

## Q4 2005 Earnings Call

### Company Participants

- Antonio Previtali, IR Manager
- Lidia Borus, IR
- Marc Verstraete, CFO

### Other Participants

- Gustavo Gattass, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Ladies and gentlemen, thank you for standing by. At this time all participants are in 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 Ms. Lidia Borus of Financial Investor Relations Brazil. Please go ahead.

#### Lidia Borus {BIO 21620257 <GO>}

Good morning, ladies and gentlemen and welcome to Tractebel Energia's conference call to discuss 2005 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 investor relations section. Our earnings release can also be found on the website. 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 Sao Paulo this morning are Mr. Marc Verstraete, Chief Financial Officer and Investor Relations Officer. First, Mr. Marc will comment on the Company's 2005 results. Afterwards, he will be available for a question and answer session. It is now my pleasure to turn the call over to him. Mr. Marc, you may now begin.

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

Good morning, or good afternoon depending on where you are. To all of you, thank you for joining us in this conference call where we will briefly comment on the Company and the 2005 results. I will first start with the market share, the assets and sales of the Company. So if we can flip to slide number 4 where we are showing the position of the Company in the generating sector.

Today Tractebel Energia is by far the largest private sector owned Company. More than double the second player (inaudible), much bigger than Duke [ph] and (inaudible) and the others mentioned. Our total market share in the generation market in Brazil is close to 8%.

On the following page, we're giving you an overview of our shareholding structure. So Tractebel Energia in orange is the operational Company of the Suez Group in Brazil. Suez, through its local holding company, owns 68.73% of Tractebel Energia, who on its turn owns -- fully owns three companies, the largest Company in (inaudible) and also our commercialization Company. And we have a 48.75 participation in the Itag. Operating the Itag power plants.

On the following page, we are showing you an overview of our assets. Tractebel Energia has a very balanced portfolio; 80% hydro and 20% thermal plants strategically located in the South and the Southeast of Brazil. We own 13 power plants and we operate all of them. The total installed capacity for the hydro plants is 4647 MW and for the thermal plants it's 1213 MW.

On the following page we are showing you to whom we are selling our energy. And here we see an important shift over time. In 2002 we were selling almost all of our energy to true [ph] industrial -- two [ph] initial contracts to distribution companies. We have been shifting gradually towards sales to industrial clients. The initial contracts have been extinguished and for 2006 we will be selling, this is our estimation, approximately 30% of our energy to industrial clients. 25% to trading companies or commercialization companies, and the remaining 45 to distribution companies through bilateral contracts.

I will now pass the floor to Antonio Previtali, who is our investor relations manager who will give you a brief overview of our strategy.

## Antonio Previtali

Good morning, or good afternoon to everyone. Regarding the structure of the Company, we can move on to slide number 9 where on the left-hand side we can have a look at the Brazilian markets regarding the demand and supply figures. We can realize that the difference between supply and demand is shrinking from let's say 2004 to 2008. And from 2009 on, official figures indicate that we are going to have a shift in this position when the demand is going to overtake the supply.

On the blue line you can realize the gradual increase in the prices for energy over time. All of these prices are related to 80 year or PPA [ph] from the government auctions. Apart from the last one in the amount of 115 Reais per MW hour, which is a result of the new energy, the first new energy option which took place last December. It is associated to a thirty-year contract. Nevertheless, it is clear the increase in price for energy in the future.

On the right hand side you can have a look at the position of Tractebel in terms of uncontracted energy. And the chart shows that exactly when higher prices are expected, Tractebel has a lot of energy to put into the market. Of course, it is part of the strategy and so far we have been doing well.

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Moving on to the next page, slide number 10. You have an energy [ph] balance of the Company. Important to note that the sales through government auctions is being increasing. And the reason is that we didn't take part in the first auction by the government because of the low prices at that time. And so while we -- our position for the sales in the future is getting bigger and bigger.

Also important to note that we have jumped in the government auction sales from the year 2009 to the year 2010. There is a gap of -- not a gap but a difference of 200 MW, and this is the amount that we sold in the first new energy auction that took place last December.

Moving on to the next page, slide number 11. We're going to have a look at the price incentive for new energy. Tractebel has 544 average MW of botox [ph] energy related to plants that came into operation after the year 2000. And also we have two new projects under development and these are projects that had the concessions already granted. They are straight in Salsa woodwork [ph]. And it's opposition and (inaudible) position both in this side and on the other side which is associated to the new energy, which refers to the concessions are to be granted.

Moving on to slide number 12, we have more details on the projects of San Salvador and Estreito. If you succeed in selling these energies in 2006 in June this year auction, we have the schedule for both power plants for San Salvador. We have the start of construction this year and start of operations in 2009 and of course the end of construction.

Regarding Estreito, the start of operations is going to be 2009 and the end of construction in 2011. And on the right hand side you have a chart which shows the new installed capacity of the Company after the completion of these two projects.

Moving on to slide number 13. You can have a look at the maximization of the portfolio efficiency that is pursued by Tractebel. Through our commercialization strategy we are benefiting from let's say consistently higher average prices.

On the left-hand side you have in blue the amount of energy contracted both in the past and in the future as well. And for this contract energy you have in the yellow -- the orange line the average price of it. So in the future changes can happen since not -- we have still more energy to sell in the market.

And on the right hand side, you have a charge shown chart showing the significant increase in the sales to free customers. In year-end 2005, we reached an amount of 763 average MW and so far we have already contracts for 2006 over 1000 average MW. To talk a little bit about the -- per financial performance I will hand it over to Marc again.

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

Okay, if we flip to slide 15 where we show the net revenues and the EBIT of the Company we can see the left-hand side the net revenues reached 2.6 billion Reais compared to

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2.47 last year. Comparing the last trimester of this year to the one of last year we also see an increase, 3.7%.

The EBITDA, on the other hand, increased even more than the net revenues. We reached an EBITDA above 1.4 billion compared to 1.2 last year. The EBITDA of the last trimester was 335 million. However, if we would have the nonrecurring provisions that we booked in this trimester of 65 million Reais, we would reach an EBITDA of 400 million, which is much more of an increase compared to the fourth trimester of last year but also compared to last trimester of 2005.

On the following page, page 16, we show the EBITDA margin as a result of what was mentioned before. The EBITDA margin also increased. The net income on the right hand side reached 920 million Reais compared to 775 last year. However, if we compare this trimester where we reached a net income of 220 compared to the one of last year which was 241, we see a decrease.

One reason here is that in the last trimester of last year, we declared interest on equity which had a positive effect on the results after taxes. Because if we would compare both trimester before taxes then we would see that this year would be better than last year.

Going to the next page we give you an overview of the indebtedness where we see clearly debt reduction. Debt at year end reached 1.5 billion. Two-thirds of this debt is local currency. One-third is foreign currency. A third of this one-third, approximately 12% has been hedged. So will our exposure to foreign currency compared to 2003 are reduced strongly. Our leverage expressed here as a total debt over EBITDA reached 1.1 which is well below the policy of the Company of maximum leverage of 2.5.

On the following page we give you some information on how our debt is composed. The local currency we have a mix of fixed debt IGPM [ph] related, (inaudible) debt and also TGLP [ph], which is a long-term interest rate in Brazil.

The foreign currency debt -- we have 45% fixed, 55% floating. In terms of cost of debt, the debt in local currency, the cost is 14% at year-end compared to a cost for the Euro debt of 9.5% and a cost of the USD debt of 6.5%.

On the following page we are showing your profile of these debts, so we see that we have a very smooth profile from 2006 to 2014. From then on that we don't have any debt maturing until 2024. So no big worry here for the Company in terms of refinancing.

On the following page we're showing you some leverage ratios, some ratios for the Company where we see for all of them an improving trend and EBITDA over the interest expense which was full [ph] in 2003 reached almost 9 this year. Total debt over EBITDA as I mentioned already reached 1.1. EBITDA over equity represents 53% and total debt over equity, which was 90% in 2003, has been reduced to 57% in 2005.

On the following slide we are showing you some information about the CapEx. In 2005 as well as in 2004 we only invested in existing power plants. Last year the CapEx was 44 million. Next year it should be a little higher, 60 million in the existing power plants which are the orange boxes. So if you compare these amounts with our EBITDA and our net profits, you will see that we have a lot of room for dividend distribution as we will show on the following page.

But before speaking about dividends I wanted to show you also, if we go ahead with San Salvador and maybe Estreito we are showing what this would mean in terms of CapEx for the following year, which is the gray boxes you can see on the slide.

Speaking about dividends on the next page. As you know, we increased the minimum payout in our bylaws from 25 to 30% of net income. We established a policy of 55% of net income in semiannual payment. The good news here is that this year despite the 55% policy, we decided to payout 95% of net profit. Which means that 1.34 Reais dividend per share and a dividend yield, if you compared to the average price of last year, of 12.4%.

I would just like to finish this presentation by showing you some information about the liquidity of the Company. As you know, last year we did a follow-on offering and the results have been very satisfactory for the Company. You can see the huge hike in average daily trading volume, reaching 20 million Reais, and as well the average daily number of trades.

So thank you for your attention and now we can move to the question and answer session if you want.

## Questions And Answers

### Operator

(Operator Instructions). Gustavo Gattass, UBS.

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

Good afternoon. I have two questions, if it's what I am allowed. I just wanted to have an idea from you guys. First on how much to do you expect to see this far as price move if any at all from the 116 cap price we had in the first energy auction to this next auction we're going to have in June? And also potentially to the auction were going to have in the second semester, do you -- if you think the second semester auction is going to have higher prices than the one in June even?

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

Okay. Thank you for the question. As you know last year (inaudible) the auction has been kept at the 116 Reais. This year we will have a new auction in June for plans starting in (inaudible) in 2009. As of today no cap has been set by the government, and clearly we don't have any information or expectation of what their plans are in terms of prices.

What I can tell you with respect to this next auction to be held in June is that very few hydro plants will be able to enter into the auction, because besides San Salvador, which has already the previous license and the installation license and where we are pretty confident we can build the plant in three years' time, I don't see a lot of other hydro plants being built in that time. So it should be in auction with few hydro and most probably much more thermal plants.

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

Do think -- you're basically indicating that you may not have even a cap if they don't offer the other Hydro. Is that the idea?

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

This would be the idea.

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

The second question I had is, I just wanted to confirm; you guys show a very large move on your contracts from the Third Quarter presentation to this one and basically no move whatsoever on the average price. Actually there is a small increase which I'm assuming is inflation. Is the market actually accepting a price of 90 or 92 in a very easy way? Is that the current marketing conditions in Brazil?

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

I think your lecture is correct if we compare what we announced for 2006 in October, the last time we had (inaudible) meeting we were signaling prices of 90 Reais average price for 2006 and of 96 Reais for 2007. Compared to what we were signaling today, 92 and 98 rounding. So a small increase much more related to inflation.

The volumes on the other hand increased somewhat, around 6% compared to the information released previously. And so indeed we don't see or there has been no big move let's say between October and today in terms of moves with respect to prices from the industrial clients.

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

So if you were able to carry more purchase contracts you think you could sell at those levels as well? For '07 for example?

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

Yes.

**Operator**

Eduardo Hayama [ph], Banco Pasquale [ph].

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## Q - Unidentified Participant

Basically it's regarding the auction (inaudible) you have some loss [ph]. You mentioned the (inaudible) you believe that San Salvador and Estreito you could start to pressure (inaudible). My understanding is the rule allows you to sell even though you're not going to have the full capacity in the present first rate [ph] in 2009, you're able to sell that energy in that auction. I might be wrong but I believe there is this move that allows you. So should we expect that you might also try to sell Estreito in 2009 auction or just San Salvador?

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

Your statement is true. However for Estreito -- well, first of all we still need the installation license to go ahead. We expect this license in the coming days or at least this month. So obtaining the license would be let's say a good step a good move forward, because it would allow us to [ph] much better idea of the cost and calculate the minimum price that we would require to obtain our expected rate of return.

Now, really deciding if even so we want to go ahead maybe without being able to sell the energy, this is another let's say strategic decision to be taken which has not been taken yet by management. So there I cannot give you any information if there would be willingness to really go ahead with Estreito in this auction.

## Operator

(Operator Instructions). (inaudible), Banco Santander.

## Q - Unidentified Participant

Good morning, Marc good morning Antonio. One quick question. The first one is related to this dividend payment. As you mentioned, the Company is in a very healthy position in terms of cash flow generation. And even with the construction of Estreito starting this year, I would assume the Company would still have enough cash to continue paying 95% payout ratio. Is that your understanding or is there any your idea of reducing the level of dividend payments to the 55% or even the 30%?

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

Our idea is to keep the shareholders happy, so we're looking forward to trying to maintain this 95%; as you said, we're generating cash to do so. Also as you know, we have a lot of room to increase the leverage of the Company if necessary. But if no big -- let's say transactions, acquisitions would take place, we feel confident that we hope we can maintain this level of dividend payout even going forward with San Salvador and maybe Estreito.

## Q - Unidentified Participant

Thanks. The second question is related to Estreito. Assuming the government would not change the price cap of 116 Reais per MW hour, still the Company would go ahead with the construction of Estreito? And my question is more related to the return itself. Is there -

- in the changes in the macro front, change the Company's idea in terms of real rate of return to be acquired?

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

Today we are looking at a return of 14%, which is a slight decrease. This return being nominal in USD for our projects. Obviously, we are doing an internal exercise with respect to this return and taking into account the change in our macroeconomics of the Company. Today it still sets at around 14%.

**Q - Unidentified Participant**

And 116 Reais per MW hour would fit into this rate of 14%?

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

There it depends for which project because --

**Q - Unidentified Participant**

For Estreito.

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

For Estreito it's a [ph] good fit, it will depend on the installation license. As you know you, cannot compare all hydro plants. Some of them are much more expensive. You have a reservoir closer to urban areas, which makes it more expensive, etc. So it's not -- I cannot give you one price for all the projects we would be looking at.

**Operator**

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

**A - Antonio Previtali**

I would like to make a brief reminder. Different to what was said, the presentation is going to be available in our website not immediately but from 2 PM Brazilian time on. So from this time you can access the presentation both in English and Portuguese from our website. So I will hand it over the final word to Marc.

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

Thank you, to all of you to [ph] joining us in this conference call. And please feel free to contact us if you have any questions through email, telephone. Thanks a lot. Bye.

**Operator**

That does conclude our Tractebel 2005 results conference for today. Thank you very much for your participation. You may now disconnect.



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