

Outlook for the Electric Energy Market

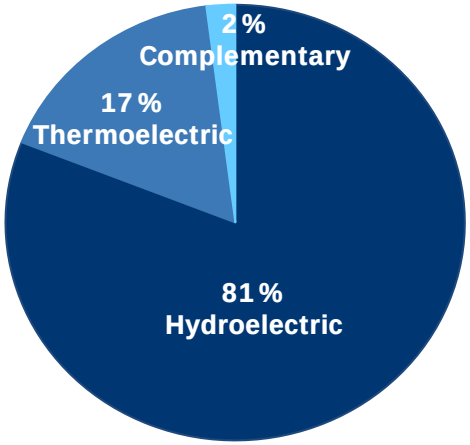
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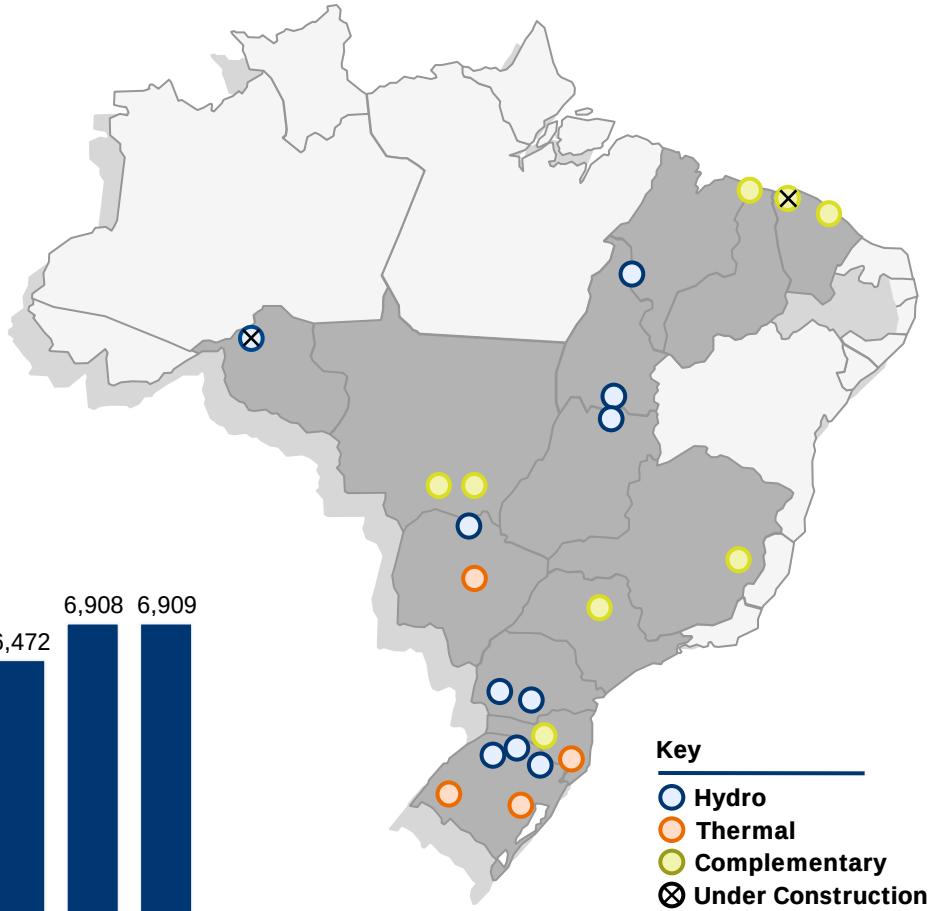
São Paulo, April 04, 2013

Tractebel Energia

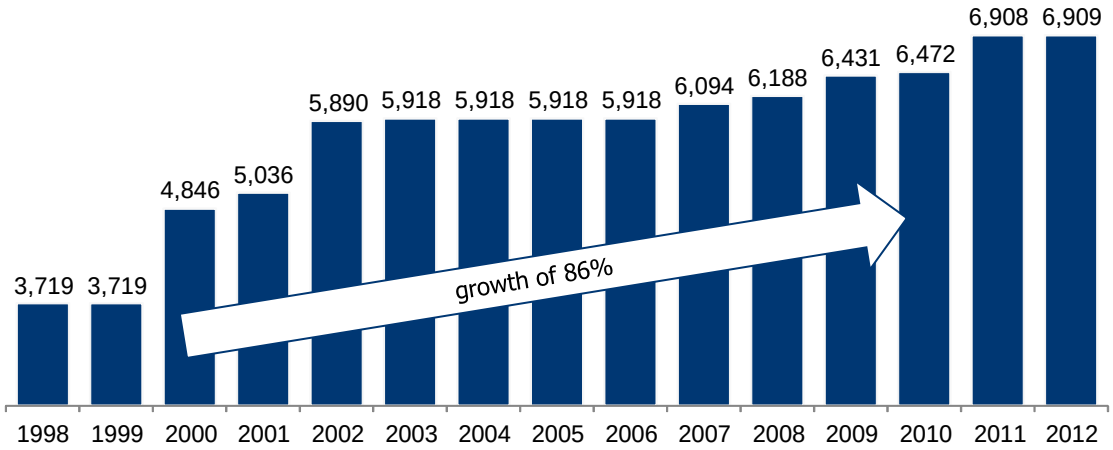
Tractebel Energia: Balanced Portfolio of Assets

Installed capacity of 6,909.3 MW in 22 plants operated by the Company in a balanced portfolio



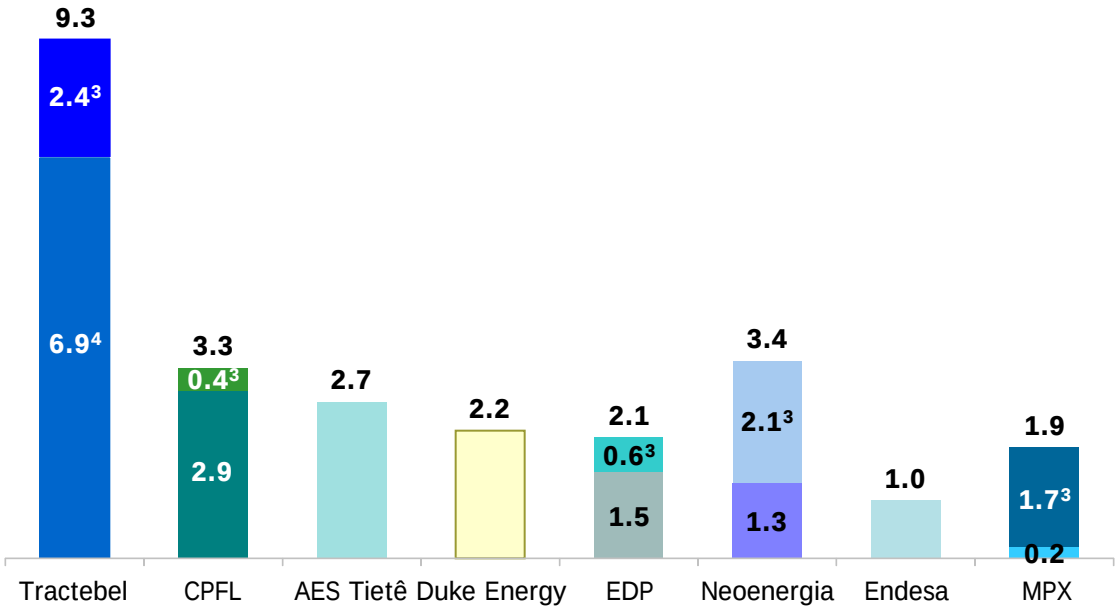


Tractebel Installed Capacity

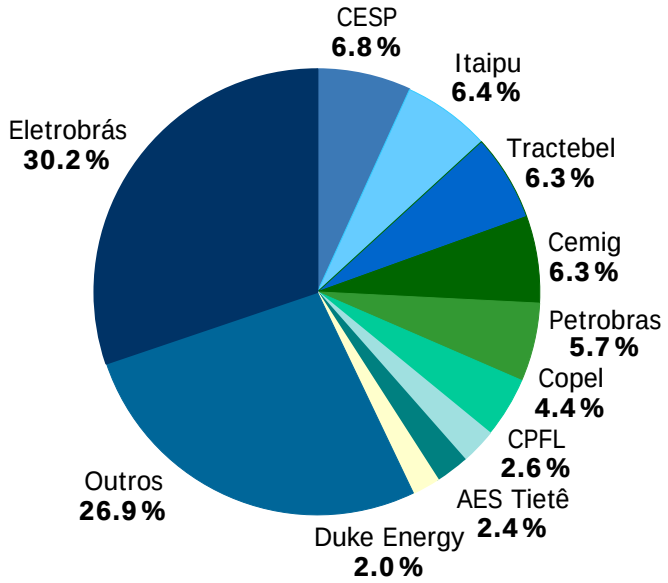


Tractebel Energia: Leader among Private Generators

Private Sector – Installed Capacity (GW)



Brazil – Existing Installed Capacity[1,2]



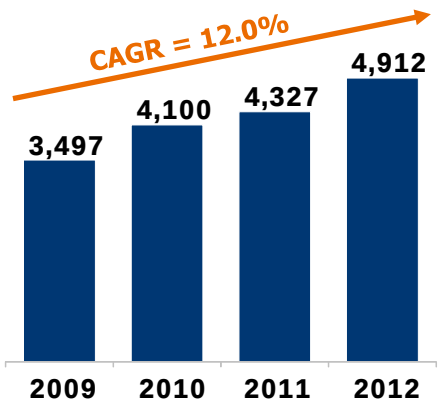
Source: Aneel, company websites and internal studies

Notes:
[1] Sum corresponds to SIN – National Interconnected System.
[2] Includes only the national portion of Itaipu.
[3] Installed capacity under construction. For Tractebel, the sum includes the Controller's share (60%) in the Jirau HE[P]

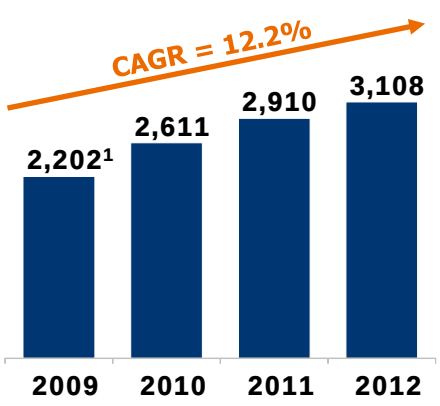
Tractebel Energia: Consistent and constant growth of the financial performance

Efficient management of its client portfolio and focus on contracting strategies have paved the way for a substantial top line growth of both revenue and EBITDA over the years. Consistent net income has supported the Company's investment plan.

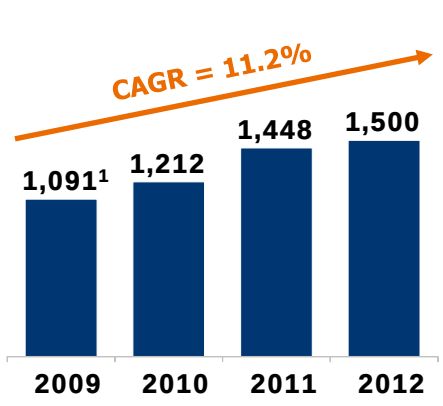
Net Revenue (R$ million)



EBITDA (R$ million)



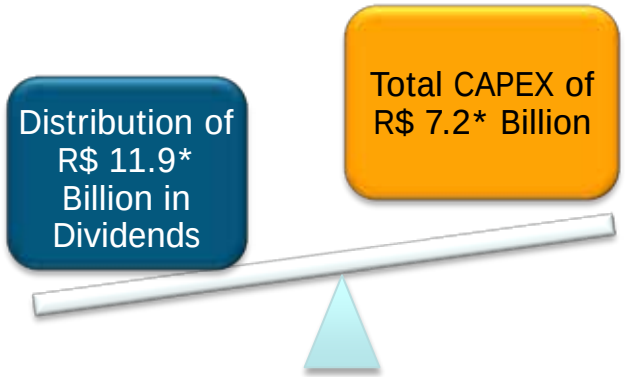
Net Income (R$ million)



Notes:
[1] Considers adjustment or accounting reclassification.

Consistent share price performance over the years

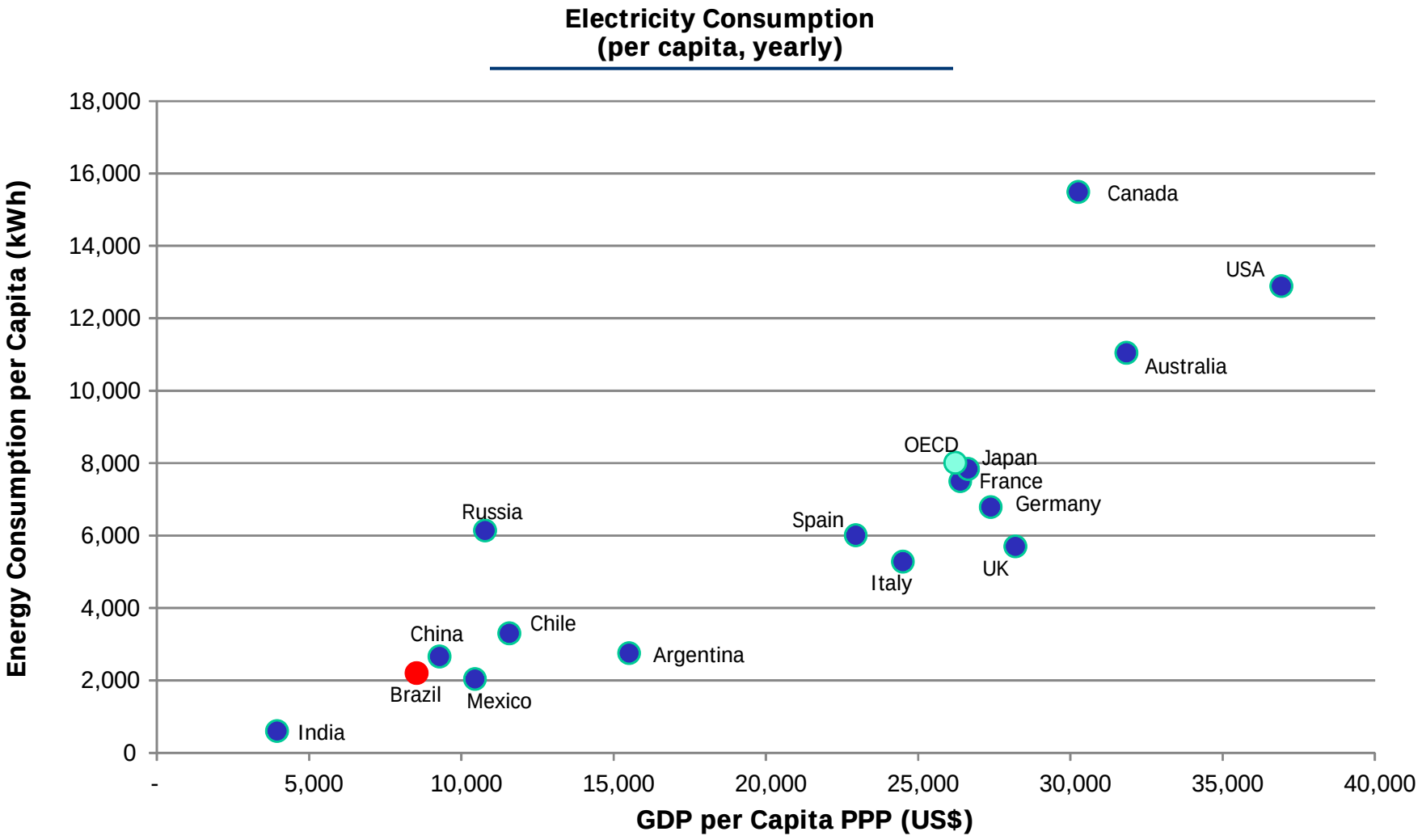




*Sums adjusted by IGPM for 12/31/2012

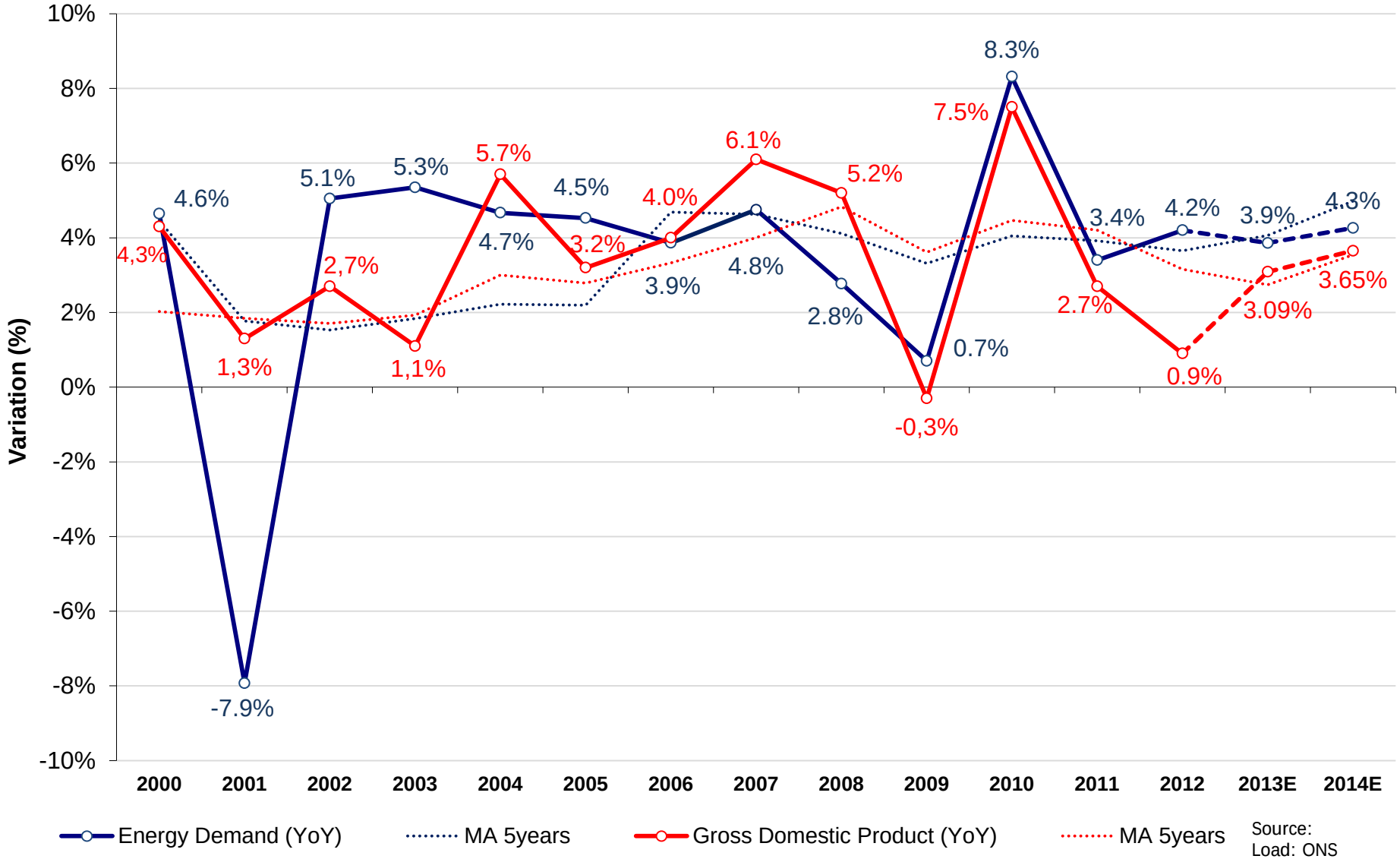
Market Perspectives

Electricity: Market with Potential for Growth



Source: MME, Aug/2012 (consolidated information for 2009)

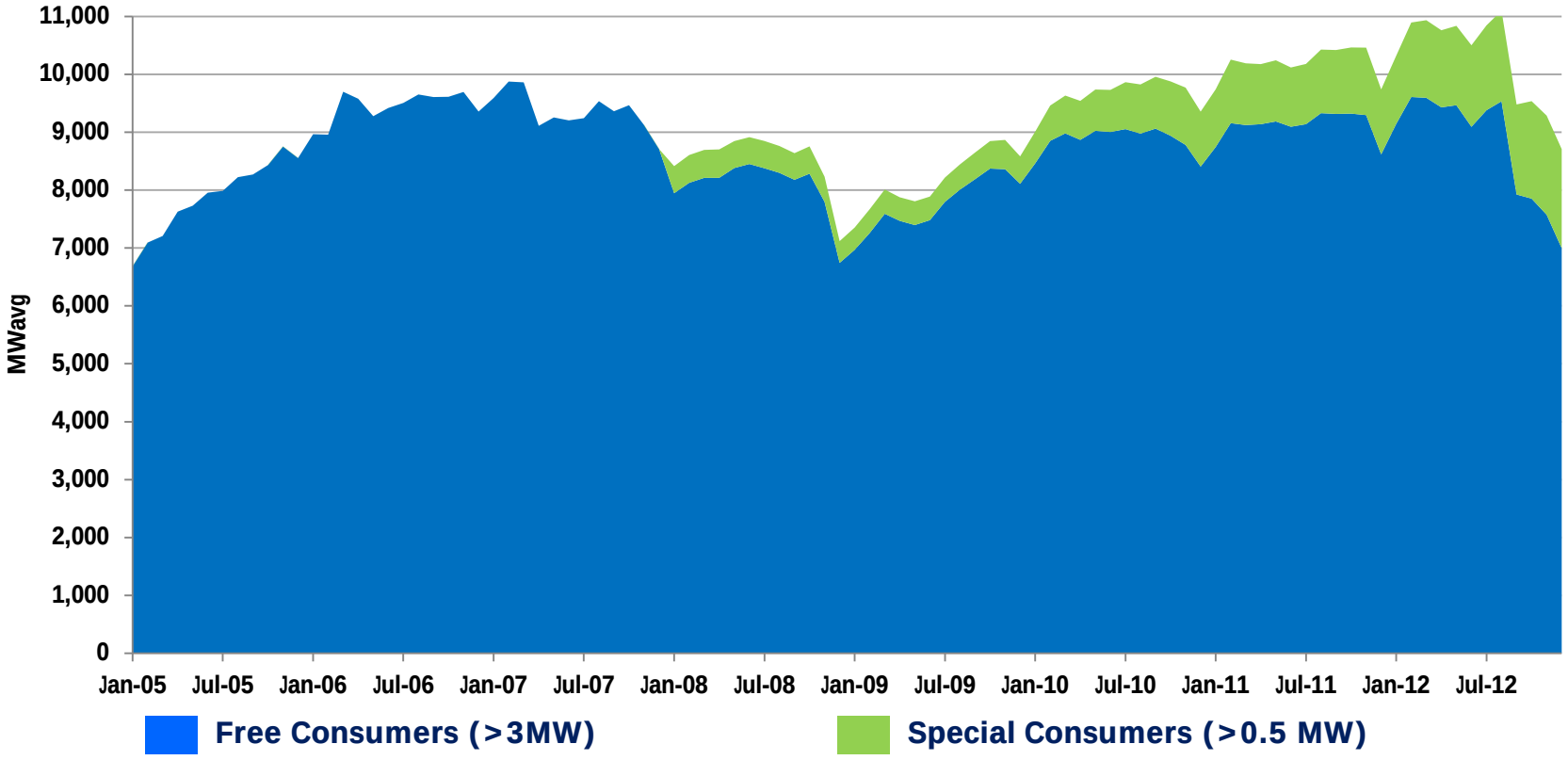
Growth of GDP and Demand



Source:
Load: ONS
GDP: Focus Bulletin

Evolution of the Free Market

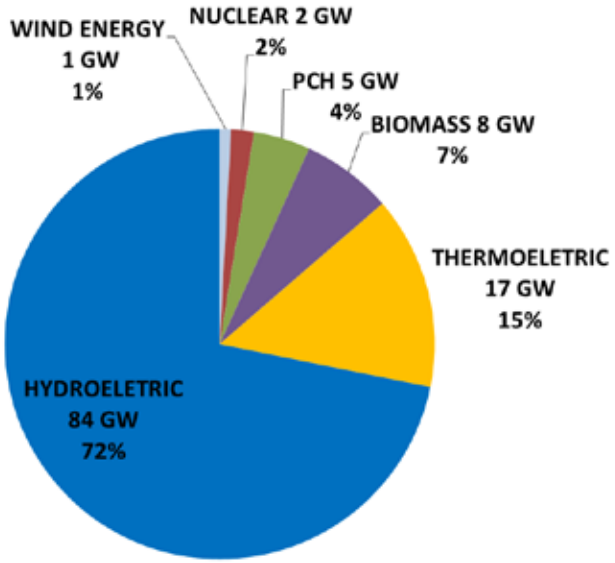
- Conventional free market reached its peak in Feb/07, but it remains stagnant
  - Associations seek to expand eligibility and reduce migration barriers
  - Regulation of the Retail Traders can expand this market
- Special consumption has increased consistently

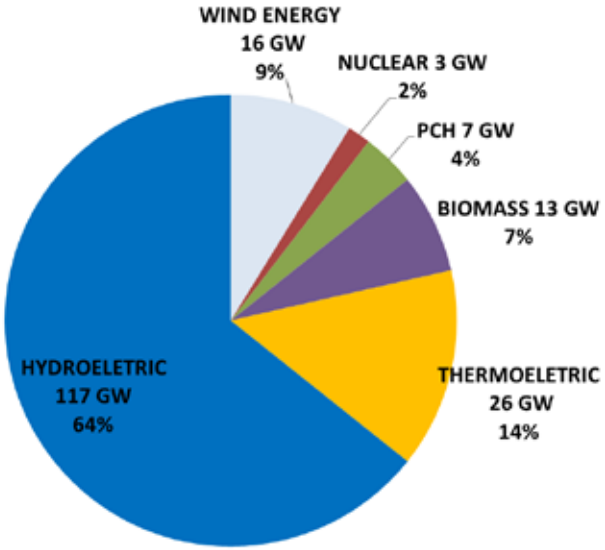


Source: CCEE

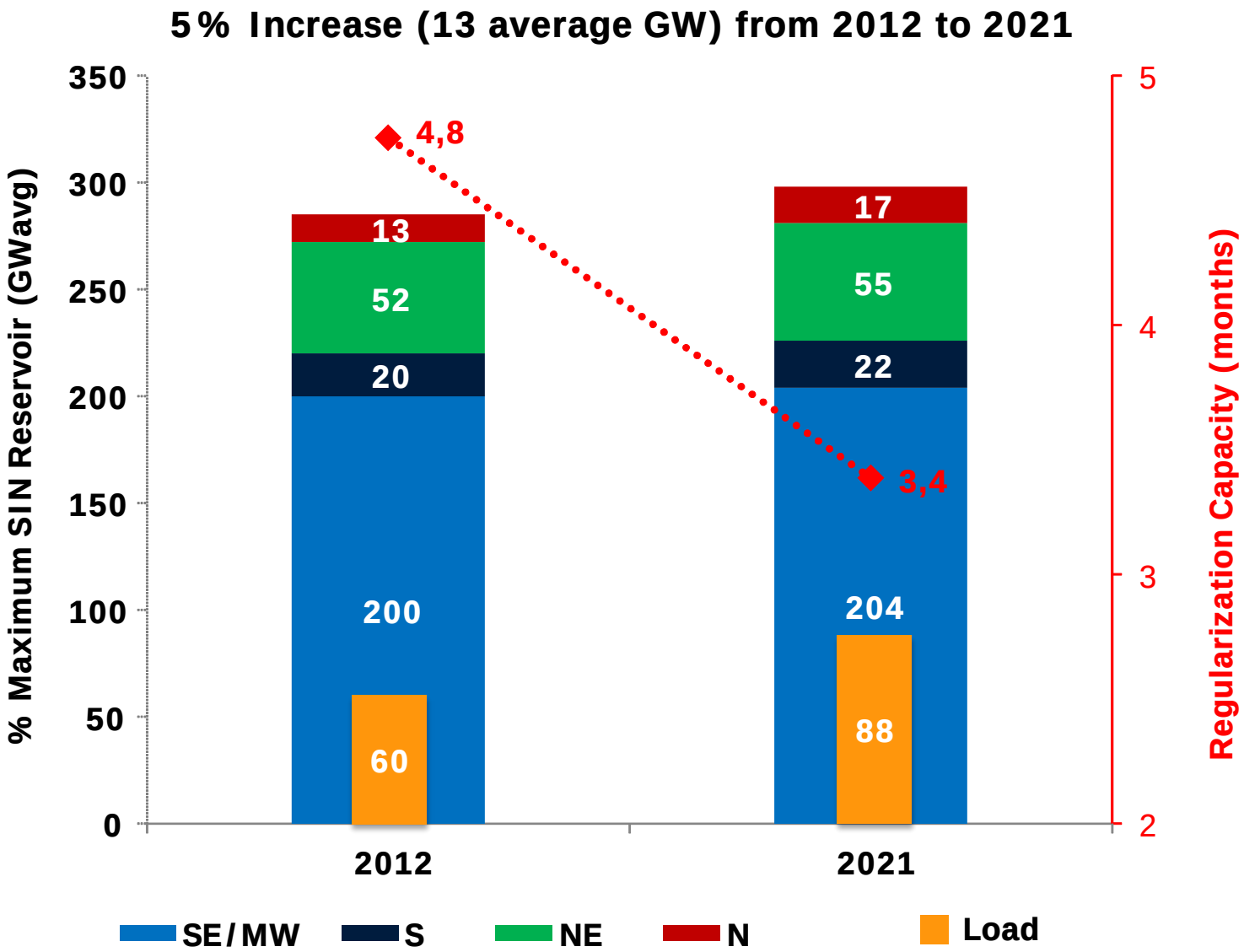
Energy's Ten-Year Plan

2011: 117 GW → **56 %** → **2021: 182 GW**





Evolution of Storage Capacity



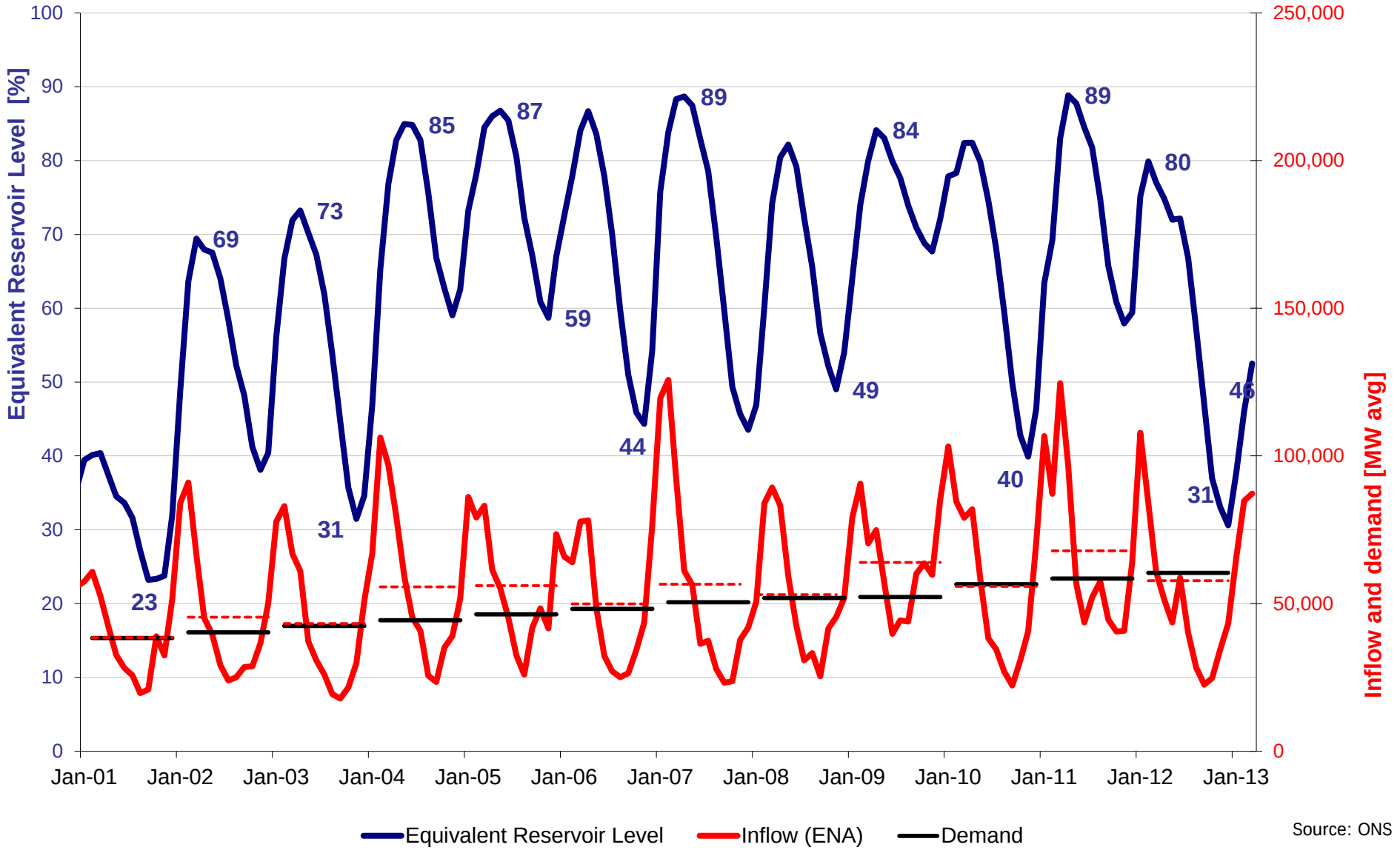
Source: EPE

Challenges for System Operation

- 40% increase in installed hydroelectric capacity is increasing storage capacity by only 5%
  - Most HPP are in unexplored basins, without regulating reservoirs

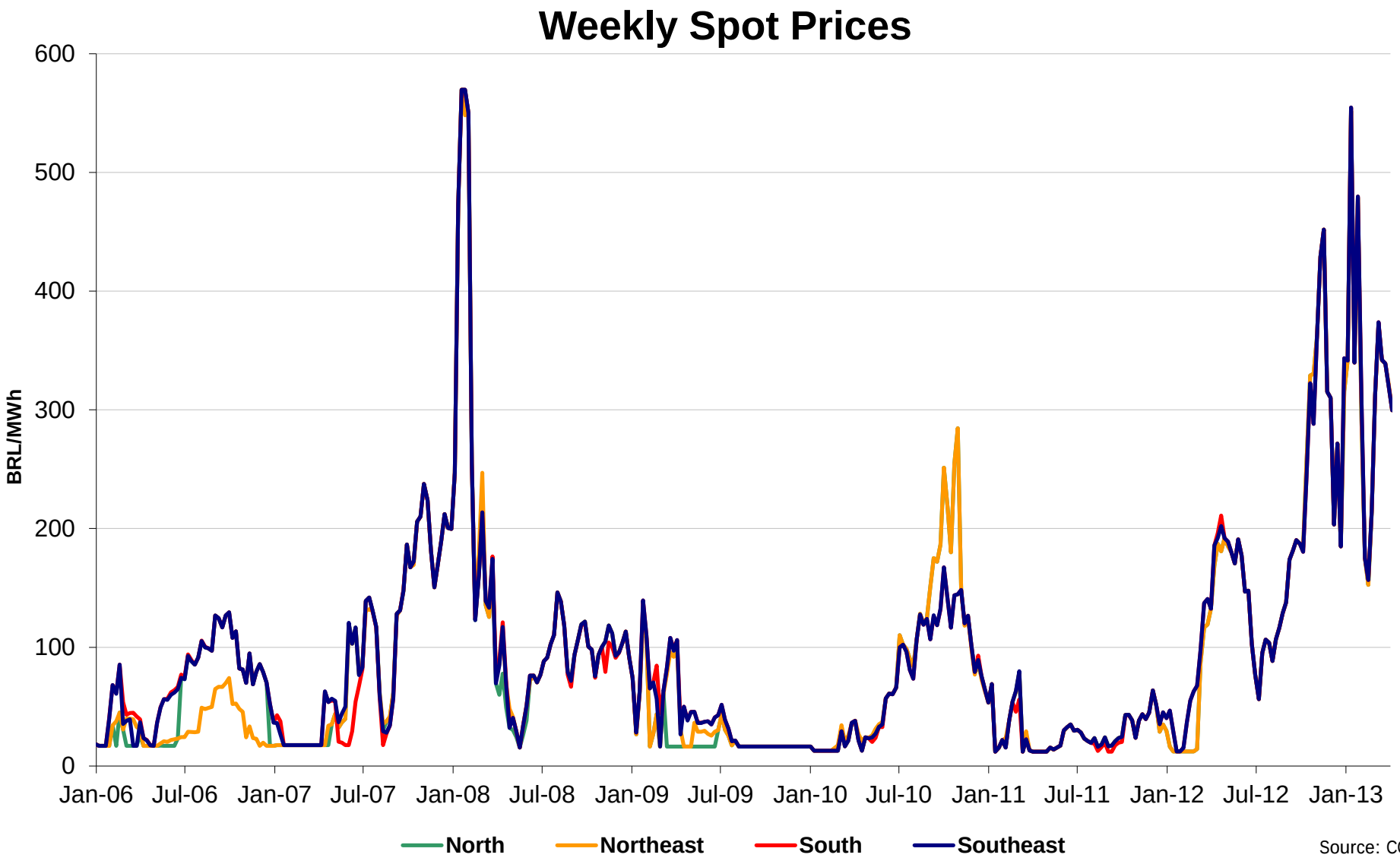
- Consequences of reduced regularization
  - Impossibility to control flooding
  - Greater demand of current HPPs with capacity for regularization, generating big changes in reservoir levels along short water cycles (which is often not possible due to hydraulic operative restrictions)
  - Greater thermoelectric dispatch to meet seasonal load demands, which could not be met by hydraulic storage

System Conjuncture: Inflow x Storage



Source: ONS

Spot Price Behavior

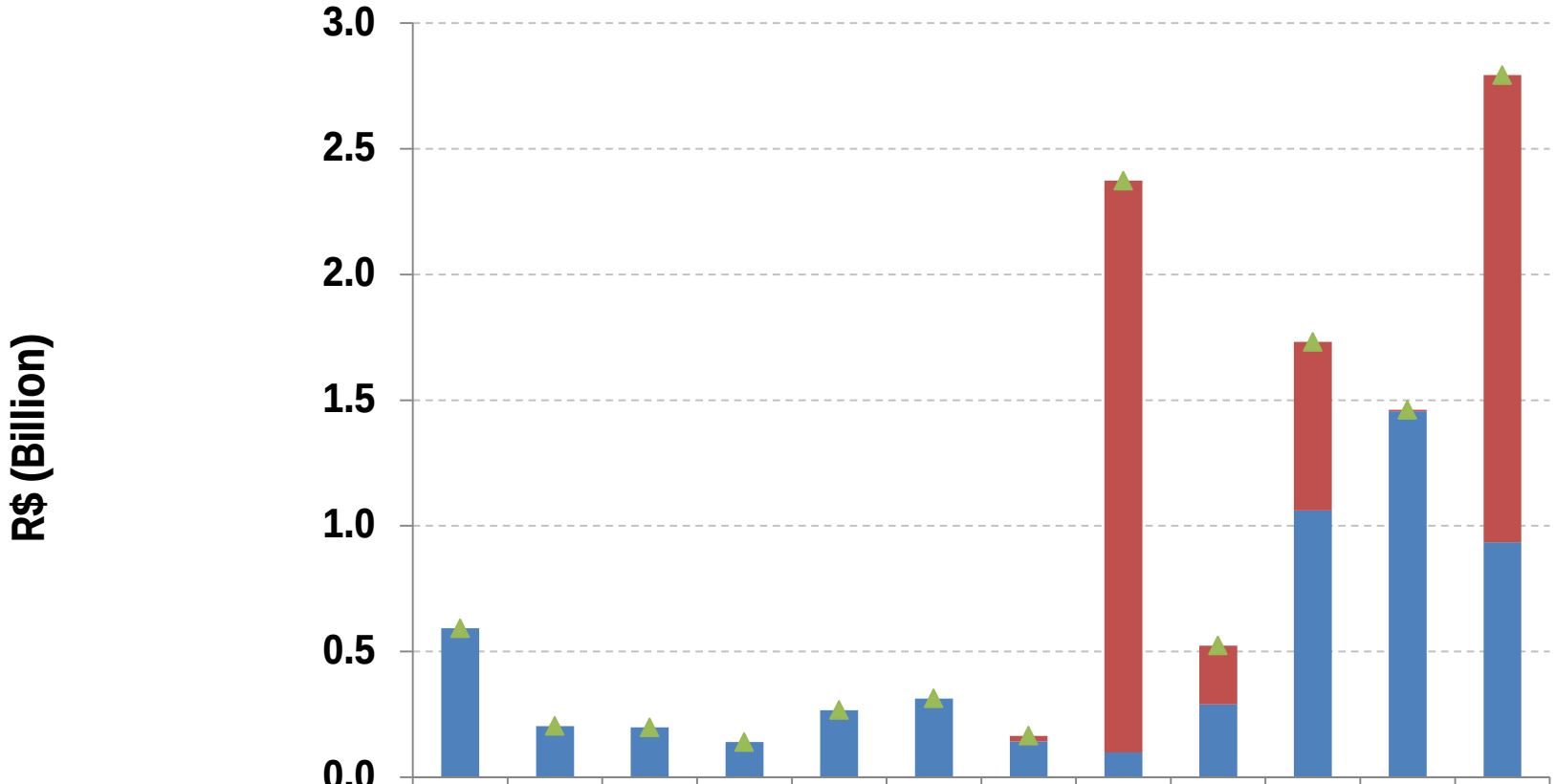


Source: CCEE

Thermoelectric dispatch

History of System Service Charges (ESS)

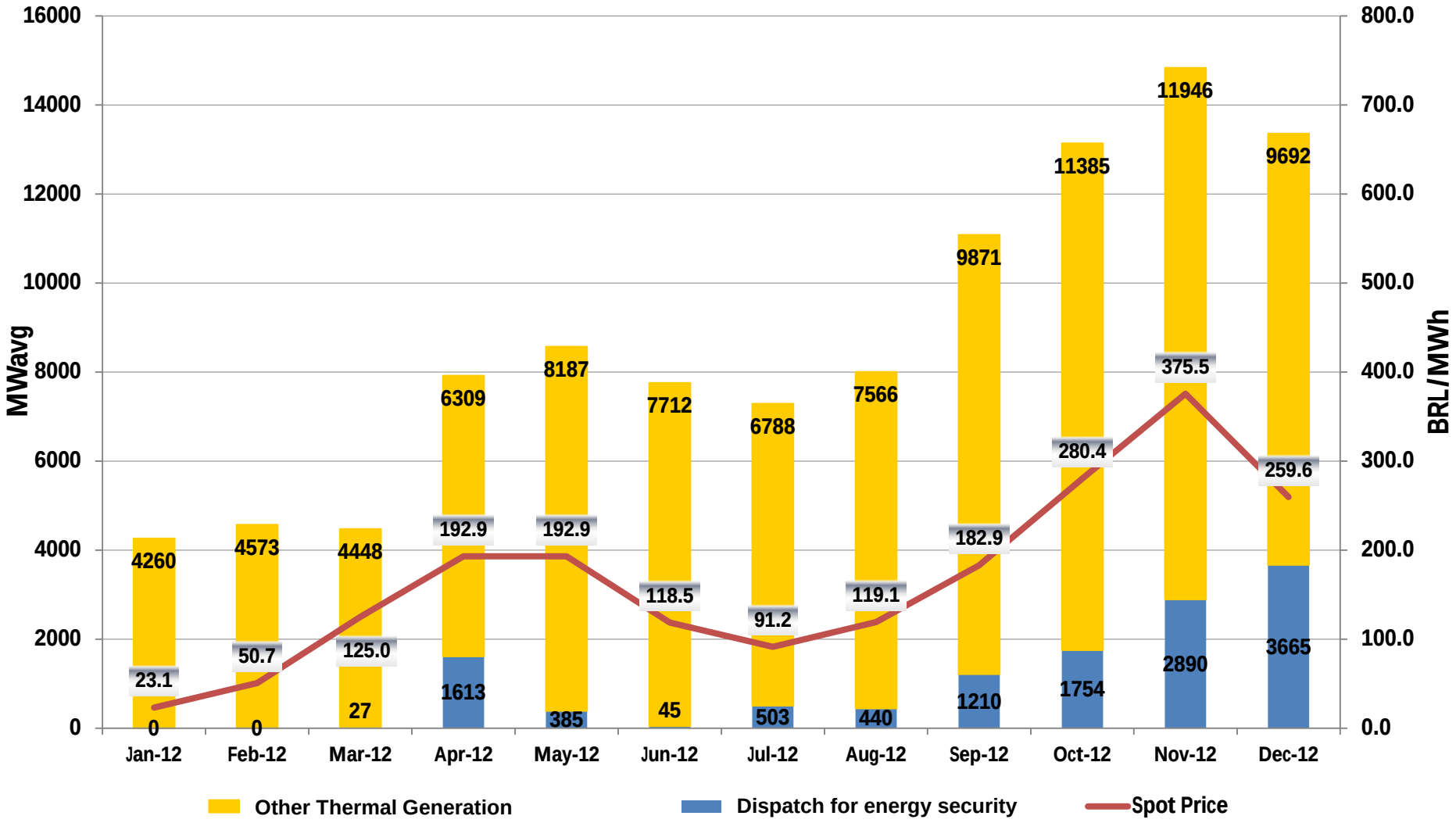
ESS costs related to energy security reasons will increase in 2013



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CAR/Security	0.00	0.00	0.00	0.00	0.00	0.00	0.02	2.27	0.23	0.67	0.01	1.86
Op. Restriction/Ancillary Services	0.59	0.20	0.20	0.14	0.27	0.31	0.14	0.10	0.29	1.06	1.46	0.93
Total	0.59	0.20	0.20	0.14	0.27	0.31	0.16	2.37	0.52	1.73	1.46	2.79

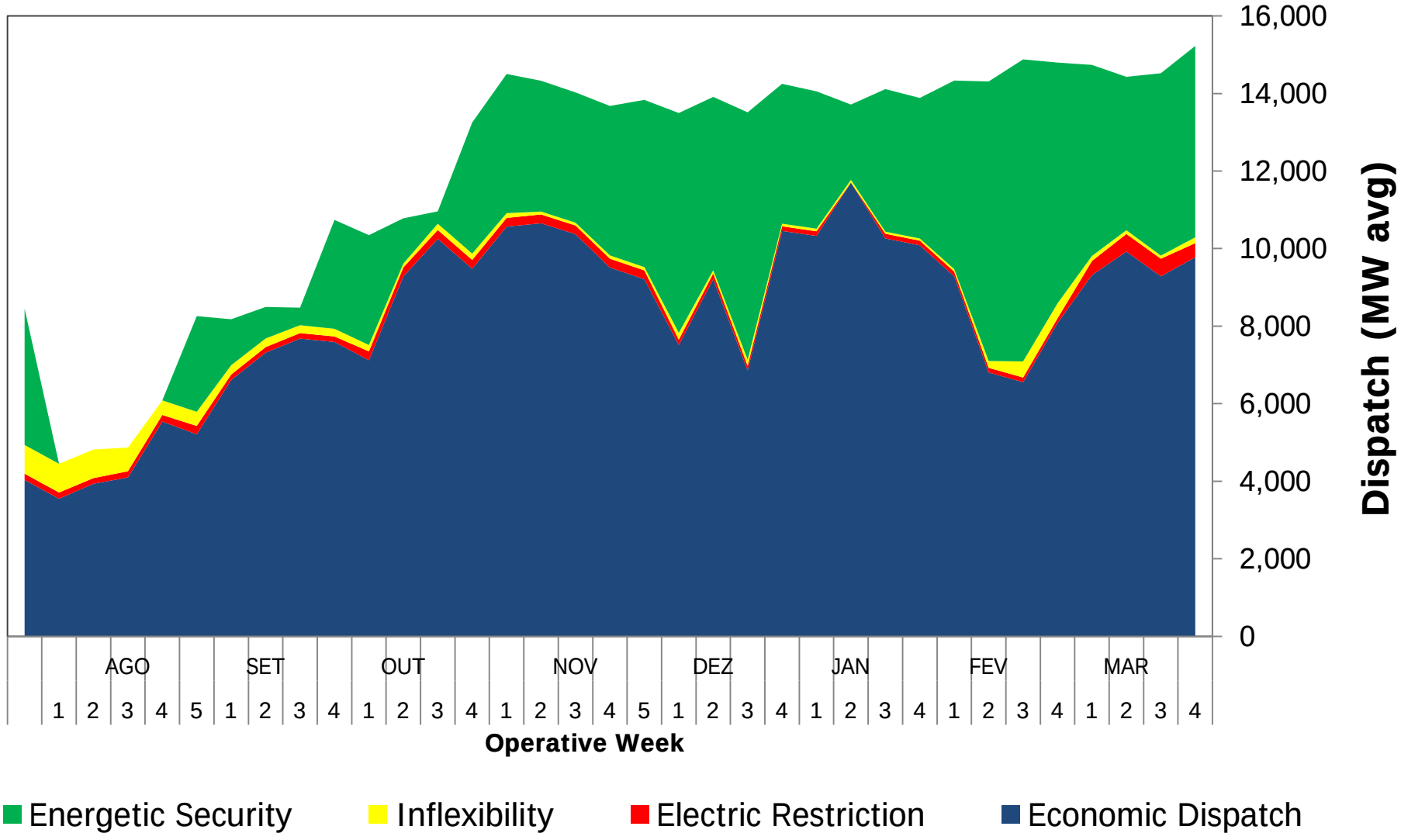
Source: CCEE

Thermoelectric dispatch in 2012



Source: CCEE
Values at the settlement point.

Thermoelectric dispatch (2012 and 2013)



Source: ONS
Gross generation values

Recent regulatory changes

Recently Achieved Advances

- End of the ex-post registry of contracts (MME Ordinance 455/2012)
- Sale of surplus by free consumers (Law 12.783/2013)
- Improvement of Financial Guarantees (ANEEL Resolution 531/2012)
  - New methodology is simpler and less costly: bilateral risk between buyer/seller
  - Free consumers should choose selling agents that guarantee their contracts are fully put into effect at CCEE
- Convincing that the PLD should reflect the CMO (CNPE Resolution 3/2013)
  - Improvements in the price formation process to incorporate the eventual anticipation of thermoelectric dispatching to the PLD (thus reducing the ESS owed by consumers)

Recent Regulatory Interference

- Law 12.783/2013 (MPV 579/2012)
  - Reduction of the tariff reached through the reduction in sector charges, Government deposits and renewals of generation, transmission and distribution concessions.
  - Option for the energy consumer to the detriment of the contributor
  - Tendency towards the decapitalization of state-owned companies with the consequent reduction of participation in generation expansion
  - Space for greater participation of private agents in the expansion of the system

- ANEEL Dispatch 627/2013 (Suspension of Seasonality)
  - No losers or winners: economic result of seasonality can only be appreciated at the end of the year
  - Victory for regulatory stability and legal security in the Aneel decision of 3/26/2013

- CNPE Resolution 3/2013
  - Reflects the unanimous understanding in the sector that PLD should be a member of the CMO
  - However, it does not correctly allocate additional costs with thermoelectric dispatching beyond the order of merit, which should be covered simply by the load (in transition and in the projection for a definitive solution)

CNPE Resolution 3/2013: Transitory Methodology (01/Apr to 31/Jul)

Total Cost with Energy Security Charge (ΔCSE)

$\Delta C_{SE} = (CVU - PLD_1) * generation$

$$\Delta PLD = \frac{50\% \ \Delta C_{SE}}{MCP}$$

MCP : 12 month average of the sum of negative exposures of agents in the CCEE

$PLD_f = Min(ceiling\ PLD, PLD_1 + \Delta PLD)$

Part of ΔC_{SE} will be shared among buyer agents in MCP. Negative exposure will be valued at PLDf

→ **The remaining part of ΔC_{SE} will be divided among all market agents (rules similar to those applicable to the sharing of CAR overrun costs)**

CNPE Resolution 3/2013: Definitive Methodology

- Incorporation to the models used in the price formation process, as a risk aversion mechanism
  - Projected implementation: August 2013
  - Body responsible for implementation: CEPEL
  - Tests for releasing the models: CPAMP (Permanent Commission for the Analysis of Methodologies and Computer Programs in the Electric Sector)

- Additionally, the CNPE will continue with the prerogative to dispatch thermoelectric power outside the order of merit.
  - The additional dispatch cost will be divided among all market agents (rules similar to those applicable to the sharing of CAR overrun costs)

Dividing CAR Overrun Costs

Energy considered for sharing is the maximum among 3 portions, measured over the past 12 months:

- Net Measured Energy
  - net amount of energy associated with each agent's measurement assets, considering the generation of the agent minus its consumption
- Net Contract Position
  - Agent contracting balance (sales - purchases), disregarding the self-producer transfer contracts with the right to mitigate exposure
- Exposure to PLD
  - Corresponds to each agent's final energy balance, considering all contracts, consumption and generation by the agent

CNPE Resolution 3/2013: our vision

- The attribution of part of the energy security contribution costs seems to violate the principles of proportionality and rationality because imposing a contribution onus should translate into some sort of benefit, which does not occur. On the opposite, there is a dispatch outside of the order of merit.
  1. reduces the commercialization of hydroelectric energy by these agents (displaces hydroelectric generation)
  2. the water stored can be returned or be generated in the future at a lower price.
  3. introduces costs without any management by the generator

- The perception of agents and investors is of regulatory insecurity, which scares off investments and increases energy costs for the consumers over the mid and long terms.

- Allocation of the energy security cost to the load is the rational solution from an economic perspective
  1. the user of the service (and infrastructure) should pay all costs for providing this service
  2. consumption reduction directly reduces marginal thermal generation cost
  3. another means of increasing energy security is increasing supply, which is also paid by the consumer.

Necessary Advances

- **Actions for expanding the free market**
  - Regulation of contract assigning by consumers (MPV 579 innovation), leading to their participation in expanding the system.
  - Reduction in power limits (currently at 3MW)
  - Elimination of voltage limit (currently 69kV for old ones)
  - Aggregating loads by economic group, permitting migration to the special free market

Necessary Advances

- **Actions for increasing MCP security**
  - Improvement of financial guarantee mechanisms
  - Quicker cutoff of agents in default
  - Improvement of the loss sharing rule at CCEE
  - Actions for reducing the judicialization of issues that impact liquidation in MCP
  - Regulation of the Retail Seller

Necessary Advances

- **Actions for improving expansion**
  - Make the increase in power supply feasible.
  - Expand transmission adhering to expansion of generation
  - Diversification of the energy grid, with an emphasis on non-intermittent sources (gas and coal thermoelectric generation)
  - Participation in discussions on the national natural gas policy
  - Criteria for contracting at auctions, considering energy, power and energy reliability aspects

Final Comments

- Brazil will grow and there will be a great need for energy
  - The Ten-Year Plan indicates the need for investments of around R$ 120 billion in new generation plants
- TBLE is prepared and willing to invest in Brazil
  - It has expertise in hydroelectric, thermoelectric, wind energy and biomass plants
- Despite the recent regulatory interference, important advances have occurred in the sector.
  - At the moment, we are evaluating the legal, regulatory and technical-economic pertinence of CNPE RES 3
- TBLE has acted in a decisive manner in themes regarding the independent production of electric energy
  - The objective is to build a business environment ripe for investment, with low regulatory risk and attractive to capital