have provision. Zaroni, will add to that.

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

When we work on the budget for 2015, we consider the level of GSF. If we have rationing and have a reduction in contracts, their GSF will also reduce. And this theoretically will improve the company's results.

Q - Carlos Remeika {BIO 21121022 <GO>}

Thank you. Thank you for answering --

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

Rationale for generating company is better than what we have today. It's bad for society, for the country or for generating companies, especially for the hydroelectric generators. It has a positive result, because we lose contracted revenue, but on average you, on average you gain (inaudible) GSF, the exposure.

So today it is a very perverse effect. For each 10% you would lose half of your revenue and every 5% corresponds 25% of revenue. So if you have a single plant, which is 100% contracted, they're going through a very difficult situation right now.

Q - Carlos Remeika {BIO 21121022 <GO>}

Okay. Thank you for your answer.

Operator

Our next question comes from Ms. Tatiane Shibata from HSBC.

Q - Tatiane Shibata {BIO 18793735 <GO>}

Good morning. Our question has been answered. Thank you.

Operator

Our next question comes from Mr. Sergio Tamashiro from Safra Bank.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Good morning, everyone, Sattamini, Zaroni. I have two 2 questions. First a follow-up on the GSF. You mentioned numbers going up or down and also mentioned the thermal dispatches, but concerning just growth in demand, where do you estimate the growth in load. And what level of GDF you expect for next year.

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

That's what I said, Sergio. Our load charge, we estimate at 4%. I have to check what we used in the release, but again GSF can normally be speculated on. If I say it's going to grow 4%, we're going to have part of it in thermal, part of it in terms of hydroelectric power that impacts the final number directly and the level of margin varies very, very large, I cannot give you a number, it's a very sensitive issue.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay. In terms of investments you talked about four wind thermal units, can you tell us what the CapEx for each one of those projects is? And also if you could tell us about TIR for wind and for thermal, which one is the riskiest you would say?

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

Sergio, we won't be touching on that, because the way are you still negotiating the EPC contract. We are not very sure about the requirement about line connection, so it's difficult to say.

We -- it is always to invest through a chain results within once the company wishes for it, but I cannot tell you anything other than that right now.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay. But would you say that the thermal projects are riskier than wind project?

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

Usually, yes, but in the case of the coal base thermal plant, the risk is also low.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay, okay. One final question. With the new government, the new continuation actual of the government, do you expect a change in the TJLP level since most of our financial costs are connected or pegged the TJLP.

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

I don't have a final opinion about that yet. That's a discussion that needs to take place. You need to have investments in infrastructure for the country as a whole. I think this is obvious, this is clear, but it all depends on how the other interest indicators will behave, all the other financing possibilities will behave. There is also inflation issues, foreign exchange issues, so it's difficult to answer right now. Anything I'd say now will be a wild guess, so I'd rather not tell you a number. So that might be a good question for the next Finance Minister.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay. Okay. Thank you.

Operator

Our next question comes from Mr. Pedro Manfredini with Credit Suisse.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Good afternoon, Zaroni, Sattamini. I have two questions. First about the size of the allocation, which was made in the third quarter? You said that in first quarter we were short, second long, but between the third and fourth quarter where you will have a longer position?

And my second question is, I see in your balance sheet that for 2015 there is a surplus, which ensures an exposure to GSF at about 2% to 3% capacity. If we have lower-than-average rain levels in December, what would be the company's strategy in terms of contracting if we have a GSF at levels above 2% to 3%. Will this happen December-January? Can you give us some color of when you would go to market to try and cover a potential higher GSF level?

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

So I'll talk about the GSF second part of your question. Contracting for next year is (inaudible) less at today's prior prices, today we have very high prices, so no contracting for next year, makes no sense. But don't you worry, we don't have that number yet, we have possibly of thermal generation, when we make decisions or when we make the decision in December to allocate energy, we take all of that into consideration.

We could increase our -- validate it through thermal, so that's manageable if you will, we manage our portfolio in a way that we can maximize the allocation and maximize gains, of course sometimes we make mistakes, we do not always get it right.

But we have a track history of getting things right more than wrong, but sometimes it's difficult to predict those behaviors. Concerning allocation, we can say that the second half is a selling half, but the size of the allocation is difficult to say and difficult to comment on that we need to give you the result of the company, we cannot do that right now, but at

least can you tell if the fourth quarter is higher than the third quarter in terms of allocation. Pedro, we cannot just give you the number.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Okay, okay. Thank you, thank you.

Operator

We now close the Q&A session. I'd like to give the floor back to Mr. Manoel Zaroni for his final remarks, please Mr. Zaroni you may proceed.

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

Good morning, everyone. Again thank you for joining us in this call. Thank you for the questions and comments. Very good questions. Questions are getting better and better, though it's more difficult to answer and some questions you have been asked, two of the Minister of Finance again somebody said here.

Sometimes, it's difficult for us being a listed company to talk about everything, to cover all the issues. Of course we have our own opinion, but we do not always have the possibility to verbalize those opinion.

So that's what we had today. I think we are going through recovery path and as I said before and we expect to address the problem at hand, which is the change in the PLB rule and especially the change in the payment rule, payment of the system service fees.

And now we have a chance to discuss the industry's issues, right. Those decisions have to be discussed -- are really open. We have a very healthy model, it's a good model, but we need to improve and thank you.

Operator

Tractebel Energia's audio conference is now over. Thank you very much for participating, and have a nice day. And thank you for using the services of Chorus Call.

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