International Conference Call
Tractebel Energia
Discussion of recently announced measures by the Brazilian Federal Gov.
September 14, 2012

Operator: Good afternoon. This is Tractebel Energia's conference call to announce the measures recently announced by the Federal Government of Brazil to reduce the electric power tariffs and to allow the renewal of the concessions in the sector. All participants are connected in listen-only mode and later on we will open for questions and answers when further instructions for your participation will be given. In case it is necessary to have the help of an operator during the conference call please press star zero. You should be reminded that this conference call is being recorded.

Today with us we have Mr. Manuel Arlindo Zaroni Torres, Chief Executive Officer; Mr. Eduardo Sattamini, Chief Financial Officer and Investor Relations Officer; Mr. Edson Luiz da Silva, Planning and Control Officer and Mr. Antonio Previtali Jr., Investor Relations Manager.

Now I will turn it over to Mr. Zaroni. Please Mr. Zaroni you may go ahead.

Mr. Manuel Arlindo Zaroni Torres: Good afternoon, thank you very much for the opportunity of us providing clarification. First of all I am going to draw a short summary of the Provisional Measure 579. It is immediately effective, but it is subject to changes while it is reviewed by the National Congress.

This Provisional Measure addresses two main points: the renewal of the concession previously granted before the law or the Act 8987 in 1995; and the change in the charges, the sectorial charges.

As to the concessions they can be renewed for up to 30 years. They represent approximately 20% of the generation, 67% of transmission, and 30% of distribution concessions.

The basic conditions for the renewal are the following: generation tariffs and transmission revenues will be calculated for each concession by Aneel and they will contemplate O&M, recovery of investments and new investments because the non-depreciated amount that remains will be refunded based on the new refund costs.

As to investments in concessions to be renewed they should be approved by the Regulation Authority. The concessions included in this Provisional Measure and those that will mature in up to 70 months should apply for the renewal within 30 days after the enactment of the Provisional Measure that means October 12$^{th.}$ After the approval of the Government they will have 30 days to sign the new concessions contract to be in effect after 2013. If the concession company does not accept the conditions the Government will take possession of the assets after the termination of the contracts. So they will calculate the tariff based on O&M.

As to charges, the charges related to CCC, fuel consumption account and the global reversal reserve will be terminated and the National Treasury will provide the funds for those purposes.

As CDE, energy development account, it will be charged from consumers and the share will be approximately 25% considering the current amount in effect. Additional funds to meet the needs of CDE will come from RGE (there is a balance from a credit from Eletrobrás and Itaipu) and CDE will continue to pay the funds required for the universalization of CCE reversal, competitiveness of national coal and competitiveness of wind farms, biomass and natural gas.

I hope you could understand the summary and our interpretation of the Provisional Measure. Now I am open for questions.

Q&A Session

Operator: Excuse me ladies and gentlemen, now we are going to begin the Q&A session. To ask any question please press star one and to remove the question from the list press star two.

Excuse me. Again, reminding you that to ask questions please press star one.

Excuse me. Our first question comes from Mr. Felipe Leal from Merrill Lynch.

Mr. Felipe Leal: Good afternoon. I have two questions, first I would like to know what is your assessment of the impact of the measures on the industrial consumers in the captive market and also in the free market, if there is any difference or if they are equivalent. They were going to have a higher decline of the tariffs for the industrial or will it be the same for both environments?

The second question is if you have assessed and if you think that there will be any situation where old plants that were sold out in the free market and will be reversed to the captive market if this will open any opportunities for additional contracting of energy in the free market.

Mr. Zaroni: Good afternoon Felipe. Well, the impacts are different since as regards the transmission and also the charges the complex is the same for the industry irrespective if it is captive or free.

As regards the captive market we have the renewal of the concession for generation whose impact or the price difference will only take place in the captive market, that is the reduction in costs in the captive market will be higher than in the free market, and then basically this is the difference; but it does not mean that the free market will not continue to be competitive.

In our preliminary evaluation we are going to have this aspect, that is the decrease in costs in the captive market; but not enough to compete with the free market. But on the other hand this will encourage consumption. We are going to have higher demand and therefore we are going to have a larger market, which is an upside.

Also within the same scope and answering your second question, if it remains as it is, as the Provisional Measure was published, some contracts that were sold in the free market will have to need a new energy because this old energy was directed to the captive, regulated market and this may open up for new opportunities for Tractebel that is not being affected.

Mr. Leal: So if I could ask an additional question: have you also evaluated the type of impact it may have in your transmission costs? Do you expect any significant reduction in your transmission costs?

Mr. Zaroni: Well, we do not know yet because we do not know what will be the new amount or the annual revenues for each concession that is renewed. But it must be something in the order of… I cannot tell you exactly, sorry.

Mr. Leal: Thank you.

Operator: Excuse me. Our next question comes from Mr. Márcio Loureiro, Votorantim Corretora. Excuse me Mr. Márcio Loureiro, your line is open.

Mr. Márcio Loureiro: Excuse me. Good afternoon everyone. I would like to thank you for the opportunity of this call and I would like to ask you in relation to the schedule that was published yesterday in terms of the enforcement and publication of the measures: how do you feel in terms of the schedule proposed by the Agency? Is it enough for all discussions or do you think they will adjust this timeframe?

Mr. Zaroni: I am going to ask Edson to answer your question. In fact I did not follow up on that.

Mr. Edson Luiz da Silva: On Monday the Decree will be published as promised and we believe that some adjustments will have to be made, perhaps driven by the State companies and based on the statements we have heard there are investments to be amortized and perhaps for them today they will anticipate a revenue and I think that this will not be an easy decision to be made. Perhaps in our evaluations there will be some kind of extension of time.

But we understand that except for minor adjustments the Government will achieve what it is proposing. But we need some adjustments to allow for some negotiations with the State companies. With the Federal companies I do not think they will need any negotiation.

Mr. Loureiro: Specifically as regards October 15th, which is the deadline for the companies to send their interest in the renewal, do you think that this one-month time is feasible? Is that what you expected or the discussions will extend, go beyond this deadline?

Mr. Zaroni: I do not think this is going to apply. Everybody knows for a long time that they have to ask for the concessions. The conditions obviously were changed and we had some surprises; but I do not believe that they will change

the deadline. Strictly speaking the State companies had asked or the extension but in different bases obviously. So the request has already been made; however, considering the magnitude of the alterations this deadline is too short, it is too short. So it is very hard to answer this question.

Mr. Loureiro: Ok thank you.

Operator: Excuse me. Our next question comes from Ms. Lilyanna Yang from UBS.

Ms. Lilyanna Yang: Good afternoon, thank you for the opportunity. My question is about how you see this change in the behavior of the regulating authority that would have 30+20 to have their investments compensated to have amortizations and now it is 30 years?

Do you see their grounds for a legal appeal? Because it is not reasonable and along those lines what do you think is the way to try to eliminate this part from the Provisional Measure? Or do you think this will stay there?

Mr. Zaroni: Well, if we take that article the Provisional Measure will lose its essence. I think that we are talking about concessions that were granted directly to State-held companies, whether they are Federal state or city without competition, without a bidding process before 1995.

So we have situations different in the case of the power plants whose process was done through the competition and auctions or privatizations that were granted and then our concession contracts that have been signed in compliance with a different regulation. These power plants - as the Government has been fulfilling the contracts, and they do so and we believe in that - these power plants have in the concession contracts the possibility of extending the concessions 30+20 years after maturity.

My personal opinion it looks like there is a distortion, because until then no power plant had ever failed to extend after the first maturity of the contract - but they did not have this intrinsic right just because of finality, or purpose or because of isonomy. I do not see… or equal conditions.

Ms. Yang: I do not think I asked the right question. Do you think you have the right, for example, of extending the contract due to zero cost because of equal conditions? Is this what you think?

Mr. Zaroni: First of all our power plants, our concessions were not obtained through this Provisional Measure. These are only the power plants that were granted before 8987 Act of February 1995. So our concessions were not obtained through that instrument.

Well, can the same thing happen to your concessions, with Tractebel's concessions and others? Because there is a new regime, they were granted in a different system. They have… and the concession contract determines that they can be extended.

Operator: Excuse me. Our next question comes from Mr. Vinícius Canheu from Credit Suisse.

Mr. Vinícius Canheu: Hi, this is Vinícius. So going back to the first comment that you may have opportunity in the free market I want more clarification: what is the opportunity considering that Tractebel is almost fully sold until 2015 and until then there is not so much room for these other companies?

And the second question is the dynamics of recontracting. It is more in theory; so some companies have already sold the power and it goes back to the regulated market as quotas and there may be companies that are short of energy and so there is a surplus or deficiency or shortage on different sites. How is it going to work?

Mr. Zaroni: Vinícius we have the same perception as you do. We do not yet know how this issue of the quotas is going to be. For example, a power plant that… whose concession was only expiring in 2017, well, are they going to advance it? To advance the renewal and it is going to be part of the quota? Maybe it would be impossible for the company to fulfill its contract because it would need to start buying. Now if there are forecasts maybe we could terminate contracts earlier.

Mr. Zaroni: Well, that dynamics is still too early for us to know.

Mr. Canheu: Well, there is a regulated market that in theory is fully contracted as a large block of energy that is going in.

Mr. Zaroni: Well, I can explain what I understand from that. There are 30 something distribution companies, so in December 31st 9,000 MW are going to be contracted; but the amount each one bought in the past depended on their status back then; some had more bilateral contracts, for example there may be a distribution company that is 100% contracted and others that will have a large amount that is not contracted. So if it is proportional to the market, such as for example Itaipu, one will be fully met and the other will be a lot of excess.

And then there is a swap mechanism between distribution companies: those who have a surplus give to those that have shortage until we get to a point of balance. So at the end of 2014 the same thing will be done and so every time you designate quotas to distribution companies that can be done.

Mr. Canheu: Ok thank you very much, that is very clear.

Mr. Zaroni: Well, this has not yet been defined or specified but this is what I think will happen.

Operator: Excuse me. Our next question comes from Mr. Marcelo Ganem from Oceana Investimentos.

Mr. Marcelo Ganem: Good afternoon everyone. I have a question about the scope of the Provisional Measure. So right on the first article it says that this Provisional Measure refers to the concessions of electric power encompassed by Act 9074 of July 7th, 1995. I was wondering if your power plants are encompassed by this article of this Act 9074 of July 7th, 1995.

Mr. Zaroni: Well, this article of Act 9074 only refers to article 42 of Act 8987, concessions up to then. So we do not have any concessions going back as long as 1995; our first concessions were in 1998 when Gerasul was privatized.

Mr. Ganem: And on paragraph 8 of the first article they say the Provisional Measure also refers to the concessions of electric power generated independently; so could this also encompass your power plants?

Mr. Zaroni: Edson is going to answer that.

Mr. da Silva: What you have mentioned has caused some questioning; but if you go in the explanation of reasons that support the Act this is clear as it is clear in the Caput of the law, or the heading, and this all applies to the power plants as Zaroni mentioned with concessions dating back or before 1995.

And this question somehow is understandable because of the wording of the Act; but this has been confirmed in the manual of the Ministry, the booklet of the Ministry. The manual clearly addresses this issue saying that all concessions that are included are those that were done before 1995.

Mr. Ganem: The question is that in your case the newest concession was given after 1995; but there was a previous concession before that, when the company was still a State-held company.

Mr. Edson: But when it was privatized there was not an extension of concession; there was a new concession. That is the concept: privatization generated a new concession.

Mr. Ganem: Thank you very much.

Operator: Excuse me. Ladies and gentlemen reminding you, to ask any question please press star one.

Excuse me. Our next question from Mr. Antonio Junqueira, BTG Pactual.

Mr. Antonio Junqueira: Hi how were you? Thank you very much for the call. I would like to ask a question based on Vinícius' question, supplementing his question: if everything that is going to mature goes to the regulated market, we know that there are 90 GW maturing at the end of 2012 and talking to people from energy trading we have the information that these companies have hired before 4 and 5, so the distribution system has a gap between 4 and 5.

And the average capacity that is in the package for the renewal of concessions is much higher than that. So if all of this capacity of 2003 goes to the regulated

market, even if one distribution company offsets with another we are going to have a case with the contracts signed in the market, the free market, will not be able to be respected.

So the distribution companies will have more energy than they need and my question is do you share the same opinion we have in this scenario and if this is the case, what is going to happen? Are we going to have anything from the regulated market that will go to the free? Which contracts would go? Did the Government tell you anything about that or gave you more details about the contracts executed until 2015? So this is the major question mark of this package so far.

Mr. Zaroni: Your question is quite appropriate and truly this is a point that will have to be resolved, because if this happens perhaps we are going to have surplus in the regulated market and shortage in the free market. What solution will be given we cannot anticipate so far.

Mr. da Silva: Now supplementing the answer well, the tariff equality is going to be pursued but we do not believe that this equalization will be pursued with expressive returns of CCRs. So this is an equalization that will be sought after as far as possible.

Mr. Junqueira: If the contracts can be respected, for example there are many contracts that have been executed and if they can be respected and some in the regulated will mature 2013 or 2014 allowing the contracts with the free, the concessions that will mature if they will come back to the regulated only when the contracts expire the balance will not take place; but if the whole energy is forced to the regulated market there will be a huge proportion right there and we receive questions involved by that asking us what we can answer.

Mr. Zaroni: What do you mean by the energy to be forced to go from the free market to the regulated market?

Mr. Junqueira: For example Cemig. If you take into account that all Cemig's plants including the ones with automatic renewal will expire in January 2013 and that energy will go to the regulated, so… and Cemig will be free to negotiate 1.4 GW, so there is a gap - just giving you an example - and then it may be forced to go to the regulated market for a contract that has been executed until 2015.

Mr. Zaroni: Well, they can buy from another company that is in the free market.

Mr. Junqueira: But has this been said?

Mr. Sattamini: It can always go to the free market. It is not the distribution company that sells; it is Cemig Geração or the trader of Cemig.

Mr. Junqueira: So it has to buy the energy. Is this apparently what has been decided? Will it have to rush and buy from another one?

Mr. da Silva: It is not apparently; it is really the reality: if it does not have the balance to honor the contracts it has to look for the energy, otherwise it is going to have a dispute with the customer or it can leave its concession to go up to 2015, 2016 and does not decide to renew and it will serve the market. But it can give up the renewal of the concession.

Mr. Junqueira: Ok I understood. Thank you.

Operator: Excuse me. Once again if you want to ask a question please press star one.

We are now ending our Q&A session. I would like to turn it over to Mr. Zaroni for his final remarks. Please Mr. Zaroni.

Mr. Zaroni: I would like to thank you for your questions. I think they were useful for us to clarify making two points clear: there is a direct impact of the renewal of concessions but we do not have any power plants whose concessions are about to mature - the first one will mature in 15 years - and our concessions are not included or encompassed by the Provisional Measure.

In the case of the renewal of the transmission concessions there may be a positive impact on Tractebel's performance because transmission costs may go down.

And as to the captive market in contrast with the free market, in our first impression or assessment we can say that we will continue to be competitive in the free market. So thank you all very much.

Operator: Tractebel's conference call has now ended. We thank you very much for your participation, have a good day and thank you for using Chorus Call.