

## Q2 2006 Earnings Call

### Company Participants

- Antonio Previtali, IR Manager
- Marc Verstraete, Finance and Investor Relations Director
- Unidentified Speaker, Unknown

### Other Participants

- Unidentified Participant, 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).

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

#### Antonio Previtali

Good morning, ladies and gentlemen, good afternoon for some others. Welcome to Tractebel Energia Conference Call to discuss Second Quarter 2006 results. I would like to mention that a slide presentation has also been made available on the company's web site at [www.tractebelenergia.com.br](http://www.tractebelenergia.com.br) under the Investor Relations section. Our earnings release can also be found in the web site.

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 Mr. Marc Verstraete, Finance and Investor Relations Director. First, Marc will comment on the company's Second Quarter results. Afterwards, we 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, to everybody. Thank you for joining this call. I will briefly comment on the strategy of the Company. Afterwards, I will comment on the results of the Second Quarter of this year, and I will finish with some comments on the CapEx and the dividend.

So if we look at the presentation that we provided to you, starting on our page 10, which is the first page of the strategy. We should then flip to that page. You will see on the left-hand side of that page that as of 2010, the market will need energy. In other words, demand will be higher than supply if nothing is being built by then. This will result in higher energy prices and Tractebel Energia believing in this scenario is maintaining a strategy that it started a couple of years ago, as you can see on the right-hand side where you see the uncontracted energy of the Company.

You will notice that until 2008, the Company is almost contracted. In 2009, 2010, we have some energy available. We used to have more, but sold a big chunk of this energy in the latest new energy auction, which I will comment thereafter. And as of 2011, we have let's say a more substantial amount of energy available for sale, playing on the potential increase in energy prices in the future.

If we flip to the next page, page 11, where we have the energy balance of the Company, you will notice that, well, in the first line, we have the assured energy. In the second line, we are showing the purchases. This is a value, an amount that changed lately, it increased. Tractebel Energia is facing quite a subset within this short line in order to be able to attend the demand, we have been increasing our purchases.

We are showing here also the sales. First of all, the sales through the government auction and then the bilateral sales. The sales through the government auction, just this is public information, publicly available. In order to make it more easy for you, we opened it for all the auctions that already took place and where we sold energy. You can see that the last auction, the purple one, 2006 New Energy, 30 years, Tractebel Energia sold 493 average megawatts of energy coming from East Bank Cana Brava at very, very attractive prices, 128 reais per megawatt hour.

From the same slide, on the bottom of the table, you will also see that we provide for the first time and this in order to attend the demand of our investors, the average purchase price of the Company, which is 56 reais in 2006 and 75 reais for the energy already purchased for 2007. We hope that we fully attend your demand in providing you this information.

On the next page, we have another aspect of the future growth of the Company, which are the new projects. Currently, we have two of them in the pipeline, most of you have already heard about them, being Sao Salvador and Estreito. And Sao Salvador is a small project fully owned by the company. We have all the licenses in place and we will-- we were not successful at the latest energy auction and we will participate in the next new energy auction with this project as we will do with Estreito. For Estreito, we are still trying to obtain the environment-- the installation license and we are negotiating with the authorities here in Brazil.

Besides these two projects, for which we already own the concession, the Company will also look at new energy projects in the upcoming auctions.

I suggest we now switch to the financial performance on page 15 of the presentation. We are showing on the left-hand side, the net revenue. You can see that for the first semester of this year, we increased 12% compared to the first semester of last year. This is the result of both an increase in volume and prices that I will comment later on. The EBITDA also increased almost 12% in order to result, as you can see on the next page, on page 16, in an EBITDA margin of 63%.

Net income faced the same increasing trend in order to reach 533 million reais for the first semester of this year.

If we are looking now at the following page, page 17, where we are showing some financial drivers and where we will detail some quarterly information. First of all, you can see that the energy sold increased, both compared to the first trimester of this year as compared to the second trimester of last year and reached 3,800 average megawatts.

At the same time, the average price of the energy also increased, reached 90 reais per megawatt hour, which resulted as I showed earlier on in higher net revenues and also in an increase in EBITDA. The EBITDA increased despite higher costs.

The higher costs were the result of mainly three items. First of the all, the fuel cost for generating electricity. The company has been exporting electricity and when we produce for exportation, then the production is done mainly through thermal plants whereby the cost is not subsidized as opposed to production through thermal plants for internal consumption within Brazil.

The second item resulting in higher cost is the transmission cost. The transmission cost was not charged in the initial contract. This initial contract expired in December 2005 do not exist anymore. And so, now, under the new system of bilateral contracts, we were facing this transmission cost.

Then, the third item, the energy purchased for resale. This amount increased 55 million reais compared to the second trimester of last year, reflecting first of all the need to meet higher sales volume, the need to replace the energy from the same contract, higher spot prices and also the cost of the Energy Reallocation Mechanism, also called the MRE system.

There has been lower hydro generation in the south of Brazil due to a dry period this year and so, in order to replace the energy not produced by the Company, we have to purchase it from the MRE mechanism.

The net profit reached 189 million reais for this trimester. It's lower than the 220 posted for the same period last year. But we have to bear in mind that in the same period last year we had the effect of interest on equity which did not impact the results in this

trimester and the interest on equity that we declared will only impact the results in the Third Quarter of this year.

If we flip to the next page, page 18, we are showing you the overview of the debt and you can see that the Company continues the same trend of reducing overall debt and also net debt. And our overall debt stands at 1.3 billion reais, net debt is 1 billion reais. Of total debt, 70% is local currency, 30% foreign currency, of which a large part, 22%, has been hedged already, mainly the remaining cash flow for 2006 and 2007.

Now, we can go to page 21 where we will give you some information on the CapEx, as I told you. On page 21, you can see the orange boxes, this is the CapEx in the existing power plants. For 2006, 59 million Reais has been foreseen, of which 22 million reais already has been invested. We have a gray dotted box, which shows the CapEx forecasted in the Estreito and Sao Salvador Projects, being our equity in these projects.

Then to conclude this presentation, we have on the next page, page 22, some information about the dividend. The company, the board of the company, last Friday, decided to -- decided to declare a dividend, part of it interest on equity, 114 million reais and part of it as dividend, 324 million reais for a total of 438 million reais. This is a payout ratio of 82% and it represents 0.67 reais per share or in other words, annualized, it would be 1.34 reais per share, which is the same amount which was paid out last year.

I thank you for your attention and I would like to open the Q&A session.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session.

(Operator Instructions).

### A - Unidentified Speaker

Our first question comes from Eduardo Hayama [ph] with Banco Pactual.

### Q - Unidentified Participant

Hi. Good morning everyone. Just I have a question regarding your growth strategy. Should we expect any acquisition in the short term? Are you looking at acquisition of companies like -- seeking capacity like you might buy that you are already analyzing [ph] that you are, I don't know, illustrating or something?

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

Well as I said, the growth in the company will come from the existing energy being sold at higher prices, will come from new projects, Estreito, Sao Salvador, and also non-existing

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bulk lands without concessions that we might be looking at, such as the (inaudible) for instance. Then, the third piece of the growth could come from acquisitions.

In the very short term, I don't believe something will pop up. We are looking and we are interested in the assets of-- the generating assets of Selesk [ph]. Just to make it clear, Tractebel is only interested in generation and not in transmission or distribution. But I do not believe that Selesk will sell these assets before the upcoming election. So this is one thing in the very short term, I don't see anything from the acquisition front popping up.

## Q - Unidentified Participant

Okay. Thank you.

## Operator

Thank you for your question Mr. Haiama.

(Operator Instructions).

Okay. 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>}

I would like to thank all of you for joining us in this call. I would also like to say that we remain at your disposal for any questions that you would have. So please feel free to enter into contact with Antonio Previtali or myself for any doubt or questions. Thank you very much.

## Operator

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

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