

## Q3 2006 Earnings Call

### Company Participants

- Antonio Previtali, IR Manager
- Marc Verstraete, Finance and IR Director

### Other Participants

- Gustavo Gattass, Analyst
- Lilyanna Yang, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Ladies and gentlemen, thank you for standing by. (Operator Instructions).

I would now like to turn the conference over to Mr. Antonio Previtali, Investor Relations Manager of Tractebel Energia. Please go ahead, sir.

#### Antonio Previtali

Good morning, Ladies and gentlemen, and welcome to Tractebel Energia's Conference Call to discuss Third Quarter 2006 results.

I would like to mention that a slide presentation has also been made available on the company's website at [www.tractebelenergia.com.br](http://www.tractebelenergia.com.br) under 'Investors' section. Our earnings release can also be found on the website.

Before proceeding, let me mention that actual performance could differ materially from that anticipated and any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today, here in Florianopolis this morning, is Mr. Marc Verstraete, Finance and Investor Relations Director. First, Marc will comment on the company's Third Quarter results. Afterwards, we will be available for a question-and-answer session.

It's now my pleasure to turn the call over to him. Marc, you may now begin.

**Marc Verstraete** {BIO 18446542 <GO>}

Ladies and gentlemen, good morning. Thank you for attending our conference call. I will go through the presentation together with you.

So starting on page four of the presentation, today we will comment on the results of Tractebel Energia, the company owned by SUEZ, listed on the Novo Mercado in Brazil, and which is the operational generation company.

On page five, you can see that the company, as I said, is a generation company. It's located mainly in the south of Brazil. 80% of its capacity comes from hydroplants and 20% from thermal plants.

On page six, you can see to whom Tractebel Energia is selling the energy it produces. 45% of the energy is sold to distribution companies, 25% to commercialization -- to trading companies. Most of these trading companies belong to distribution companies. Then, last but not least, 30% is sold to free customers. The free customers -- this is an important market for Tractebel Energia because it allows for flexibility both in terms of pricing, as -- in terms of terms and conditions.

What is the strategy of the company? The strategy of the company didn't change lately. On page eight, you can see on the left-hand side of the slide that there is currently a supply higher than a demand in Brazil, and this situation will shift as of 2010 if no new power plants are built.

The result of this situation is higher energy prices in the future. You can see the blue line on the graph shows the prices for 8-year PPA prices of existing energy. And the green dots, these are prices for new energy contracts; 30-year PPAs. So you see increasing prices in the future.

Tractebel Energia, as you can see on the right-hand side of the slide, you can see the uncontracted energy. Until 2008, Tractebel Energia is almost fully contracted. In 2009-2010, it has approximately 9% of its energy uncontracted; still available for sale. In 2011, this percentage increases to almost 30%. So it will benefit from higher prices in the future.

If we look at the following page, on page nine, we can have a more detailed look on the energy balance of the company. You can see on the first line, the own resources of the company -- the -- what we call the actual energy coming from the plant belonging to Tractebel Energia. On top of this, Tractebel Energia is buying energy mainly to attend an increasing demand from its free customers. You can see the balance. And as I said, fully contracted until 2008 -- energy available for sale in 2009-2010 and a much bigger chunk as of 2011.

We are showing today, also for the first time, the average sales price in 2008, which is above 100 reais -- 102. And also, the average purchase price of our purchases for 2008 -- 82 reais for 2008.

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On the following page, speaking a little bit about the growth of the installed capacity. Earlier this month, our controlling shareholder, SUEZ, was successful in the new-energy auction. It sold Sao Salvador -- it sold the energy of Sao Salvador for a 30-year period starting in 2011 at the price of 135 reals per megawatt hour.

Just remembering some basic data -- the installed capacity is 241 megawatts of the plan; the assured energy, 148. It belongs 100% to SUEZ, our shareholder. The investments forecasted is around 845 million reals. Construction will start soon. Start of operations is foreseen in 2011. The project, which today, still belongs to our shareholder, will be transferred -- sold -- in the first half of 2007 to Tractebel Energia.

Continuing on page 11 -- still on the growth of the installed capacity -- our shareholder has another project, another power plant -- Estreito -- much bigger, this one -- 1,087 megawatts. SUEZ owns 40% in the pipeline. So the -- once the environmental license will be obtained and we hope to obtain it soon, they will be -- the shareholder will be able to participate in this project in the upcoming new-energy auction announced for the beginning of 2007.

Now, if we start with the financial performance, which is the main objective of this call today, first of all, looking at the nine-month accumulated figures -- so that the net revenues reached almost 2 billion, increased 17% compared to the same period last year. This increase was mainly driven by the energy purchases and related sales that increased. The EBITDA on its side increased 14%, reached 1.2 billion reals, for nine months of 2006.

Margin, on page 14, were somewhat under pressure. Reasons are twofold. First of all, when we start buying energy to sell it, these activity pressures put pressure on the margin. And also, the company suffered from high spot prices in the Third Quarter of 2006. I will come back to this later on. And this resulted in pressure on the margin as well.

Net income, nevertheless, reached 790 million reals, a 13% increase compared to the same period last year, and should allow for relevant dividend distribution.

Now, if we have a more detailed look about the highlights of this quarter, first of all, volumes increased 18%. The average price also increased 8.4% and reached 93 reals per megawatt hour. A combination of both high volume at higher prices resulted in higher net revenues, a 27% increase compared to the same period last year and reached almost 700 million reals.

Important this quarter is, as I said, the high spot prices, because these resulted in higher expenses related to the purchases of thermal substitution energy. These expenses reached 86 million in this Third Quarter. EBITDA increased 18% compared to last year, although, and reached 441 million reals, in this EBITDA, there is a non-recurring impact of 88 million reals, related to a lawsuit that we won. I will comment this later on. And the net income reached 257 million. Also, we paid out dividends related to the first half of 2006, actually, last week.

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If we move to the following page, page 16, we can see here the level of the reservoir and also the spot prices, both in the south of Brazil and in the southeast. And so, we can really see that the drought in the south resulted in high spot prices, both in the south and the southeast of the country. The spot prices reached, at the end of September, 120 reais per megawatt hour.

This resulted in higher expenses, as I said. We -- the difference between the assured energy that we have from our (inaudible) thermal plants and the energy effectively produced by the thermal plants -- the difference between both figures -- we have to buy it on the spot price. It is called substitution energy. Well spot prices on average in the Third Quarter of 2006 were 105 reais compared to 33 reais in the Third Quarter of 2005, so this resulted in much higher expenses.

The good news is that now, at the end of October, spot prices came down to 70 reais today as a result of some rain that fell here in the south of Brazil in October.

So on page 17, we have the income statement. As I said, the revenues, both the gross and net revenues grew 27%. The expenses, though, they grew 36% -- 37. And here, you see the first line, 'Electric energy purchased for resale.' Here, the main impact is the higher spot prices that I commented before.

What else can we discuss here? Well we have the charges on the use of the electric system. These are the transmission costs. They went up from 52 -- from 42 to 52 million reais. The main reason here is that in 2005, we were still selling part of the energy through the initial contracts, where this charge was not applicable.

We have the financial compensation for the use of water resources. These are the royalties. Due to the drought in the south of Brazil, we also produced less hydroenergy than our assured energy. So we had to buy the difference. This is for the hydro. You buy it on the -- from the energy relocation mechanism at 7 reais per megawatt hour. So it's a low price, but it is an expense, nevertheless. The good news here -- that is when you have to buy this energy, it means that you generate less and so your royalties also decrease substantially, which was the case here.

And the other important elements in the expenses is actually the lawsuit that we won related to PIS and Cofins taxes, which had a non-recurring impact of 88 million on EBITDA level.

The net financial income -- we had the financial income which was slower than the Third Quarter of last year, mainly due to reasons that we have less cash to invest. And also, we invested it at the lower interest rate because interest rate reduced in Brazil.

The financial expenses increased in the Third Quarter of '05. You had still an appreciation of the Reals in the Third Quarter of '06. You had a very light depreciation, a very small depreciation, so this impacted the monetary variation.

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And also, we had some assets -- we have some assets on our books which are bonds -- zero coupon bonds of the US Treasury. While these bonds had a positive impact in the Third Quarter of '05, their impact was negative in 2006. Then, the net income reached 257 million reais, compared to 307, the same quarter last year.

If we flip to the following page, page 18, we have the same information, but shown in another way. So you can -- we can see that the energy sold -- the volume increased quarter-against-quarter. The price -- the average sales price also increased, which resulted into higher revenues, as I said before.

The EBITDA, including the non-recurring impact of 88 million reached 442 million, compared to 374 for the same period last year.

The net profit -- if we would deduct from the net profit the non-recurring PIS and Cofins lawsuit, the net impact was 59 million. And if we deduct -- in the Third Quarter of '05, we had a non-recurring impact coming from the sale of the Jacui thermal plant of 97 million. We can see that that net profit was pretty comparable -- similar.

On page 19, we have some information on the debt. The gross debt continues to decrease, reached 1.3 billion. The net debt, 876 million, because we had 500 million in cash. Of this, well, 438 million has been paid out as dividends last week.

Our leverage expressed here as 'Total debt over EBITDA' -- the red line, you can see that it reached 0.9, so it's -- the company is under-leveraged, knowing that our policy -- our limit is 2.5 total debt over EBITDA.

On page 19, you have some detailed information on the debt -- the breakdown, both in local currency and in foreign currency and the cost of the debt. And the Reals part -- the cost is 13%. The USD debt has a cost of 6.7 and the Euro debt, a cost of 10.5.

Now, flipping to page 21, we can have a look at the CapEx. The CapEx for 2006 is forecast at around 59 million; 60 million. This is the CapEx in existing power plants. Then, we have in 2007, a much higher CapEx because, as I said, in 2007, we expect to buy Sao Salvador and to build a plant.

So you can see the CapEx for the coming year. Here, we are still showing the accumulated CapEx in both Estreito and Sao Salvador. Imagine that we will or that the group will be successful with Estreito beginning of next year as well. So the amount shown here is the equity investments of Tractebel Energia in this project.

Then on the last page, page 22, some information on the dividends. The management commitment is a minimum payout of 55% of net income. Over the last three years, we have been paying out 95%. For the first semester of this year, we paid out 2% and the payment frequency is semi-annual. So next payment should take place in April-May of 2010.

So this was, in a nutshell, the results of the Third Quarter of '06. I would like to open the session now for a q-and-a session. So please feel free to ask questions.

## Questions And Answers

### Operator

Thank you, sir.

(Operator Instructions).

I would like to mention that today's conference call is being held exclusive for financial analysts and investors. We kindly ask reporters who may be participating in this conference call to direct any and all questions to the company's press relations department. Please restrict your questions to two at a time.

Our first question comes from Mr. Sergio Tomashiro [ph] with Banco Itau.

### Q - Unidentified Participant

Good morning, everyone. My question is with reference to a new contract signed with (inaudible) -- with your free consumers. And despite the better prices scenario for the long term., have you already signed a new contract or renewed contract with this free consumers starting in 2009-2010? And at which price that would be signed?

### A - Antonio Previtali

Good morning, Sergio. Just for you to have an idea, I can bring you some news on a recent transaction we just signed. We've made a sale of energy for a free customer. It starts in 2012 at the price of 113. So it may serve as a guidance for future prices related to free customers.

### Q - Unidentified Participant

All right. And this 113 is for 2006 balance [ph] -- at the 2006 balance?

### A - Antonio Previtali

Yes.

### Q - Unidentified Participant

Adjusted by -- IGP-M or Dollar?

### A - Marc Verstraete {BIO 18446542 <GO>}

IGP-M.

## Q - Unidentified Participant

I see.

## A - Marc Verstraete {BIO 18446542 <GO>}

Inflation.

## Q - Unidentified Participant

Good. And this amount is already reflected on this -- your balance of energy in 2012?

## A - Marc Verstraete {BIO 18446542 <GO>}

No. Not yet.

## Q - Unidentified Participant

Okay. And when are you going to start to -- considering the balance of energy -- electricity of Sao Salvador? Because until now, we don't see any change in this own bridge [ph] force from 2010-2011.

## A - Marc Verstraete {BIO 18446542 <GO>}

Well Sao Salvador, we will bring it in the energy balance as soon as it is transferred or sold to Tractebel Energia. Before that, I cannot bring it into my energy balance.

But you have to bear in mind that the energy which will be produced by the plant has been sold already, fully, to the pool as a new energy. So it will -- let's say, if I put it in the energy balance, it will increase my own resources, but it will not reflect the balance, as its energy is already fully sold. Okay?

## Q - Unidentified Participant

Yes, for sure. Just a follow-up on this question. And on the last (inaudible) new-energy auction for a ministry [ph], you mentioned that this electricity of Sao Salvador could be delivered for -- starting -- delivering January 2009. And this new one, can you start the production of Sao Salvador by 2010 -- at the beginning of 2010? -- because I believe that this project could take some 30 months to built.

## A - Marc Verstraete {BIO 18446542 <GO>}

Well we are currently finalizing the negotiations with the contractors and it will depend on that. Today, we have as a projection -- projected a, let's say, a construction date, 2010 to start operations in 2011. But this will -- this might be a fine tune.

## Q - Unidentified Participant

Okay. Thank you.

## Operator

The next question comes from Gustavo Gattass with UBS. Please go ahead.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Hi, Marc and hi, Previtali, got two questions for you -- probably quick ones. First one, on the spot market and outlook, I remember you did make some mention of it in the earlier conference call. I was just wondering, given what you see today as far as, basically, how much it has rained or, basically, even, where the reservoirs are, is there any reason to believe that we might see a falling trend on the spot-market price. Is there any way to actually argue for that or is it really up to the winds and the weather?

**A - Marc Verstraete** {BIO 18446542 <GO>}

Well the spot-market price is really driven by weather. It is also -- it might also be driven by outlook of gas, and we cannot forget that element. As you know, the beginning of September, the government dispatched gas-fired power plants and not all of them were able to produce because some of them did not have gas available. So this might also have an impact on spot prices.

Currently, we are -- let's see, our base case is an average spot price for 2007 around 70 reals per megawatt hour, which is higher than it was in 2005.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay. And my second question, if we look at slide 21, the one with the CapEx forecast, you have bundled together both Sao Salvador and Estreito as potential impact on cash flow if you do get to build both at the same time.

My only question would be, assuming that the federal government of Brazil really does, let's say, a new-energy auction now, in the middle of 2007, is there enough time to effectively follow the kind of cash outlays that you put in that slide or is that assuming you had started both projects in the beginning of '07?

**A - Marc Verstraete** {BIO 18446542 <GO>}

No. No. This is totally feasible if the -- if we would be successful with Estreito in the upcoming new-energy auction, then we can really expect this CapEx. This is an up-to-date figure.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay. Thank you.

**A - Marc Verstraete** {BIO 18446542 <GO>}

You're welcome.

**Operator**

(Operator Instructions).



Our next question comes from Lilyanna Yang with JP Morgan. Please go ahead.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Hi. Good morning. I just have one follow-up question on the Sao Salvador project. You indicated that you might anticipate the startup of the plant to something around early 2009.

Would you be able -- or, how do you envision that you'll be selling this capacity for 2009 and 2010, since it's already only contracted to sell beginning 2011? Do you think it's more a question of, maybe, selling to the spot market or you are kind of trying to anticipate the plant thinking that the CN [ph] physical backup might not be in place, so you want to minimize your exposure to the spot market? Give us some color. That would be helpful. Thanks.

**A - Marc Verstraete** {BIO 18446542 <GO>}

No. As I said in the presentation, our outlook is to have the plant ready in 2011 to be able to deliver under the PPAs it signed with the pool.

Of course, if the energy -- or if the operation is anticipated, which is not basis today, then we can choose -- we have two options. Then, you can sell the energy to the spot or to the free clients. But on this, I don't have a -- any view today.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Okay. So actually, what I wanted to ask is -- you don't think there is a need to try to anticipate Sao Salvador to maybe cover for the potential lack of physical back up for CN because you don't see the CN risk as really being relatively high in 2009. Could I read it this way?

**A - Marc Verstraete** {BIO 18446542 <GO>}

No. Of course, if I can anticipate, it will be welcome because I will have free energy, which I will be able to sell. So any anticipation will be more than welcome, of course. But if it's not anticipated, I will -- you can see, in 2009, we have 325 megawatts available for sale, including -- the rates including CN back on track. And so, even if CN would not be available, I would not be in the red, let's say.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Okay. Thank you.

**Operator**

Our next question comes from Mr. Rafael Esprito Santo [ph] with Banco Pactual

**Q - Unidentified Participant**

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Hi, everyone. My question is regarding new investments. We know that the company's focus should remain in hydropower plants, but given the increasing presence of thermal plants in the last energy auctions and Tractebel's still very unleveraged balance sheet, can we expect the company to invest in new thermal plants in the future?

**A - Marc Verstraete** {BIO 18446542 <GO>}

Well I can say that in the recent past, the main focus has been on hydroplants. Although, thermal plants also always have been part of, let's say, Tractebel Energia's focus, both because we already have -- we have -- important part of our portfolio is composed of our thermal plants.

We developed some new ones since we acquired the company back in 1998; Ajorna [ph], which is a gas fired power plant, Lages, which is a power plant burning wood pulp. So thermal plants also have been a focus of the company.

And I think that in the future, beside the hydroplants developments -- that we have one, let's say, under construction today, Sao Salvador. and the other one -- very advanced -- in the pipeline, I think that we can expect some thermal plants as well. This is something that the company is looking at today, with the closer look than, let's say, last year, for sure.

**Q - Unidentified Participant**

Okay. Thank you.

**Operator**

(Operator Instructions).

And this concludes this question-and-answer session.

Mr. Marc, at this time, you may proceed with your closing statement, sir.

**A - Marc Verstraete** {BIO 18446542 <GO>}

Well I would like to thank all of you for attending this conference call, for asking these questions. I would like to stress here that both Previtali and myself are always available here at Tractebel Energia for any additional questions that you may have. So please feel free to contact us and hope to see you, meet you, anytime soon. Thank you. Bye.

**Operator**

And thank you, sir. That does conclude our Tractebel's Third Quarter Results Conference for today. Thank you very much for your participation. You may now disconnect your lines.

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