

Q1 2007 Earnings Call

Company Participants

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

Other Participants

- Sergio Tamashiro, 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.

Antonio Previtali

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 First 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 all of you. Thank you for joining this call. The idea here is to -- I want to a couple of brief comments and then go to the results of the First Quarter of this year, have a short presentation of 15 minutes. And then go to the Q&A session.

So if we look at our presentation that we have available on the Web site, on page four -- on page four, we have the overview of our assets. So what changed here? In the First Quarter of 2007, Tractebel Energia bought 2.34% of the power plant Machadinho SA [ph]. The local distribution company here in the state of Santa Catarina sold its stake. And Tractebel Energia bought a part of it. So we have the installed capacity -- our stake in the

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installed capacity of the Machadinho plant increased 21 megawatt. And meaning also 11 megawatt of assured energy that we have been selling since then -- since we acquired it.

A lot of comments I would like to make in page six. On page six of the presentation, we have the breakdown of the sales to our clients. So you can see that from 2006 to 2007, there is an important change of sales to free customers, where they represented less than 30% last year. They increased to 36% this year, estimation. This is the estimation for the whole year. In the First Quarter, we already reached 33%. So we are on the right track. And it is an important move because it shows that the strategy we always have been commenting here, the willingness of Tractebel Energia to increase its sales to free customers.

About our strategy, on page nine of the presentation, you see the energy balance. From a global point of view, the strategy of the Company did not change. The idea is still to have energy available for sale in 2009-2010 and even more, 2011, 2012. And sell this energy at higher prices in the future and have this as a driver for growth amongst others.

If we look at the energy balance or what were the main changes are compared to the last balance we were showing is actually the sales. So to purchase or resell. In 2007, to purchase or resell used to be 418 megawatt increase to 502. So we have been buying a considerable amount of energy in the Third Quarter compared to the previous energy balance at low price. The average price of this purchase was R\$30 per megawatt hour, which also decreased to the average purchase price for the full energy bought for resale, which amounts now -- you can see at the bottom of the table, R\$74 per megawatt hour. But beside of these, there were no major changes in this energy balance.

So this is for the main comments I wanted to make before moving to the financials, the results of the First Quarter of 2007. The financial performance, which starts in the presentation on slide 19. On slide 19, you have on the left hand side, the net revenues of the Company. So you can see that the net revenues increased 7.2%, reached R\$676 million. This increase is related much more to increase in price than due to increase in volume. Actually, volume was flat comparing both quarters. But price increased 7.7% -- 7.2%, excuse me.

EBITDA, on the other hand, reached R\$451 million, also a 13% increase, an important increase compared to the First Quarter of 2006. Important to know that the EBITDA does not contain any non-recurring events and is also a record EBITDA for the Company on an industrial [ph] basis, it was never so high.

And the same can be said on the following page for the EBITDA margin. Now, you can see the EBITDA margin reached 67%, which is also the highest it ever has been. The reason here is that, as I said, on the one hand, we have the revenue increase. And on the other hand, the costs were stable or increased slightly. We had the -- if we discussed the most important cost, we have third-party energy purchases, there we have the reduction of R\$20 million, mainly due to the lower amount of energy purchased from CIEN, the interconnection with Argentina.

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With respect to the transaction channeled through the CCEE, the energy trading board, they increased R\$30 million. This R\$30 million increase is due to the following facts. We have the gas fired power plant, William Arjona, which is located in the state of Mato Grosso do Sul, in the city of Campo Grande. And there, in the First Quarter of '06, this plant was dispatched. But it was not dispatched for energetic reasons. But yes for electrical reasons, meaning that in this case, the costs that I had to run the plant were being reimbursed. And this reimbursement takes place through the energy trading board. So there it's like revenue.

In the First Quarter of 2007, the plant was not dispatched anymore because at the end of last year, there were some transmission lines built and reached the city of Campo Grande. And as such, as a result, there is no necessity to dispatch the plant, at least not in the First Quarter of '07. Also meaning that I lost revenues in the -- through the energy trading board, which meant that I had actually higher expenses.

On the other hand, this was fully compensated by the fuel for generating electricity as it was dispatched for the -- with the William Arjona plant, the purchase of gas also was nil. And so strongly reduced by R\$15 million the fuel expense. On top of that, we had some lower financial compensation for the use of hydro resources due to the lower dispatch of the hydro plants in the First Quarter of 2007 by the ONS.

So these were the main comments on the expenses. And to conclude, the net income, which you will see that it R\$242 million. If we compare this net income with recurrent net income of the First Quarter of '06, which was R\$216 million, we can see here a 12% increase. However, if we include in the First Quarter of '06, R\$128 million of non-recurrent net income, then of course the result decreased.

In the First Quarter of 2006, the R\$120 million that I just mentioned, it's related to the Jacui thermal plant. Tractebel Energia used to hold a stake in the Jacui thermal plant and sold in the First Quarter of 2006 its remaining stake of 33% in this project. And this sale led to both capital gains and fiscal gains in the amount 128. So this was for the net income.

If we move to page 22, page 22, we are showing some financial drivers. So like I said, the net revenues increased. And as you can see, the main driver for the increase is the average energy price. Average energy price reached R\$96 per megawatt hour compared to R\$89 in the First Quarter of 2006, or even compared to R\$91 in the last quarter. So an increase compared to flat volumes. If you compare the energy sold in the First Quarter of '07 compared to the energy sold in the First Quarter of '06, you see that the -- it is a flat volume. And even volume decreased compared to the Fourth Quarter 2006.

What is happening here is that, in our contracts -- in the bilateral contracts we have with distribution companies, they have the right to -- let's say, they have the right to buy or sell -- to buy or sell more or less energy throughout the year, we call this to seasonalize the purchase. And what they did is they bought a little bit less in the First Quarter of 2007 and will buy more in the second half of 2007' from Tractebel Energia. And when they do this -- when they buy less from us they increase their sales from the spot market. So they have

the fuel export prices will be lower in the beginning of the year compared to the end of the year.

The EBITDA, as we said, it increased strongly. And the net profit, if we compare it on a recurring basis, it was also an important result.

Then, if we move to page 24, where we have the CapEx of the Company, I would say no important changes here in the First Quarter of 2007. The Company only invested R\$6 million. But the amount shown here is still visible, it's still our idea today, especially when we know that, as I already said before, the idea of Tractebel Energia is to buy the Sao Salvador project from its shareholder still in the first half of 2007.

On page 25, we have the dividend, nothing new here, except for the fact that on May 10, the Board of Directors approved a new credit on interest on the shareholders equity relative to the first half of 2007 for an amount R\$88 million, or corresponding to R\$0.13 per share.

So this was the main items I wanted to discuss here during this conference call. I would like now to move to the Q&A session.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Mr. Sergio Tamashiro with Itau.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Hi. Good morning everyone. I just want to know what is the Company's strategy in terms of finding new contracts with this expanding contract that you have. And exactly what -- comparing your previous balance of electricity and the new one, instead of looking at a decrease in the available electricity, now I see some increase -- instead of a decrease, I see some increase in the available electricity mainly for 2010, which increased from 353 megawatt to 481 megawatt. Therefore, I want to know what the Company's strategy, to just find -- to renew this balance of contracts very close to the maturity date, or are you already signing long-term contracts. And what would be price?

A - Marc Verstraete {BIO 18446542 <GO>}

I would say here that the strategy of the Company is to, on an ongoing basis, to renew expiring contracts. The idea is not to do everything at the same time and the idea is also not to leave everything for the last minute. So this continuous, I would say, sales effort from our team to renew this energy on an everyday basis, I would say. Then, there is no defined strategy to do everything now or leave everything for the expiry date, no it's an ongoing effort in the sales contract signature.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

But could you give a guidance on these negotiating prices?

A - Marc Verstraete {BIO 18446542 <GO>}

On the prices?

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Yes.

A - Marc Verstraete {BIO 18446542 <GO>}

On the prices, I would say in the -- for 2009, 2010, we are seeing today prices in the range R\$100 -- close to R\$115 per megawatt hour.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

All right, what would be the duration, for years or --?

A - Marc Verstraete {BIO 18446542 <GO>}

The duration, around four years.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Four years, okay. Then, my second question with regard to the CapEx program. And you mentioned the coal thermal plant in the state of Rio Grande do Sul, 314 megawatts, what would be the mix or CapEx. And what would be return? And second is on CESP, we saw that you might be interested in the privatization of CESP. Could you confirm that, in partnership or just by Suez. And who would be the vehicle, Suez or Tractebel?

A - Marc Verstraete {BIO 18446542 <GO>}

Okay. Let's go by steps here -- first of all, the thermal plant -- so in this, I put it here at the presentation that Tractebel Energia is currently studying thermal power plant or coal fired power plant in the south of Brazil, close to the border with Uruguay. It would be a 340 megawatt coal fired plant. The CapEx for this plant is around US\$800 million. We don't have final figures yet because we are still discussing and analyzing EPC proposals for the construction of this plant. Therefore, I can also not give you an IRR number return for this project because we don't have all the elements yet in hand to proceed with this calculation.

With respect to the second question about CESP, okay, if it will be privatized or not, if it will be -- excuse me, going back to the thermal power plant, this CapEx of US\$800 million is not included in our projections here. And if started, construction will only start as of 2008. Now going back to your second question of CESP, if it will be privatized or not, this year or next year, we don't have the answer. All I can say is that two things, the first thing, if we participate, it will be through Tractebel Energia because this is the vehicle for generation in Brazil. This is the first comment I could make.

And the second comment, will we go alone, in partnership, on this, I don't have an answer yet. I think first we have to see will the state be selling, how and then we will move to the next step, is to see, okay, how can we look at these acquisitions.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

All right. And just going back to this coal plant. And if we compare -- also announce the CapEx plan for Energia Brazil, they also are planning to install a thermal plant -- coal thermal plant using instead of the local, the domestic coal, using the imported coal? And for almost the same installed capacity 340 megawatt. But they are a substantially lower CapEx instead of \$800 million, I believe it was in the range of \$500 million. Therefore, I would like to know if you are expecting a much higher price just because you are using domestic coal or what is the reason for such a difference?

A - Marc Verstraete {BIO 18446542 <GO>}

Well I don't have access of course to the numbers of EBB you mentioned. But what I can say is that two things. First of all, due to the fact -- well, in the south of Brazil, the coal is of poor quality, almost 50% is composed of ashes. This is also the reason why you need to install the plant next to the coal, because you don't want to transport ashes.

Due to this lower coal quality, you need to make some adjustments to the installations, to the equipment. If you would take, for instance, the boiler that we will need to burn this poor quality coal compared to a boiler to burn imported coal, the weight of the boiler will be three times as heavy. So you will need three times more steel or whatever to build your boiler. So you have some important, how would I say, changes in equipment for burning one type of coal as opposed to another. So this is why it doesn't surprise me that our CapEx for this plant would be higher.

So then you have to look at the cost of the coal also, in case the cost of the coal is very low, around \$17 at the coal plant per million BTU. And so, this is what I can say without having access of the detail of the \$500 million you compared for this other power plant of course.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

All right. Just confirm the price, you mentioned \$17, is it for ton or for million BTUs?

A - Marc Verstraete {BIO 18446542 <GO>}

It's \$17 per ton.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Per ton, okay. Okay. Thank you.

A - Marc Verstraete {BIO 18446542 <GO>}

I made a mistake with million BTU, it's per ton.

Operator

(Operator Instructions)

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 your attention and for attending this conference call. Remembering that myself and Antonio Previtali and his team for the Investor Relations department of Tractebel Energia are at your -- we can attend you here or if you have additional questions, please free to call or send an email. Thank you.

Operator

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

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