

Q4 2007 Earnings Call

Company Participants

- Antonio Previtali, IR
- Marc Verstraete, IR

Other Participants

- Marcus Sequeira, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. (Operator Instructions).

As a reminder, this conference is being recorded. I would now like to turn the conference over to Mr. Antonio Previtali, Investor Relations Managers of Tractebel Energia. Please go ahead.

I am Antonio Previtali, IR Manager of the Company. And with us today in Florianopolis, is Mr. Marc Vestraete, Finance and Investor Relations Director. First, Marc will comment on the Company's Fourth Quarter and year-end results. And afterwards we will be available for a Q&A session. It is now my pleasure to turn the call over to him. Please, Marc, you may now begin.

Marc Verstraete {BIO 18446542 <GO>}

Good morning, to everybody. Thanks for joining this call. It is my pleasure to comment today on the excellent 2007 results from Tractebel Energia. The way I want to organize this call is, first of all, I will discuss a little bit our updated energy balance. Thereafter, I will comment on the 2007 results. After that, we will go briefly into the Fourth Quarter 2007 results, in order to finish with an updated CapEx of the Company. And then go on to the Q&A.

So if you would like to open our presentation and go to page nine, you will see on the left-hand side of this page nine, first of all, a graph showing the difference between supply and demand of electricity in the country today. So you can see that in 2008, 2009, there was a lack of supply compared to the demand. There was a small shortage, let's say, vested, driven by the natural gas crisis. In 2010, if everybody who agrees to commit

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they would build a plant. And they built it, the situation should turn back into an equilibrium level. And as of 2011, we -- 2012, maybe we will need a new investment.

Due to this, you can also see that the blue line in the same graph which shows the crisis in the latest auctions organized by the government, both old energy and new energy prices, with a clear upward trend. If you -- on the same page on the right-hand side, if you look at the situation of Tractebel Energia, it is uncontracted energy. You will see that in 2008, 2009, Tractebel Energia has almost nothing left for sale. In 2010, we have 5% of our portfolio and this jumps to 20%, as of 2011. So we intend to sell this uncontracted energy at higher prices in the future, which is clearly our strategy.

If you take the same information a little bit more detail, you have this, on the next page which is page ten of the presentation, where you see on the top of the page, our owned resources. This is the assured energy attached to the existing power plants. You see an increase in 2009 compared to 2008. This is the Sao Salvador hydro power plant entering into operation. In 2011, 2010, the increase is related to the entering into operation of the Estreito power plant, who will enter into operation spread out over these two years.

The next line, these are all the purchases for resale which we do with -- we buy energy from all generators in order to sell them -- to sell it to our existing or new free clients. So this gives you the total resources which the Company has available for sale. On the next block of this table, you see the energy sold through the government auctions or through bilateral sales, which can be both free clients or both contracts with distribution companies. The difference between both, the balance, is exactly the same information as you saw on the previous page.

Below this table, we also show the average sales price and the average purchase price, purchase price of the energy purchased for resale. Important to note here, first of all, that we are showing net prices. This means net of our ICMS taxes and net of taxes over revenues like PIS/COFINS or the R&D cost. So here you can also see an increasing trend in the future of these prices.

Well now, we can go to the second part of this presentation which is the comments on the 2007 results. So if you would please go to page 18 where we show on the left-hand side the net revenues. You see that the net revenues reached R\$3 billion for the first time in our history. It is a 12.5% increase compared to last year and it is mainly driven by the price of energy which increased from R\$80 per megawatt hour last year to R\$90 per megawatt hour this year.

On the right-hand side, you can see the EBITDA. The EBITDA reached R\$1.8 billion. It is an even higher increase compared to last year, 16.5%. The EBITDAs have been driven by, of course, the nice performance of the net revenues and also lower cost, mainly the cost of the CCEE which are the energy chamber. Last year, we had costs related to the purchase of energy on the stock market. In 2006, this amount reached R\$280 million.

In 2007, we reduced this expense, it reached R\$180 million. So R\$100 million less, due to the strategy we adopted to subsidize the -- our exposure towards these stock market

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purchases. So it proved to be an excellent strategy and resulted in lower expense. Last year, we also had the exports to -- mainly to Argentina in the Second Quarter and the Third Quarter, which also helped the EBITDA. They had a positive effect on the EBITDA. On the next page, page 19, you can see the EBITDA margin, which went back to the above 60%, reached 61% compared to 59% last year.

The net income for the first time in our history, we reached a net income of R\$1 billion. It is 6%, almost 7% increase compared to last year. And here, the financial result had a positive impact. The financial result, which was driven by a lower interest rate in Brazil, which decreased our financial expenses and also the appreciation of the real compared to the -- mainly USD and we still have part of our debt, although limited, in dollar and so this had a positive effect. If you remember that in 2006, we had a part of our net results came from the sale, was related to a non-recurring -- came from a non-recurring event, which was the sale of the remaining parts we had in the Jacui thermal plant. If you exclude this impact, which was R\$168 million, the increase of the net income would be almost 30%.

Now if we continue. And we go to the following page, page 20, where we see some drivers of the results of the Fourth Quarter. So here, some comments, the first driver is the volume, the energy sold. The volume decreased if you look at the Third Quarter compared to the Fourth Quarter of last year and even the Third Quarter of this year. The volume decreased simply because we bought less energy from our generator to resell it to our clients. So it is less, let's say, trading activity.

But on the other hand, the average price of the energy sold increased drastically from R\$80 to R\$91 in the Fourth Quarter. So despite the lower volume. But driven by the average price of energy, the net revenue increased. We don't see it here. But in elsewhere impacted positively the EBITDA. The EBITDA reached R\$505 million, compared to R\$337 million last year, which is a 50% increase. The EBITDA margin in the Third Quarter '07 and the Fourth Quarter was 65% compared to 47% in the same period last year.

Also, as I said, the impact of the, let's say, the stock market purchase is the strategy that we adopted last year was very important here and we were able to strongly reduce the stock market purchases in the Fourth Quarter compared to -- of this year compared to last year. The net income also increased, reached R\$300 million compared to R\$189 million the same period last year.

If we now make some short comments on the CapEx of the Company, you can flip to page 23, there you will have an overview of the CapEx. You will see that the orange part here is the CapEx in the existing power plants, around R\$75 million last year. But you can see a very drastic change as of 2007 compared to the previous years. In 2004, 2005 and 2006, we only invested in existing power plants. In 2007, this changed, we invested almost R\$600 million in San Salvador, the construction of these hydro power plants. We bought the share of Celeste in the Machadinho hydro plant and we bought the small project company called Seival, which should help us to develop thermal power plant coal-fired in the south of Brazil. So a very -- total CapEx of R\$718 million compared to R\$70 million in 2006.

Important to note here for San Salvador and also for Estreito as of 2008, we are showing -- the CapEx shown here includes both the equity we invest in the project as well as the debt, the financing, the BNDES Financing, in this case, for this project. You will see that in 2008, we have a -- on top of San Salvador, we have Estreito, 2008, 2009, 2010. And also in 2008, which is not shown here. But which, let's say, we will include in the future, is the purchase of the Ponte de Pedra hydro power plant.

If you please turn to page 12, you have some information on the power plant that we recently acquired. We acquired it the end of last year. We already got approval from ANEEL. We are just waiting for approval from the BNDES, which we should obtain now in March. The payment is foreseen end of March. And so here we can see a power plant of installed capacity R\$176 million, assured energy is R\$131 million. And the price we paid for this asset is R\$592 million. So this should be added to the CapEx. The plant entering to operation in 2005.

And also, in order to continue after the CapEx, the following page, on page 24, short overview of the dividends payments of the Company. So despite having a commitment from management of paying out 55% of net income, despite the fact that we invested at a lot in CapEx in 2007, as opposed to the previous years, management -- the Board decided to still pay out 95% of the net income, which resulted in dividends yield of 6.8%. So this was, in a nutshell, our presentation.

We would like to go now to the Q&A session. So please if you have any questions, take advantage of this opportunity to ask. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions). This call is being held exclusively for financial analysts and investors.

We kindly ask reporters who may be participating in this conference call to please direct any and all questions to the Company's press relations department. Please restrict your questions to two at a time. The first question comes from Marcus Sequeira of Deutsche Bank. Please go ahead.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Hello. Good afternoon, everybody. Just like to have your thoughts on how does cost prices would be likely to behave this year and what the impact would that be projected? I noticed that you guys have increased the production of thermal generation. If stock market -- if stock prices remain around like R\$150 or higher, what that -- what the impact would be for you guys in terms of your exposure to stock market and your thermal generation?

A - Antonio Previtali

Hi, Marcus, this is Antonio Previtali. As you know, the best situation for Tractebel regarding the thermal generation occurs when the stock price is tremendous low. For instance, there is a floor for this price which currently is at R\$15 or R\$17 per megawatt hour. In this situation, we do not generate because this price is lower than our variable cost for running, firing up the power plants. And as a consequence, we buy this energy which is already sold at the stock market. As the stock market's price increases, we are going to be suffering some pressure on our margin as the energies already sold for the very same amount, for the very same price.

And on the other hand, we are forced to buy at higher prices. So our cost increase -- increased. But the situation changes dramatically when we fired up our power plants, which is a consequence of the fact that the stock markets goes beyond, goes further than the variable cost of generation. And it was exactly what happened in Q3, especially in Q4 last year.

Of course, it's a bit early for ourselves to estimate the behavior of the stock price for the - - during the course of 2008. But we are forced -- what we can foresee clearly, I would say, is that, due to the recent policy of Independent Dispatcher in Brazil in order to save water in the reservoirs, which is to fire up thermal power plants in advance, if that -- chances are that we are going to have most of our power plants fired up in the course of 2008. And as a consequence to benefit of the reimbursements of the coal which is going to help our final -- the bottom line of the Company.

I should remind all of you that the best case for Tractebel. And there's no doubt about it, is to buy energy in the stock markets, at the minimum level such as R\$15, R\$20, R\$30. When it is not possible, the better -- the best situation for ourselves is when we have our power -- thermal power plants fired by Independent Dispatcher and we are expecting this situation to happen again in 2008.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you.

Operator

(Operator Instructions). This concludes today's question and answer session. Mr. Previtali or Mr. Marc, at this time, you may proceed with your closing statements.

A - Marc Verstraete {BIO 18446542 <GO>}

Well thanks to everybody for your attention, your interest. It was really my -- our pleasure to show here our excellent results we had last year. If you have any additional question, remark, et cetera, please feel free to contact myself or Antonio Previtali and his team. It will be our pleasure to help you, or assist you. Once again, thank you. And bye.

Operator

That does conclude our Tractebel's Fourth Quarter results conference for today. Thank you very much for your participation, you may now disconnect.

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