Tractebel Energia
GDF SUEZ



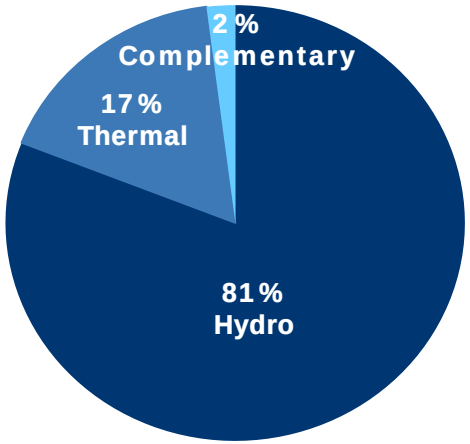
Prospects for the Electric Energy Market

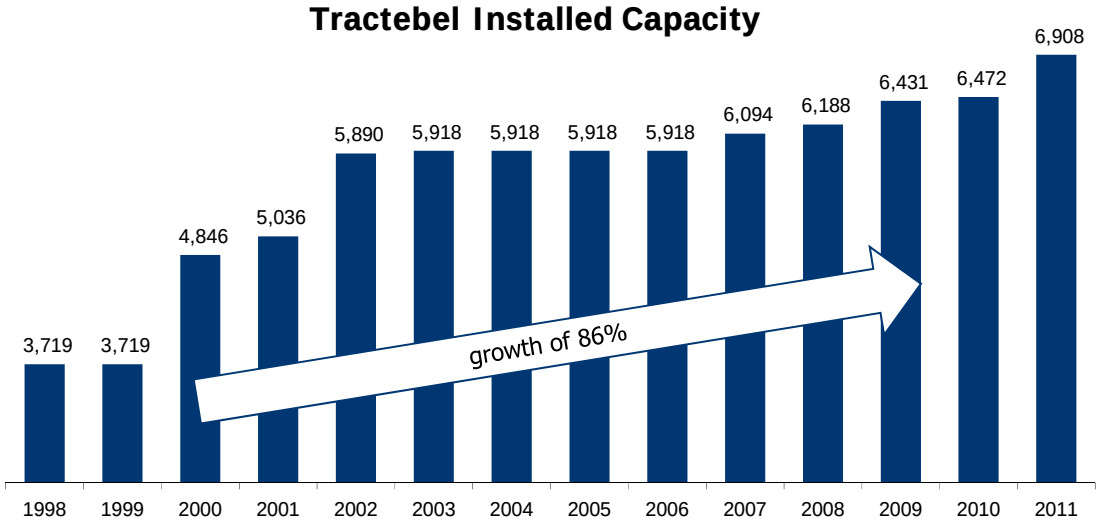
Tractebel Energia | GDF SUEZ - todos os direitos reservados

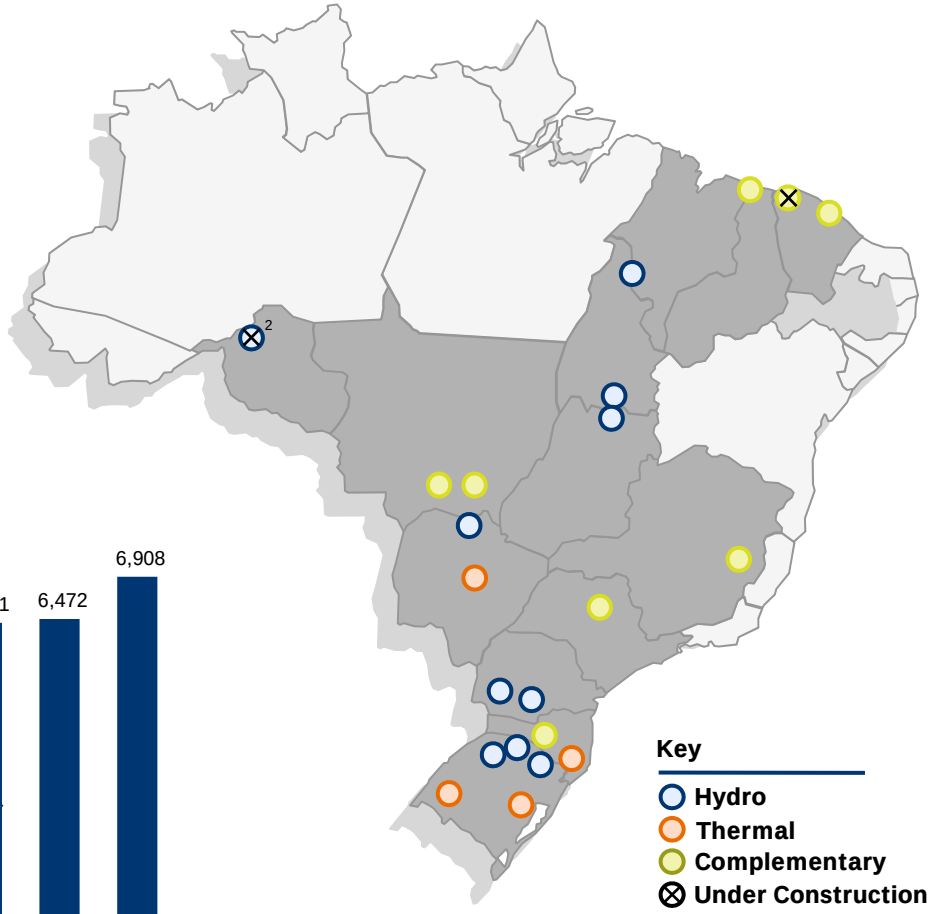
São Paulo, February 29, 2012

Diversified portfolio of assets, with strategic location

Installed capacity of 6,907.6[1] MW from 22 plants operated by Tractebel Energia in a diversified portfolio.





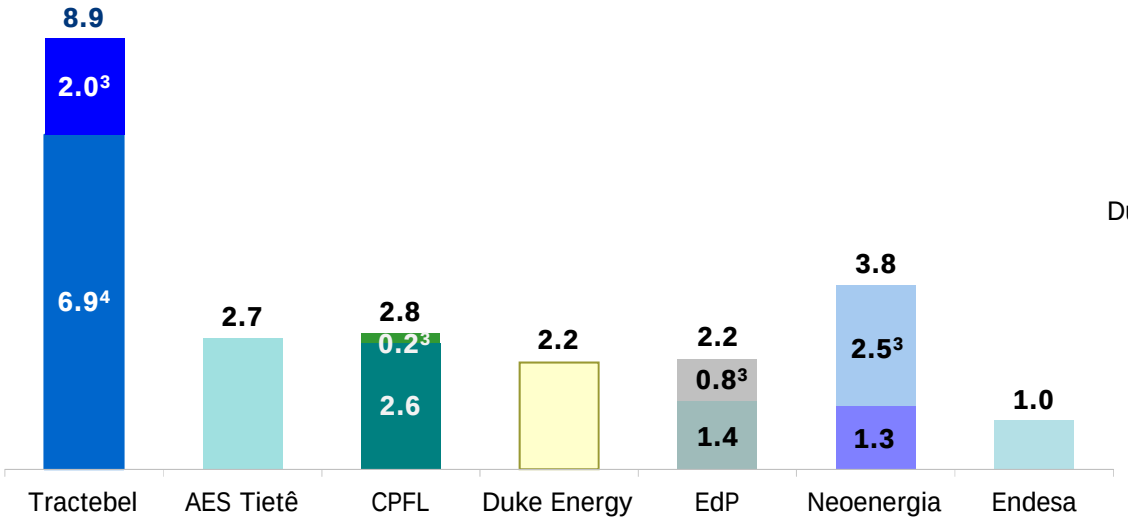


Note:
[1] Considers the complete Estreito HPP ramp-up, what is expected for 2012.
[2] IPR owns a 50.1% stake in Jirau HPP which is expected to be transferred to Tractebel Energia.

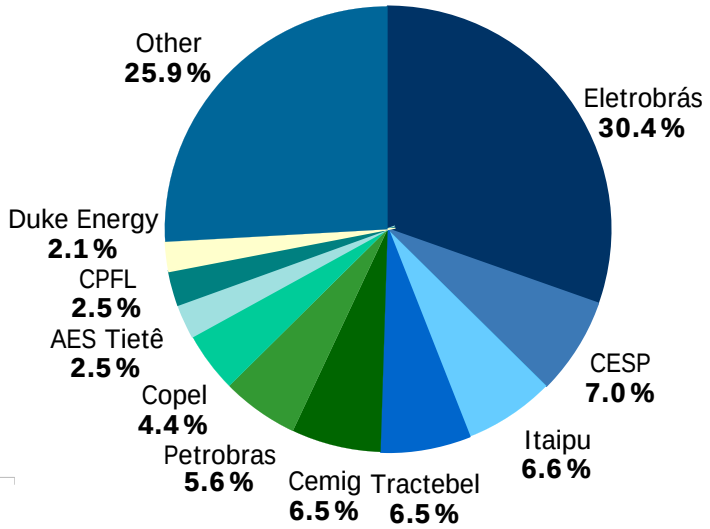
Leading position in the generation sector

Tractebel Energia is the largest private player in the Brazilian generating market...

Private Sector – Installed Capacity (GW)



Brazil – Existing Installed Capacity[1,2]

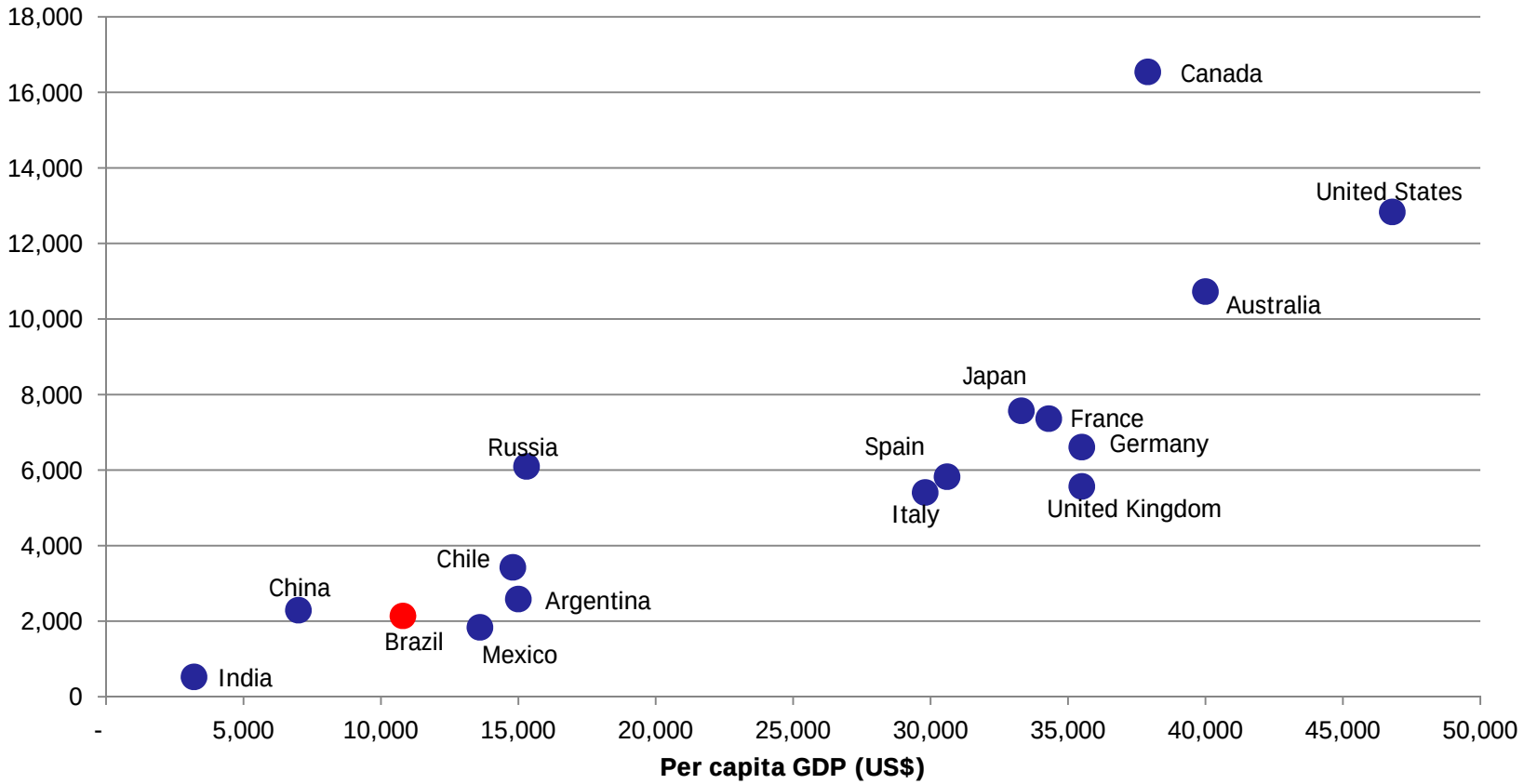


Source: Aneel , Companies' websites and in-house studies.

Notes:
[1] Amount corresponding to SIN – National Interlinked System.
[2] Includes only the Brazilian part of Itaipu.
[3] Installed capacity under construction. For Tractebel, the figure includes its parent company's stake (50.1%) in Jirau HPP.
[4] The complete Estreito HPP ramp-up is expected for 2012.

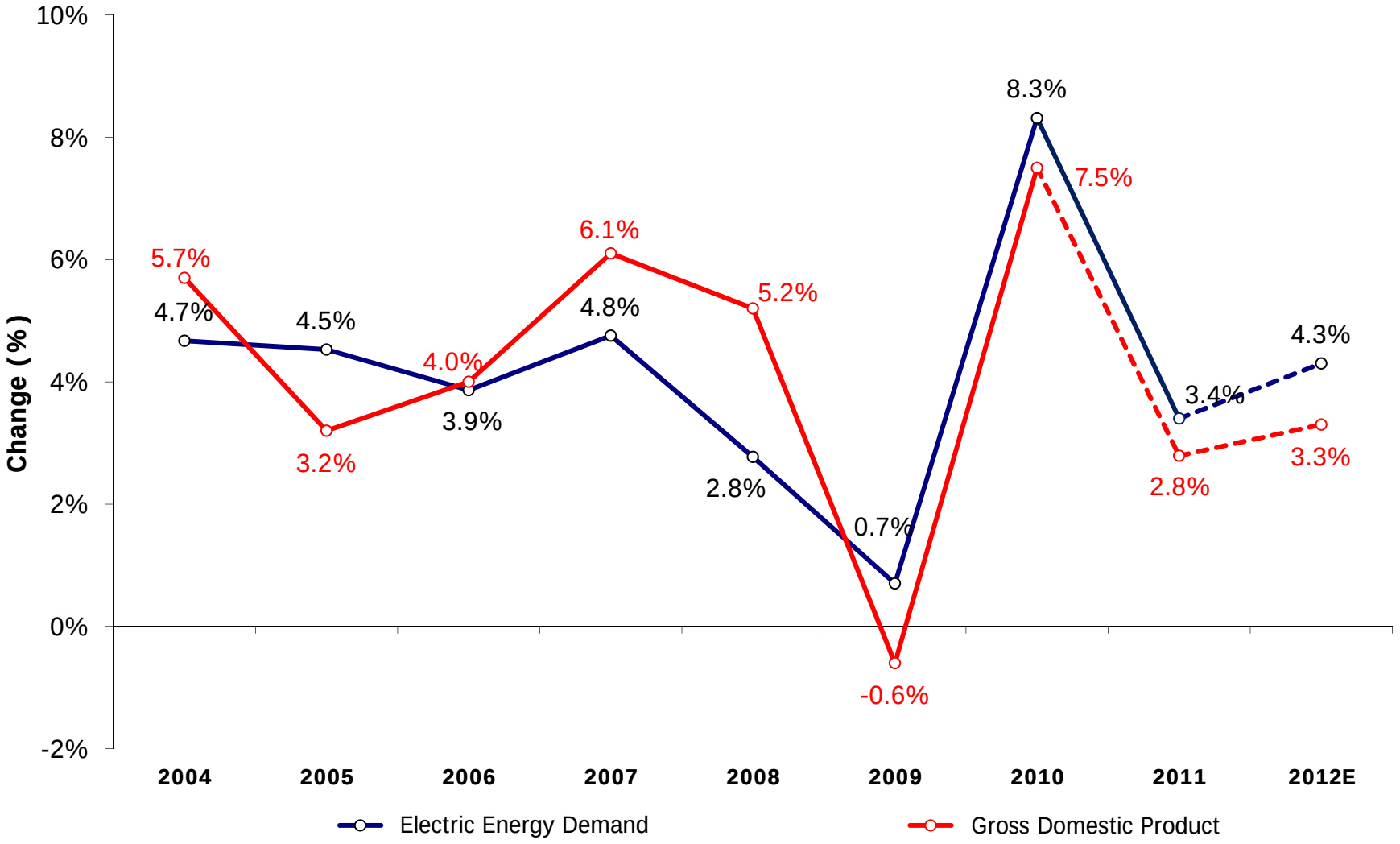
...and is well positioned to play a consolidating role.

Electricity: Market with Growth Potential



Source: IEA Energy Statistics, 2009.

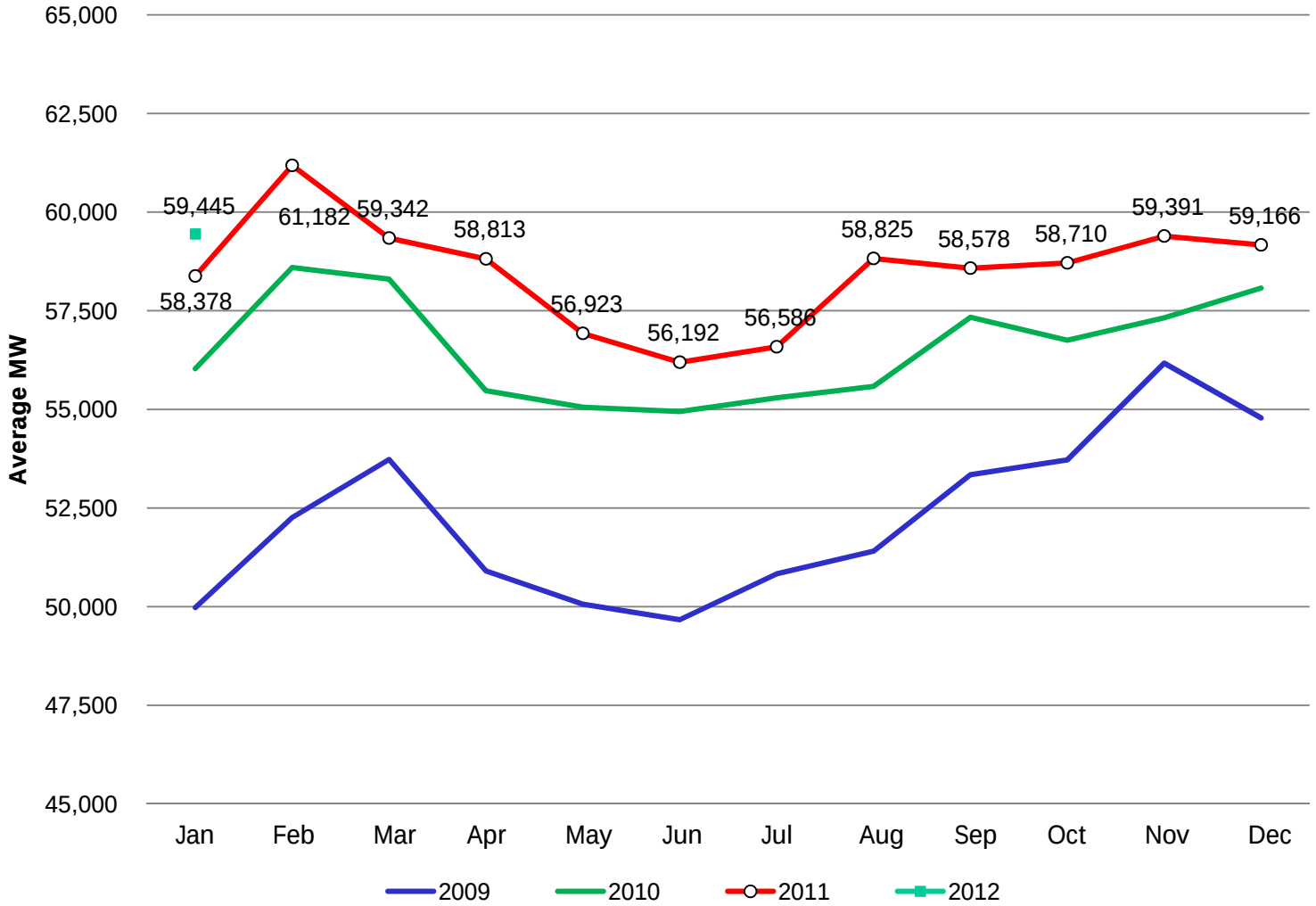
GDP x Demand



Sources: GDP = Central Bank || Demand = ONS/ TBLE

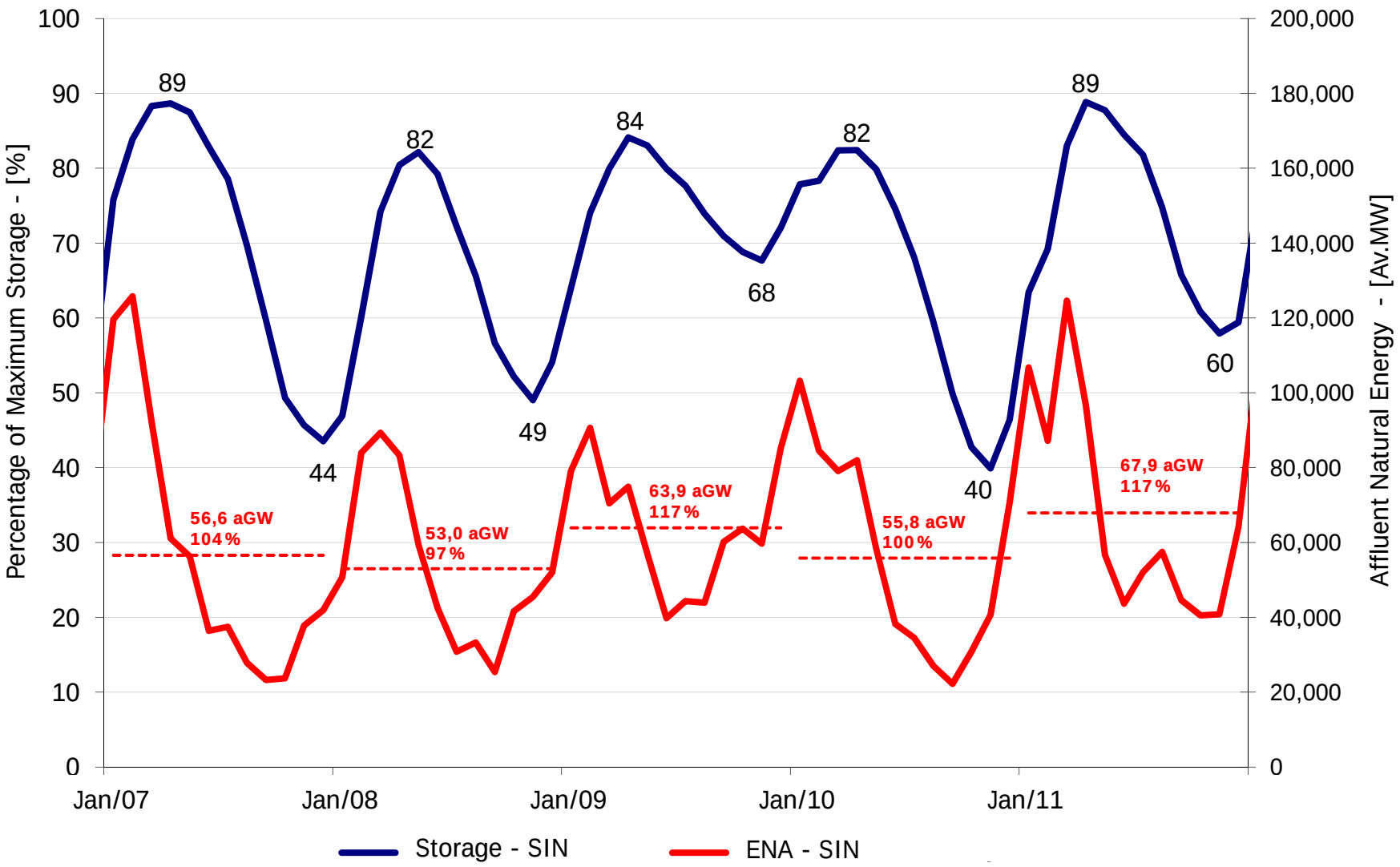
Demand Evolution: 2009 to 2011

Includes losses
Does not include load of ANDE

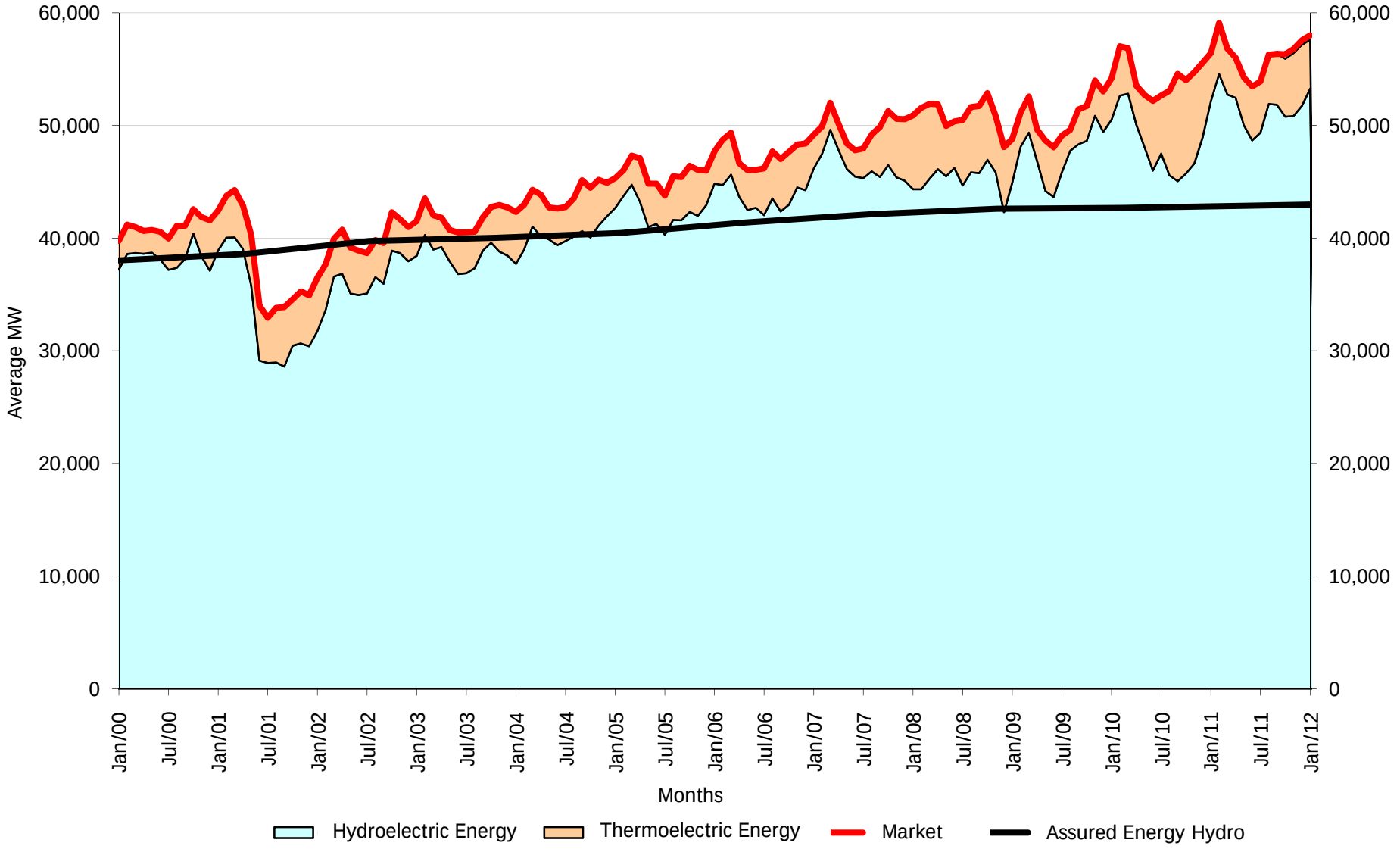


2010/2009: +8.3% || 2011/2010: +3.4% || 2012/2011: +4.3% (E)

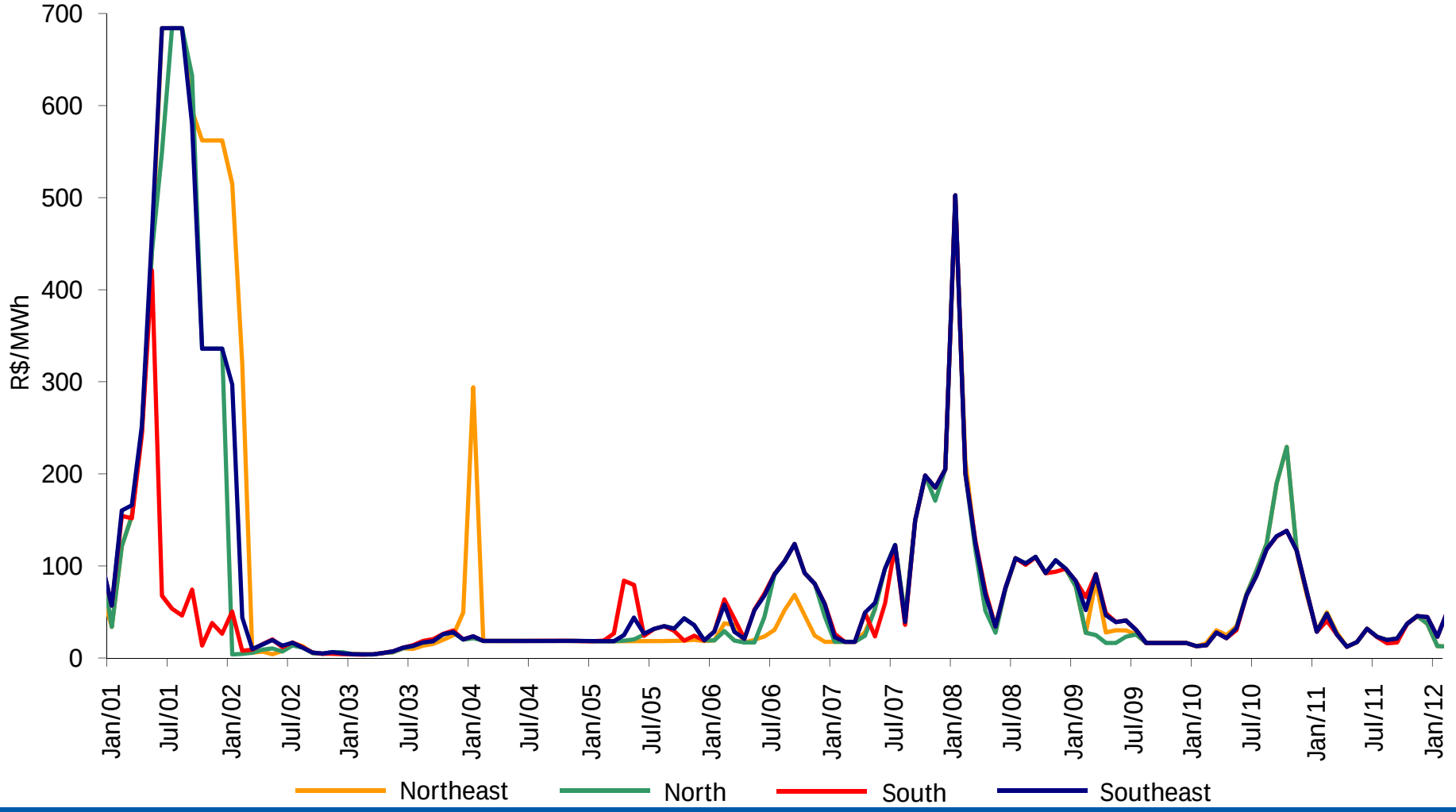
Storage and Affluent Natural Energy - ENA



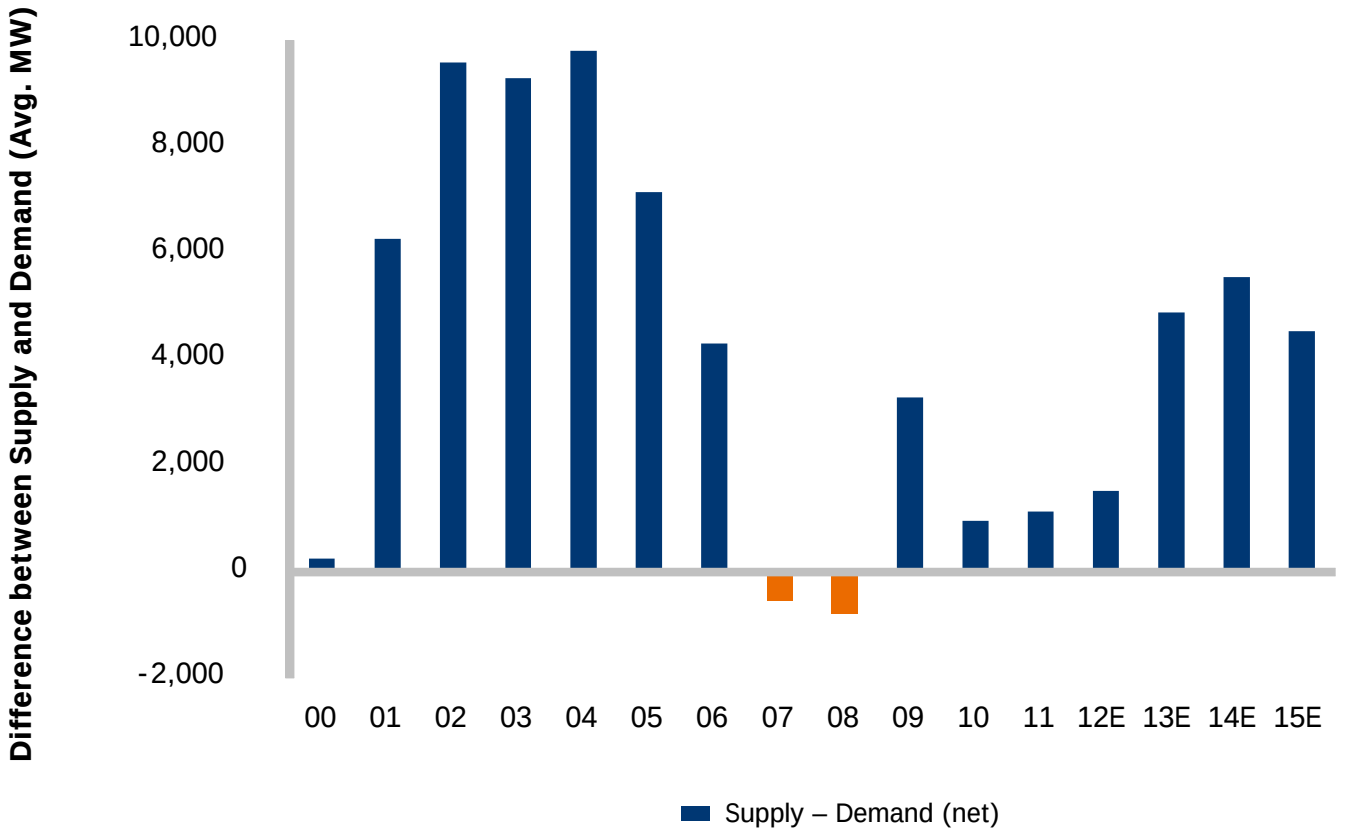
Hydro and Thermal Generation Profile



Evolution in Spot Prices

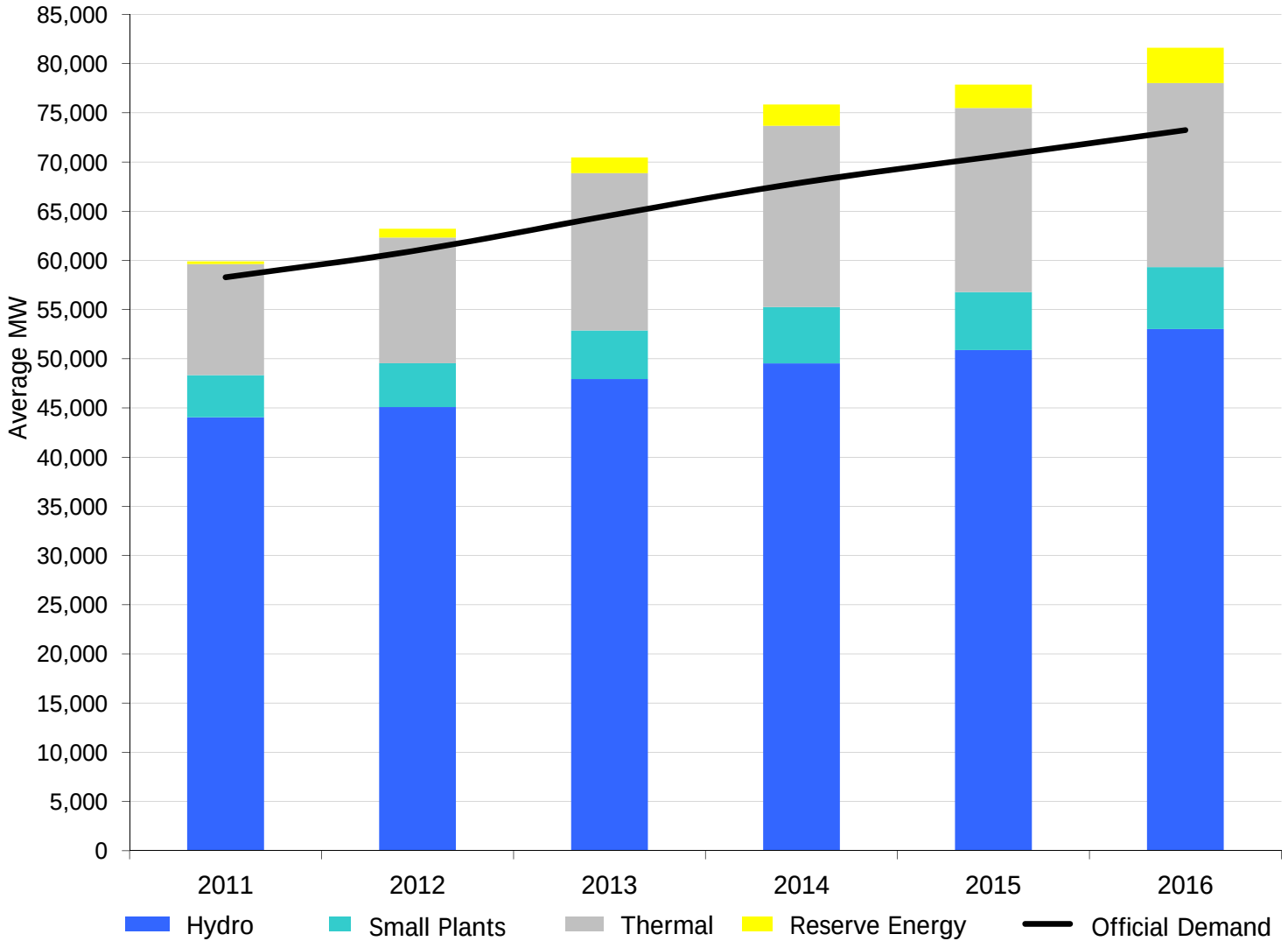


Supply x Demand Balance



Source: Tractebel Energia's internal study based on ONS' Operations Monthly Program of January 2012.

Balance by Source Type



Excess supply up to 2016

New auctions will add further energy to the system (demand is notified by the distributors)

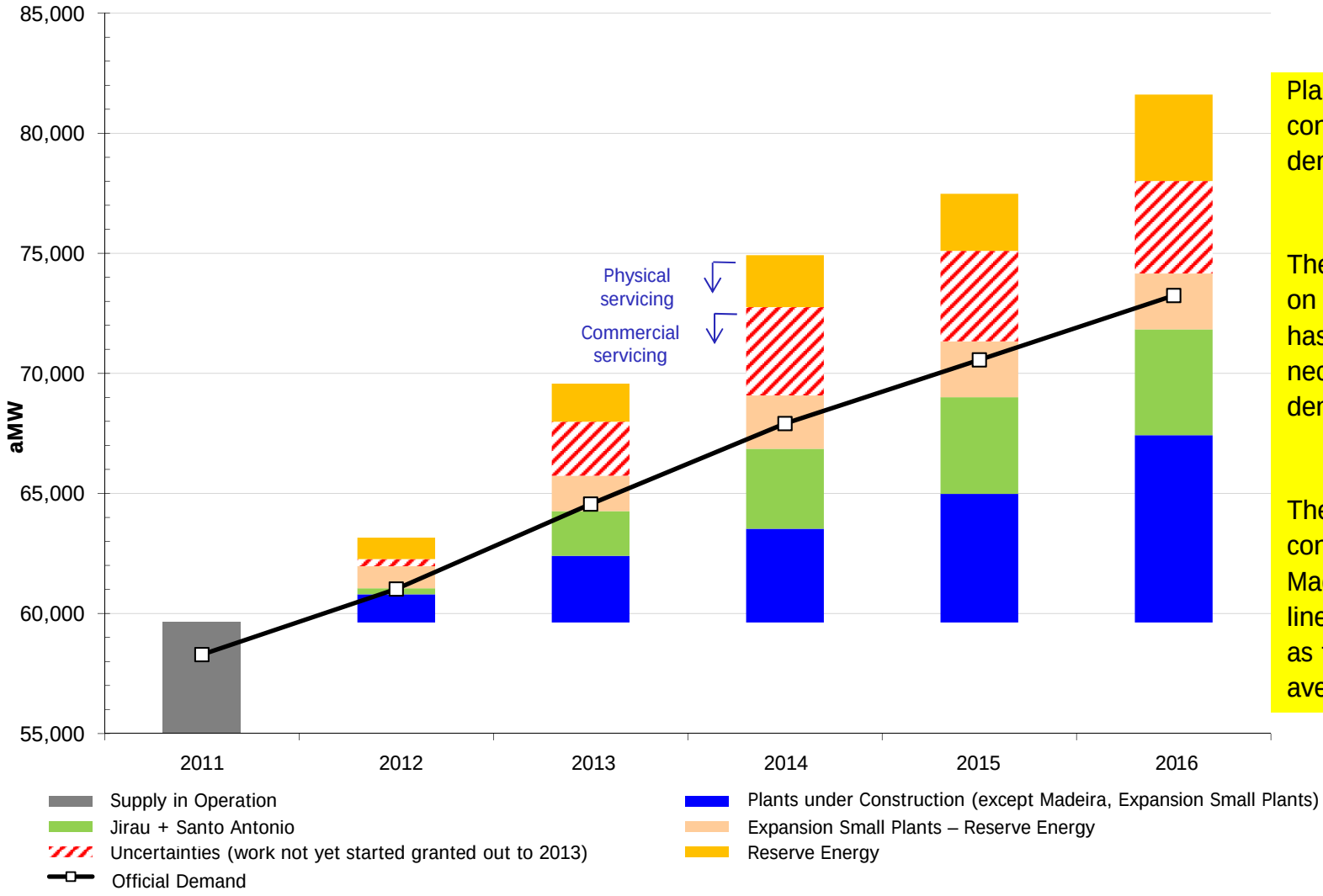
Next auctions with delivery up to 2016:

2012 (March 22): delivery in 2015

2013: delivery in 2016

Reserve Energy Auctions (?)

Risks associated with Expansion in Supply

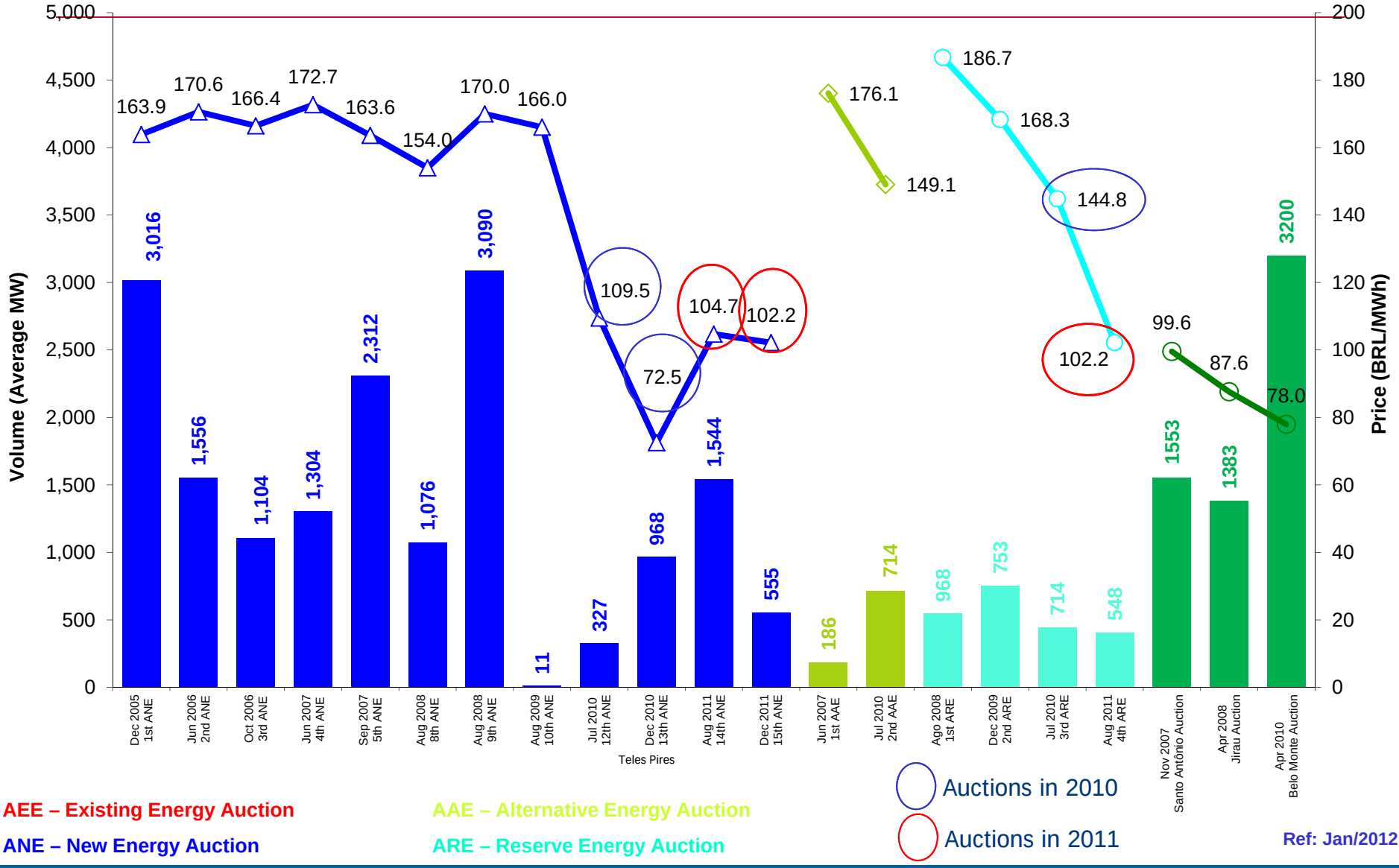


Plants already under construction meet demand up to 2014

The contracted plants on which construction has yet to begin are necessary to meet demand as from 2015

The balance is contingent on the Madeira transmission lines being in operation as from 2013 (2,360 average MW)

Results of the New Energy Auctions



AEE – Existing Energy Auction

ANE – New Energy Auction

AAE – Alternative Energy Auction

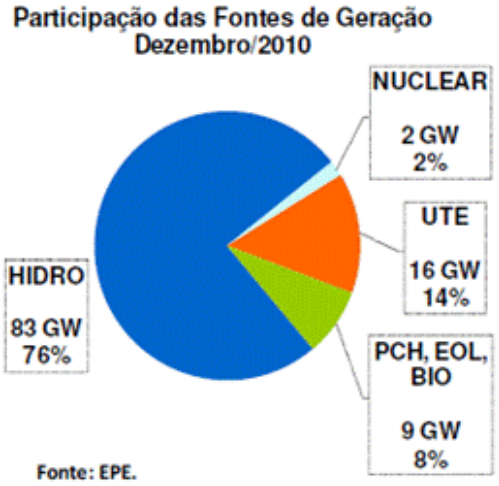
ARE – Reserve Energy Auction

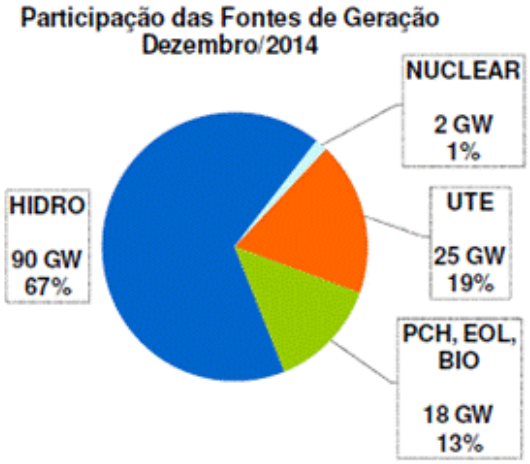
Ref: Jan/2012

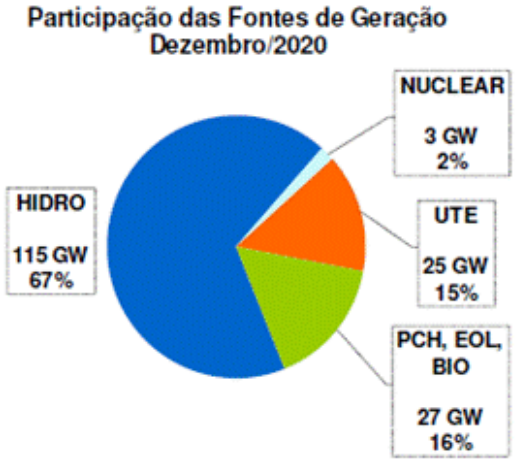
What is in the Ten-Year 2011-2020 Plan?

- Installed capacity is expected to grow from 110,000 MW (Dec/2010), to 171,000 MW (Dec/2020)
- Prioritization of renewable non-conventional sources (SHP, wind and biomass)
  - Will double (8% to 16%)
- Share of HPPs will decline from 76 to 67%
- Alternative sources will remain at about 83%
- Investments of about R$ 190 billion
  - New plants correspond to R$ 100 billion
  - 55% in hydro and 45% in renewables
- Expansion through TPPs fired by natural gas
  - Coal-fired TPPs are not part of the plans to expand the system

Evolution in Installed Capacity by Generation Source







Proliferation of intermittent sources

Run-of-the-river hydro plants

Absence of coal-fired thermoelectric plants

Operation of the system will be more challenging

- Extreme dependence on dispatch from thermals in the dry period
- Difficulty in intraday load shape

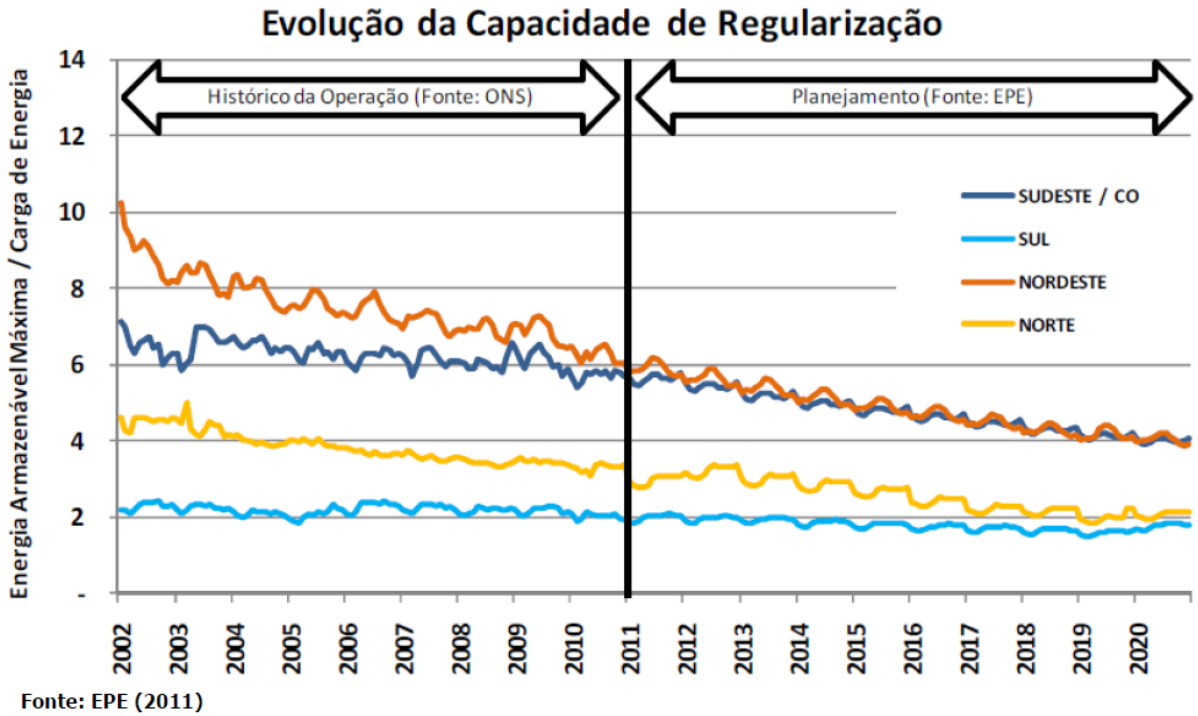
Thermoelectric dispatch more intense with an increase in the Marginal Cost of Operation

Greater spot price (PLD) volatility

External factors not Computed in the Price of the run-of-the river plants

Are we correctly incorporating all the costs of the reduction in storage reservoirs

Evolution of Maximum Storable Energy in relation to Consumption



Fonte: EPE (2011)

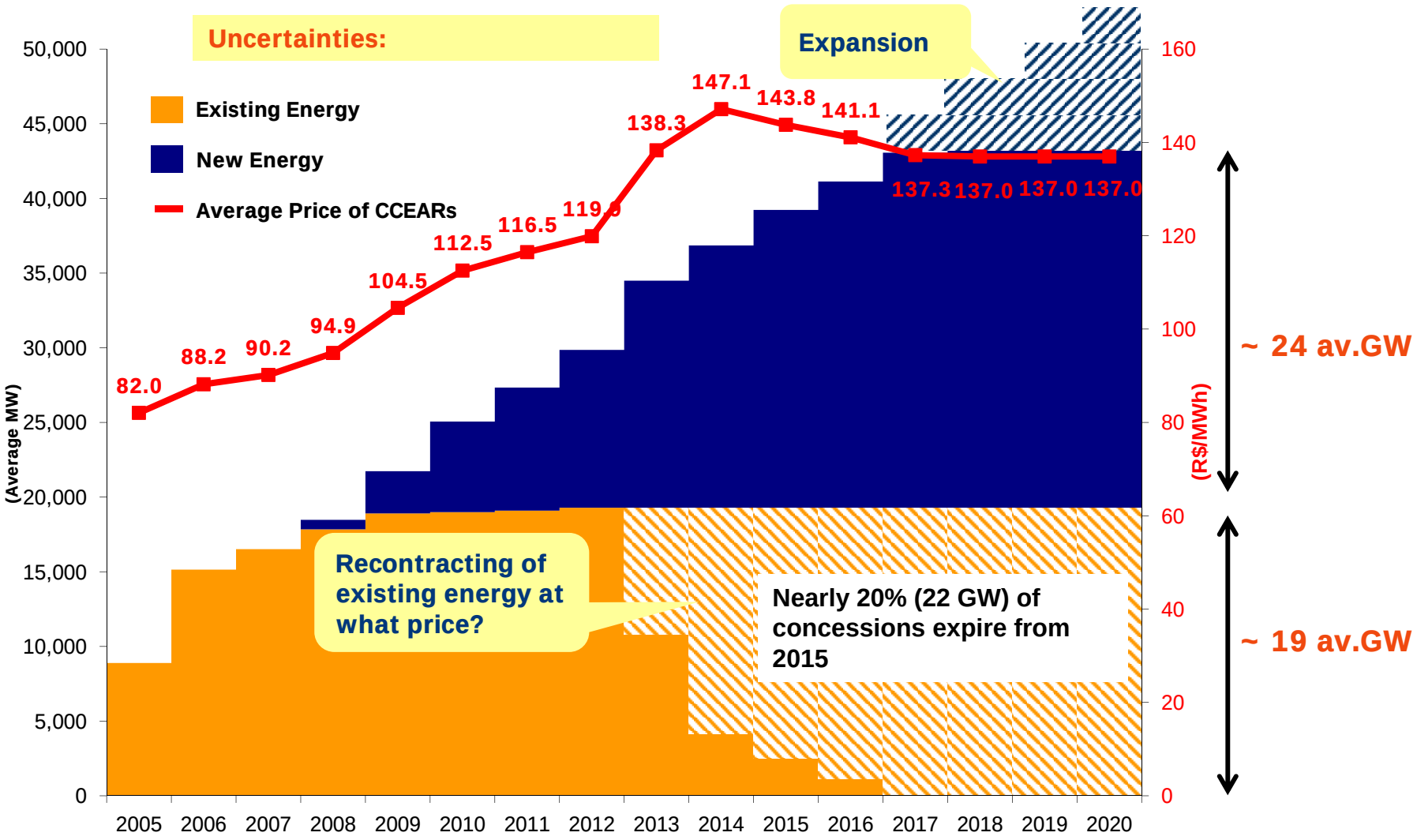
How to meet demand during period of low water with smaller reservoirs?

Of necessity by constructing thermals (intermittent sources are not “dispatchable”)

Planning and Reality

- Contracting in the auctions determined exclusively by the Physical Guarantee associated to the plant
  - In practice, there is no control over the mix of the expansion
  - Subsidies granted to certain energy sources distort the competition
    - Discounts of the tariffs involving certain incentivized sources
    - Locational component of the transmission tariff is weak (seal charge component is dominant)
- Segmentation of the new energy contracting model
  - Marginal Cost of Expansion is decreasing!!!
  - Why?
    - Costs of some sources are passed through to others (crossed subsidy)

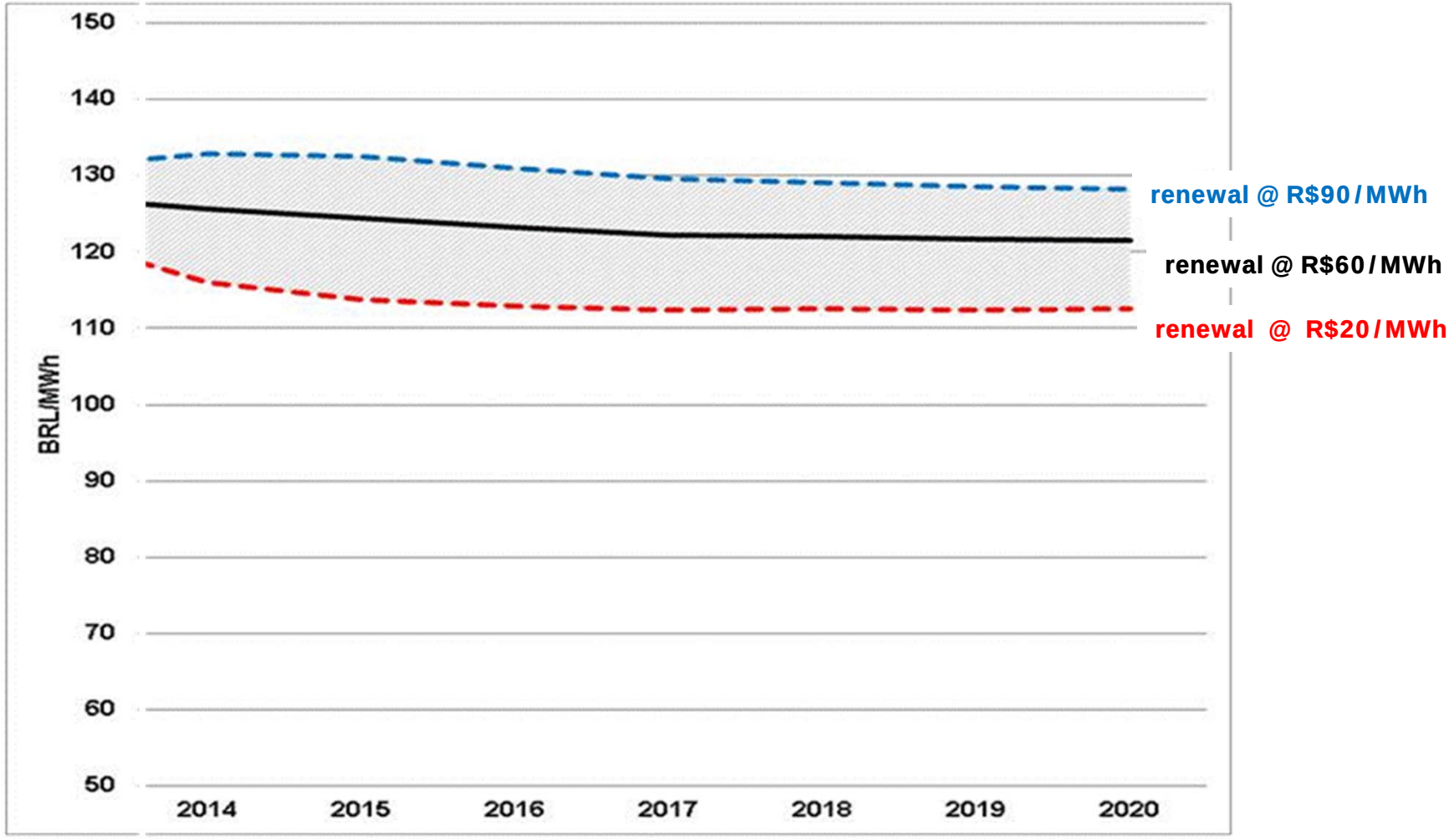
Prices Perspective



* Reserve energy not included

* Average price will not consider volumes which cease as from 2013

Impact on the Average Tariff of the Distributor



Observations (1/3)

- Balance Supply x Demand
  - Demand grew less than expected in 2011
  - In 2012, growth is also expected to be low
    - Growth of 4.3% is expected for 2012
  - Excess of supply up to 2016, and more auctions to come…
    - Delay in plant construction does not imply any structural supply risk up to 2016
    - Strategies and individual position of the distributors can create greater oversupply (“excess” of infrastructure!)

Observations (2/3)

- Spot prices more seasonal and more uncertain
  - Currently, the market believes that the system will experience oversupply going forward
  - Expansion plan optimistic in the dispatch and price formation models
    - Works that each month postpone the COD by one month
    - In reality, plants and lines have been delaying up to 24 months
  - Use of risk aversion mechanisms are not fully incorporated in the dispatch and price formation models
    - PLD does not reflect the full value of the water
  - Background certainties: decline in demand and generous ENAs in the past 3 years
  - TPPs dispatched to meet spikes in demand in the system but which do not make a spot price formation (PLD)
  - Delay in construction work and adverse hydrological conditional can significantly inflate prices due to system's low regularization capacity

Observations (3/3)

- Prices of contracts with a declining tendency
  - Strong competition in the regulated auctions depress prices
    - Use of subsidies (transmission tariffs, financing, tax, for example) to make certain energy sources feasible
      - Auction prices “do not reflect” the real costs and thus the consumer perceives a distorted price
      - Result: boom in SHPs, boom in biomass, boom in wind power etc
  - The various market niches create an absence of clarity as to long-term price formation
  - Renewal of the concessions focused on tariff moderateness

- What can change?
  - In the medium term: delays in works and unfavorable hydrological conditions
  - In the long-term: exhausting of the current contracting model which encourages structural over-contracting and the formation of a diffuse price

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