

## Q1 2006 Earnings Call

### Company Participants

- Antonio Previtali, IR Manager
- Marc Verstraete, CFO

### Other Participants

- Gustavo Gattass, Analyst
- Sergio Tamashiro, 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 of Tractebel Energia. Please go ahead.

#### Antonio Previtali

Ladies and gentlemen good morning or good afternoon depending where you are. And welcome to Tractebel Energia Conference Call to discuss the 2006 First Quarter 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 the Investor Relations section. And our earnings release can also be found in the website.

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

With us today in Florianopolis this morning is Marc Verstraete, Chief Financial Officer and Investor Relations Officer. First Marc will comment on the Company's First Quarter results, and afterwards will be available for a question and answer session. It is now my pleasure to turn the call over to him. Marc, you may now begin.

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

Good morning. Good afternoon to all of you. Today my idea is to discuss a little bit the strategy of the Company. Then to briefly discuss the new projects in the pipeline, and to finish with the results of the First Quarter of 2006.

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So if we start -- if we first start with the strategy of the Company on page nine of our presentation. You have on the left-hand side the outlook for the energy market. Where you can see that today there is a supply higher than a demand. And that is a situation which will shift as of 2009 if no new plants are built.

You can also see on the same slide, on the same graph the line showing the PPA prices for an eight year contract as auctioned during the latest Government auctions. You can see that the trends of the price is increasing. Knowing this Tractebel Energia has positioned itself the following way.

As you can see on the right-hand side into 2006, 2007, 2008 it's almost fully contracted. In order to become uncontracted a little bit more in 2009, 2010 and much more in 2011 exactly when the Company expects higher energy prices. One comment here, the energy market outlook is based on 5.5% yearly demand growth.

On the following page on page 10, we have a breakdown of our purchases sales and assured energy, which is basically showing the same information as on the previous slide. A little bit more detail there we have on the first line our assured energy.

Then on the second line important to point out here the purchases. We have been very successful in selling energy to industrial clients. And in order to be able to attend to the demands of our clients, the Company has been buying energy in the market from other generation companies in order to re-sell it to our industrial clients. I think this is the main comment, the main observation here on this graph, but an important one.

The average prices for 2006/2007 are respectively BRL92 BRL98 per Mwh for the energy sold to contract. This does not include energy sales to the spot market.

So this is a little bit of the strategy of the Company. Now if we look to the second point, the second item of the discussion in the -- these are the new projects.

In June -- on June 12 of this year the Government will organize a new energy auction. This auction will include a thermal plant where you can have really a new plant, new project and also hydro plants. For the hydro plants the Government will only auction botox energy. Botox, in this case, being a plant already in operation. We have 544 average MW of botox energy. As well as plans for which the concession has already been auctioned in the past, which we call here under development. In our case Estreito and Sao Salvador, as you can see on page 11, representing 382 MW.

This auction will be an auction to deliver energy as of January 2009. This is important to bear in mind, because it means that you basically have 30 months to build the plant. We think this is achievable for Sao Salvador, which is a small plant we built in the past Cana Brava in 32 months. It will be the plant then Sao Salvador.

And also we already have the installation license, we already obtained the license, which sometimes can take up to six months to obtain. So why do -- I am making this comment?

Because I think that there won't be a lot of hydro plants competing at this auction. And so we will be competing mainly with German plants, which would be interesting for us, or for Sao Salvador.

Estreito, it is a much bigger plant. It's a 1,087 MW plant installed capacity. It is a plant that you cannot build in 30 months. So I think that Estreito is most likely to participate in the next auction that the Government intends to organize, which is an auction for delivery as of 2011. Their idea is to organize this auction later this year.

The third point of the conference call here and maybe the most important one are the results of the First Quarter of 2006. We can turn to page 15 of our presentation, where we show on the left-hand side the net revenues. The net revenues reached BRL630 million as opposed to BRL590 million last year. So a 6.9% increase.

Here I have to make one remark. As you know the Company gets its coal subsidized. How it is accounted for in the past. You had in the revenues you accounted the subsidy. In the cost you accounted the purchase of the coal. And so, as a matter of fact, we were paying PIS/COFINS tax, taxes on virtual revenue.

So after many discussions with the regulator ANEEL we finally accepted to change the way that the companies in the sector should account for this subsidy. And the new way to account for the subsidy is to give us a recuperation of cost. In other words it does not enter into the revenues. So the -- in order to make things comparable, we adjusted the First Quarter '05 revenues in this case.

The EBITDA on the right-hand side reached BRL390 million as opposed to BRL360 million in the same quarter last year. The EBITDA grew more than the net revenues, as a result of the cost which only grew 3.4%.

In the cost we have four items that I want to discuss here, the first of them being the energy purchased for resale. As I told earlier to you we have been buying a lot of energy to attend the demand of the industrial client. So as a result we have here an increase of cost compared to last year.

A second point is the fuel cost to generate electricity. Last year in the first semester Tractebel Energia exported energy to Argentina. And so we have to buy some coal to produce electricity with our thermal plants for exportation. The exportation did not take place in the First Quarter of 2006. And as a result of that the fuel cost to generate electricity has been reduced.

Then we have a third item, which is the cost for the use of the transmission and distribution network. This explains the increase. Due to increased sales through bilateral contract, and substitution of initial contracts on which there are no transmission charges.

Then lastly the payroll material in third party services these increased compared to the First Quarter of 2005, due to payroll and contractual readjustments.

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If we flip to the following page, page 16 we are showing here down the left-hand side the EBITDA margin. Here also I wanted to make the same comment that I made before with respect to the change in the accounting procedure for the fuel subsidy. Since it does not enter anymore in the revenues, the EBITDA margin has been positively impacted.

And here we today in Tractebel Energia have an EBITDA margin higher than 60%. And if you recall in the past we were always showing EBITDA margins around 50%, 52%, 53%. We also reclassified the previous years in order for you to make things comparable.

Then on the right-hand side we are showing the net income. The net income reached BRL344 million in the First Quarter. As you can see in the presentation we have colored it and shown it here in yellow BRL216m, which would be the recurring net profit. And the difference being BRL128 million if obtained through the sales of the Jackery [ph] project. The Jacui project is a plant which was -- which we inherited half way built when we bought Gerasul at the time.

We have been selling one third of this plant in 2004, one third in 2005 and we are selling -- the last part of it we sold it the First Quarter. We had -- still we had a lot of un-booked deferred fiscal assets, which now positively impacted the result. And the result is there.

On the following page, page 17 we are showing you some financial drivers. You can see on the left-hand side the energy sold in terms of volume. So you will see that the volume 3,611 average MW is higher than the volume of the last quarter. But it's slightly lower than the volume in the First Quarter of 2005.

The reason here, again as I said, is because in the First Quarter of 2005 we have been producing, and exporting energy to Argentina which did not take place in this quarter yet.

On the right-hand side the average price of the energy sold has been increased reaching BRL89 per Mwh for this semester. And whereas our estimate is to have BRL92 for the full-year average price.

The EBITDA and the net profit I already commented before.

On the following page, page 18 we have some information on our debt. You can see that the debt continued to decrease. It reached BRL1,470 million the last quarter. 68% is in local currency, 21% in foreign currencies. If we would look at the net debt then we have come below BRL1,947m.

How it is this debt composed? On the following page 19 you see the local currency debt. A big part, is limited to TJLP which is the long-term interest rate in Brazil. Some part of it is fixed. This is the debt we have with Eletrobras. Part of it is due to IGP-M and part of it to SELIC. The foreign currency debt is 55% floating, 45% fixed. The cost of the debt or the Real part is around 14%, the dollar part is 6.5% and the euro part is 9.5%.

You can see on the following page, on page 20 the amortization profile. You can see that it's a smooth profile. No hiccups and something we feel very comfortable about.

On page 21 some information about the CapEx of the Company. In the First Quarter of '06 the CapEx reached BRL7m. It was in our existing power plants mainly refurbishment. The estimation is to reach BRL59 million for the full year.

In the same graph I am also showing the investment of the CapEx in the Estreito and Sao Salvador projects only our equity portion. And as you can see, if you compare the level of the CapEx with the level of the EBITDA and the net income you see that there is room for a dividend payment within the Company, which is information we are showing on the last page, on page 22 where you can see that the dividend payout has been 95% over the last years.

Yesterday we had the General Assembly of the shareholders, the General Shareholders' Meeting, whereby the dividend payment has been approved so that the shares have started trading ex dividend as of today. And we also published a relevant fact saying that the dividends will be paid on May 5.

So this is the -- in a nutshell the comments on our First Quarter '06 results. I would like to open the session now to the question and the Q&A session.

## Questions And Answers

### Operator

(Operator Instructions). Our first question comes from Eduardo Hayama [ph] with Banco Pactual.

### Q - Unidentified Participant

Hi. Good morning. I have a few questions firstly one is regarding the Suez [ph] power plants. What are your plans regarding the possible divestiture of their power plant that should occur maybe this semester or early next semester?

The second question was in the conference call that you gave in Portuguese, you mentioned that the return you are asking for the Greenfield projects there are 14%, 15% nominal dollars. So should we expect this (inaudible) 12 to 13% in real terms? And could you also mention what would be the equivalent energy? Why do you expect to sell to have this kind of return 120, 125 something like that? Thank you.

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

With respect to the first question indeed if Suez [ph] is willing to sell its generation assets we are looking at it. We don't know exactly when we will bring it to fulfill. They have a stake in the Machadinho power plant, which is a power plant we also have a stake at 17%, which is also a power plant we are operating.

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So we know the plant very well. We have the right of first refusal. So this would be an interesting asset to look at. Suez [ph] has also some smaller hydro plants. This would also be interesting for us. Not that we are willing to move to this market. But it would still be interesting for the following reasons.

These smaller hydro plants they can sell the energy directly to specific industrial clients. And so sometimes we see [ph] the smaller industrial plants and then the free ones. And sometimes we see the situation whereby we have one plant which has several clients. We cannot attend the one plant of them because they do not qualify as the pure industrial client and so with this small hydro plants we would be able to attend to these clients fully with all these plants. So this is what I can comment about Suez [ph].

With respect to the return, as I said indeed we are looking at a return of 14 to 15% nominal annuity. How does this translate in the price for the -- that we would like to obtain for new projects? Well the first comment it is dangerous to give one price for several projects because as you know a hydro plant part of the cost is linked to environmental issues. And so you could have one plant located close to a city which could become much more expensive than a plant located in the middle of nowhere. So I cannot give one price. But I think around BRL120, BRL125 would be a fair assumption. But then again, as I said to you, you have some projects that are below 150 and we would not even look at it.

## Q - Unidentified Participant

Okay. Thank you.

## Operator

Our next question comes from Mr. Sergio Tamashiro with Itau Corretora. Mr. Sergio please go ahead.

## Q - Sergio Tamashiro {BIO 2274485 <GO>}

Hello.

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

Hello.

## Q - Sergio Tamashiro {BIO 2274485 <GO>}

Hi. How are you? I am sorry again, my -- I just have the one quick question. It's regarding the provisions, net provisions. This quarter amounts to BRL30 million which is a substantial if we feel that Tractebel is just a generating company. Why is the reason for such an increase?

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

This increase compared to what because the last quarter?

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**Q - Sergio Tamashiro** {BIO 2274485 <GO>}

Third and Fourth Quarter and all quarters, because if you have all the collaterals for these receivables I wouldn't be expecting such a BRL30 million in provisions?

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

The provisions here are more related to overhauls mainly. These are not provisions for bad payers or doubtful receivables, etc.

**Q - Sergio Tamashiro** {BIO 2274485 <GO>}

So could you give further details if we can just -- if they are non-cash or if we can just consider this BRL30 million for the long-term or just cutting close to zero?

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

No you can consider this to continue for the longer term.

**Q - Sergio Tamashiro** {BIO 2274485 <GO>}

The BRL30m?

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

Yes because nothing exceptional happened this semester.

**Q - Sergio Tamashiro** {BIO 2274485 <GO>}

So what's the reason behind it? If it's a generating company, and you mentioned it's not related to bad receivables, so it relates to what?

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

The provisions we made are mainly related to overhauls that we are planning.

**Q - Sergio Tamashiro** {BIO 2274485 <GO>}

Basically against which sort of company? Free consumers or to the pole [ph]?

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

No, no I mean overhaul, I mean overhaul of our maintenance of our power plants, maintenance.

**Q - Sergio Tamashiro** {BIO 2274485 <GO>}

Okay. Thank you.

**Operator**

(Operator Instructions). Our next question comes from Mr. Gustavo Gattass with UBS.

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

Marc just a quick question as a follow up here on Sergio. On your filed results with the CVM there is a mention that you had to do an adjustment on the technology provision that you had for large maintenance for overhaul. Did that have any kind of impact on this quarter in addition to the number that is shown there on BRL30m, or is that completely adjusted elsewhere?

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

Well we didn't include it in the BRL30m. As you know, how did the system work before? How did the system work before? Before you -- if you were planning for, let's say a large overhaul in a previous time you would book a provision. Then over three years you would reverse the provisions.

Now as a result of a new rule from Ibracon we are required to adapt the way these are being booked closer to the IFRS rules. And this had an impact on the results and on the way we book this provision.

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

Okay. Thank you.

**Operator**

Thank you. Our next question comes from Sarah Hatcher [ph] of Rainbow Funds, please go ahead.

**Q - Unidentified Participant**

Hi. My question is related to the taxes that were paid in this quarter versus the First Quarter in 2005. Or rather the taxes that appear to be a benefit. Is that going to continue this year? Or can you just describe a little what caused that?

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

What's happened is that we had the Jacui project and related to this project there were some un-booked deferred tax assets.

**Q - Unidentified Participant**

Okay.

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

With respect to income tax and not social contribution. And by selling the project we had been booking these assets. And this resulted in the positive value you see in the income taxes as opposed to, of course, last year.



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The effect of the -- the amount of the effect in this quarter was BRL97m. Then on top of this, with respect to the Jacui project you see that we booked a non-operating income of BRL51m, which after tax amounts to BRL32m.

If you add the BRL32 million after tax plus the BRL97 million also after tax, which I just mentioned this will give you BRL128 million which, is exactly the amount shown in the presentation. If you look at, let me get the page, if you look on page 16, when you look at our net income you see the yellow dot BRL216 million which is the recurring net income which I quote. Then total net income BRL344m. So the difference between BRL344 million and BRL216 million is exactly the BRL128 million related to Jacui.

### Q - Unidentified Participant

Okay. And so that's just an effect for this quarter and there's nothing to carry over for the Second Quarter?

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

No, no.

### Q - Unidentified Participant

Okay. Thank you.

### Operator

This concludes today's question and answer session. Mr. Marc, at this time you may proceed with your closing statements.

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

Well thanks to all of you for joining us for this call. I would like to add that we remain here at your disposal for additional questions you may have for telephone, email etc. And thanks again. Talk to you soon.

### Operator

That does conclude our Tractebel First Quarter Conference for today. Thank you very much for your participation. You may now disconnect.

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