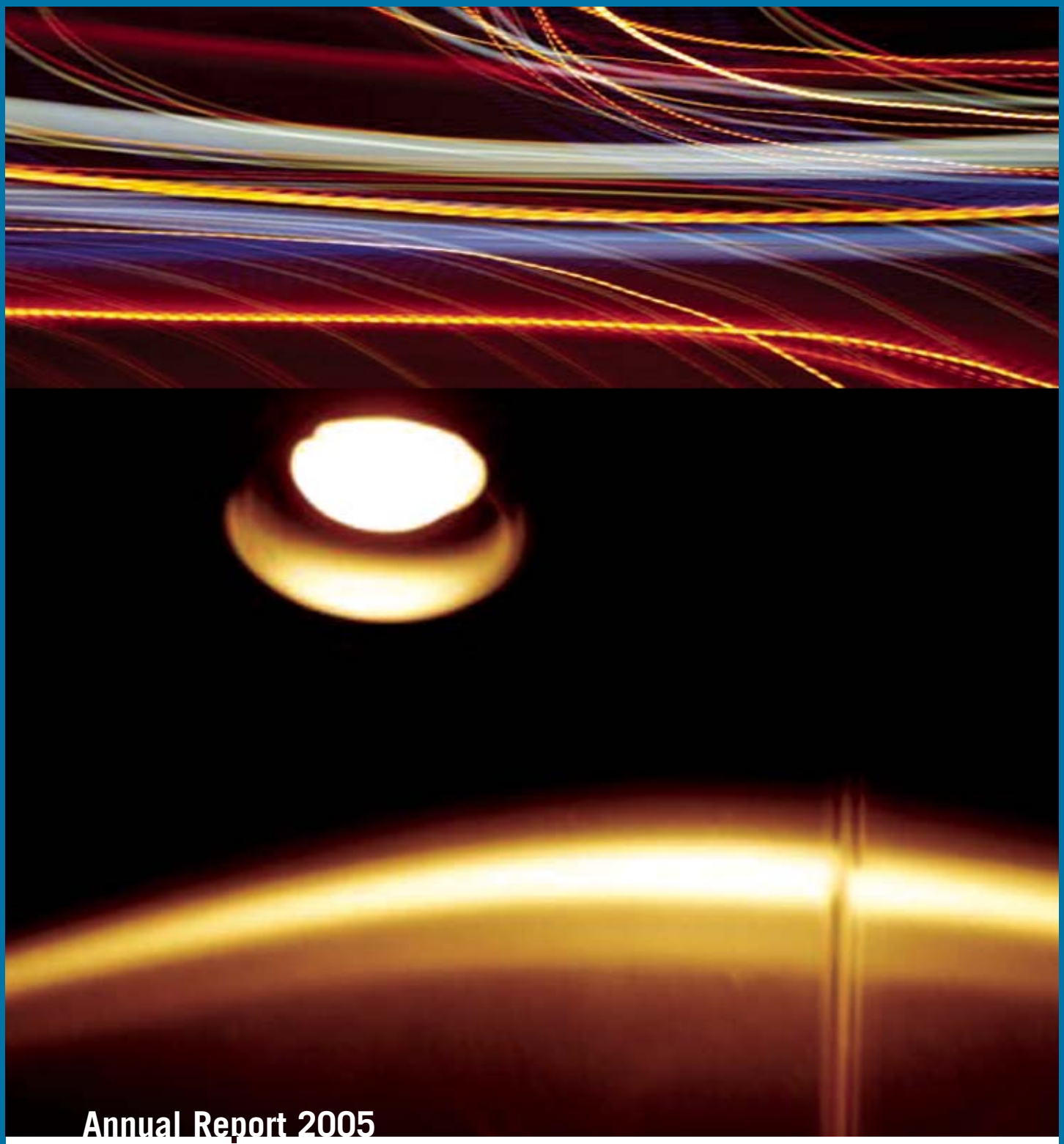


Annual Report 2005

Tractebel Energia

SUEZ

Tractebel Energia, a component company of the SUEZ Group, is the largest private sector electricity generator in Brazil. In 2005, it was responsible for generating 7.5% of the entire electricity produced in the country. With its headquarters in Florianópolis, in the state of Santa Catarina (SC), Tractebel Energia's generating complex consists of 13 plants (of which six are hydro and the remainder thermal plants) in five states (Paraná, Santa Catarina, Rio Grande do Sul, Mato Grosso do Sul and Goiás). The Company has an installed capacity of 5,860 MW.



Hydro Power Plants

1.Salto Santiago (PR)
Installed Capacity 1,420 MW
Assured Energy 723 MWm

2.Itá (SC and RS)
Installed Capacity[1] 1,090 MW
Assured Energy[1] 513 MWm

3.Salto Osório (PR)
Installed Capacity 1,078 MW
Assured Energy 522 MWm

4.Cana Brava (GO)
Installed Capacity 450 MW
Assured Energy 273 MWm

5.Machadinho (SC and RS)
Installed Capacity[1] 383 MW
Assured Energy[1] 136 MWm

6.Passo Fundo (RS)
Installed Capacity 226 MW
Assured Energy 119 MWm

Total
Installed Capacity 4,647 MW
Assured Energy 2,286 MWm

Thermal Power Plants

7. Complexo Jorge Lacerda[2] (SC)
Installed Capacity 857 MW
Assured Energy 598 MWm

8.William Arjona (MS)
Installed Capacity 190 MW
Assured Energy 177 MWm

9.Charqueadas (RS)
Installed Capacity 72 MW
Assured Energy 45 MWm

10.Alegrete (RS)
Installed Capacity 66 MW
Assured Energy 41 MWm

11.Lages (SC)
Installed Capacity 28 MW
Assured Energy 25 MWm

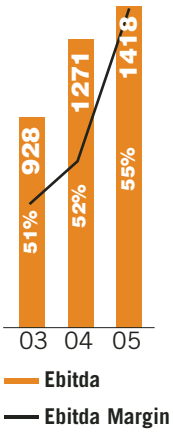
Total
Installed Capacity 1,213 MW
Assured Energy 886 MWm

1: Portion Owned by Tractebel Energia
2: Complex with 3 units

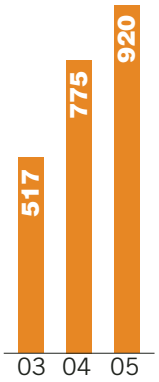
Net Revenues
(R$ million)



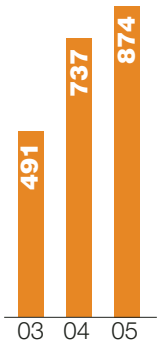
Ebitda
(R$ million)
and Ebitda Margin (%)



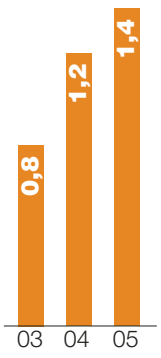
Net Profit
(R$ million)



Dividends Distribution
(R$ million)

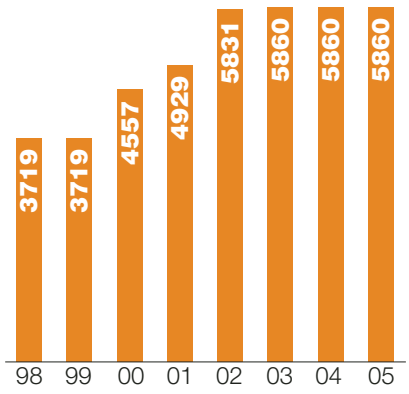


Result from service / employee
(R$ million)



Installed Capacity (MW)

Installed capacity increased 58% since privatization



Highlights of 2005

- Record net income reaches R$ 920 million, 19% higher than in 2004.
- EBITDA surpasses R$ 1.4 billion, an increase of 12% over 2004.
- Average uptime at its 13 plants exceeds 97%.
- Free customer base expands and this segment now represents 21% of the revenues.
- Company adheres to Bovespa's *Novo Mercado*, thus strengthening all shareholders' rights.

SUMMARY OF ECONOMIC AND OPERATIONAL INDICATORS

In Millions of R$	2003	2004	2005	Chg.% 2005 / 2004
Gross operating revenue	1 953	2 662	2 904	9.1%
Net operating revenue	1 831	2 470	2 600	5.3%
Result from service (EBIT)	700	1 047	1 210	15.5%
EBITDA (1)	928	1 271	1 418	11.6%
EBITDA / NOR	51%	51%	55%	-
Net income	517	775	920	18.7%
Total assets	6 132	6 205	5 705	-8.1%
Shareholders' equity	2 602	2 787	2 686	-3.6%
Net debt	1 957	1 345	1 244	-7.5%
Total debt	2 305	1 994	1 524	-23.6%
Total debt / Shareholders' equity	89%	72%	57%	-
Total debt / EBITDA	2.5	1.6	1.1	-
Energy sold (GWh)	24 327	29 440	29 823	1.3%
Number of employees	844	849	893	5.2%

(1) EBITDA represents: net income + financial results + non-operating results + social contribution tax and income tax + depreciation and amortization + amortization of goodwill.

Tractebel Energia

SUEZ

Annual Report 2005

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Financial Statements

Tractebel Energia has published its Annual Report since 1998. The information presented in this publication relates to the Company's activities in 2005.

Message from the Management

The year was characterized by Tractebel Energia's solid performance within the framework of the new model for the management of the Brazilian electric power sector. The Company reported net income of R$ 920 million, a year-on-year growth of 18.7%, and achieved it thanks to the corporate commitment to economic-financial, operational and institutional performance. Payout in the form of dividends and interest on shareholders' equity amounted to the equivalent of 95% of net annual income. Shareholders' equity stood at R$ 2,686 million on December 31 2005.

The Company also reported a good operating performance during the year. Tractebel Energia's power generating complex posted an excellent result, achieving the level of 97.2% plant uptime, excluding scheduled maintenance stoppages. Accumulated output during 2005 amounted to 29,801 GWh – 7.5% of energy demanded by the national grid system – and corresponding to 45% of total consumption in Brazil's southern region. This percentage is in line with the average for the past five years.

Following the implementation of the new regulatory model for the sector, Tractebel Energia participated in the electricity power auctions during the year. It successfully sold 200 average MW at the auction of new energy and 531 average MW of existing energy contracts, delivery to begin in 2008 and 2009. According to the data for assured energy and ongoing purchase and sale contracts, the Company's energy balance indicates that current capacity is almost totally contracted through to 2008.

With the restructuring of its commercial area, Tractebel Energia has completed a substantial investment in developing business with free costumers. The Company's strategy is to increase the share of the industrial segment in the portfolio of contracts. For this purpose, Tractebel Energia is actively pursuing a policy of enhancing client loyalty by customizing energy purchases to the production characteristics of each consumer. The share of industrial costumers in the Company's revenue has grown from almost zero in 2000 to 21% in 2005, with its portfolio now including more than 100 free costumers.

During the year, the Company introduced measures to increase its share liquidity through the grouping of shares and the conversion of all its preferred shares into common ones. In November, Tractebel Energia concluded the process for a listing on the São Paulo Stock Exchange's (Bovespa) Novo Mercado, thus adhering to Bovespa's most stringent corporate governance criteria. In addition, the controlling company, SUEZ Energy South America Participações Ltda sold part of its shares, reducing its stake to 68.7% in the total capital stock and thereby broadening the shareholder base. With the capital markets now being a key partner in future growth, the Company has expanded and improved the transparency of the shareholders' relationship.

Management has also implemented initiatives focused on its in-house public together with the community in the regions where the Company has a presence, and the environment. Among its social projects, the Economic and Social Restoration of Vila Vermelho, a community surrounding the Cana Brava hydro plant in the state of Goiás (GO) is particularly important, with significant investments in infrastructure, training courses and social development. Tractebel Energia completed its compliance with the environmental legislation, obtaining a license to begin work on the São Salvador plant in the state of Tocantins. Seven plants were successfully re-certified under ISO 9001 (quality) and ISO 14.001 (environmental standards) and the process for certification of the remaining plants is progressing. By means of focus and strategy, Tractebel Energia is seeking to constantly improve the profitability and sustainability of energy generation in Brazil.

Manoel Arlindo Zaroni Torres
Chief Executive Officer

Maurício Stolle Bähr
Chairman of the Board

Growth with quality

Tractebel Energia generated 7.5% of total Brazilian electricity output from its 13 plants

CORPORATE PROFILE

Tractebel Energia is a subsidiary of the Franco-Belgian SUEZ Group, which operates in more than 100 countries in the electricity and gas sectors. The Group is the largest energy services provider in Europe, where it is also the leader in industrial waste management services. It is also the largest water treatment company in the world.

With its headquarters in Florianópolis (SC), Tractebel Energia is the largest private sector electricity generating company in Brazil. Its generating complex comprises 13 plants, of which six are hydro and seven are thermal plants, accounting for 7.5% of all the electricity generated in the country in 2005. The Company operates 11 wholly owned plants, while a further two (the Itá and Machadinho hydro plants) are operated in consortium with other companies. Tractebel Energia's total own installed capacity at the 13 plants amounts to 5,860 MW.

Seven of the generating plants are ISO 9001 (quality norms) and ISO 14001 (environmental norms) certified.

In its commercial activities, Tractebel Energia serves Brazil's leading energy distributing concessionaires as well as maintaining a significant portfolio of more than 100 free costumers.

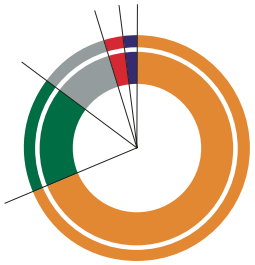
A listed company, Tractebel Energia's shares trade on Bovespa's (São Paulo Stock Exchange) Novo Mercado with the parent company controlling 68.7% of the equity, thus assuring control over the Company since privatization on September 15 1998.

Private Sector Installed Capacity (GW)

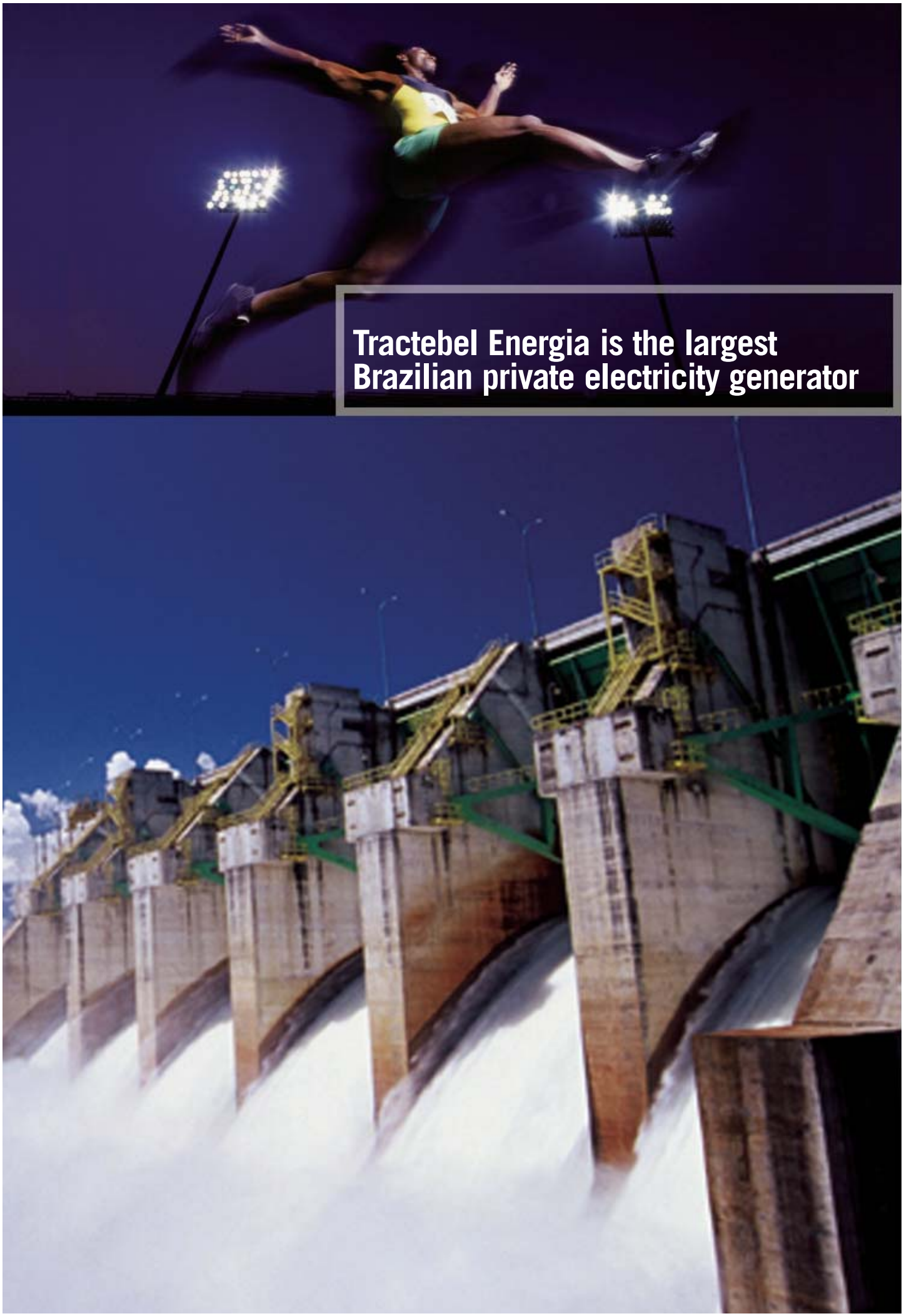
Tractebel Energia	**5.9**
AES Tietê	2.7
Duke Paranapanema	2.2
Endesa	1.0
CPFL	0.9
Neo Energia	0.8
Energias do Brasil	0.5

Source: Company reports (December 2005)

Capital Breakdown as of December 2005

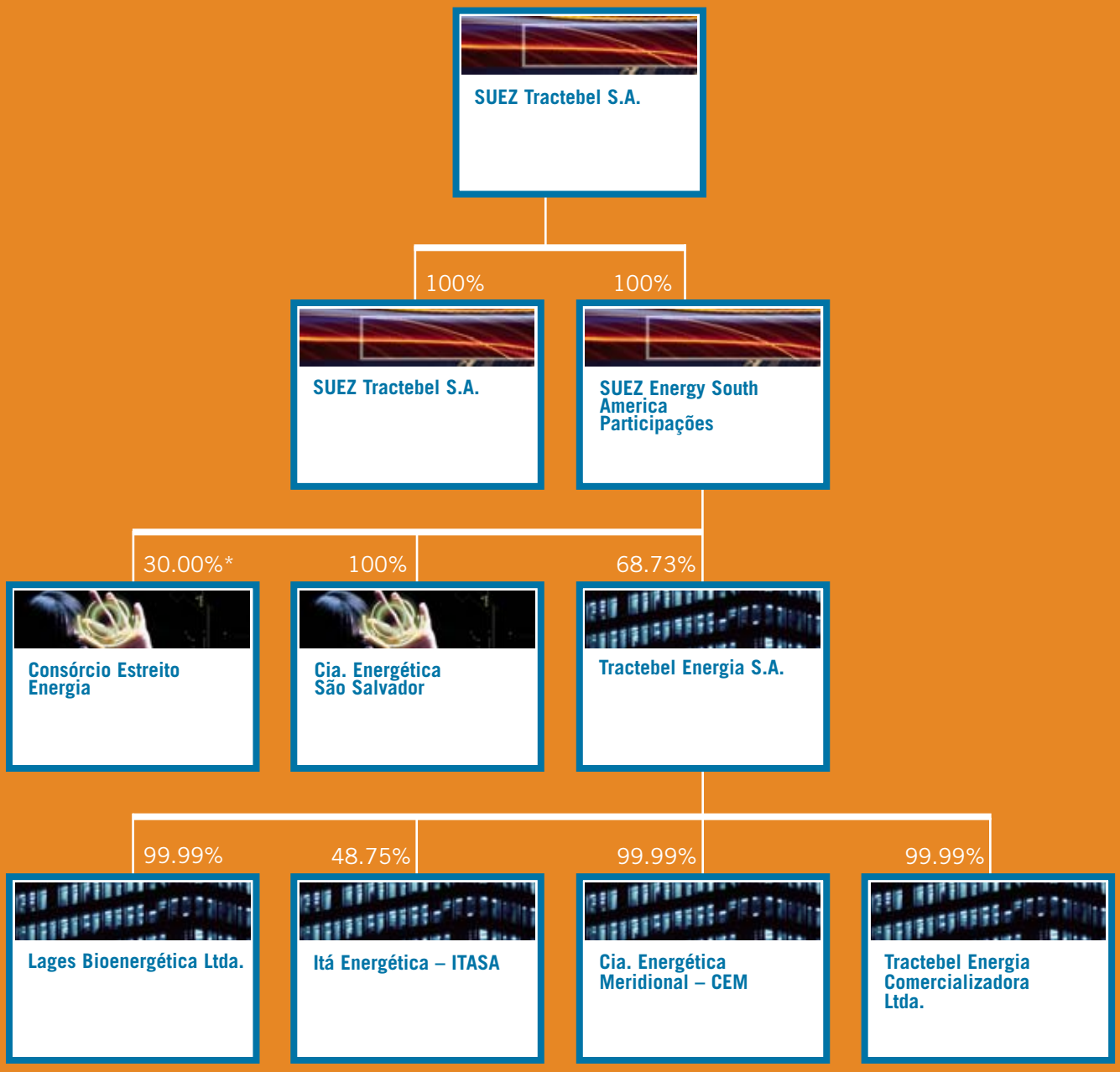


68.7% SUEZ Energy South America
10.0% Banco Clássico
2.8% BNDESPAR
1.9% Federal Government
16.6% Other



Tractebel Energia is the largest Brazilian private electricity generator

Corporate Structure



(*) In February 2006, SUEZ Energy South America Participações acquired an additional stake in this project, increasing its participation in the consortium to 40.07%.

Tractebel Energia holds a controlling stake in four companies of which three are wholly owned and one in which the Company has a 48.75% participation of the voting and total capital stock.

Lages Bioenergética Ltda.

Constituted in 2002, this subsidiary operates as an independent energy producer through the Lages thermal plant, located in the municipality of Lages (SC).
This is a co-generating plant with a 28 MW steam turbo-generator, which produces energy from timber waste (biomass) as a fuel. The concession period for construction and operating the plant expires in October 2032.

Itá Energética S.A. - ITASA

Holds the concession for operating the Itá hydro plant together with Companhia Siderúrgica Nacional-CSN and Companhia de Cimento Itambé. The plant is located on the Uruguai River, between the municipalities of Itá (SC) and Aratiba (RS) and has an installed capacity of 1,450 MW with five sets of generators, each having an output of 290 MW. The concession period for the construction and commercial operating of the plant expires in October 2030.

Cia. Energética Meridional-CEM

Holds the concession for the Cana Brava hydro plant sited on the Tocantins River, northern region of the state of Goiás, with an installed capacity of 450 MW from three sets of generators each with an output of 150 MW. The concession period for construction and commercial operating of the plant expires in August 2033.

Tractebel Energia Comercializadora Ltda.

Constituted in October 2000 with its corporate objective being trading electricity in the unregulated contracting market, including buying, selling, importing and exporting electricity as well as the intermediation of any of these operations and the practice and the finalization of commercial transactions arising therefrom.

In December 2005, Tractebel Energia Comercializadora had contracts with 32 customers, representing a sales volume of 360 average MW.

Learn the Story Behind Tractebel Energia

1998

Privatization

Acquisition of the state-owned company Gerasul in September with an installed generating capacity of 3,719 MW.

2000

Itá begins generating energy

Beginning of operations at the Itá hydro plant (located on the state divide between Rio Grande do Sul and Santa Catarina states) on the Uruguai River.

Signature of the first direct sale contract to a free customer.

2001

Start-up of the William Arjona plant

The William Arjona thermal plant (MS) becomes the first to use natural gas received through the Brazil-Bolivia Gas Pipeline.

2002

Expansion into the state of Goiás

Start-up of operations at the Cana Brava hydro plant (GO) on the Tocantins River.

Beginning of operations at the Machadinho hydro plant (on the state divide between Rio Grande do Sul and Santa Catarina) on the Uruguai River.

The Company undertakes the first sale of electricity through an auction in Brazil.

The Company adopts its controlling shareholder's brand name to become Tractebel Energia S.A.

2003

Installed capacity reaches 5,860 MW

Lages Co-generating Plant begins operations – the first biomass-fired plant in the state of Santa Catarina.

Installed capacity rises to a total of 5,860 MW, representing a growth of 58% in six years.

2004

Consolidation of the free market

Tractebel Energia consolidates its stake in the free electricity energy market. Contracts with industrial customers surpass the 700 average MW mark.

Seven of the 13 plants in the Company's generating complex are certified under ISO 9001 and ISO 14001 norms.

2005

Corporate Governance

Tractebel Energia adheres to Bovespa's Novo Mercado corporate governance criteria.

Company participates in Brazil's first new energy action with the sale of 200 average MW.

The contracts with large industrial customers exceed 1,000 average MW.

In December, Tractebel Energia is selected as a component of Bovespa's Corporate Sustainability Index (ISE) comprising companies with a recognized commitment to social responsibility and business sustainability.

Commitment to the future

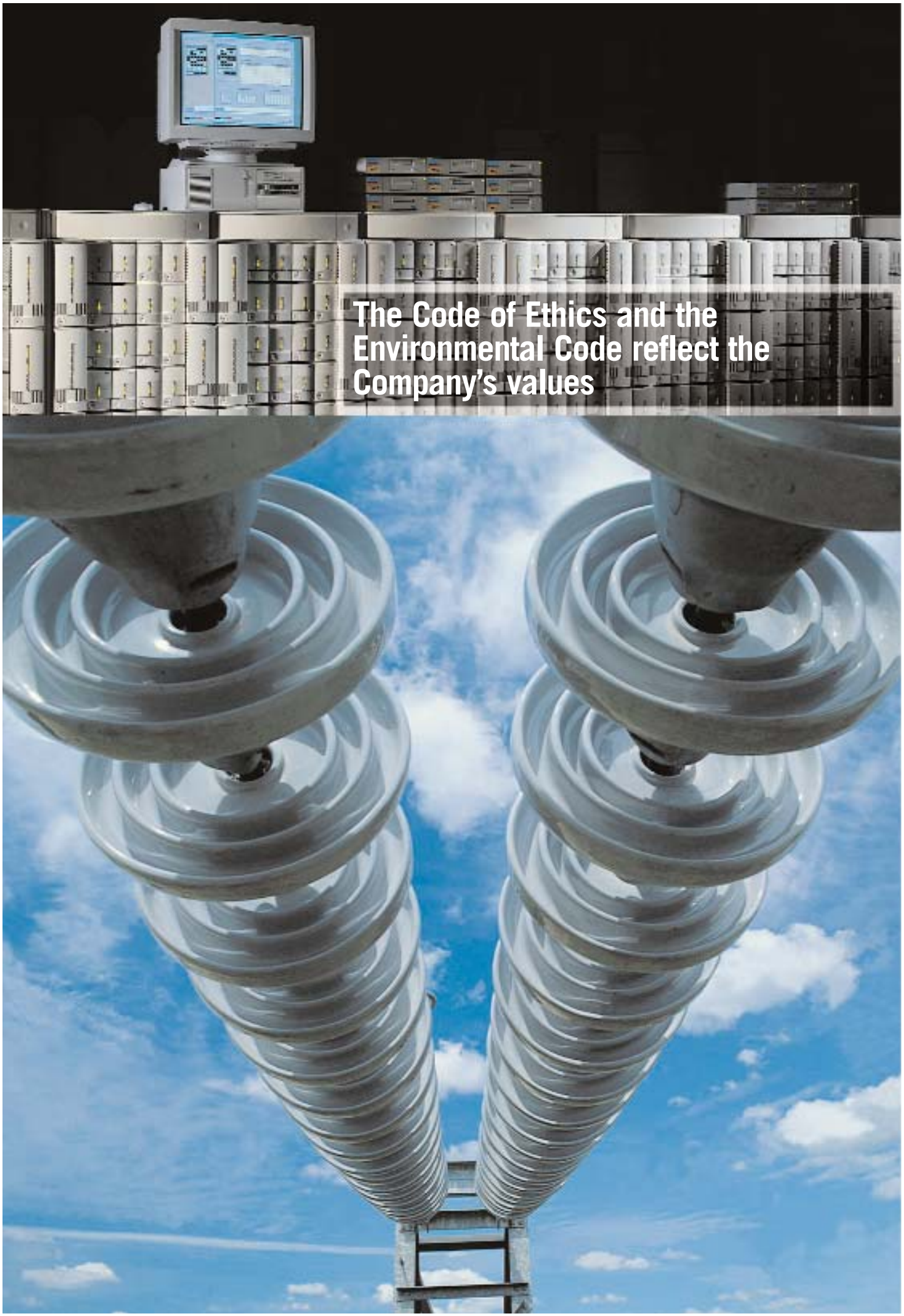
Tractebel Energia's corporate values are based on ethics, professionalism and respect for the environment

TRACTEBEL ENERGIA'S VALUES

Tractebel Energia has established a set of values that guide its activities in the market and its relationship with customers, employees and outsourced professionals. These values are constantly disseminated to form the basis of the Company's philosophy with respect to internal and external relationships.

The set of values, the bedrock for the Code of Ethics and the Environmental Code practiced by all the companies of the SUEZ Group, are based on the following principles:

- Professionalism – Professionalism is a sine qua non for skills, discipline and passion for a profession. All work must be executed according to the best techniques for providing customers with a quality service.
- Cooperation – Represents a long-term commitment to all stakeholders through loyal and transparent conduct. We operate with greater efficiency if we cooperate with others in our development.
- Team Spirit – Team spirit involves, above all, mutual assistance. It is the exchange of experiences and the sharing of knowledge. It is the management philosophy that prioritizes the collective over individual interests to ensure that all can be successful.
- Creation of Value – All actions, be they individual or collective, must have the creation of value as their underlying goal in order to enhance the profitability and the financial solidity of the Company, thus ensuring its autonomy and longevity.
- Respect for the Environment – Tractebel Energia must always contribute to improving the quality of life in a sustainable manner, preserving the environment. Respect for the environment is central to the Company's philosophy.
- Ethical Behavior – Ethics is a value that permeates all the other five values and gives them life. Ethics should guide daily behavior, thus constituting a guarantee of success and longevity for Tractebel Energia and the Group of which it is a part.


The Code of Ethics and the
Environmental Code reflect the
Company's values

The year of governance

Adhesion to Bovespa's Novo Mercado and to the rules of the Sarbannes-Oxley Act set the benchmark for corporate governance practices

MANAGEMENT AND CORPORATE GOVERNANCE

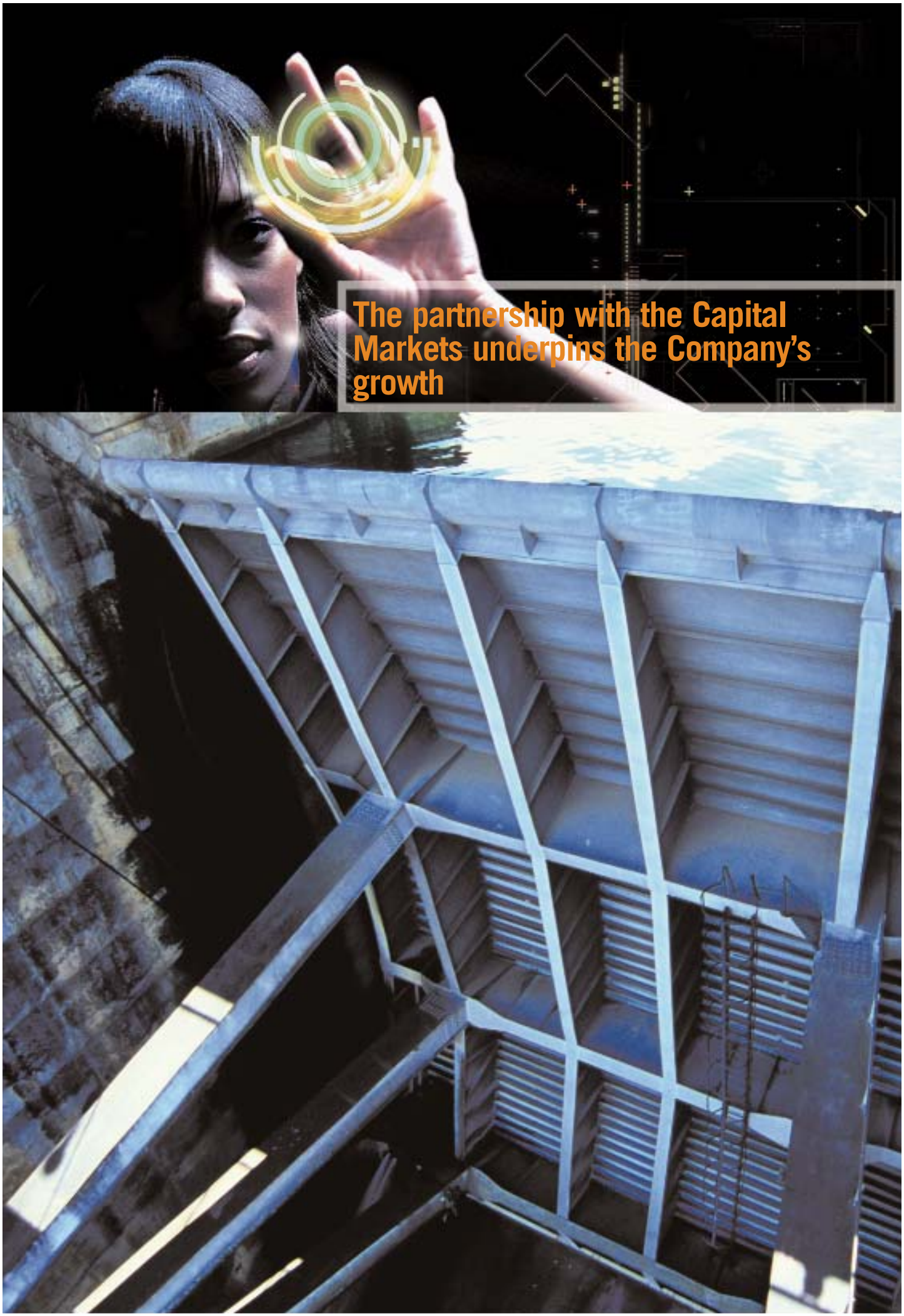
For Tractebel Energia, 2005 was the year of corporate governance. The Company was able to report progress in the consolidation of the selected management model, reflected in an even more transparent relationship with the investors and in increased share liquidity. During the year, the Company complied with all the requirements of Bovespa's Novo Mercado, adhering to this listing in November.

One of these initiatives was the conversion of preferred into common shares and the standardization of the rights and duties of all shareholders. In addition, the controlling shareholder, SUEZ Energy South America Participações Ltda, sold part of its stake in the capital stock, broadening the shareholder base and consequently enhancing share liquidity. This has provided the necessary basis for the capital markets to become a key partner in ensuring future company growth.

Currently, seven directors sit on Tractebel Energia's Board, with a Chairman and Vice Chairman chosen by the shareholders at an Ordinary Shareholders' Meeting. Members of the Board of Executive Officers are selected by the Board of Directors following examination of the officers' professional capabilities, the term of office to run for three years, reelection being permitted.

As part of the process of introducing more rigorous corporate governance standards, as from 2006 at least 20% of the members of the Board of Directors must be independent.

Another important achievement during the year was the adapta-tion of the Company's internal structure to the rules of the Sarbannes-Oxley Act, thus ensuring the enhanced reliability of the Company's financial information.


The partnership with the Capital Markets underpins the Company's growth

With the focus on planning, the Company is permanently seeking the best strategy for increasing revenues and generating new businesses

Management Fundamentals

The basis of Tractebel Energia's management system is its planning model – responsible for establishing the best strategy for enhancing business and increasing operating revenues. In this context, the Company operates on four planning fronts – operational, commercial, financial and regulatory.

Financial planning covers a diagnosis of the Company over a five-year horizon with detailed budgets and an exhaustive risk analysis. Tractebel Energia uses the controlling SUEZ Group's recognized and recommended methodology.

Operational planning incorporates the analyses of the consumer market and the anticipation of the national grid system's demands on the Company, thus ensuring more efficient programming of maintenance of the plants and allocation of production.

Commercial planning evaluates the business in progress and sales production based on the parameters fixed by an Energy Committee, which meets regularly to study the need for changes in busi-ness direction and strategies.

Finally, regulatory planning is responsible for the Company's relations with the National Electric Energy Agency (Aneel), the Electric Power Trade Board (CCEE), the Ministry of Mining and Energy and the Legislative branch. The Company also maintains relationships with sector associations for undertaking institutional initiatives and contributing to improvements in industry regulations.

What is Bovespa's *Novo Mercado*?

The *Novo Mercado* is a listing segment designed for the trading of shares issued by companies that voluntarily undertake to adhere to corporate governance practices additional to those already made mandatory by the legislation. Some of these additional practices are as follows:

- The company's capital stock must be made up of common shares only.
- The same conditions enjoyed by majority shareholders in the event of the transfer of the controlling block of the company are to be extended to all shareholders (tag along).
- Board of Directors with a minimum of five members and a single unified mandate of up to two years with reelection permitted. At least 20% of Board members must be independent.
- Maintenance of a minimum free float of 25% of the company's capital stock.
- Adoption of mechanism which favor dispersion of capital ownership when holding public offerings of shares.
- Quality and transparency in the disclosure of financial information.
- Commitment to the settlement of corporate disputes through the intermediary of an Arbitration Panel.

The Board of Directors

Maurício Stolle Bähr – *Chairman*
Jan Franciscus María Flachet – *Vice Chairman*
Victor-Frank de Paula Rosa Paranhos
Manoel Arlindo Zaroni Torres
Dirk Beeuwsaert
Nicolas Alain Marie Tissot
Luiz Antônio Barbosa

The Board of Executive Officers

Manoel Arlindo Zaroni Torres
Chief Executive Officer

Miroel Makiolke Wolowski
Business Development and Commercialization Director
and Project Implementation Director

Marco Antônio Amaral Sureck
Planning and Control Director

Marc Verstraete
Finance and Investor Relations Director

José Carlos Cauduro Minuzzo
Energy Production Director

Luciano Flávio Andriani
Administrative Director

Moving forward with Brazil

Invest in a disciplined manner, maximize the efficiency of the customer base and maintain operating efficiency to remain industry leader

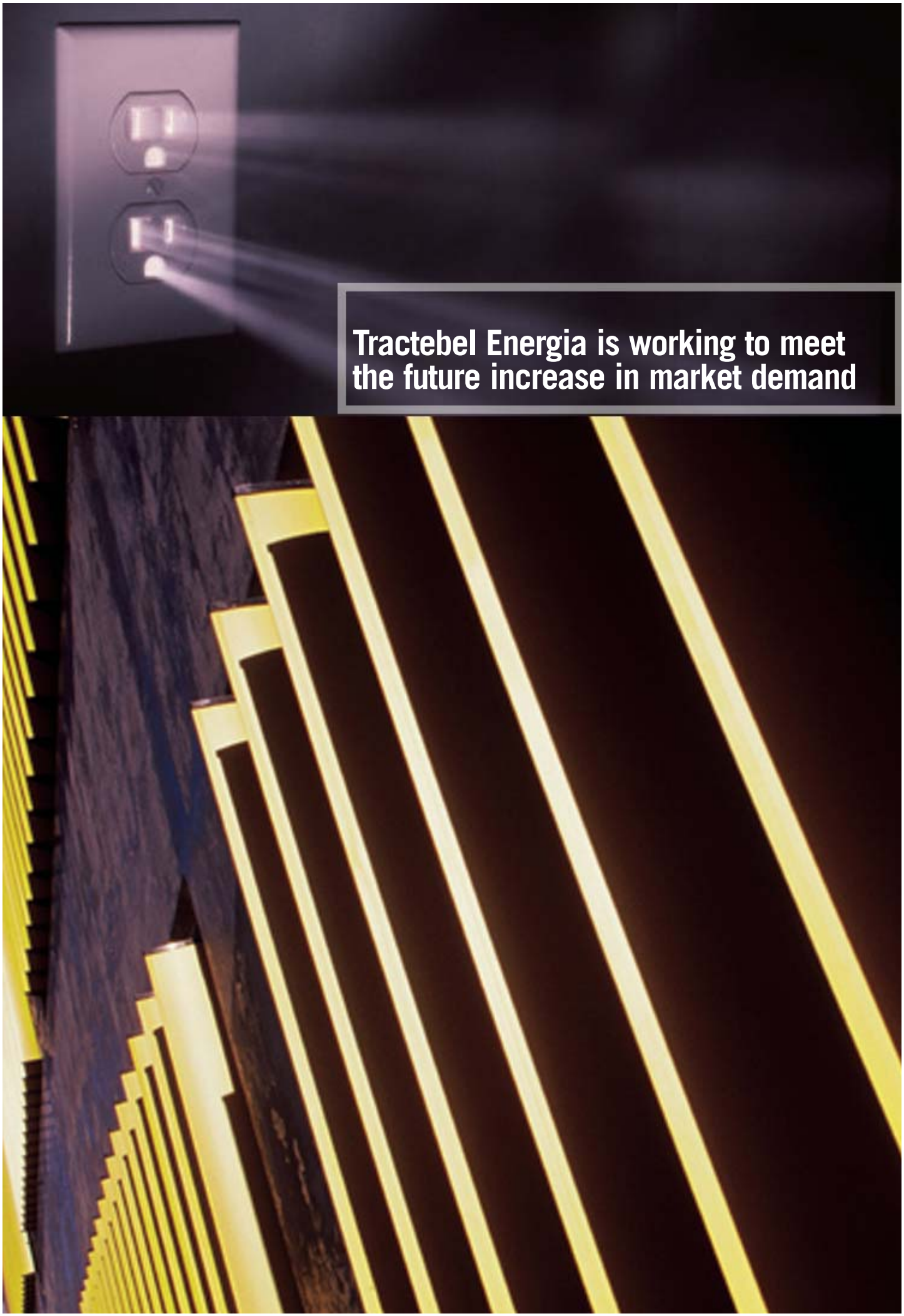
BUSINESS STRATEGY

To remain the leader in the Brazilian private sector market for electricity generation. This is Tractebel Energia's strategic focus. For this purpose, the Company is structured to accompany the country's economic development through the provision of growing energy supplies. Within this context, the Company's business strategy rests on three pillars: financially disciplined growth for supporting increased demand for generation and guaranteeing at least the maintenance of the current market share; the maximization of customer portfolio efficiency, based on a balance between long-term contracts with distributors, and medium and short-term contracts with free customers; and operating efficiency for ensuring the highest possible uptime of installed capacity.

Tractebel Energy is prepared to meet market needs at the right moment. This is the way it manages its businesses. The good financial results reflect discipline in the administration of resources, leaving the Company well placed to make new investments. This may be through new projects such as the São Salvador and Estreito plants in the Tocantins River basin, under the responsibility of the controlling company, or the acquisition of existing assets.

Positioning

Tractebel Energia ended 2005 with its generation capacity almost entirely contracted through to 2008, leaving the Company in a commercially comfortable position. The Company will have additional energy volumes for contracting to in 2009 when demand and prices are both slated to increase. These resources can be expected to be the focus of further commercial initiatives and new business strategies.


Tractebel Energia is working to meet
the future increase in market demand

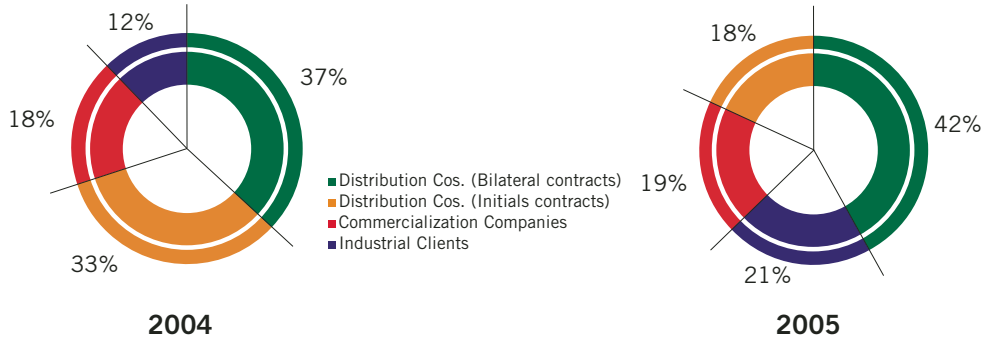
The Company has a diversified customer portfolio, encompassing energy distributing concessionaires, traders and free customers (major industries and commercial establishments). The pulp and paper, fertilizer, industrial gases, petrochemicals, automotive and food sectors are among the most important customers supplied.

Tractebel Energia is seeking to expand its business in these market sectors. Free customers are estimated to represent 30% of the total Brazilian electric energy market with a potential consumption equivalent to 14,000 average MW. However, these consumers accounted for only 8,000 average MW up to December 2005. Consequently, Tractebel Energia has been concentrating on increasing its penetration of this segment of the market. The share of industrial customers in revenues, practically zero in 2000, reached 12% in 2004 and 21% in 2005, when the Company's portfolio had a free customer base of more than 100 names.

Building customer loyalty

The implementation of initiatives for building free customer consumer loyalty is part of the Company's energy merchandizing strategy. One of the initiatives is the use of a flexible approach to energy purchases during the year. These purchases are adjusted to demand fluctuations and, as the case may be, maintenance stoppages at customer installations, such variables to be incorporated in the supply contract.

Breakdown of revenues per client



2004 **2005**

Another strategic initiative taken wherever possible is the implementation of a system for measuring the power consumption of free customers. This tool allows the customer to analyze the quality of the energy effectively consumed and ensure that its equipment and processes are operating at maximum efficiency. This initiative gives the Company a competitive edge in the market in relation to its customers, at the same time optimizing energy available for delivery from its plants.

In line with all commercial decisions, Tractebel Energia endeavors to guarantee the reliability of its services. The Company has been so successful in building commercial relationships that on occasions it has been forced to resort to the market to fully supply customer electricity requirements.

Export of energy

As part of its operating strategy, the Company is constantly vigilant to new business opportunities, so much so that in 2004 Tractebel Energia became the first company in Brazil to win an auction for the export of energy. The good performance in auctions of this type was repeated in 2005. While the share in this activity is small relative to the Company's overall activities, it is indicative of potential to be explored.

Tractebel Energia is well placed to serve this particular market, given the advantageous geographic location of its generating complex in southern Brazil closest to the purchasing countries – Argentina and Uruguay – as well as having a substantial thermal generating capacity, this form of energy being the source which is typically required under export operations. These aspects represent major competitive differentials in the competition to increase the share of the export market.

Production efficiency

The investment in the upgrading of the generator complex yielded electric energy uptime of 97.2%

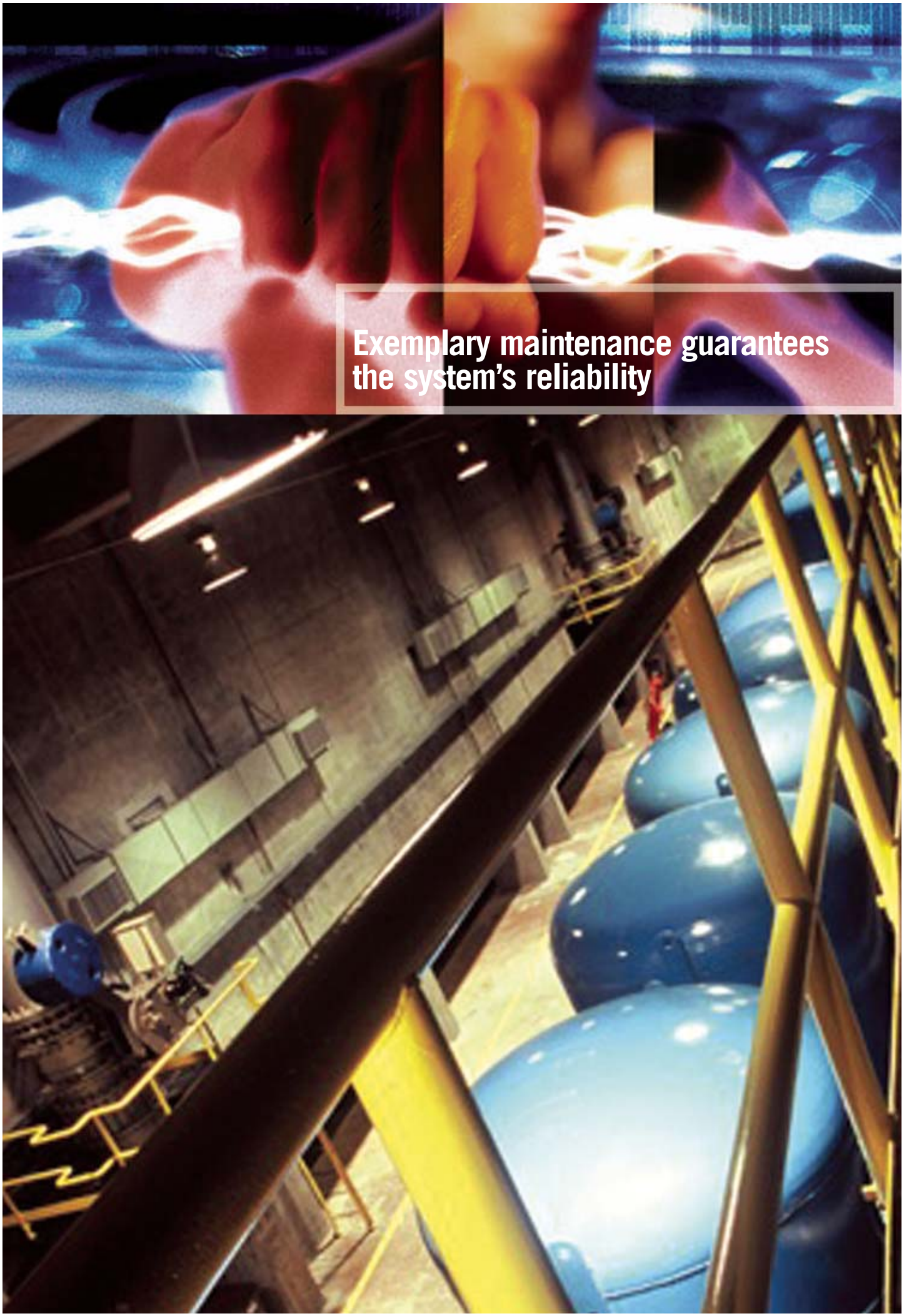
OPERATING PERFORMANCE

In 2005, Tractebel Energia generated 29,801 GWh, equivalent to 7.5% of the energy required by the national grid system, and met 45% of the demand from the states in southern Brazil. The Company has been successful in maintaining these percentages for the past five years. Of total production, 24,721 GWh was generated from hydro plants and a further 5,080 GWh from thermal plants.

One of the major challenges facing electric energy generation is to ensure operating uptime is maximized to meet contractual demand. The reason for this lies in the way the market is organized. On the one hand, the generator must meet the needs of the National Electricity System Operator (ONS), which guarantees the electricity supplies to all regions; while on the other hand this requirement must be weighed against factors over which the Company has different levels of control, such as maintenance of equipment or the level of hydropower reservoirs.

In 2005, the Company's objective of maintaining general uptime (excluding programmed stoppages) above 96%, was exceeded at 97.2% of uptime. Considering all the stoppages, overall uptime was 90.8%. The Company implemented a maintenance program for reaching this high level of maintenance and to interfere as little as possible with programmed output, ensuring the highest possible reliability of the system.

Tractebel Energia's productive sector is structured into five areas to reach this degree of operating efficiency: hydraulic generation, thermal generation, maintenance, operation control and the environment. A seamless interaction between the five areas is essential for operating in a manner, which guarantees the necessary productivity to meet the needs of the customer base and supply quality electric energy.



Exemplary maintenance guarantees the system's reliability

Investment in annual plant maintenance and modernizing program also contributes to guaranteeing this quality. In 2005, Tractebel Energia allocated R$ 44 million to these initiatives. The generators at the Salto Osório hydro plant were modernized as were those at the Jorge Lacerda B thermal plant. The digital telemeasurement system was enlarged and new remote units were installed for power plant supervision. The modernization of unit 6's electrostatic precipitator at the Jorge Lacerda B plant alone cost more than R$ 7 million. This is a system that precedes the filtering of coal ash in thermoelectric generation.

Research and Development

Every year, the Company's Energy Production Division invests part of its net operating revenues in Research and Development (R&D) for improvements in the energy sector. This measure complies with requirements under the concession contract. While Aneel dictates the amount to be invested, it is Tractebel Energia that voluntarily decides the projects to be developed. The Company endeavors to maintain the quality of the themes analyzed in conjunction with the various partner institutions such as universities, foundations and research centers.

Between 1999 and 2005, the Company invested in 112 projects. Among these projects, particularly noteworthy were the use of ash from coal-fired power plants in the construction of low cost housing and the discovery of a new fish species in the Passo Fundo hydro plant reservoir. Other important projects included the development of soldering technologies, methods for enhancing thermal efficiency and the harnessing of woodworking industry waste for the generation of electricity. In 2005 alone, Aneel approved 18 of Tractebel Energia's research and development projects in the environmental, thermal generation, operating and planning areas.





Profitability and reliability

Net income reported a record R$ 920 million, an 18.7% growth

Macroeconomic scenario

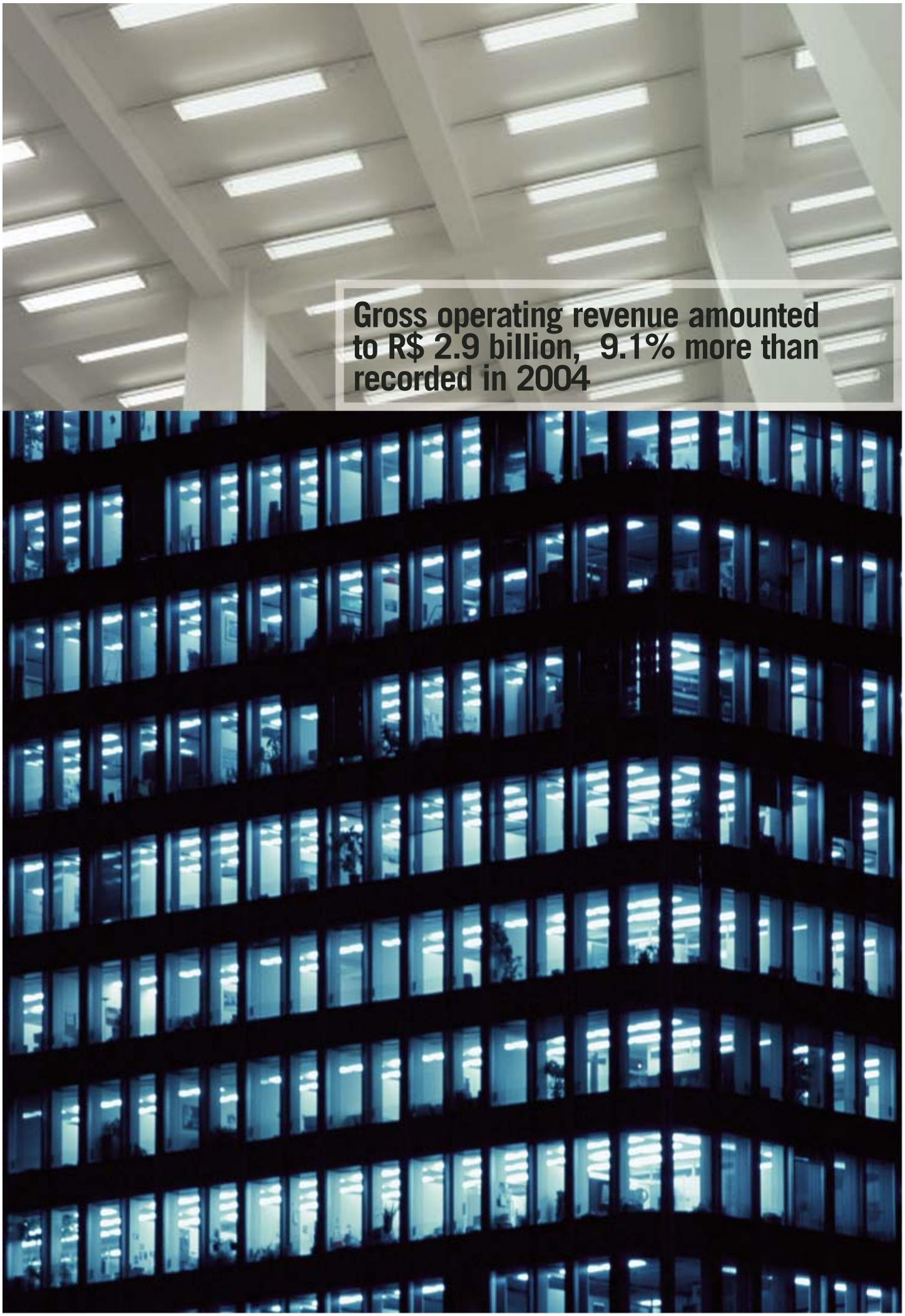
The year was characterized by a lack of any form of turmoil on the international market and by the appreciation in the domestic currency against the US dollar. Despite the high levels of oil prices, inflationary tendencies in the United States and a changing interest rate policy in the Eurozone, the Brazilian trade balance continued positive with a record surplus of US$ 44.7 billion, 32.8% more than in 2004.

The public sector in turn ended the year reporting a primary surplus of 4.97% of GDP, exceeding the annual target of 4.25%. On the other hand, economic activity was weaker than expected, borne out by lackluster GDP growth of only 2.6%.

The government successfully reduced its net debt in US dollars from R$ 124 billion in 2003 to R$ 16 billion by maintaining the policy of exchanging dollar-indexed securities for domestic currency securities and purchasing dollars in the futures market. However, domestic debt posted a significant increase from R$ 623 billion to R$ 980 billion in three years. Meanwhile, in December, Brazil prepaid its entire outstanding IMF debt of R$ 15.5 billion, two years ahead of maturity.

Other indicators were negative: an inflation of 5.69% p.a. (IPCA) against a target of 5.1% p.a. and the basic rate of interest (Selic) closed the year at 18% p.a., an inexpressive reduction compared with 18.25% p.a. in January 2005. Net public sector debt remained at 51% of the GDP.

The domestic consumption of electricity grew 4.8% in 2005, amounting to 335,411 GWh. Growth per consumer segment was as follows: residential (5.4%), commercial (7.2%), industrial (2.4%) and others (7.3%). Industrial consumption was equivalent to 45% of the Brazilian market as a whole, while the residential market accounted for a further 25%. The average residential consumption was 140 kWh per month, still down on the average prior to the 2001/2002 rationing period of 180 kWh per month.


Gross operating revenue amounted to R$ 2.9 billion, 9.1% more than recorded in 2004

New sector rules: participation in auctions held under the Regulated Contracting Environment

In the existing energy auctions in which it participated in 2005, Tractebel Energia sold 150 average MW in contracts with delivery to begin in 2008 and 381 average MW for delivery in 2009. In both cases, contracts will run for an 8-year term.

The first new energy auction was held on December 16 2005. The contracts provide for energy deliveries to begin in 2008, 2009 and 2010, supplies to be made for terms of 15 years in the case of thermal power plants and 30 years for hydro plants. Tractebel Energia sold 200 average MW, 84 average MW from the Machadinho hydro plant and 116 average MW from the Itá hydro plant. Supplies under these contracts are scheduled to begin in 2010. The average price was R$ 115.10/MWh.

Results and indicators

Gross operating revenues were R$ 2,904.2 million in 2005, a growth of 9.1% compared with 2004. Revenues from the sale of energy to the wholesale market reached R$ 2,097.5 million and sales revenues to free customer , R$ 479.5 million, a growth of 5.6% and 28.7% respectively, compared with the fiscal year 2004, indicative of the successful development of the free customer portfolio.

Operating revenue performance is due to a combination of the following aspects: energy sales volume during the fiscal year was 29,823 GWh, an expansion of 1.3% compared with the 29,440 GWh sold in 2004; electric energy liberated from initial contracts – reflecting sector regulations – was freely re-contracted with distributors, traders and industrial customer at higher prices than previously contracted, resulting in a portfolio of higher priced contracts. In addition, price readjustments in electricity sold through initial and bilateral contracts were indexed to the IGP-M (General Index of Market Prices).

As a result, the average 2005 price of Tractebel Energia's contracts reached approximately R$ 85/MWh, 16.4% higher than the average price of energy sold via contract in 2004 of R$ 73/MWh.

Net Revenues
(R$ million)



Result from Service
(R$ million)



Net revenues in 2005 amounted to R$ 2,599.8 million, an increase of 5.3% compared with 2004. Deductions from gross revenues – largely related to taxes levied on sales – increased by 61.1% over 2004 from R$ 185.6 million to R$ 298.8 million. This was largely due to the increase in the tax rates of PIS (Employees' Profit Participation Tax) and COFINS (Social Contribution for Social Security Funding) from 3.65% to 9.25% and the increase in intra-state sales to end consumers, situation in which ICMS (a sales tax) is collected.

Total operating costs and expenses were R$ 1,390.2 million in the fiscal year, a reduction of 2.3% on 2004. The year-on-year reduction in expenses from R$ 302.9 million to R$ 136.9 million, reflected the lower volumes of bought energy for servicing exports in 2005. In addition, less energy was purchased by the generator CIEN (electricity generator owned by the Endesa Group), due to a reduction in the physical guarantee imposed by Aneel. Other factors contributing to this variation were:

☐ Fuel costs for generating electricity: the 0.8% increase in fuel costs reflects a combination of the increase in contract prices and lower coal consumption in 2005, due to the reduced generation of energy for export.

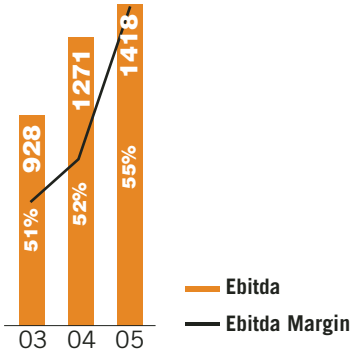
☐ Charges for use of the transmission and distribution network: these expenses registered a growth of 20.4% due to increased sales volume through bilateral contracts in substitution for initial contracts on which there are no transmission/distribution charges, as well as the increase in tariffs for this service.

☐ Payroll, material and third party services: this item posted a year-on-year increase of 13.0%, reflecting not only contractual readjustments and payroll, but also higher extraordinary maintenance costs at the Jorge Lacerda B thermal power plant.

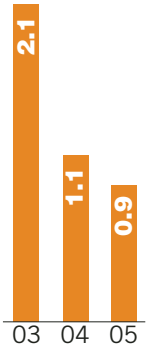
☐ Depreciation: the reduction from R$ 223.5 million to R$ 208.1 million in this item reflects the provision for accelerated depreciation of R$ 13.9 million in 2004 for units 4 and 5 at the William Arjona thermal power plant.

☐ Constitution and reversal of operating provisions: net operating provisions were established in 2005 amounting to R$ 96.6 million relating largely to the provision for increased post-employment benefits due to changes in economic actuarial estimates; the provision for scheduled maintenance programs following a reevaluation of the maintenance program and a provision for civil contingencies in the light of a claim by the Company relating to non-compliance with contractual clauses on the part of an energy supplier. Of total provisions, approximately R$ 65.5 million is considered to be non-recurring.

Ebitda
(R$ million)
Ebitda Margin (%)



Net Debt / Ebitda



The operating result (EBIT) in 2005 was R$ 1,209.7 million, representing an expansion of 4.1% compared with the fiscal year 2004.

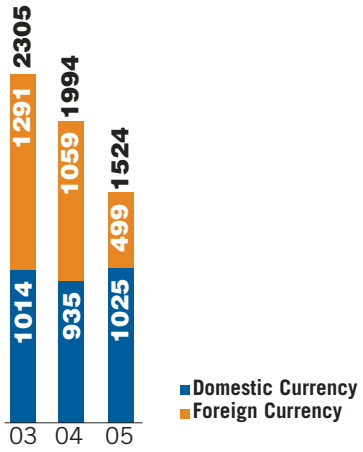
In the light of the foregoing, EBITDA for 2005 reached R$ 1,417.8 million, representing an EBITDA margin of 54.5%. Excluding non-recurring operating provisions of R$ 65.5 million, the adjusted EBITDA for 2005 would be R$ 1,483.3 million and equivalent to a margin of 57.1%.

Financial Result

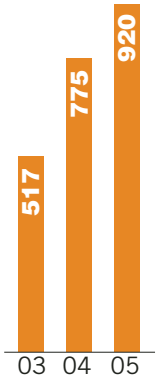
The net financial result fell from R$ 176.6 million for the fiscal year 2004 to R$ 102.4 million in 2005.

This variation is due principally to: the increase of R$ 36.8 million in interest income due to a more robust cash position in the fiscal year 2005; reduction of R$ 26.6 million in interest expenses, principally due to the prepayment of financing of R$ 328.6 million from the Inter-American Development Bank - IDB in May 2005; a gain of R$ 107.8 million on net monetary variation due principally to an 11% appreciation of the Real against a basket of currencies comprising Tractebel Energia's debt and also monetary restatement of compensated tax credits as well as trade accounts receivable arising from a commercial agreement; an increase in the loss on swap operations (exchange/interest rate swaps) of R$ 102.1 million, resulting from the appreciation of the Real against a basket of currencies of company debt, partially neutralizing the exchange rate gain on the same currency denominated debt.

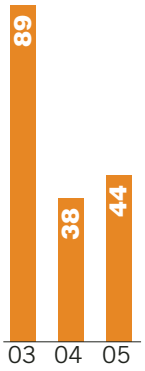
Composition of Debt
(R$ million)



Net Profit
(R$ million)



Capex
(R$ million)



Gross consolidated debt, including financial expenses was R$ 1,523.8 million on December 31 2005, a decline of 23.6% compared with the preceding year. This reduction reflects the appreciation of the Real against a basket of currencies in which the Company's debt is denominated, amortizations during the period, and the prepayment of the above mentioned financing from IDB, the latter also contributing to the reduction in currency exposure compared with December 2004.

Approximately 33% of total debt was foreign currency denominated on December 31 2005 as against 53% a year earlier, approximately 37% of the outstanding currency denominated debt being hedged against foreign exchange fluctuations.

The net profit was R$ 920.1 million in 2005, 18.7% up on the value recorded for 2004. Results were boosted by a positive contribution from the growth in operating revenues, thanks to a combination of increased sales to free customers and average contracted energy prices. There was also a reduction in the purchasing costs of electric energy during the year and, working in the opposite direction, increased sales taxes. Dividends and interest on shareholders' equity amounting to R$ 874 million (R$ 1.34 per share) were paid out to shareholders. This was equivalent to 95% of the net annual income, of which, R$ 373 million and R$ 40 million, respectively, were paid out and credited in 2005, a total of R$ 413 million.

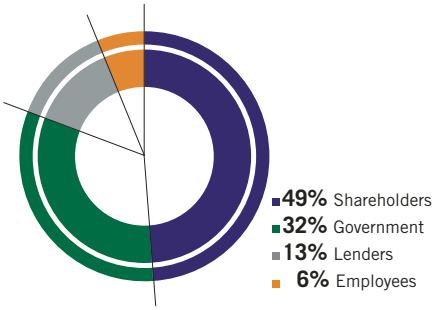
The balance of proposed dividends worth R$ 461 million (and the interest on shareholders' equity credited net of withholding tax amounting to R$ 34 million) will be paid out in May 2006.

Capital Expenditures

The Company invested R$ 44 million in 2005, largely in the annual plant maintenance and modernization program.

Value Added Statement

Value added distributed in 2005 was R$ 1,881.5 million, representing a growth of 26% over 2004. Distribution was effected as shown in the following graph.



Standard of excellence

Tractebel Energia upgrades its shareholder relationship model and adheres to Bovespa's *Novo Mercado* criteria

CAPITAL MARKETS

Tractebel Energia's adhesion to Bovespa's *Novo Mercado* rules was the main feature of 2005 in the capital markets context. Listed on the São Paulo Stock Exchange since May 1998, Tractebel Energia S.A. obtained a *Novo Mercado* listing on November 16 2005. This listing segment is designed for companies that voluntarily undertake to adopt corporate governance practices and rules over and above the legal requirements.

The consolidated Rules for a *Novo Mercado* listing enhance shareholder rights, improve the quality of disclosure, and determine that the resolution of disputes be settled through an Arbitration Panel. The Panel provides investors with the security of a faster and more specialized form of resolving corporate conflicts.

In the final quarter of 2005, Tractebel Energia approved the amendments to its bylaws for aligning them to the rules and procedures of Bovespa's Novo Mercado listing. In addition, a new dividend policy was approved to include:

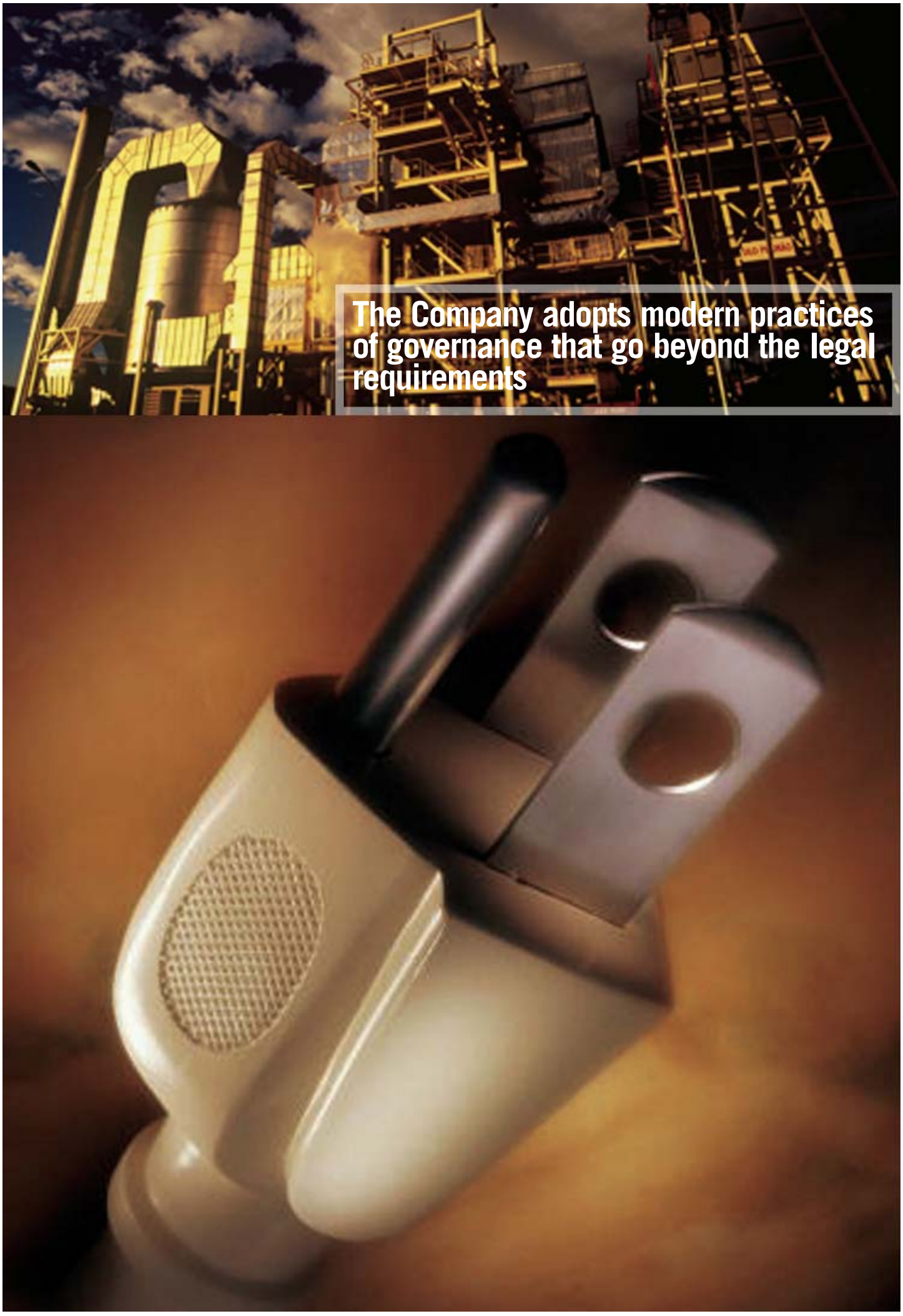
- an increase in the mandatory minimum dividend established in the Company's bylaws from 25% to 30% of the adjusted net profit for the fiscal year according to Law 6.404/76;
- the intention of declaring and paying dividends and/or interest on shareholders' equity of not less than 55% of adjusted net profit. Payout value will be a function of various factors such as the financial status of the Company, its future prospects, the macroeconomic conditions and growth strategies;
- payment of a semi-annual dividend.

TBLE3 NOVO MERCADO BOVESPA BRASIL

IGC

itag Índice de Ações com *Tag Along* Diferenciado

ISE Índice de Sustentabilidade Empresarial


The Company adopts modern practices of governance that go beyond the legal requirements

Tractebel Energia's efficient performance is reflected in the appreciation of the Company's stocks: the common shares appreciated 70.1% in 2005 while the Ibovespa index rose 27.9% over the same period

Tractebel Energia has become a component of the IGC - Special Corporate Governance Stock Index, the ITAG - Special Tag Along Stock Index, which incorporates those companies offering greater protection to minority shareholders in the event of the sale of a controlling stake, as well as the ISE - Corporate Sustainability Index comprising companies with a recognized commitment to sustainability.

Tractebel Energia's shares are traded on the São Paulo Stock Ex-change under the TBLE3 symbol.
The Company's Level I American Depositary Receipts (ADRs) are also traded on the US OTC over-the-counter market under the TBLEY symbol at a ratio of 1 ADR to every 5 ordinary shares.

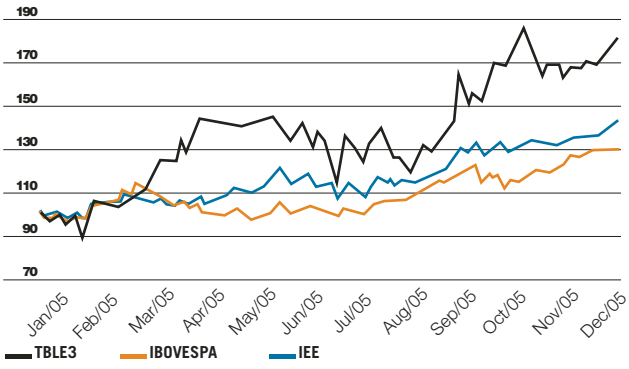
In 2005, Tractebel Energia approved the unification of all the share classes making up the capital stock into a single type of ordinary share, through the exchange and conversion of each existing preferred share into one ordinary share. On September 19 2005, the Company concluded the conversion process, achieving its objectives of equalizing the rights granted to all shares, adaptation of the shareholding structure in line with the best corporate governance practice and creating a better basis for upgrading share liquidity. On December 31 2005, the Company's capital stock was R$ 2,445.8 million, representing 652,742,192 ordinary nominative shares with no par value, following the grouping and conversion of shares mentioned above.

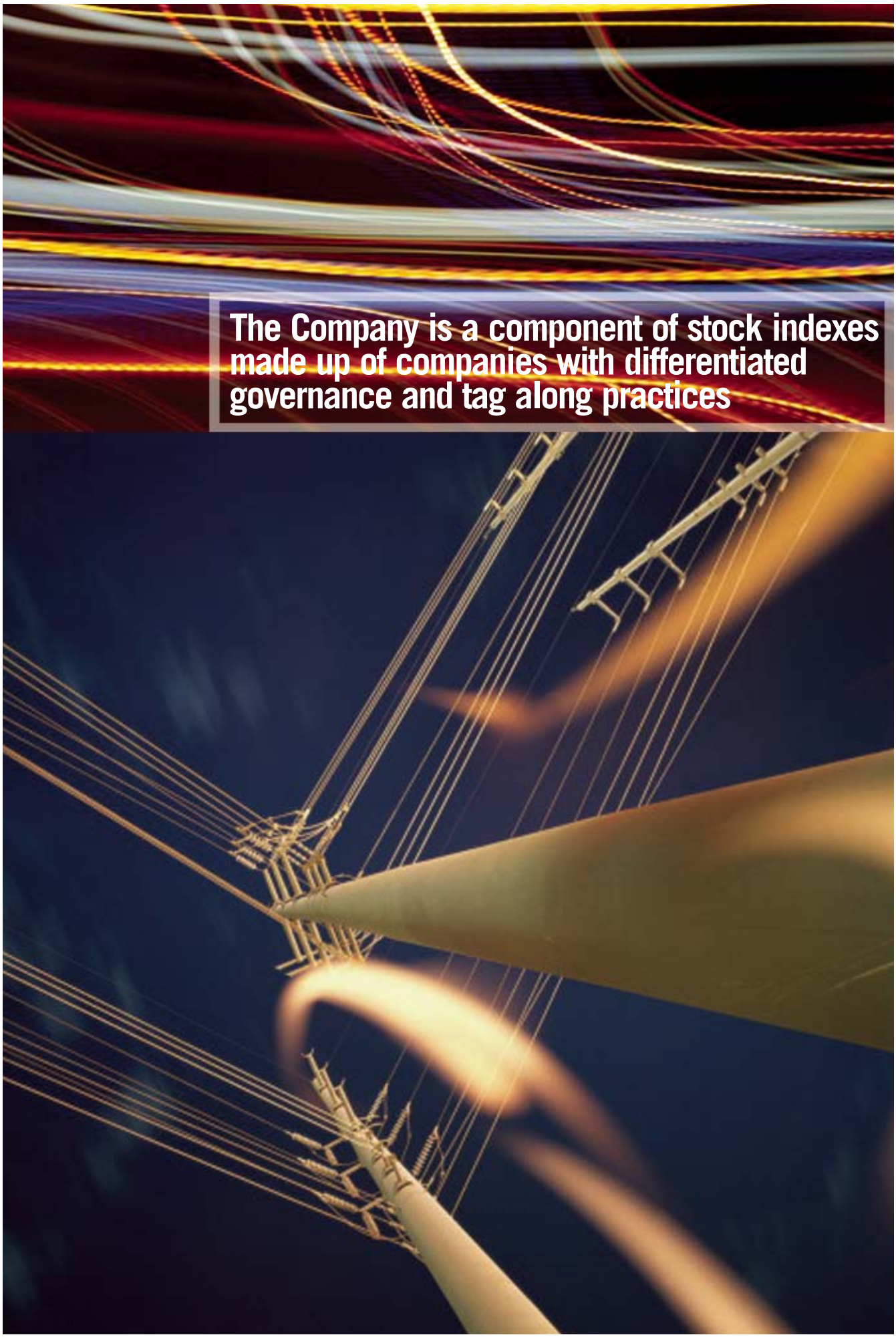
Share Performance

Tractebel Energia's (TBLE3) ordinary shares posted gains of 70.1%, compared with the appreciation of 27.7% in the Ibovespa – a stock index reflecting the performance of 57 of the most liquid shares in the market – and 42.9% for the IEE – Electric Power Index.

During the year, the Company's shares traded every day the stock exchange was open for business. The average daily trading volume was R$ 2,550,000, volumes increasing particularly strongly from November 2005. Greater trading turnover reflected not only the secondary share offering which expanded the free-float to 31.3%, but also Tractebel Energia's compliance with the prerequisites of the *Novo Mercado* listing. At the year-end, the shares were priced at R$ 15.05/share, equivalent to a market capitalization of R$ 9,824 million.

TBLE3 vs. IBOVESPA vs. IEE
(BASE 100 – 12/31/2004)




The Company is a component of stock indexes made up of companies with differentiated governance and tag along practices

Sustainable energy production

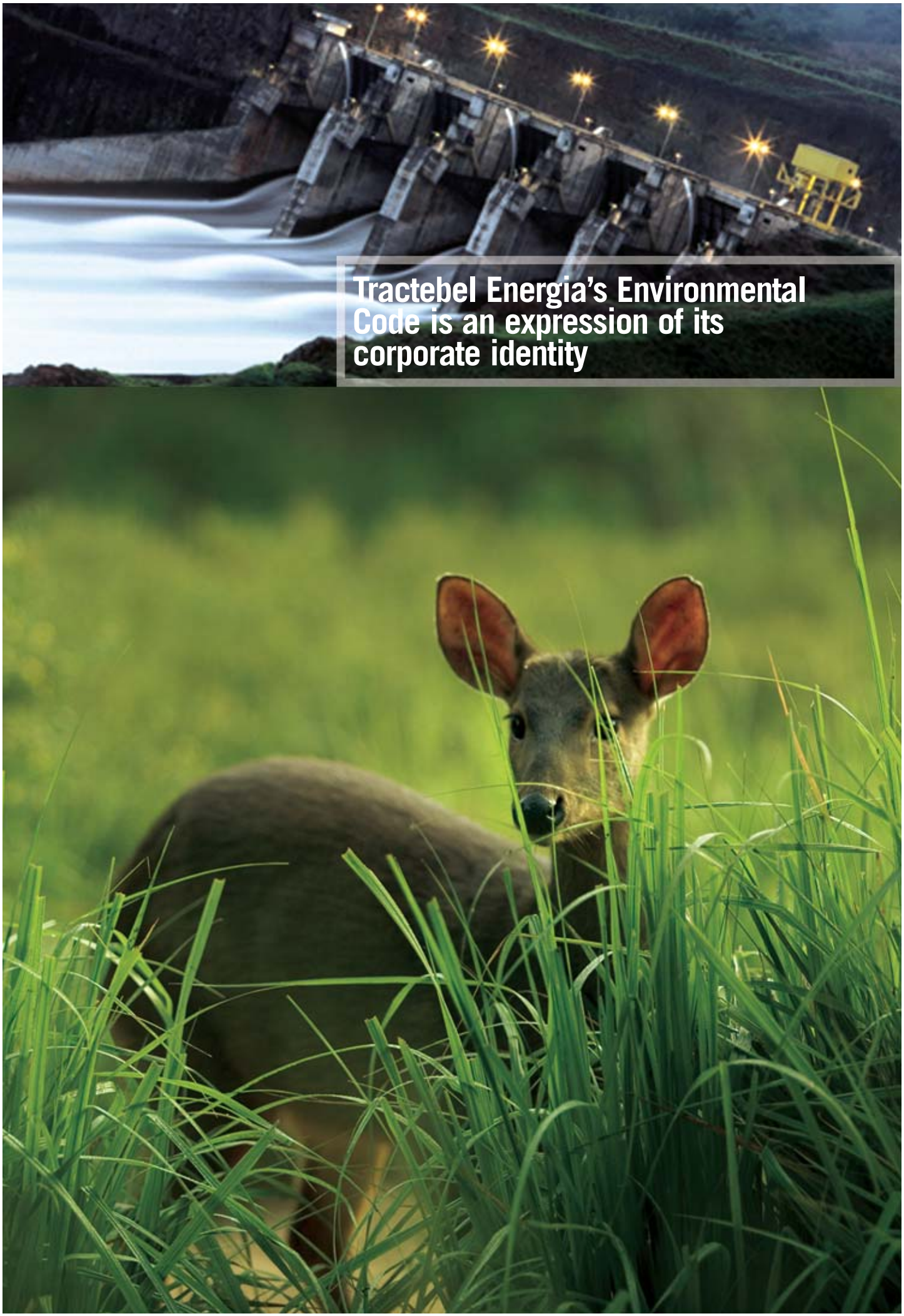
The commitment to preserving the natural resources has resulted in Tractebel Energia's inclusion in Bovespa's Corporate Sustainability Index

ENVIRONMENTAL MANAGEMENT

Tractebel Energia's adoption of the principles of sustainable development stems from the nature of its energy generation activities. The Company has created an Environmental Code – details of which can be accessed through the site www.tractebelenergia.com.br – as a yardstick for its environmental policies. The Code expresses the Company's commitment to the environment and the human being in such a way that this respect provides the bedrock for Tractebel Energia's very business identity. The principles, which are underpinned by the Code, are:

- Commitment
- Understanding
- Technical capacity
- Sharing

The Company's controlling shareholder, SUEZ, also sets itself rigorous environmental goals while Tractebel Energia prepares annual reports, which are incorporated in the Group's global report. All plants are fully licensed by the environmental protection agencies and their activities are carried on with the aim of achieving a continuous improvement in processes. The Company implements this commitment through an Integrated Environmental and Quality Management System both at those plants certified according to ISO 9001 (quality norms) and ISO 14001 (environmental norms) standards and also the six others, where the goal is to obtain such certification before the end of 2006. The hydro plants already certified are: Salto Osório (PR), Salto Santiago (PR), Passo Fundo (RS) and Itá (SC/RS) and the Jorge Lacerda thermal complex (SC), with three plants.



Tractebel Energia's Environmental Code is an expression of its corporate identity

Thanks to its efforts on the environmental front during 2005, the Company has been rewarded by becoming a component of Bovespa's Corporate Sustainability Index (ISE). The Index is made up of a portfolio of shares considered as having solid long-term prospects and with a strong financial performance with their focus concentrated on social, environmental and corporate governance aspects.

Environmental management of the hydro power plants

Tractebel Energia carries out environmental monitoring and actions for mitigating or offsetting the impacts arising from the use of the hydro plant reservoirs and in compliance with the environmental legislation. The Company endeavors to do more than merely meet the legislation by operating proactively in the sustainability of the generation of energy from clean and renewable sources. Among the initiatives are:

Stewardship of fish stocks

The monitoring of the icthyofauna (fish) and reservoir water quality is continually performed, normally in association with companies and research organizations in the regions where Tractebel Energia operates.
Since 1999, the Company has been breeding native fry species for restocking the hydro plant reservoirs.

What is ISO 14001?

ISO (International Standardization for Organization) is a Geneva-based NGO. Since its foundation in 1947, its objective has been to act as an international forum for standardization. ISO 14001 Environmental Management certification testifies to environmental responsibility in the development of the activities of an organization and includes elements, which are central to the Environmental Management System (SGA), to be used for certification and registration. Among the principles involved is the need to measure, monitor and evaluate the environmental performance of the organization.

What is ISO 9001?

ISO 9001 is a component of the ISO 9000 family, a series of standards, which provide a model for quality management required for certification of those companies that adopt it. ISO 9001 certification establishes the quality requirements for production processes based on criteria: (a) allowing the building in of an additional reliability factor to the product; (b) meeting customer requirements; (c) complying with conformity of production; (d) guiding the monitoring by a process which is relevant to quality; and (e) being applicable to a process or part of the organization.

What is the ISE?

Bovespa launched its Corporate Sustainability Index on December 1 2005. The Index was developed in partnership with capital markets' professionals and entities in addition to the Getulio Vargas Foundation, Ethos Institute and the Ministry of the Environment. It is made up of shares from a select group of companies with recognized commitment to social responsibility and corporate sustainability, chosen from among the most liquid stocks quoted on the Bovespa. This group of companies was selected on the basis of a questionnaire used to evaluate business indicators for environmental, social, economic-financial aspects as well as general criteria and product type and corporate governance criteria.

In addition, Tractebel Energia has an agreement with the Federal Environment Protection Agency (Ibama) for restocking the Uruguai River basin. In 2005 alone, a million fry were released under this project, the goal in 2006 being a further 600,000. While Ibama makes the monitoring of the ichthyofauna mandatory, the restocking of the rivers is a voluntary initiative and part of the Company's philosophy of respect for the environment.

Management of the hydrographic basins

Tractebel Energia sits voluntarily on the hydrographic committees for its concession area: Baixo Jacuí (Charqueadas-RS); Ibicuí River (Alegrete-RS); Passo Fundo River (Passo Fundo-RS); Apuaê and Inhandava rivers (Machadinho-RS); Rio do Peixe (SC) and Jacutinga River (Itá-RS); Tubarão River and Lagunar Complex (Jorge Lacerda-SC). Tractebel Energia also participates as an alternate member on the Paraná State Water Resources Council. The discussionsthat take place within the framework of these committees are important, given that they touch on issues such as the rational use of water resources and the importance of basic sanitation, among others.

Research development

The highlights of Tractebel Energia's research and development projects and more specifically the highlights of the Company's environmental projects are those connected to ichtyofauna. One of them in particular relates to migratory fish, monitoring each species using electronic chip and radio tracking methods.

Tractebel Energia adopts a proactive posture in its research, monitoring the waters of the basins in its concession area to detect the presence of an invasive species known as the Chinese freshwater mussel (Limnoperna fortunei). While the mussel has still not been encountered in the Iguaçu River basin, risk control measures are in place, given the facility with which the species spreads. It has already caused a serious environmental imbalance in other areas of Brazil due to its accelerated proliferation. The appearance of mussel aggregates can potentially damage equipment as well as making constant maintenance of the hydro plants necessary.

What is the Chinese freshwater mussel?

The *Limnoperna fortunei* is a bivalve mussel (with twin shells) originating from South East Asia, and first found in Brazil in 1998 although it is not present at Tractebel Energia's plant sites. This invasive species establishes itself on any hard substrate, forming aggregates and covering extensive surfaces. Since it has no natural predators, its reproduction powers are substantial. For this reason the Chinese freshwater mussel blocks hydro plant pipes and filters, making the need for cleaning and maintenance more frequent, and consequently increasing company costs in these areas.

Stewardship of the flora

The impacts of the Company's activities on the vegetation are compensated by the production of seedlings and reforestation along the margins of the reservoirs. This contributes to the maintenance of the biodiversity, controls erosion and silting, as well as protects and reduces contamination of water resources.

The Passo Fundo, Salto Osório and Itá plants have tree nurseries where seedlings of the vegetation to be used to restore the plant cover along the reservoir margins are cultivated. In 2005, 146,000 seedlings were planted along the edges of the reservoirs, 80,000 alone in the Iguaçú River basin in the state of Paraná. All were planted within the Permanent Preservation Areas (APPs). The goal for 2006 is to plant 300,000 seedlings. The Company's tree nurseries have an annual capacity of 30,000 seedlings and the remainder is complemented by production from partner nurseries.

Besides mandatory planting, Tractebel Energia also donates seedlings, an example being the Jorge Lacerda Complex's donation of 21,535 fruit and ornamental tree seedlings to public authorities and local NGOs.

Environmental recognition

In 2005, Tractebel Energia was given approval to implement its Stewardship Plan at the Fritz Plaumann Park, which was inaugurated in September. This initiative was designed to provide environmental compensation for the construction of the Itá hydro plant (SC). The park has an area of 741 hectares and is located in the municipality of Concórdia, with its vegetation cover threatened by indiscriminate agricultural, fishing and logging activities. The Fritz Plaumann Park is run by the Foundation for the Environment (Fatma), which last year awarded the ninth Fritz Müller Prize to Tractebel Energia. This award recognizes Santa Catarina-based companies, which make outstanding contributions to the control of industrial pollution.

Fritz Plaumann, after whom the park is named, was a German entomologist who dedicated 60 years of his life to researching invertebrates in the Brazilian fauna of the mountainous Alto Uruguai region in the state of Santa Catarina.

Inspection and management of the margin

The Plan for Use and Occupation of the Lake and Reservoir Margins is part of the Company's environmental management system. The system establishes guidelines and norms for activities in the peripheral areas around the lakes and reservoirs, many of these areas being inside the APPs. The purpose is to regularize the occupation of the margins, combating illegal land use.

Each reservoir has an environmental and property security team to enforce compliance with these reservoir regulations. At least once a month this team patrols its entire area to detect any environmental problem or illegal squatting.

Cases involving property are sent to the Company's legal counsel following extra-judicial notification to the invading party. In the case of environmental incidents, the problem is either referred to the regional Forestry Patrol Police or the plant's own environmental brigade is called in, according to the seriousness of the matter. The plant brigade is made up of a trained team of employees responsible for assessing and deciding the actions to be taken with respect to events that may result in environmental risk and need to be combated.

Environmental management of the thermal power plants

Tractebel Energia is constantly seeking ways to minimize the impacts on the environment. All the plants have particle retention equipment and acquire low-sulfur fuels (coal and oil), thereby reducing sulfur dioxide emissions.

Carbon dioxide emissions are also monitored at all coalfired plants with monthly reports submitted to the environmental protection agencies, municipal governments, city councils and the public prosecutors' offices in the cities where the Company has plants. This initiative is part of Tractebel Energia's policy of transparency. It is particularly important to emphasize the efficiency of the electrostatic precipitators at the two coal-fired plants, the Jorge Lacerda Complex and the Charqueadas Plant. This equipment controls at least 98% of the pollutants emitted.

The thermal plants operate with closed liquid effluent treatment systems, as a preventive measure for avoiding water pollution through the discharge of effluent into the region's rivers. Environmental monitoring also verifies river water quality along the reservoir margins.

What is pozzolanic cement?

The Romans used the yellow Neapolitan tufas – found in the volcanic ash of Mount Vesuvius in the Pozzuoli region of Italy – for producing the mortar used in their buildings, among them the Coliseum. This material became known as pozzolana, from which pozzolanic cement is made. The high ash content, in conjunction with the other components making up the cement, gives greater resistance to constructions. In addition, pozzolanic cement has low heat expansion qualities, which makes it the best material in projects where there is greater exposure to running water and harsh environments such as dams.

Waste disposal

The sustained disposal of ash as the principal solid waste produced by the coal-fired thermal plants has demanded improvements. There are two types of ash produced: light and heavy. When loaded into the furnace, the coal undergoes spontaneous combustion, this process generating 43% ash. Part of the ash, the lighter fly ash is swept upwards and the rest remains as heavier bottom ash in the boiler.

Fly ash is pozzolanic and is sold to the cement industry as an input for the production of pozzolanic cement and substituting lime.

Meanwhile, bottom ash generated at the Jorge Lacerda Complex is used in the recovery process of deposits of coal rejects or in soil recuperation work before planting seedlings for reforestation. Given its low pH levels, this type of ash neutralizes soil acidity. Bottom ash has been used in the recovery of degraded areas in properties belonging to third parties at Capivari de Baixo (SC). In addition, some of the bottom ash from the boiler at the Charqueadas plant is returned to the mineshaft from which the coal was originally extracted. In 2005, a further 42,260 tons was used to recover a degraded area in Capão da Roça, Charqueadas (RS).

Tractebel Energia donated 380,000 m^3 of bottom ash for the work on converting the BR 101 into a divided highway along the stretch close to the Jorge Lacerda Complex. Bottom ash is used as road base material prior to the final asphalt cover.

The community has recognized the Company's efforts to identify sustainable alternatives for disposing bottom ash. During the year, the Brazilian Association of Sales and Marketing Directors (ADVB, Santa Catarina section), awarded Tractebel Energia the "Citizen Company" award for the "The house that comes from the ashes" project for the use of bottom ash from the Jorge Lacerda thermal plant and the Charqueadas thermal plant in the construction of popular housing. The project is the result of a partnership with the Federal University of Santa Catarina (UFSC).

Plant	Fly ash	Bottom ash
Charqueadas	176 th. tons	60 th. tons
Jorge Lacerda	633 th. tons	560 th. tons

Waste recycling and processing

All 13 of Tractebel Energia's generating plants screen their waste before sending for recycling. Dangerous waste, which is combustible (tank sludge, paints, etc.), is sent for co-processing and generally used as fuel in the cement industry. Spent oil goes for re-refining through an industrial process whereby it is transformed into basic oil – the raw material for the manufacture of the finished lubricant.

Environmental education

Tractebel Energia encourages environmental education by opening its plants for visits by students and other interested parties. The visits are of an informative nature providing instruction on productive energy processes, the importance of the rational use of natural resources, as well as serving as a means of disclosing the Company's environmental initiatives.

For example, in 2005, the Itá hydro plant received about 34,000 visitors and the Jorge Lacerda thermal complex, another 7,500.

There were 1,400 visitors to the Machadinho hydro plant, the re-sult of its inclusion on the itinerary of a tourist route organized by local hotels and the Piratuba Municipality Tourist Information Office. A further 500 students also visited the plant installations during the period.

Fighting global warming

Tractebel Energia is committed to reducing the emission of green house gases through the Clean Development Mechanism (CDM) ap-proved by the World Bank in accordance with the Kyoto Protocol.
Spearheading this initiative is the Lages Co-generation Unit, which uses timber waste from the woodworking industry (biomass) in the state of Santa Catarina. The system burns 408,000 tons of waste (saw dust and wood chippings) annually. This is the way the Company avoids cutting down new trees to supply plant requirements, thus contributing to the maintenance of the biodiversity. The transformation of the waste into steam for feeding the boilers is also made without the emission of polluting gases. Previously, this biomass material was discarded or burnt, ignoring its potential for producing energy.

What is the Kyoto protocol?

The Kyoto Protocol – an international agreement which came into effect in February 2005 and named after the Japanese city of the same name – aims to limit the emission of gases contributing to the greenhouse effect. This initiative will help the effort to reduce global warming and consequently ameliorate climate change. The industrialized countries that have signed up to the agreement have undertaken to reduce their levels of emissions recorded in 1990 by up to 5% before the end of 2012. This goal is to be achieved through the reduction in the use of fossil fuels, substituting them for renewable energy sources (hydro, aeolic, solar, biomass, etc.), diminishing the degree of deforestation and increasing rates of reforestation. CDM permits developed countries to compensate part of their greenhouse gas emissions with investments in sustainable development projects in developing countries.

Investments in strategic constituencies of the public

The project for bringing economic opportunity and social reorganization to Vila Vermelho in Goiás reflects Tractebel Energia's corporate responsibility

In-house public

The Company bases its near-term manpower requirements on the survey of employee skills and the succession program.

At the end of 2005, Tractebel Energia had a payroll of 893, 44 more than at the close of the previous year. This constituency of its in-house public is strategic to the Company and is the focus of a policy of professional upgrading and development, being the center of attention for internal programs. During the year, each employee was given an average of 100.7 hours of training. This covered formal education courses (MBA, postgraduate and graduation courses), technical, language and behavioral training courses.

Employee skills development is part of the process of career and succession management at the Company. One third of the payroll is college-educated, 132 being engineering graduates, 54 business administration graduates, 29 accounting graduates, 22 graduates in economics, 15 law graduates, and 10 majoring in pedagogy and 59 in other disciplines.

Tractebel Energia covers all the expenses of the employee in basic education courses and can contribute as much as 80% of the cost of professional formation courses at the graduate and postgraduate levels when this is considered as contributing to improved performance or to the career development of the employee.

The average age of the employees is 40.2 and the average time of service with the Company is 14.7 years. The distribution by state of the employees is as follows: 621 in Santa Catarina; 149 in Rio Grande do Sul; 93 in Paraná; 16 in Goiás; 9 in Mato Grosso do Sul and 5 in São Paulo.



Employee development is the bedrock of the Company's success



social

The relationship of Tractebel Energia with its suppliers is based on the principal of proximity. Monthly audits evaluate the provision of services and supply such that the two parties decide improvements consensually

Staff renewal is largely conducted through a training program set up in 2000. A total of 70 young professionals at the technical and college levels have graduated from the five modules held to date, with 89% of this number being hired by the Company. In 2005, the program had a total of 29 participants, 12 of them with technical level qualifications and the remaining 17 college graduates. In addition, Tractebel Energia hired 32 new employees in 2005. All of them were evaluated and their organizational competences defined to align the profile of each one to Company requirements.

Changes were also made to the corporate private pension plan during the year. The original model used was one of defined benefits. The Company's new plan is based on defined contributions. More than 96% of all employees have migrated to this new plan, now enabling the Company to control future actuarial risks relating to the workforce.

Skills and succession

The Skills Survey of the entire workforce was concluded in 2005, covering technical and managerial career employees. As a result, every employee now has an Individual Development Plan (IDP) on which career movement will be based. This is an instrument for training those that are destined to hold strategic posts in the Company over the next five to ten years, a period during which the energy contracts that were successfully bid at the 2005 auctions will begin to become operational.

On the job succession front, a priority of in-house talents for filling vacancies in the Company as and when they appear was created as set out in the Succession Program. The Program also establishes the preparation of two potential successors for every managerial position. In 2004, Tractebel Energia ran a survey of potential successors for the Board of Executive Officers, completing the process in 2005 with the definition of names for assuming the Unit Manager positions. The program identifies very short, short and medium term potential, thus facilitating employee professional grooming and development.



Suppliers

As part of the process of ISO 9001 certification, Tractebel Energia is ratifying its suppliers, particularly those presenting a high environmental risk. By the end of 2006, Tractebel Energia expects to conclude a selection process in which the supplier itself provides information via a checklist to be found in the Company's website on environmental, administrative, operating capacity, social responsibility areas, etc. The data is to be subsequently checked on a sampling basis through monthly audits conducted in conjunction with the suppliers. Tractebel Energia's contracts with third parties have socio-environmental clauses that prohibit infant and slave labor, among others.

The relationship with suppliers is based on the principle of proximity. Monthly audits are used to evaluate the provision of services and material supply, such that any improvements are decided on a consensual basis between the two parties.

In 2005, the Company implemented a supply risk matrix, the suppliers being so aligned to ensure that services are kept within these parameters. For example, there is a plan for evaluating performance of materials suppliers based on three criteria, which are inherent to the supply function: delivery term, quantity and quality of the material received. Before the end of 2006, the Company is also to make evaluation data available to its suppliers, rewarding those recording the best performances.

Tractebel Energia is implementing an industrial development process for the markets where the number of suppliers is restricted. Once implemented, it will be possible to conduct field tests on the product. Those suppliers with below-average performance will tend to be substituted.

Customers

The relationship between the Company and industrial customers – representing 18% of sales – has resulted in the achievement of a unique quality of service thanks to the consolidation of a customer retention policy. This can be verified in the Company's customer survey conducted annually and revealing high satisfaction levels in 2005. An Action Plan has been drawn up based on this survey for continuously upgrading services. Collective and individual targets have been established for 2006 and it is expected that the next survey will confirm the results of these efforts accordingly.

The Customer Relationship Program is the principal instrument in the policy for building customer loyalty and involves several actions: a specialized account manager service; customization of products and services; relationship events such as the plant visiting program; supply of additional services (monitoring of energy quality, holding of energy audits at customer installations, etc.); endomarketing initiatives (raising employee awareness to better serve the customer); and in-house workshops for evaluating processes.

Besides the account manager who is responsible for customer service, Tractebel Energia offers its customers an exclusive environ-ment on its Internet site (http://www.tractebelenergia.com.br), from which information on Company sales, news clippings and the reports on the quality of energy supplies can be obtained.

Shareholders

During 2005, Tractebel Energia decided to reinforce its relationship with the investors, adopting a proactive posture for communicating information and promoting a dialog with this strategic public.

In the third quarter, the Company held its first meeting with the Capital Markets Analysts and Investment Professionals Association (Apimec). Subsequently, a satisfaction survey was conducted among the market analysts who took part in the event. As from 2006, these meetings will be held on a quarterly basis.

Tractebel Energia has also begun to hold regular meetings with banks and investment funds. The purpose is to provide information on Tractebel Energia's performance to enable analysts to better evaluate the fair price for the shares. The Company is seeking to increasingly upgrade the level of transparency by improving the disclosure of its economic and financial and material fact releases.

Community

Tractebel Energia aims to combine its initiatives and investments in the social area to serve the basic needs of shelter, nutrition and education of children in low-income communities in its concession area.

The initiatives undertaken in 2005 are described in the following table:

SOCIAL RESPONSIBILTY – CHILD ASSISTANCE SERVICE

City	Entity benefited	Activities
Florianópolis	Associação Evangélica Beneficente de Assistência Social (AEBAS)	Support for refurbishment of installations used to provide assistance to youngsters from low income communities
São José	Sociedade Eunice Weaver Educandário Santa Catarina	Support for the project which serves 500 children from low income communities
Florianópolis	Proação – volunteers from Tractebel Energia	Support in assisting low-income communities
Florianópolis	Bandeirante Esporte	Support for youth soccer school for youngsters from low-income communities
Florianópolis	Espaço Cultural Consulado and Casa da Memória do Caeira	Donation to Caeira 21 Project – to educate, inform and raise the awareness of children from low-income communities
Florianópolis	Canto da Lagoa Resident's Association	Sponsorship of the Tênis Amocanto Project – donation of uniforms for 128 children from low-income communities
Florianópolis	Secretariat for the Child, Adolescent, Senior Citizen, Family and Development of SC	Support for the South Brazilian Congress for Guardian and Children's and Adolescents' Rights Councils
Florianópolis	Municipal Government of Florianópolis	Sponsorship for the publication of the Statute of the Child and Adolescent
Florianópolis	Saco dos Limões Community Council	Support for the youth soccer school and computer courses for children from low-income communities
Florianópolis	Hospital Joana de Gusmão Volunteer Association	Support for the Race for Life event in benefit of the children's hospital
Florianópolis	Beatriz de Souza Brito Municipal Junior School	Financial support (laboratory, library, adapted bathrooms and special rooms for the disabled)
Florianópolis	Group for Support for the Prevention of AIDS - GAPA	Donation of furniture
Florianópolis	AfriCatarina Group	Free Art and Education Program for children from low-income communities
Charqueadas	Various Regional Institutions	Various donations to schools, day-care centers and social institutions
Alegrete	Various Regional Institutions	Various donations to schools, day-care centers and social institutions
Cavalcante	Vila Vermelho (rural area)	A new school with five classrooms and a library donated.
Cavalcante	Cavalcante Municipal Government	Construction and donation of the Center for Support to the Needy Child.
Capivari de Baixo	Edson Filho Association	Support for the specialized pedagogic Action Project for Special Needs Children and Adolescents from the Centro de Integração Humana.
Head Office and Plants		Donation of 100 desk-top computers during the year for charitable institutions, schools, day-care centers etc

Restoration of Vila Vermelho

The Cana Brava hydro plant's (GO) project was among the outstanding Company initiatives of 2005. The Economic and Social Restoration of Vila Vermelho involved the community of Cavalcante, and its envisaged relocation to make way for the filling of the plant's reservoir. Prior studies, however, pointed to infrastructure work that might be instrumental in avoiding the need for resettlement.

The families of the Vila Vermelho community also earned a living from mining although the mines in the region had already been depleted. Under this scenario, the project set objectives for the stimulation of associativism and the training of the population in planting and selling agricultural products. The project also encompasses the implementation of professional training and social inclusion courses. In conjunction with the municipal Education Secretariat, the project involves youth and adult literacy courses, encouragement of conservation of natural resources and the development of cultural activities, the recuperation of the historical heritage of the community and festivals as well as establishing a community library.

As part of the installation of the infrastructure, Tractebel Energia donated a new school, with five classrooms together with a library, installed 50 sanitation units and a water supply system as well as re-establishing access between Vila Vermelho and Minaçu.

Parallel with the implementation of the Cana Brava Plant, Tractebel Energia also signed up to the socio-economic development program for the region's population, principally in relation to job creation. The project has the support of the federal government, Inter-American Development Bank (IDB), and electricity generating companies, CPFL and Furnas, as partners. Guidelines and strategies for the implementation of the Regional Development Fund with a budget of US$ 1 million ceded by the partners have been established.

The Environmental Agents NGO, set up with the Company's support, has implemented environmental education activities for the resettled population as well as the Vila Vermelho community.



Support for Culture

The Company pursues a policy of increased investment in the promotion of culture at the locations where it has projects. Initiatives in this area in 2005 were:

SUPPORT FOR CULTURE

Location	Entity benefited	Activities
Florianópolis	Lume Produções Culturais*	IV Children's Film Exhibition of Florianópolis – dedication of a day for presentations to children from low-income communities in the region
Florianópolis	Art Museum of Santa Catarina (MASC)*	Revitalização dos sistemas de refrigeração e desumidificação
Itá	Itá Municipal Government	Itá Lights Project (city's Christmas decorations)
Joinville	School of the Bolshoi Theater in Brazil *	Friends of the School of the Bolshoi Theater
Florianópolis	Santa Catarina Symphony Orchestra (OSSCA)	Acquisition of musical instruments
São Paulo	Armando Álvares Penteado Foundation (FAAP) Art Museum	"James Ensor. The visionary in black and white" Exhibition. A collection of 131 etchings of the artist, precursor of Expressionism and considered an important late XIX century Belgian artist and engraver.
Goiânia	State Government of Goiás*	Support for the Avá Canoeiros Video, a full-length feature on the life of the Indi-ans in the Brazilian Mid West and the efforts to preserve their culture.
Laguna	Laguna City Government	Cultural Project – The Taking of Laguna – local actors act out this historical moment in the city's streets.
Goiânia	Agency for Culture of Goiânia*	VII FICA – International Cinema and Environmental Video Goiás Festival

*Projects sponsored through the Rouanet Law (Incentive for Culture)

Consolidated Social Report

1. BASIS OF CALCULATION	2005 R$ MILLION	2004 R$ MILLION
1.1 – Net revenues	2,600	2,470
1.2 – Operating result	1,100	864
1.3 – Gross payroll	88	79

2. INTERNAL SOCIAL INDICATORS	R$ MILLION	% OF GROSS PAYROLL	% OF NET REVENUES	R$ MILLION	% OF GROSS PAYROLL	% OF NET REVENUES
2.1 – Nutrition	5	5.7	0.2	4	5.1	0.2
2.2 – Mandatory payroll taxes	26	29.5	1.0	23	29.1	0.9
2.3 – Private pension plan	14	15.9	0.5	10	12.7	0.4
2.4 – Private pension plan – conversion of special retirement into time of service retirement	17	19.3	0.7	23	29.0	0.9
2.5 – Healthcare	5	5.7	0.2	4	5.1	0.2
2.6 – Education	2	2.3	0.1	2	2.5	0.1
2.7 – Profit or results sharing	10	11.4	0.4	7	8.9	0.3
2.8 – Other benefits	1	1.1	-	1	1.3	-
TOTAL (2.1 to 2.8)	**80**	**90.9**	**3.1**	**74**	**93.7**	**3.0**

3. EXTERNAL SOCIAL INDICATORS	R$ MILLION	% OPERATING RESULT	% OF NET REVENUES	R$ MILLION	% OPERATING RESULT	% OF NET REVENUES
3.1 – Taxes (excluding Mandatory payroll taxes)	515	46.8	19.8	294	34.0	11.9
3.2 – Contributions to society / Investments in citzenship	10	0.9	0.4	9	1.1	0.4
TOTAL (3.1 to 3.2)	**525**	**47.7**	**20.2**	**303**	**35.1**	**12.3**

4. ENVIRONMENTAL INDICATORS	R$ MILLION	% OPERATING RESULT	% OF NET REVENUES	R$ MILLION	% OPERATING RESULT	% OF NET REVENUES
4.1 – Related to the Company's operations	7	0.6	0.3	6	0.7	0.2
TOTAL (4.1)	**7**	**0.6**	**0.3**	**6**	**0.7**	**0.2**

5. EMPLOYEE COMPOSITION INDICATORS	QUANTITY	QUANTITY
5.1 – Employees at end of period	893	849
5.2 – Employees hired during the period	61	21
5.3 – Interns during the period	62	50

Corporate Information

The Board of Directors

Maurício Stolle Bähr – *Chairman*
Jan Franciscus María Flachet – *Vice Chairman*
Victor-Frank de Paula Rosa Paranhos
Manoel Arlindo Zaroni Torres
Dirk Beeuwsaert
Nicolas Alain Marie Tissot
Luiz Antônio Barbosa

The Board of Executive Officers

Manoel Arlindo Zaroni Torres
Chief Executive Officer

Miroel Makiolke Wolowski
Business Development and Commercialization Director and Project Implementation Director

Marco Antônio Amaral Sureck
Planning and Control Director

Marc Verstraete
Finance and Investor Relations Director

José Carlos Cauduro Minuzzo
Energy Production Director

Luciano Flávio Andriani
Administrative Director

Audit Committee

Newton de Lima Azevedo Junior
Carla Carvalho de Carvalho
Manoel Eduardo Lima Lopes

Investor Relations

Director: Marc Verstraete
marc@tractebelenergia.com.br
Manager: Antonio Previtali Jr.
previtali@tractebelenergia.com.br
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Ticker on Bovespa: TBLE3

Tractebel Energia's shares are traded on the São Paulo Stock Exchange under the TBLE3 ticker

Ticker on US OTC/ADR: TBLEY

Tractebel Energia's Level I American Depositary Receipts (ADRs) are traded on the US OTC over-the-counter market under the TBLEY symbol at a ratio of 1 ADR to every 5 ordinary shares.

Depositary Banks
Brazil: Banco Itaú S.A.
Global: Bank of New York

Independent Auditors

BDO Trevisan Auditores Independentes

Official Publication

- ☐ Diário Oficial do Estado de Santa Catarina
- ☐ Diário Catarinense
- ☐ Valor Econômico

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Credits

General Coordination

Investor Relations Department - Tractebel Energia

Corporate Participation

- ☐ Corporate Communication Department
- ☐ Accounting Department
- ☐ Investor Relations Department

Content Coordination

FIRB – Financial Investor Relations

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Tractebel Energia

SUEZ

Consolidated Balance Sheets
As of December 31

(In thousands of Brazilian Reais)

ASSETS	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
CURRENT ASSETS				
Cash and cash equivalents	9,466	4,648	12,179	7,710
Securities	195,153	514,982	296,958	634,277
Consumers, concessionaires and holder of permissions	287,162	270,813	304,975	280,647
Dividends receivable from subsidiaries	78,860	8,113	-	-
Advances to suppliers	3,268	9,511	3,341	8,849
Credits from fuel consumption account - CCC/CDE	30,553	35,538	30,553	35,538
Disposals, services in progress and expenditures to reimburse	9,993	8,764	9,999	8,050
Taxes and social contributions recoverable	11,486	71,193	16,719	74,707
Pledges and restricted deposits	36,401	60	36,401	60
Deferred taxes	81,097	94,344	82,344	98,173
Warehouse	22,515	13,061	23,512	13,610
Prepaid expenses	10,048	4,262	10,721	5,800
Others	36,726	25,739	36,609	25,993
	812,728	**1,061,028**	**864,311**	**1,193,414**
LONG-TERM ASSETS				
Concessionaires and holders of permission	10,617	14,920	10,617	14,920
Miscellaneous receivables	27,697	16,572	27,697	16,572
Securities	-	35,550	-	35,550
Taxes and social contributions recoverable	7,136	4,720	10,296	8,684
Pledges and restricted deposits	-	-	26,119	53,536
Deposits in court	64,822	26,048	71,405	26,050
Disposal of assets and rights	60,220	29,303	60,220	29,303
Deferred taxes	186,877	181,132	192,309	186,643
Others	1,315	483	1,315	483
	358,684	**308,728**	**399,978**	**371,741**
PERMANENT ASSETS				
Investments	887,117	684,639	43,619	50,365
Property, plant and equipment	2,929,087	3,078,158	4,353,468	4,536,430
Deferred	-	-	43,985	53,202
	3,816,204	**3,762,797**	**4,441,072**	**4,639,997**
TOTAL ASSETS	**4,987,616**	**5,132,553**	**5,705,361**	**6,205,152**

The accompanying notes are an integral part of these statements.

CURRENT LIABILITIES	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
CURRENT LIABILITIES				
Suppliers	140,718	139,589	122,125	117,286
Dividends and interest on shareholders' equity	495,487	553,045	495,487	553,045
Loans and financing	185,684	189,382	233,416	265,410
Interest and charges on loans and financing	8,451	6,813	9,927	12,302
Debentures	-	-	16,611	18,599
Charges on debentures	10,286	-	14,479	4,761
Current taxes and social contributions	35,362	66,449	46,427	74,897
Taxes and social contributions on installments	1,010	979	1,010	979
Estimated obligations	49,084	36,466	49,243	36,540
Provision for contingencies	41,595	-	42,326	731
Post-employment benefits	81,020	51,619	81,020	51,619
Deferred tax (es)	-	39,616	-	39,616
Derivatives	46,181	18,984	65,876	28,002
Others	32,814	26,552	37,220	29,470
	1,127,692	**1,129,494**	**1,215,167**	**1,233,257**
LONG-TERM LIABILITIES				
Loans and financing	601,949	886,901	911,138	1,539,409
Debentures	198,348	-	338,196	153,619
Taxes and social contributions on installments	6,230	7,016	6,230	7,016
Estimated obligations	22,543	15,259	22,869	17,333
Provisions for contingencies	102,606	108,419	105,383	108,637
Concessions payable	-	-	178,130	160,417
Post-employment benefits	205,755	198,508	205,755	198,508
Deferred tax (es)	36,532	-	36,532	-
	1,173,963	**1,216,103**	**1,804,233**	**2,184,939**
SHAREHOLDERS' EQUITY				
Share capital	2,445,766	2,445,766	2,445,766	2,445,766
Capital reserves	91,695	91,695	91,695	91,695
Surplus reserves	148,500	249,495	148,500	249,495
	2,685,961	**2,786,956**	**2,685,961**	**2,786,956**
TOTAL LIABILITIES	**4,987,616**	**5,132,553**	**5,705,361**	**6,205,152**

The accompanying notes are an integral part of these statements.

Statement of Income
For the years ended December 31

(In thousands of Brazilian Reais)

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
GROSS OPERATING REVENUE				
Provision of electric energy	338,985	304,198	479,493	372,743
Supply of electric energy	2,066,598	1,966,691	2,097,482	1,986,055
Fuel subvention - CCC/CDE	311,481	286,194	311,481	286,194
Service rendered	13,884	12,139	5,429	4,687
Sale of ash	7,568	10,393	7,568	10,393
Other income	1,017	839	2,755	1,738
	2,739,533	**2,580,454**	**2,904,208**	**2,661,810**
DEDUCTIONS FROM OPERATING REVENUE				
Tax and social contributions	(266,703)	(178,676)	(298,830)	(185,550)
Sale of ash, net of taxes - CCC/CDE	(5,531)	(6,329)	(5,531)	(6,329)
	(272,234)	**(185,005)**	**(304,361)**	**(191,879)**
NET INCOME FROM SALES AND SERVICES	**2,467,299**	**2,395,449**	**2,599,847**	**2,469,931**
COST OF ELECTRIC ENERGY AND SERVICES				
Electric energy purchased for resale	(407,697)	(579,341)	(136,861)	(302,956)
Production cost of electric energy	(820,952)	(715,323)	(889,590)	(790,329)
Cost of services rendered	(9,328)	(8,561)	(9,328)	(8,561)
	(1,237,977)	**(1,303,225)**	**(1,035,779)**	**(1,101,846)**
GROSS PROFIT	**1,229,322**	**1,092,224**	**1,564,068**	**1,368,085**
OPERATING EXPENSES				
Selling expenses	(118,295)	(105,076)	(164,796)	(133,412)
General and administrative expenses	(158,393)	(173,717)	(189,599)	(187,301)
	(276,688)	**(278,793)**	**(354,395)**	**(320,713)**
SERVICE INCOME	**952,634**	**813,431**	**1,209,673**	**1,047,372**
INCOME FROM INTERESTS HELD IN OTHER COMPANIES				
Equity in the earnings of subsidiary companies	116,885	82,394	-	-
Amortization of goodwill	(6,746)	(6,746)	(6,746)	(6,746)
	110,139	**75,648**	**(6,746)**	**(6,746)**
FINANCIAL INCOME/(EXPENSES)				
Income from investments	68,238	33,671	88,901	52,106
Charges on debts	(90,589)	(90,293)	(161,567)	(188,150)
Charges on ANEEL concession	-	-	(15,960)	(13,431)
Provision for investment losses	-	(11,896)	-	(17,427)
Losses with exchange rate swap/interest	(104,537)	(19,554)	(130,253)	(28,157)
Net monetary variations	124,746	35,251	137,433	29,626
Others	(16,068)	(5,772)	(20,986)	(11,123)
	(18,210)	**(58,593)**	**(102,432)**	**(176,556)**
OPERATING INCOME	**1,044,563**	**830,486**	**1,100,495**	**864,070**
NON-OPERATING INCOME (LOSS)	**3,557**	**(3,017)**	**3,557**	**(3,035)**
INCOME BEFORE TAXES	**1,048,120**	**827,469**	**1,104,052**	**861,035**
Social contribution	(59,475)	(44,175)	(74,435)	(53,215)
Income tax	(68,549)	(8,102)	(109,521)	(32,628)
NET INCOME FOR THE YEAR	**920,096**	**775,192**	**920,096**	**775,192**
NET INCOME PER SHARE IN 2005 AND PER THOUSAND SHARES IN 2004	**1.4096**	**1.1876**	**1.4096**	**1.1876**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity
For the years ended on December 31

(In thousands of Brazilian Reais)

	SHARE SOCIAL	CAPITAL RESERVES	PROFIT RESERVES	RETAINED EARNINGS	TOTAL
BALANCES ON DECEMBER 31, 2003	**2,445,766**	**91,695**	**64,335**	**-**	**2,601,796**
Net income for the year	-	-	-	775,192	775,192
Management's proposed appropriation of net income:					
- statutory reserve	-	-	38,760	(38,760)	-
- retained earnings reserve	-	-	146,400	(146,400)	-
- dividends / interest on shareholders' equity PNA - R$ 0,978858, PNB - R$ 0,903920 and ON - R$ 0,903920, all per thousand shares	-	-	-	(590,032)	(590,032)
BALANCES ON DECEMBER 31, 2004	**2,445,766**	**91,695**	**249,495**	**-**	**2,786,956**
Interim dividends	-	-	(147,000)	-	(147,000)
Net income for the year	-		-	920,096	920,096
Management's proposed appropriation of net income:					
- statutory reserve	-		46,005	(46,005)	-
- dividends / interest on shareholders' equity ON - R$ 1,339106 per share	-	-	-	(874,091)	(874,091)
BALANCES ON DECEMBER 31, 2005	**2,445,766**	**91,695**	**148,500**	**-**	**2,685,961**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position
For the years ended December 31

(In thousands of Brazilian Reais)

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
SOURCES OF FUNDS				
From operations				
Net income for the year	920,096	775,192	920,096	775,192
Expenses (revenues) that do not affect the net working capital				
Depreciation and amortization	158,608	175,057	208,108	223,487
Long-term interest of debts	6,949	4,229	27,235	21,645
Long-term interest of deposited guarantees	(10,384)	(10,160)	(10,384)	(10,160)
Long-term monetary variation	(102,059)	(31,205)	(112,838)	(32,618)
Equity in the earnings of subsidiary companies	(116,885)	(82,394)	-	-
Amortization of goodwill	6,746	6,746	6,746	6,746
Long-term provision, net	78,241	72,656	77,793	74,214
Deferred income tax and social contribution	11,546	30,550	11,745	25,844
Income (loss) in the sale of property, plant and equipment	(3,557)	3,017	(3,510)	3,168
	949,301	**943,688**	**1,124,991**	**1,087,518**
From third parties				
Debentures	200,000	-	200,000	-
Interim dividends	30,000	-	-	-
Proposed dividends receivable from subsidiaries	78,860	8,113	-	-
Redemption of collateral and linked deposits	-	-	30,083	-
Sales of assets and rights	31,539	29,190	31,539	29,190
Transfer from long-term to current assets	40,884	37,587	45,151	63,333
Long-term financing	-	-	-	13,771
Others	-	1,131	-	2,060
	381,283	**76,021**	**306,773**	**108,354**
TOTAL SOURCES	**1,330,584**	**1,019,709**	**1,431,764**	**1,195,872**
USES OF FUND				
Long-term assets	70,324	92,351	78,904	110,867
Investments	201,200	1,224	-	250
Acquisition of property, plant and equipment and investment in deferred charges	37,519	29,926	43,916	38,053
Electric energy account receivable in installments - MAE	17,623	-	17,623	-
Transfer of dividends to the retained earnings reserve	-	52,778	-	-
Interim dividends	147,000	-	147,000	-
Proposed dividends	874,091	590,032	874,091	590,032
Pre-payment of financing	-	-	275,247	-
Transfer of noncurrent liabilities to current liabilities	229,325	266,361	305,996	367,153
TOTAL USES	**1,577,082**	**1,032,672**	**1,742,777**	**1,106,355**
INCREASE (DECREASE) IN NET WORKING CAPITAL	**(246,498)**	**(12,963)**	**(311,013)**	**89,517**
CHANGES TO NET WORKING CAPITAL				
Current assets				
End of period	812,728	1,061,028	864,311	1,193,414
Beginning of period	1,061,028	900,542	1,193,414	925,049
	(248,300)	**160,486**	**(329,103)**	**268,365**
Current liabilities				
End of period	1,127,692	1,129,494	1,215,167	1,233,257
Beginning of period	1,129,494	956,045	1,233,257	1,054,409
	(1,802)	173,449	(18,090)	178,848
INCREASE (DECREASE) IN NET WORKING CAPITAL	**(246,498)**	**(12,963)**	**(311,013)**	**89,517**

The accompanying notes are an integral part of these statements.

Statement of Cash Flows
For the years ended December 31

Additional Information (In thousands of Brazilian Reais)

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
Operating activities				
Net income for the year	920,096	775,192	920,096	775,192
Expenses (revenues) that do not affect cash:				
Depreciation and amortization	158,608	175,057	208,108	223,487
Equity in the earnings of subsidiary companies	(116,885)	(82,394)	-	-
Amortization of goodwill	6,746	6,746	6,746	6,746
Net monetary variations	(22,964)	(25,789)	(35,551)	(29,465)
Operating provision, net	68,584	53,252	68,151	54,806
Deferred income tax and social contribution	4,419	21,282	7,078	20,373
Income form the disposal of fixed assets	(3,557)	3,017	(3,552)	3,167
	1,015,047	**926,363**	**1,171,076**	**1,054,306**
Decrease (increase) in assets				
Consumers and concessionaires	5,640	(2,338)	(22,334)	(18,659)
Funds linked to payment of obligations	-	(8,347)	-	(8,347)
Credits from the fuel consumption account - CCC/CDE	4,985	(11,772)	4,985	(11,772)
Taxes and social contributions recoverable	50,517	(31,799)	49,696	(36,687)
Collateral and linked/judicial deposits	(33,844)	6,140	(43,481)	(11,832)
Warehouse	(9,454)	286	(9,902)	(184)
Sandry debtors	(7,179)	(16,572)	(7,179)	(16,572)
Pre-paid expenses	(6,618)	5,044	(5,886)	4,502
Others	(4,536)	(2,804)	(4,295)	(3,534)
	(489)	**(62,162)**	**(38,396)**	**(103,085)**
Increase (decrease) in liabilities				
Suppliers	1,129	31,351	24,656	41,855
Loans, financing and debentures	3,296	(10,361)	8,956	8,123
Taxes and social contributions	(459)	(6,976)	2,158	(2,748)
Estimated obligations	4,902	(12,544)	4,951	(12,506)
Provision for contingencies	3,761	(6,859)	4,998	(6,695)
Post-Employment benefits	6,203	6,026	6,203	6,026
ANEEL concession	-	-	14,482	13,180
Others	6,926	8,302	17,645	13,779
	25,758	**8,939**	**84,049**	**61,014**
Net funds from operating activities	**1,040,316**	**873,140**	**1,216,729**	**1,012,235**
Investments activities				
Used in fixed assets and deferred items	(37,519)	(29,926)	(43,916)	(38,053)
Used in investments	(201,200)	(1,224)	-	(250)
Dividends received from subsidiaries	38,113	-	-	-
Net funds used in investments	**(200,606)**	**(31,150)**	**(43,916)**	**(38,303)**
Financing activities				
Payment of loans, financing and debentures	(244,689)	(182,549)	(625,714)	(271,154)
Financing and debentures	200,000	-	200,000	13,771
Payment of dividends and interest on shareholders' equity	(1,110,032)	(441,203)	(1,110,032)	(441,203)
Redemption of collateral and linked deposits	-	-	30,083	19,596
Net funds used in investments	**(1,154,721)**	**(623,752)**	**(1,505,663)**	**(678,990)**

Statement of Cash Flows
For the years ended December 31

Additional Information (In thousands of Brazilian Reais)

continuation	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
Total effects on cash	**(315,011)**	**218,238**	**(332,850)**	**294,942**
Cash and cash equivalents				
Opening balance	519,630	301,392	641,987	347,045
Closing balance	204,619	519,630	309,137	641,987
	(315,011)	**218,238**	**(332,850)**	**294,942**
Payments made in the year				
Interest on loans, financing and debentures	87,293	101,778	153,620	192,582
Income tax and social contribution	81,397	55,349	127,910	86,461
Transactions that do not affect cash				
Offsetting of income tax and social contribution	35,464	32,860	41,400	35,318
Proposed dividends and interest on shareholders' equity	501,091	590,032	501,091	590,032
Proposed dividends receivable from subsidiaries	78,860	8,113	-	-

The accompanying notes are an integral part of these statements.

Statement of Added Value
For the years ended December 31

Additional Information (In thousands of Brazilian Reais)

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
GENERATION OF ADDED VALUE				
Revenue from sales, services and income	2,428,052	2,294,260	2,592,727	2,375,616
Reversal of provision for doubtful accounts	9,071	12,133	9,126	12,095
Fuel subvention - CCC/CDE	311,481	286,194	311,481	286,194
Non-operating income	3,557	(3,017)	3,557	(3,035)
	2,752,161	**2,589,570**	**2,916,891**	**2,670,870**
(-) Inputs				
Materials	(20,851)	(16,840)	(22,853)	(17,931)
Third party services	(65,701)	(59,293)	(75,330)	(66,568)
Fuel to produce energy - CCC/CDE	(311,131)	(275,502)	(311,131)	(275,502)
Fuel for the production of electric power without subvention	(101,570)	(134,666)	(104,694)	(136,933)
Electric energy purchased for resale	(407,697)	(579,341)	(136,861)	(302,956)
Insurance	(7,224)	(8,434)	(9,239)	(10,752)
Charges on the use of power grid	(116,395)	(106,636)	(162,431)	(134,899)
Others	(143,694)	(74,616)	(143,827)	(85,598)
	(1,174,263)	**(1,255,328)**	**(966,366)**	**(1,031,139)**
GROSS ADDED VALUE	**1,577,898**	**1,334,242**	**1,950,525**	**1,639,731**
Depreciation and amortization	(158,608)	(175,057)	(208,108)	(223,487)
NET ADDED VALUE GENERATED	**1,419,290**	**1,159,185**	**1,742,417**	**1,416,244**
ADDED VALUE RECEIVED THROUGH TRANSFER				
Financial income	117,363	59,881	139,086	78,173
Equity in the earnings of subsidiary companies	116,885	82,394	-	-
ADDED VALUE TO DISTRIBUTE	**1,653,538**	**1,301,460**	**1,881,503**	**1,494,417**

DISTRIBUTION OF ADDED VALUE

	HOLDING COMPANY				CONSOLIDATED			
	2005	%	2004	%	2005	%	2004	%
Compensation:								
Of work								
Compensation and labor charges	75,062	4.54	68,987	5.30	76,990	4.09	70,433	4.71
Benefits	23,281	1.41	17,982	1.38	23,488	1.25	18,155	1.22
Profit sharing	10,000	0.60	6,500	0.50	10,000	0.53	6,500	0.43
	108,343	**6.55**	**93,469**	**7.18**	**110,478**	**5.87**	**95,088**	**6.36**
Of third party capital								
Charges and monetary variation	102,589	6.20	87,258	6.70	218,161	11.60	185,654	12.42
Rentals	5,090	0.31	4,458	0.34	5,660	0.30	5,112	0.35
Other financial expenses	25,598	1.55	27,245	2.10	30,497	1.62	63,660	4.26
	133,277	**8.06**	**118,961**	**9.14**	**254,318**	**13.52**	**254,426**	**17.03**
Of Government								
Taxes and contributions	293,867	17.77	200,188	15.38	326,438	17.35	208,940	13.98
Industry charges	69,931	4.23	61,373	4.71	86,217	4.58	74,928	5.01
Income tax and social contribution	128,024	7.74	52,277	4.02	183,956	9.78	85,843	5.75
	491,822	**29.74**	**313,838**	**24.11**	**596,611**	**31.71**	**369.711**	**24.74**
Of Shareholder's Equity								
Statutory reserve	46,005	2.78	38,760	2.98	46,005	2.44	38,760	2.59
Dividends and interest on shareholders' equity	874,091	52.87	590,032	45.34	874,091	46.46	590,032	39.48
Retained earnings	-	-	146,400	11.25	-	-	146,400	9.80
	920,096	**55.65**	**775,192**	**59.57**	**920,096**	**48.90**	**775,192**	**51.87**
	1,653,538	**100.00**	**1,301,460**	**100.00**	**1,881,503**	**100.00**	**1,494,417**	**100.00**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

As of December 31, 2005 and 2004

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NOTE 1 - BUSINESS OF THE COMPANY

The Company is an independent producer utility concessionaire with its head office in the city of Florianopolis - SC, and its activity is the generation and sale of electric energy. It is regulated by the National Agency of Electric Energy - ANEEL, linked to the Ministry of Mines and Energy.

Its installed capacity, including the indirect ownership of Hydroelectric Power Plants (UHEs) of Itá and Cana Brava and Cogeneration Unit of Lages, is of 5,859 MW, of which 79.30% in hydroelectric plants and 20.70% in thermoelectric plants, composed of the following generation plants in operation: UHE Salto Osório (PR), UHE Salto Santiago (PR), UHE Passo Fundo (RS), UHE Itá (RS/SC), UHE Machadinho (SC/RS), UHE Cana Brava (GO), UTE Charqueadas (RS), UTE Alegrete (RS), UTE William Arjona (MS), Thermoelectric Complex Jorge Lacerda (SC) and Cogeneration Unit of Lages (SC).

The Company's capacity to provide electric energy, including the long-term purchase agreements entered into with the subsidiary Itá Energética S.A. - ITASA and with Companhia de Interconexão Energética - CIEN, totals 5,968 MW.

The concessions and authorizations held by the Company and its subsidiaries are listed under Note 9-d.

The Company's controlling interest is owned by Suez Energy South America Participações Ltda. (current denomination of Tractebel EGI South America Ltda.), a company organized in Brazil and controlled by Suez-Tractebel Sociètè Anonyme, with its head office in Brussels, Belgium, a member of Suez Group, headquartered in France.

The Company is the parent company of Companhia Energética Meridional - CEM and holds 99.99% of its share capital, CEM holds the concession to Cana Brava Hydroelectric Power Plant located on the Tocantins River, State of Goiás. The Company also shares with Companhia Siderúrgica Nacional - CSN, the controlling interest in Itá Energética S.A. - ITASA, in which it owns 48.75% of voting shares. ITASA is a SPC - Special Purpose Company organized to build and exploit, via joint-venture, by means of consortium, the hydroelectric power plant of Itá, located on the Uruguay River, on the border of the States of Santa Catarina and Rio Grande do Sul. It also holds 99.99% the share capital of Lages Bioenergética Ltda., which has the authorization to exploit the cogeneration unit of Lages, in the Municipality of Lages (SC). The main characteristics of subsidiaries and their businesses are described under Note 8-b.

As of November 15, 2005, the Company's shares were admitted for trade at the New Market of São Paulo Stock Exchange (BOVESPA). The rules imposed by the New Market aim at offering more transparency in relation to the activity and the financial situation of companies, as well as the adoption of corporate governance practices to ensure more rights to minority interest shareholders.

NOTE 2 - PRESENTATION OF FINANCIAL STATEMENTS

All figures (texts and tables) presented in the financial statements and Explanatory Notes are expressed in thousands of Brazilian Reais, except when indicated otherwise. The Company is also presenting the statement of cash flows and of added value in addition to the mandatory financial statements.

For increased clarity purposes in the presentation of detailed balances of assets and liabilities under Explanatory Notes, the assets and liabilities accounts that do not exist in the subsidiaries are being presented exclusively under the name "Holding Company", whose amounts are identical to the consolidated balances.

The financial statements are in accordance with accounting principles and practices adopted in Brazil. The main accounting practices adopted by the Company to prepare the financial statements are described below:

Recognition of inflation effects

Only the effects of monetary variations on assets and liabilities indexed as a result of legal and contractual provisions are reflected. In compliance with Law No. 9.249, of 12.26.1995, as of January 1996 the adjustment for inflation ended. Therefore, amounts corresponding to property, plant and equipment and shareholders' equity are adjusted only through 12.31.1995.

General evaluation criteria

a) Current and long-term assets

Securities are recorded at cost, with corresponding accrued interest earned until the balance sheet date. Book values are adjusted by creating a provision whenever they exceed average market prices;

the provision for doubtful debtors is associated with credits resulting from transactions made in the Wholesale Electric Energy Market - MAE. Other accounts receivable have guarantees or no record of losses, and therefore no provision is needed (see Note 4);

deferred income tax and social contribution (deferred tax credits) are determined at the rates of 25% and 9%, respectively, in force on the date of the balance sheet, and are

recognized based on tax losses and timing differences. The separation between current and long-term assets is in agreement with the expectation of realization of amounts that give origin to such assets; warehouse/materials in stock are recorded at their average weighted purchase cost, which does not exceed the market value; indexed assets are adjusted up to the date of the balance sheet.

b) Permanent assets

Investments in subsidiaries and joint subsidiaries are assessed by the equity method of accounting and other investments are recognized at their acquisition cost, which does not exceed the market value;

property, plant and equipment are recorded at the acquisition or construction cost. Depreciation is determined on a the straight-line basis, based on annual rates shown on the table attached to ANEEL Resolution No. 002, of 12.24.1997, and No. 044, of 03.17.1999, based on the book balances recorded at the Registration Units - UC that form the business ventures, as set forth by DNAEE Ordinance No. 815, of 11.30.1994. Average annual depreciation rates determined by the Company and its subsidiaries, in compliance with the above regulations, are shown under Note 9-a;

interest and other financial charges and effects of inflation resulting from financing obtained from third-parties, actually used in property, plant and equipment under construction, are calculated as cost of the corresponding asset;

up to 12.31.1998 interest on shareholders' equity linked to construction work in progress were capitalized, in compliance with the specific laws of the electric industry. As of January 01, 1999, such procedure was discontinued by the Company and starting on January 01. 2002, it was no longer used by Brazil's electric industry due to the change of ANEEL standards regulating the subject;

c) Current and long-term liabilities

Future benefits to employees (post-employment benefits) are recorded based on actuarial evaluation by the Projected Unit Credit Method and adjusted monthly according to contractual indexes for agreed to obligations and complemented by amounts projected by actuarial evaluation (see Note 18);

loans and financing and resulting interest and charges, allocated until the balance sheet date, are adjusted by exchange rates or contractual indexes (see Note 13 and 14) and other obligations are recorded at amounts known or determinable, plus corresponding charges and monetary variation incurred, when applicable;

d) Income (Loss) for the period

Income and expenses are recorded in accordance with the accrual basis of accounting;

e) Leasing

Leasing transactions existing in the Company do not have relevant amounts and are recognized directly in income, based on payments provided for in the agreement (see Note 23).

Consolidated financial statements

Investor's investments in the capital of investees are removed, as well as assets and liabilities balances and income and expenses resulting from transactions among consolidated companies.

Components of assets and liabilities and income and expenses of ITASA are consolidated in the proportion of Company's interest in its share capital, due to the shared control (see Note 9-b).

Due to the high proportion of interest of the holding company in the other subsidiaries (see Note 9-b), there was no effect of the minority shareholders' interest in the consolidated financial statements.

NOTE 3 - SECURITIES

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
Current				
Certificate of Deposit- CDB	12,608	340,032	55,780	440,035
National Treasury Bonds - LTN	173,816	-	174,890	-
Treasury Bonds - LFT	69	129,145	69	167,666
Committed transactions	37,148	33,925	83,137	33,925
Central Bank Notes - NBC - E	19,749	23,776	31,731	23,776
National Treasury Notes - NTN	-	-	5,059	-
Interbank Deposit Certificates - CDI	-	-	60	-
Negative adjustments in swap transactions	-	-	-	(13,698)
(-) Collateral of swap operations in the Exclusive Investment Fund	(36,341)	-	(36,341)	-
	207,049	526,878	314,385	651,704
(-)Provision for investment losses	(11,896)	(11,896)	(17,427)	(17,427)
	195,153	514,982	296,958	634,277
Long-term				
Certificate of Deposit- CDB	-	35,550	-	35,550
	-	**35,550**	**-**	**35.550**

Securities are recorded at cost plus corresponding accrued interest earned until 12.31.2005, whose amounts do not exceed average market prices, and may be negotiated regardless of their maturities, without prejudice to earnings.
The Company has an Exclusive Investment Fund, composed of National Treasury Bills (LTN), committed transactions and swap operations carried out in the over-the-counter market, in which. The Fund has assets in foreign currency (dollars, euros and pounds sterling) and liabilities in CDI. Investments in that fund are separated in conformity with their type in the financial statements.

The Fund's balance includes an amount of R$ 36,341, related to a contractual collateral for swap operations, which can only be redeemed at the moment of maturity of the last swap contract in December 2006. That is recorded in current assets under the account “Pledge and restricted deposits”.
The provision for losses with money market investments refers to an investment in Certificates of Deposit (CDB) that the Company and its subsidiary Companhia Energética Meridional - CEM have with the financial institution Banco Santos S.A., which had its bankruptcy ordered in 2005.

Notes to the Financial Statements

As of December 31, 2005 and 2004

NOTE 4 - CONSUMERS, CONCESSIONAIRES AND HOLDERS OF PERMISSIONS

	HOLDING COMPANY				
	2005				2004
	TO FALL DUE	OVERDUE			
		FOR 90 DAYS OR LESS	FOR MORE THAN 90 DAYS	TOTAL	TOTAL
CURRENT					
Free consumers	28,321	310	239	28,870	29,928
Concessionaires	178,041	71	-	178,112	167,246
Sellers	67,753	-	-	67,753	41,165
Exports	1,200	-	740	1,940	740
Transactions within CCEE/MAE	120,285	-	11,947	132,232	162,550
	395,600	**381**	**12,926**	**408,907**	**401,629**
(-) Provision for doubtful accounts	(109,845)	-	(11,900)	(121,745)	(130,816)
	285,755	**381**	**1,026**	**287,162**	**270,813**
LONG-TERM					
Transactions within CCEE/MAE	10,617	-	-	10,617	14,920
	10,617	**-**	**-**	**10,617**	**14,920**

	CONSOLIDATED				
	2005				2004
	TO FALL DUE	OVERDUE			
		FOR 90 DAYS OR LESS	FOR MORE THAN 90 DAYS	TOTAL	TOTAL
CURRENT					
Free consumers	54,092	640	239	54,971	35,286
Concessionaires	180,580	71	-	180,651	170,250
Sellers	54,787	-	-	54,787	40,524
Exports	1,200	-	740	1,940	740
Transactions within CCEE/MAE	121,181	-	13,944	135,125	165,472
	411,840	**711**	**14,923**	**427,474**	**412,272**
(-) Provision for doubtful accounts	(110,470)	-	(12,029)	(122,499)	(131,625)
	301,370	**711**	**2,894**	**304,975**	**280,647**
LONG-TERM					
Transactions within CCEE/MAE	10,617	-	-	10,617	14,920
	10,617	**-**	**-**	**10,617**	**14,920**

The invoices of electric energy provided to customers classified as "Free consumers" are due in the month subsequent to supply. Clients classified in the category "Concessionaires" and "Sellers", which may have their debts divided into up to three installments, have their invoices due in the following month and the second month subsequent to the supply.
Amounts overdue for more than 90 days related to transactions at CCEE/MAE refer to debts of agents in default during the 1st settlement of the Wholesale Electric Energy Market - MAE, on December 30, 2002. Such amounts are under bilateral negotiations. However, due to uncertainties as to their realization, the Company keeps an allowance for doubtful accounts, regardless of the actions applicable to the case.

The provision for doubtful accounts referring to outstanding amounts was established for the uncertainties regarding the realization of credits resulting from transactions made within MAE in the period September 2000 through September 2002, whose debtors agents filed lawsuits because they disagreed, with the interpretation adopted by that entity in connection with debit ANEEL Order nº 288, dated May 16, 2002. This year, there was a renunciation on the part of the authors of those lawsuit, what enabled CCEE to adjust outstanding amounts, resulting in a reversal of R$ 9,071 provision.

NOTE 5 - TAXES AND SOCIAL CONTRIBUTIONS RECOVERABLE

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
CURRENT				
ICMS (Brazilian VAT)	40,354	35,582	41,459	36,168
Income tax	5,538	46,473	7,857	48,321
Social contribution	2,806	11,654	3,092	12,015
COFINS (Contribution for Social Security Financing)	1,923	7,532	3,174	8,178
Others	616	2,929	888	3,002
	51,237	**104,170**	**56,470**	**107,684**
(-) Provision for losses in the recovery of ICMS credits	(39,751)	(32,977)	(39,751)	(32,977)
	11,486	**71,193**	**16,719**	**74,707**
LONG-TERM				
ICMS (Brazilian VAT)	2,692	3,036	5,852	6,837
COFINS (Contribution for social security financing)	3,652	1,383	3,652	1,517
Others	792	301	792	330
	7,136	**4,720**	**10,296**	**8,684**

A provision was set up for losses in the realization of accumulated ICMS credits on the acquisition of natural gas for production of electric power at UTE William Arjona, in the State of Mato Grosso do Sul. The reasons were the difficulties in offsetting all such credits, due to the fact that the sale of electric power occurs with deferral of ICMS in local transactions and exemption of ICMS on interstate transactions.

Notes to the Financial Statements

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NOTE 6 - DEFERRED TAX CREDITS

				HOLDING COMPANY	
		2005			2004
CREDIT TYPE	TAX BASIS	INCOME TAX	SOCIAL CONTRIBUTION	TOTAL	TOTAL
Provision for losses UTE Jacuí	303,131	-	27,282	27,282	54,555
Remuneration of Construction Work in Progress - RIC	136,668	34,167	-	34,167	33,433
Post-employment benefits	194,557	48,639	17,510	66,149	51,316
Provision for doubtful debtors	121,745	30,436	10,957	41,393	44,477
Provision for contingencies	144,201	36,050	12,978	49,028	36,862
Provision for accelerated depreciation UTE William Arjona	31,872	7,968	2,868	10,836	11,972
Provision for losses with ICMS credits	39,751	9,938	3,578	13,516	11,212
Provision for extensive maintenance	46,193	11,548	4,158	15,706	10,396
Provision for financial investments losses	11,896	2,974	1,071	4,045	4,045
Employees profit-sharing program and provision of management bonus	15,000	3,750	1,350	5,100	3,570
Provision for attorneys' fees	630	158	57	215	206
Provision for purchase of electric energy	-	-	-	-	499
Negative basis for social contribution	5,960	-	537	537	12,933
		185,628	**82,346**	**267,974**	**275,476**
Classification of deferred tax credits:					
Current		40,079	41,018	81,097	94,344
Noncurrent		145,549	41,328	186,877	181,132
		185,628	**82,346**	**267,974**	**275,476**

				CONSOLIDATED	
		2005			2004
CREDIT TYPE	TAX BASIS	INCOME TAX	SOCIAL CONTRIBUTION	TOTAL	TOTAL
Provision for losses UTE Jacuí	303,131	-	27,282	27,282	54,555
Remuneration of Construction Work in Progress - RIC	136,668	34,167	-	34,167	33,433
Post-employment benefits	194,557	48,639	17,510	66,149	51,316
Provision for doubtful debtors	122,499	30,625	11,024	41,649	44,752
Provision for contingencies	146,472	36,618	13,182	49,800	37,844
Provision for accelerated depreciation UTE William Arjona	31,872	7,968	2,868	10,836	11,972
Provision for losses with ICMS credits	39,751	9,938	3,578	13,516	11,212
Provision for extensive maintenance	46,403	11,601	4,176	15,777	10,442
Provision for financial investment losses	17,427	4,357	1,569	5,926	5,926
Employees profit-sharing program and provision of management bonus	15,000	3,750	1,350	5,100	3,570
Provision for attorneys' fees	630	158	57	215	206
Provision for purchase of electric energy	-	-	-	-	499
Tax loss	10,767	2,692	-	2,692	4,501
Negative basis for social contribution	17,156	-	1,544	1,544	14,588
		190,513	**84,140**	**274,653**	**284,816**
Classification of deferred tax credits:					
Current		40,996	41,348	82,344	98,173
Noncurrent		149,517	42,792	192,309	186,643
		190,513	**84,140**	**274,653**	**284.816**

The realization of deferred tax credits, resulting from timing differences, will be made upon payment of provisions made or, where applicable, upon realization of the losses recorded in the provision. With regards deferred tax credits, resulting from tax loss and negative basis for social contribution, realization will be made by offsetting of their basis, limited to 30% of taxable income in following years.

Technical feasibility studies, examined by the Audit Committee and approved by the Company's management Board, indicate that the deferred tax credit will be totally recovered by future taxable income. Such technical studies comply with CVM Instruction nº 371 of June 27, 2002.
The timeframe for realization of such assets and their recovery by generating future taxable income have been estimated as follows:

HOLDING COMPANY

TYPE OF ASSET	2006	2007	2008	2009	2010	NEXT 2 YEARS	NEXT 3 YEARS	AFTER 2015	TOTAL
Deferred tax credits, recorded									
Provision for losses - Jacuí	27,282	-	-	-	-	-	-	-	27,282
Remuneration of Construction Work in Progress - RIC	3,417	3,417	3,417	3,417	3,417	6,834	10,248	-	34,167
Other timing differences	49,861	25,890	13,209	19,830	31,850	60,961	4,387	-	205,988
Negative basis for social contribution	537	-	-	-	-	-	-	-	537
	81,097	**29,307**	**16,626**	**23,247**	**35,267**	**67,795**	**14,635**	**-**	**267,974**
Deferred tax credits, not recorded									
Deferred tax credits - Jacuí	75,783	-	-	-	-	-	-	-	75,783
Deferred tax credits - RIC	-	-	-	-	-	-	-	24,702	24,702
	75,783	**-**	**-**	**-**	**-**	**-**	**-**	**24,702**	**100,485**
	156,880	**29,307**	**16,626**	**23,247**	**35,267**	**67,795**	**14,635**	**24,702**	**368,459**

CONSOLIDATED

TYPE OF ASSET	2006	2007	2008	2009	2010	NEXT 2 YEARS	NEXT 3 YEARS	AFTER 2015	TOTAL
Deferred tax credit, recorded									
Provision for losses - Jacuí	27,282	-	-	-	-	-	-	-	27,282
Remuneration of Construction Work in Progress - RIC	3,417	3,417	3,417	3,417	3,417	6,834	10,248	-	34,167
Other timing differences	50,125	26,047	13,314	21,816	32,062	61,217	4,387	-	208,968
Tax loss	723	1,336	633	-	-	-	-	-	2,692
Negative basis for social contribution	797	481	266	-	-	-	-	-	1,544
	82,344	**31,281**	**17,630**	**25,233**	**35,479**	**68,051**	**14,635**	**-**	**274,653**
Deferred tax credit, not recorded									
Deferred tax credits - Jacuí	75,783	-	-	-	-	-	-	-	75,783
Deferred tax credits - RIC	-	-	-	-	-	-	-	24,702	24,702
	75,783	**-**	**-**	**-**	**-**	**-**	**-**	**24,702**	**100,485**
	158,127	**31,281**	**17,630**	**25,233**	**35,479**	**68,051**	**14,635**	**24,702**	**375,138**

Notes to the Financial Statements

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As mentioned in Note 10-e, in June 2004 the Company transferred 33.33% of the project Jacuí to Elétrica Jacuí S.A. - ELEJA. Under the terms of that transfer agreement, the remaining percentage of the Company in the project, corresponding to 66.66%, was submitted to mutual trade option, purchase by ELEJA and sale by the Company. In July 2005, ELEJA acquired from the Company an additional percentage of 33.33% of the interests in the Jacuí Project, becoming the holder of 66.66%, by using its purchase option provided for the agreement. As a result, there was the reversal of part of the provision for economic losses, in the amount of R$ 303,040.
The realization of the provision for economic losses of the Thermo-electric plant Jacuí in 2006 is based on the assumption of exercise of the purchase option by ELEJA and of sales option by Tractebel this year regarding the remaining 33.34% interests held in the project. The value of the deferred tax assets, already recognized for accounting purposes, for refers to Social Contribution on Net Income and was recorded in 1997. The Company's management is waiting for definition as to the purchase and sale options before recognizing the Income Tax on the reversal of the provision, in the amount of R$75,783.
The realization of the remuneration of Construction Work in Progress (RIC) is carried out in the proportion of depreciation of the corresponding assets, in compliance with CVM Instruction 371/02. Its term currently exceeds 10 years, resulting in unrecognized deferred tax assets in the amount of R$ 24,702 (R$ 28,843 as of December 31, 2004).

NOTE 7 - RECONCILIATION OF TAXES IN INCOME

	HOLDING COMPANY			
	2005		2004	
	SOCIAL CONTRIBUTION	INCOME TAX	SOCIAL CONTRIBUTION	INCOME TAX
Income before taxes	**1,048,120**	**1,048,120**	**827,469**	**827,469**
Permanent differences				
Additions				
Amortization of goodwill	-	6,746	-	6,746
Management bonuses and 13th salary	-	1,614	-	999
Donations	1,049	1,049	514	514
Other nondeductible expenses	36	36	913	913
Exclusions				
Equity in the earning of subsidiary companies	(116,885)	(116,885)	(82,394)	(82,394)
Provision for losses at UTE Jacuí	-	(303,040)	-	(365,581)
Remuneration of Construction work in Progress - RIC	-	(87,809)	-	(98,492)
Interest on shareholders' equity	(271,700)	(271,700)	(255,000)	(255,000)
(=) Calculation basis of taxes on income	**660,620**	**278,131**	**491,502**	**35,174**
Rates	9%	25%	9%	25%
(=) Social contribution and income tax	**(59,456)**	**(69,533)**	**(44,235)**	**(8,794)**
Tax incentives	-	934	-	499
Additional 10% on income up to R$ 20 per month	-	24	-	24
Others	(19)	26	60	169
(=) Social contribution on income and income tax	**(59,475)**	**(68,549)**	**(44,175)**	**(8,102)**
Composition of taxes:				
Current	(28,942)	(94,663)	(10,910)	(20,085)
Deferred	(30,533)	26,114	(33,265)	11,983
	(59,475)	**(68,549)**	**(44,175)**	**(8,102)**

	CONSOLIDATED			
	2005		2004	
	SOCIAL CONTRIBUTION	INCOME TAX	SOCIAL CONTRIBUTION	INCOME TAX
Income before taxes	**1,104,052**	**1,104,052**	**861,035**	**861,035**
Permanent differences				
Additions				
Amortization of goodwill	-	6,746	-	6,746
Management bonuses and 13th salary	-	2,151	-	1,273
Donations	1,319	1,319	1,379	1,379
Other non deductible expenses	38	38	921	952
Exclusions				
Provision for losses UTE Jacuí	-	(303,040)	-	(365,581)
Remuneration of Construction work in Progress - RIC	-	(87,809)	-	(98,492)
Interest on shareholders' equity	(271,700)	(271,700)	(255,000)	(255,000)
Adjustment of subsidiary taxed by presumed profit	(6,861)	(8,323)	(3,433)	(4,424)
(=) Calculation basis of taxes on income	**826,848**	**443,434**	**604,902**	**147,888**
Rates	9%	25%	9%	25%
(=) Social contribution and income tax	**(74,416)**	**(110,859)**	**(54,441)**	**(36,973)**
Tax incentives	-	1,204	-	879
Additional 10% on income up to R$ 20 per month	-	108	-	94
Recognition of deferred tax credits from previous periods	-	-	1,166	3,203
Others	(19)	26	60	169
(=) Social contribution on income and income tax	**(74,435)**	**(109,521)**	**(53,215)**	**(32,628)**
Composition of taxes:				
Current	(43,201)	(133,677)	(20,201)	(45,269)
Deferred	(31,234)	24,156	(33,014)	12,641
	(74,435)	**(109,521)**	**(53,215)**	**(32,628)**

NOTE 8 - DISPOSAL OF CREDITS ETS AND RIGHTS

On June 4, 2004, the Company transferred 33.33% of its interests in the project Jacuí to Elétrica Jacuí S.A. - ELEJA, for R$ 29,000, and on July 29, 2005 ELEJA acquired an additional interest of 33.33% of the mentioned project for R$ 31,181, by exercising the first purchase option provided in the agreement entered into on June 4, 2002. As a result ELEJA currently holds 66.66% of the project.

In accordance with the agreement clauses, the above-mentioned amounts are adjusted by the index IGP-DI, which on December 31, 2005 amounted to R$ 60,220 (R$ 29,303 as of December 31, 2004).

Notes to the Financial Statements

As of December 31, 2005 and 2004

NOTE 9 - INVESTMENTS

a) Composition

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
Permanent interests valued by the equity method of accounting				
Itá Energética S.A. - ITASA				
Equity accounting	270,006	255,327	-	-
Proposed dividends	(3,860)	(1,576)	-	-
Goodwill	10,299	12,587	10,299	12,587
	276,445	**266,338**	**10,299**	**12,587**
Companhia Energética Meridional - CEM				
Equity accounting	627,009	295,785	-	-
Interim dividends	(30,000)	-	-	-
Proposed/reversed dividends	(65,000)	52,778	-	-
Goodwill	31,204	35,662	31,204	35,662
	563,213	**384,225**	**31,204**	**35,662**
Tractebel Energia Comercializadora Ltda,				
Equity accounting	**13,082**	**1,423**	**-**	**-**
Lages Bioenergética Ltda,				
Equity accounting	42,255	37,067	-	-
Proposed dividends	(10,000)	(6,537)	-	-
	32,255	**30,530**	**-**	**-**
Delta Energética S, A,				
Equity accounting	6	7	-	-
	885,001	**682,523**	**41,503**	**48,249**
Permanent interests valued by acquisition cost				
Electric Energy Sales Chamber Interest quota	3	3	3	3
	885,004	**682,526**	**41,506**	**48,252**
Assets and rights for future use and meant for disposal	**1,742**	**1,742**	**1,742**	**1,742**
Other investments	**371**	**371**	**371**	**371**
	887,117	**684,639**	**43,619**	**50,365**

b) Permanent interests

b.1 - Itá Energética S.A. - ITASA (joint subsidiary)

The shares representing the share capital of ITASA are held by Tractebel Energia, Companhia Siderúrgica Nacional - CSN and Companhia de Cimento Itambé, in the proportion of 48.75%, 48.75% and 2.50%, respectively.

ITASA has as business purpose the exploitation of the Hydroelectric Power Plant Itá in joint venture, by means of consortium, upon concession granted by the Federal Government through the National Electric Energy Agency - ANEEL. The business venture is located on the Uruguai River, the border of the States of Santa Catarina and Rio Grande do Sul, between the municipalities of Itá (SC) and Aratiba (RS). It has installed capacity for 1,450 MW, resulting a 5 generators of 290 MW and average 702 MW of assured power.

Pursuant to the Consortium Agreement, ITASA is entitled to 60.5% of 668 MW average, which corresponds to the Ensured Energy of UHE Itá.

The information relating to the interest in the joint subsidiary is shown below:

	2005	2004
Amount of common shares of share capital	520,219,172	520,219,172
Amount of common shares owned by Tractebel Energia	253,606,840	253,606,840
Interests %	48.75	48.75
Share Capital	426,300	426,300
Shareholders' equity	545,941	520,516
Income for the year	33,344	13,613
Investment:		
Equity accounting	266,146	255,327
Goodwill	10,299	12,587
Equity accounting	16,255	6,636

The economic basis for the goodwill in the investment acquisition is the expectation of future income and it is being amortized over 10 years.

The determination of the goodwill is based on cash flows calculated by an expert financial institution, according to assumptions applicable to the context of the investee, projected for the concession period. One renewal of the concession is admitted, as set forth in the corresponding Concession Agreement.

The valuation considered the debt/equity ratio of 50/50 to implement the Itá project, using discount rates of 11.0% for third-party capital and 11.5% for equity capital. The goodwill amortized in the year amounted to R$ 2,288 (R$ 2,288 in 2004).

The main account groups under assets, liabilities and income of the joint subsidiary are shown below, and they have been consolidated in proportion to Company's investment in the subsidiary's capital:

ASSETS	2005	2004
Current assets	66,067	54,885
Long-term assets	9,521	13,942
Permanent assets	1,064,089	1,105,752
	1,139,677	**1,174,579**
LIABILITIES		
Current liabilities	104,004	108,855
Long-term liabilities	489,732	545,208
Shareholders' equity	545,941	520,516
	1,139,677	**1,174,579**
INCOME		
Gross operating income	233,129	322,630
Deductions from operating income	(21,564)	(28,546)
Net sale income	**211,565**	**294,084**
ELECTRIC ENERGY COST		
Electric energy purchased for resale	(1,336)	(93,870)
Electric energy production cost	(52,657)	(52,862)
	(53,993)	**(146,732)**
GROSS PROFIT	**157,572**	**147,352**
OPERATING EXPENSES		
Selling expenses	(19,859)	(22,469)
General and administrative expenses	(19,138)	(19,309)
	(38,997)	**(41,778)**
Service income	**118,575**	**105,574**
Net financial expenses	**(67,975)**	**(98,440)**
OPERATING INCOME	**50,600**	**7,134**
NON OPERATING LOSS	**-**	**(1)**
INCOME BEFORE TAXES	**50,600**	**7,133**
Income and social contribution taxes	(17,256)	6,480
NET INCOME FOR THE YEAR	**33,344**	**13.613**

b.2 - Companhia Energética Meridional - CEM (subsidiary)

CEM holds the concession of Cana Brava Hydroelectric Power Plant, located on the Tocantins River, in the north of the State of Goiás, with an installed capacity of 450 MW and 273.4 MW average of assured energy. The concession to build and exploit the business venture is valid for 35 years, starting on August 27, 1998.

The information relating to the interest in the subsidiary is shown below:

	2005			2004
	COMMON SHARES	PREFERRED SHARES	TOTAL	TOTAL
Amount of shares of share capital	118,849,336	225,678,665	344,528,001	225,170,692
Amount of shares owned by Tractebel Energia	118,849,332	225,678,665	344,527,997	225,170,688
Interests %	99.99	100.00	99.99	99.99
Share capital			424,222	224,222
Shareholders' equity			532,009	348,563
Income for the year			78,446	68,785
Investment:				
Equity accounting			532,009	295,785
Goodwill			31,204	35,662
Equity accounting			78,446	68,785

The economic basis for the goodwill in the acquisition of controlling interest is the expectation of future income and it is being amortized during 10 years.

The determination of the goodwill is based on a cash flow calculated by an expert financial institution, according to assumptions applicable to the context of the investee. The cash flow is projected for 35 years, the concession period of the plant, adjusted to present value at a discount rate of 14% p.a. The valuation took into consideration a debt/equity ration of 70/30 for the plant construction. The goodwill amortized in the period was R$ 4,458 (R$ 4,458 in 2004).

	2005	2004
Shares that compose the share capital	2,200,000	1,000,000
Shares owned by Tractebel Energia	2,199,999	999,999
Interests %	99.99	99.99
Share capital	2,200	1,000
Shareholders' equity	13,082	1,423
Income for the year	10,459	439
Investment:		
Equity accounting	13,082	1,423
Equity accounting	10.459	439

b.3 - Tractebel Energia Comercializadora Ltda. (subsidiary)

It has as business purpose the sale of electric energy at the free trade market, including the purchase, sale, import, and export of energy, as well as intermediation of any of those operations and the performance of commercial actions arising from those activities.

The information regarding to the interests in the subsidiary is shown below:

b.4 - Lages Bioenergética Ltda. (subsidiary)

Lages holds the authorization for the thermoelectric generation unit Lages located in Lages, State of Santa Catarina. It has a steam turbo generator of 28MW, using wood waste as fuel. The co-generation unit has a transmission system of restricted interest, composed of a substation with a transformer of 31,250 kVA - 13.8/138 kV and a transmission line of 138 kV, in a simple circuit, approximately 5 km long. The authorization to implement and exploit the business venture is valid for 30 years, starting on October 30, 2002. The commercial operation of the generation center was authorized to start on December 23, 2003.

The information regarding the participating interests in the jointly controlled subsidiary is as follows:

	2005	2004
Shares that compose the share capital	30,529,984	30,529,984
Shares owned by Tractebel Energia	30,529,983	30,529,983
Interests %	99.99	99.99
Share capital	30,530	30,530
Shareholders' equity	32,255	30,530
Income for the year	11,725	6,537
Investment:		
Equity accounting	32,255	30,530
Equity accounting	11,725	6,537

b.5 - Delta Energética S.A. (subsidiary)

The Company holds 9,999 of the 10,000 shares that represent the share capital of Delta. This subsidiary was founded on October 31, 2001 under the name Delta Participações S.A. On April 26, 2004, its corporate name was changed to Delta Energética S.A. So far, the subsidiary has not performed any activities.

NOTE 10 - PROPERTY, PLANT, AND EQUIPMENT

a) Composition

					CONSOLIDATED	
		2005			2004	
	AVERAGE DEPRECIATION RATES	ADJUSTED COST	ACCUMULATED DEPRECIATION/ AMORTIZATION	NET AMOUNT	NET AMOUNT	COMPANY
Property, plant and equipment in operation						
Intangible assets						
Right to exploit UHE Cana Brava	3.2	88,664	(9,796)	78,868	81,714	CEM
Tangible assets						
Hydroelectric generation						
UHE Salto Santiago	2.5	638,934	(475,276)	163,658	178,776	Holding Company
UHE Salto Osório	2.8	297,694	(228,447)	69,247	64,633	Holding Company
UHE Passo Fundo	2.5	123,116	(89,849)	33,267	36,399	Holding Company
UHE Itá (consortium)	2.3	1,781,117	(220,321)	1,560,796	1,600,748	Holding Company /ITASA
UHE Machadinho (consortium)	2.4	179,937	(15,794)	164,143	167,420	Holding Company
UHE Cana Brava	2.5	871,345	(72,083)	799,262	818,620	CEM
		3,892,143	**(1,101,770)**	**2,790,373**	**2,866,596**	

Notes to the Financial Statements

As of December 31, 2005 and 2004

continuation — **CONSOLIDATED**

		2005			2004	
	AVERAGE DEPRECIATION RATES	ADJUSTED COST	ACCUMULATED DEPRECIATION/ AMORTIZATION	NET AMOUNT	NET AMOUNT	COMPANY
Thermoelectric generation						
Jorge Lacerda Complex	4.3	2,457,592	(1,186,116)	1,271,476	1,356,336	Holding Company
UTE Charqueadas	4.4	54,717	(48,140)	6,577	7,999	Holding Company
UTE Alegrete	4.1	8,101	(7,234)	867	932	Holding Company
UTE William Arjona	4.3	174,498	(66,997)	107,501	112,530	Holding Company
Lages Cogeneration Unit	4.3	68,049	(5,077)	62,972	55,519	Lages
		2,762,957	**(1,313,564)**	**1,449,393**	**1,533,316**	
Communication system	**6.1**	**1,102**	**(985)**	**117**	**669**	**Consolidated**
General equipment and others	**10.0**	**36,354**	**(18,979)**	**17,375**	**14,287**	**Consolidated**
		6,781,220	**(2,445,094)**	**4,336,126**	**4,496,582**	
Property, plant and equipment under construction						
Hydroelectric generation						
UHE Itá (late costs)		4,972	-	4,972	5,471	Holding Company/ ITASA
UHE Machadinho (late costs)		92	-	92	-	Parent Company
UHE Cana Brava (addition work)		1,068	-	1,068	1,602	CEM
UHE Salto Santiago (addition work)		1,907	-	1,907	890	Holding Company
UHE Salto Osório (addition work)		12,538	-	12,538	16,504	Holding Company
Others		614	-	614	194	Holding Company
		21,191	**-**	**21,191**	**24,661**	
Thermoelectric generation						
UTE Jacuí		26,791	-	26,791	52,320	Holding Company
UTE Jorge Lacerda (addition work)		14,693	-	14,693	7,680	Holding Company
UTE Charqueadas (addition work)		1,825	-	1,825	421	Parent Company
Lages Cogeneration Unit		4,101	-	4,101	9,646	Lages
Others		91	-	91	15	Parent Company
		47,501	**-**	**47,501**	**70,082**	
General equipment and others		**5,339**	**-**	**5,339**	**1,794**	**Parent Company**
		74,031	**-**	**74,031**	**96,537**	
Total property, plant and equipment		**6,855,251**	**(2,445,094)**	**4,410,157**	**4,593,119**	
Special obligations		**(56,689)**	**-**	**(56,689)**	**(56,689)**	**Parent Company/Lages**
		6,798,562	**(2,445,094)**	**4,353,468**	**4,536,430**	

b) Changes to property, plant and equipment

	HOLDING COMPANY		
	IN OPERATION	UNDER CONSTRUCTION	TOTAL
Balance on 12.31.2003	**3,202,847**	**112,591**	**3,315,438**
Acquisitions	-	29,926	29,926
Financial charges and adjustments of obligations linked to construction	-	(3,116)	(3,116)
Transfers	27,810	(27,810)	-
Depreciation	(175,974)	-	(175,974)
Write-offs	(172)	(31,380)	(31,552)
Balance on 12.31.2004	**3,054,511**	**80,211**	**3,134,722**
Acquisitions	-	37,519	37,519
Transfers	27,524	(27,524)	-
Depreciation	(158,608)	-	(158,608)
Write-offs	(1,723)	(26,259)	(27,982)
	2,921,704	63,947	2,985,651
Special obligations	(56,564)	-	(56,564)
Balance on 12.31.2005	**2,865,140**	**63,947**	**2,929,087**

	CONSOLIDATED		
	IN OPERATION	UNDER CONSTRUCTION	TOTAL
Balance on 12.31.2003	**4,624,997**	**180,687**	**4,805,684**
Acquisitions	-	38,053	38,053
Financial charges on debts, net	-	(48)	(48)
Financial charges and adjustments of obligations linked to construction	-	(3,116)	(3,116)
Transfers	87,516	(87,516)	-
Depreciation	(215,716)	-	(215,716)
Write-offs	(215)	(31,523)	(31,738)
Balance on 12.31.2004	**4,496,582**	**96,537**	**4,593,119**
Acquisitions	-	43,916	43,916
Transfers	40,165	(40,165)	-
Depreciation	(198,890)	-	(198,890)
Write-offs	(1,731)	(26,257)	(27,988)
	4,336,126	**74,031**	**4,410,157**
Special obligations	(56,689)	-	(56,689)
Balance on 12.31.2005	**4,279,437**	**74,031**	**4,353,468**

c) Special obligations

Special obligations refer to liabilities linked to the electric energy utility and represent amounts invested in the business ventures under concession, with Federal Government funds and funds from donations not conditioned to any return for the benefit of the donor. The settlement of such obligations will happen at the end of the corresponding concessions, established by the Granting Authority. These obligations are composed as follows:

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
Donations and subventions meant for investments	47,937	47,937	48,062	48,062
Reversal and amortization	2,230	2,230	2,230	2,230
Interest of Federal Government	3,758	3,758	3,758	3,758
Others	2,639	2,639	2,639	2,639
	56,564	**56,564**	**56,689**	**56.689**

d) Concessions and authorizations by the Regulating Authority

The Company and its subsidiaries hold the following concessions and authorizations to exploit electric energy:

	HOLDER OF CONCESSION OR AUTHORIZATION	INSTALLED CAPACITY (MW)	DATE OF CONCESSION AUTHORIZATION	END DATE
I - Concessions				
UHE Salto Santiago	Holding Company	1,420	09.28.1998	09.28.2028
UHE Salto Osório	Holding Company	1,078	09.28.1998	09.28.2028
UHE Passo Fundo	Holding Company	226	09.28.1998	09.28.2028
UHE Itá	Holding Company/ ITASA	1,450	12.28.1995	12.16.2030
UHE Machadinho	Holding Company	1,140	07.15.1997	17.15.2032
UHE Cana Brava	CEM	450	08.27.1998	08.27.2033
II - Authorizations				
Jorge Lacerda Complex	Holding Company	857	09.25.1998	09.28.2028
UTE Charqueadas	Holding Company	72	09.25.1998	09.28.2028
UTE Alegrete	Holding Company	66	09.25.1998	09.28.2028
UTE William Arjona	Holding Company	190	06.02.2000	04.28.2029
UTE Jacuí	ELEJA	350	02.7.2002	02.7.2032
UTE Lages	Lages Bioenergética	28	10.30.2002	10.30.2032

The concession regarding to UHE Itá is shared with the joint subsidiary Itá Energética S.A. - ITASA (see Note 9-b.1). The concession of UHE Machadinho is shared with other concessionaires that compose the Machadinho Consortium, of which the Company is the leader and holds an interest of 16.94%.

e) Jacuí Thermoelectric Power Plant

In June 2004, after concluding a bidding process potential third parties interested in the project, the Company transferred 33.33% of the project to Elétrica Jacuí S.A. - ELEJA, for R$ 29,000. ELEJA is a Specific Purpose Company (SPC), controlled by an entity that holds the exploitation rights of coal mines in the region of project Jacuí. Under the terms of the transfer agreement, the remaining percentage of the Company in the project, corresponding to 66,66%, was submitted to mutual option, purchase by ELEJA and sale by the Company.

In July 2005, ELEJA acquired from the Company an additional percentage 33.33% of interest in the project Jacuí, in the amount of R$ 31,181, becoming the holder of 66.66%, by exercising the purchase option provided in the agreement. In 2006, both the Companies and ELEJA can mutually exercise their sale and the purchase options in regard to the remaining interests in the project Jacuí. In that case, ELEJA will hold 100% of the interests of the project. Under the terms of the agreement, ELEJA undertook the responsibility for concluding the project. In 2005, the permit for implantation and exploitation of the Thermo-electric Power Plant Jacuí was transferred from Tractebel to ELEJA, us per approval of ANEEL. The associated amounts written-off of assets by the Company, as a result of the above mentioned facts, are the following:

	2005	2004
Gross cost	400,696	479,294
RIC	(71,242)	(84,891)
Sub-total	329,454	394,403
Reversal of provision	(303,040)	(365,581)
Net book value	**26,414**	**28.822**

f) Restricted assets

Pursuant to Articles 63 and 64 of Decree 41.019, of February 26, 1957, assets and facilities used in the production, transmission, distribution, including sale of electric energy, are restricted to such services, and may not be removed, disposed of, assigned or given as mortgage guarantee without the previous and express consent of the Regulating Authority, Resolution 20/99 of ANEEL regulates the removal of restriction on assets of Electric Power Public Service concessions, granting previous authorization for the removal of restrictions on assets unserviceable to the concession, when meant for disposal, and further sets forth that the proceed of disposals be deposited in a blocked bank account and that such funds be invested in the concession.

g) Assets of the Federal Government used by the Company

The Company exercises possession and operates the Alegrete Thermoelectric Power Plant, composed of two generation units with a total capacity of 66 MW and a residential village with 15 houses, located in the Municipality of Alegrete, RS, owned by the Federal Government and granted under special use.

NOTE 11 - UNITS 4 AND 5 OF UTE WILLIAM ARJONA

Generation units 4 and 5 of the thermoelectric plant of William Arjona, with a total power of 70 MW, use natural gas to generate electric energy and have been implemented with the specific purpose of meeting the needs of Brazilian Trader of Emergency Energy - CBEE, governed by the Electric Energy Supply Agreement executed on October 1st, 2002, effective until December 31, 2004.

The Company's management was studying the possibility of ceasing the operation of such generation units at the end of the agreement with CBEE. In line with this possibility, the Company amortized the economic value of such assets in the period they were used, reaching a residual value of R$ 68,485 on December 31, 2004, compatible with the estimated disposal value. The amount amortized in the period from 2002 to 2004 was R$ 35,214.

On October 26, 2004 the Management of the Company communicated to the Advisory Department of the Ministry of Mines and Energy that, after the end of the agreement with CBEE, the generation units under reference will be maintained and will remain available for centralized operation, according to the standards and procedures of the National Electric System Operator - ONS, as from January 1st. 2005, on the same conditions as units 1, 2 and 3.

Therefore, the depreciation process of the mentioned units was not interrupted. In parallel to depreciation, the Company is reverting the accelerated amortization recognized along the agreement term with CBEE.

NOTE 12 - SUPPLIERS

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
Electric energy	42,837	65,704	14,075	32,598
Charges for the use of the power grid	33,254	19,849	37,122	23,074
Fossil fuels / biomass	46,966	37,445	47,146	37,445
Material and services	17,661	16,591	23,782	24,169
	140,718	**139,589**	**122,125**	**117,286**

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NOTE 13 - LOANS AND FINANCING

The main information on loans and financing in domestic and foreign currency are as follows:

a) Composition:

	HOLDING COMPANY					
	2005			2004		
	PRINCIPAL, INTEREST AND CHARGES			PRINCIPAL, INTEREST AND CHARGES		
	CURRENT	LONG-TERM	TOTAL	CURRENT	LONG-TERM	TOTAL
Foreign Currency						
Nation Treasury Office	88,090	263,997	352,087	104,561	414,074	518,635
Financial Institutions	12,481	134,154	146,635	14,251	183,892	198,143
	100,571	**398,151**	**498,722**	**118,812**	**597,966**	**716,778**
Domestic Currency						
ELETROBRÁS	81,178	174,443	255,621	66,406	247,802	314,208
Financial Institutions	12,386	29,355	41,741	10,977	41,133	52,110
	93,564	**203,798**	**297,362**	**77,383**	**288,935**	**366,318**
	194,135	**601,949**	**796,084**	**196,195**	**886,901**	**1,083,096**

	CONSOLIDATED					
	2005			2004		
	PRINCIPAL, INTEREST AND CHARGES			PRINCIPAL, INTEREST AND CHARGES		
	CURRENT	LONG-TERM	TOTAL	CURRENT	LONG-TERM	TOTAL
Foreign Currency						
Nation Treasury Office	88,090	263,997	352,087	104,561	414,074	518,635
Financial Institutions	12,481	134,154	146,635	48,857	491,788	540,645
	100,571	**398,151**	**498,722**	**153,418**	**905,862**	**1,059,280**
Domestic Currency						
ELETROBRÁS	81,178	174,443	255,621	66,406	247,802	314,208
Financial Institutions	61,594	338,544	400,138	57,888	385,745	443,633
	142,772	**512,987**	**655,759**	**124,294**	**633,547**	**757,841**
	243,343	**911,138**	**1,154,481**	**277,712**	**1,539,409**	**1,817.121**

b) Changes to loans and financing:

	HOLDING COMPANY			CONSOLIDATED		
	CURRENT	LONG-TERM	TOTAL REAIS	CURRENT	LONG-TERM	TOTAL REAIS
Balance on 12.31.2003	**188,892**	**1,128,340**	**1,317,232**	**258,497**	**1,859,455**	**2,117,952**
Incoming funds	-	-	-	-	13,771	13,771
Transfers	196,526	(196,526)	-	275,964	(275,964)	-
Charges generated	101,577	-	101,577	173,497	5,498	178,995
Monetary variation generated	(6,473)	(34,753)	(41,226)	(8,737)	(53,191)	(61,928)
Interest on escrow	-	(10,160)	(10,160)	-	(10,160)	(10,160)
Amortization	(284,327)	-	(284,327)	(421,509)	-	(421,509)
Balance on 12.31.2004	**196,195**	**886,901**	**1,083,096**	**277,712**	**1,539,409**	**1,817,121**
Transfers	182,815	(182,815)	-	516,381	(516,381)	-
Charges generated	84,564	-	84,564	130,848	5,031	135,879
Monetary variation generated	(21,583)	(91,753)	(113,336)	(23,390)	(106,537)	(129,927)
Interest on escrow	-	(10,384)	(10,384)	-	(10,384)	(10,384)
Amortization	(247,856)	-	(247,856)	(658,208)	-	(658.208)
Balance on 12.31.2005	**194,135**	**601,949**	**796,084**	**243,343**	**911,138**	**1,154,481**

c) Composition by type of foreign currency and domestic indexes:

	HOLDING COMPANY					
	2005			2004		
	CURRENCY THOUSAND	REAIS	%	CURRENCY THOUSAND	REAIS	%
Foreign Currency						
US dollar - USD	142,985	334,686	42.04	166,735	442,580	40.86
Euro - EUR	50,446	139,687	17.55	59,507	215,384	19.89
Pound Sterling - GBP	6,054	24,349	3.06	11,474	58,814	5.43
	-	**498,722**	**62.65**	-	**716,778**	**66.18**
Domestic Currency						
IVRRJR (based on UFIR)	-	255,622	32.11	-	314,208	29.01
Not indexed	-	41,740	5.24	-	52,110	4.81
	-	**297,362**	**37.35**	-	**366,318**	**33.82**
	-	**796,084**	**100.00**	-	**1,083,096**	**100.00**

	CONSOLIDATED					
	2005			2004		
	CURRENCY THOUSAND	REAIS	%	CURRENCY THOUSAND	REAIS	%
Foreign Currency						
US dollar - USD	142,985	334,686	28.99	295,767	785,082	43.20
Euro - EUR	50,446	139,687	12.10	59,507	215,384	11.85
Pound Sterling - GBP	6,054	24,349	2.11	11,474	58,814	3.24
	-	**498,722**	**43.20**	-	**1,059,280**	**58.29**
Domestic Currency						
IVRRJR (based on UFIR)	-	255,622	22.14	-	314,208	17.29
URTJLP	-	358,397	31.04	-	391,523	21.55
Not indexed	-	41,740	3.62	-	52,110	2.87
	-	**655,759**	**56.80**	-	**757,841**	**41.71**
	-	**1,154,481**	**100.00**	-	**1,817,121**	**100.00**

d) Variation of foreign currencies and indexes:

	%	
CURRENCY - INDEX	**2005**	**2004**
US dollar - USD	(11.82)	(8.13)
Pound Sterling - GBP	(21.53)	(1.09)
Euro - EUR	(23.50)	(0.85)
URTJLP	3.59	3.66

e) Maturities of long-term loans, financing and charges:

	HOLDING COMPANY			CONSOLIDATED		
	IN FOREIGN CURRENCY	IN DOMESTIC CURRENCY	TOTAL	IN FOREIGN CURRENCY	IN DOMESTIC CURRENCY	TOTAL
2007	149,010	94,428	243,438	149,010	142,199	291,209
2008	34,947	30,222	65,169	34,947	77,993	112,940
2009	28,708	30,974	59,682	28,708	78,745	107,453
2010	21,273	33,848	55,121	21,273	81,619	102,892
2011	21,273	14,326	35,599	21,273	62,096	83,369
From 2012 to 2024	142,940	-	142,940	142,940	70,335	213,275
	398,151	**203,798**	**601,949**	**398,151**	**512,987**	**911,138**

f) Loans and financing are subject to interest and charges at fixed and floating rates, distributed as follows:

PARENT COMPANY

Domestic market

Fixed rates from 11.9% to 12% p.a.
(In 2004 - 11.9% to 12% p.a.)
Floating rates: 19.65% p.a. (In 2004 - 18.18% p.a.)

International market

Fixed rates from 6% to 8.49% p.a.
(In 2004 - 6% to 8.49% p.a.)
Floating rates from 2.36% to 9.3% p.a.
(In 2004 - 2.77% to 9.29% p.a.)

CONSOLIDATED

Domestic market

Fixed rates from 11.9% to 12% p.a.
(In 2004 - 11.90% to 12% p.a.)
Floating rates from 12% to 19.65% p.a.
(In 2004 - 12, 00% to 18.18% p.a.)

International market

Fixed rates from 6% to 8.49% p.a.
(In 2004 - 6.00% to 10.43% p.a.)
Floating rates from 2.36% to 9.3% p.a. (In 2004 - 2.77% to 9.29% p.a.)

NOTE 14 - DEBENTURES

a) Parent Company

On May 11, 2005, the Brazilian Security and Exchange Commission - CVM to the Company primary issuance of simple debentures, by means of public subscription. They are composed of 20,000 simple certificated debentures, not convertible into shares of the issuer, in two series of the kind without preference guarantee, with nominal unit value of R$ 10,000.00 (ten thousand Reais), totaling the amount of R$ 200,000 on May 2, 2005, the issuance date. The first series, composed of 14,000 debentures will mature on May 2, 2011 and will be fully amortized in only one installment. The 2nd series, composed of 6,000 debentures, will mature on May 2, 2010 and will be fully amortized in only one installment. The

debentures of the 1st series will be adjusted as per the index IGP-M and will yield interest at a fixed rate of 9.29% per year, as from the issuance date, on the Unit Nominal Value of debentures of the 1st series. The debentures of the 2nd series are entitled to a field corresponding to the accumulation of 103.90% of the DI rate.
The total settlement of the public Offer of debentures occurred on May 16, 2005. The funds obtained from the offer were destined to capital increase of the subsidiary Companhia Energética Meridional - CEM, allow that Company to anticipate the payment of the Loan Agreement with Inter-American Development Bank (IDB).

b) Companhia Energética Meridional - CEM

A Subscription and Payment of Debentures Agreement was entered into by and between the Subsidiary and the National Bank of Economic and Social Development - BNDES on May 19, 1999, and from May to December of 1999, 7,773 debentures were subscribed and paid-in, whose balance adjusted up to 12.31.2005, amounts to R$ 93,437.
From this amount, R$ 10,919 are in current liabilities and R$ 82,518 in long-term liabilities (a total of R$ 98,107 until Dec.31.2004, R$ 10,008 in current liabilities and R$ 88,099 in long-term liabilities). Interest on debentures is based on TJLP plus 4% p.a.; interest is paid every six months, from 10.01.1999 until 04.01.2013.
The amount corresponding to TJLP that exceeds 6% p.a. will be capitalized, and will become part of the principal of debentures.
The amortization of debentures' principal started on 10.01.2003 with final maturity on 04.01.2013, and occurs every six months based on an increasing amortization schedule that varies from 3.0625%, for the first amortization, to 7.5737% for the last installment, due on 04.01.2013.

c) Itá Energética S.A. - ITASA

On March 7, 2001, the jointly subsidiary issued two series of 8,400 nonconvertible debentures each public by issued, paid on March 23, 2001. As of December 31, 2005, the adjusted balance in the consolidated financial statements was R$ 67,215, R$ 9,885 under current liabilities and R$ 57,330 under liabilities (up to December 31, 2004 R$ 78,872, R$ 13,352 under current liabilities and R$ 65,520 under in long-term liabilities).
Interests on debentures are paid annually: on the 1st series as from December 1, 2001 and on the 2nd series as from June 1, 2002. They are determined as set forth below:
1st series: from December 1, 2001 to December 1, 2003 - IGP-M + 11.2% p.a.
from December 2, 2003 to December 1, 2013 - IGP-M + 9.4% p.a.
2nd series: from June 1, 2002 to June 1, 2004 - IGP-M + 11.2% p.a.
from June 2, 2004 to June 1, 2013 - IGP-M + 9.4% p.a.
The amortization of the principal amount of the debentures will be made in annual installments; amortization of the 1st series started on December 1, 2004, with final maturity on December 1, 2013 and amortization of the 2nd series, started on June 1, 2004, with final maturity on June 1. 2013.

d)Maturity of long-term loans, financing and charges

	HOLDING COMPANY	CONSOLIDATED
2007	-	17,807
2008	-	18,769
2009	-	19,827
2010	60,000	80,990
2011	138,348	160,618
From 2012 to 2013	-	40,185
	198,348	**338,196**

NOTE 15 - ESTIMATED OBLIGATIONS

	HOLDING COMPANY			
	2005			2004
	CURRENT	LONG-TERM	TOTAL	TOTAL
Provision for labor legislation	9,772	-	9,772	8,542
Provision for extensive maintenance	24,280	21,913	46,193	30,574
Provision for profit-sharing and management bonus	15,000	-	15,000	10,500
Others	32	630	662	2,109
	49,084	**22,543**	**71,627**	**51,725**

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Provision for labor legislation refers to estimated vacation pay, vacation bonus and corresponding social charges. Seeking to properly measuring the income for future fiscal years, the Company records the records of provision for extensive maintenance generation facilities, based on an executive plan to preserve the operating conditions of the plants.

The consolidated balance sheet includes the amount of R$ 114, referring to labor provisions recognized in the financial statements of ITASA (R$ 74 in 2004) and the amount of R$ 371 concerning a provision for scheduled maintenance of the Hydroelectric Power Plant Cana Brava and Lages Bionergética (R$ 135 in 2004).

NOTE 16 - PROVISION FOR CONTINGENCIES

There are tax delinquency notices and preliminary judicial notices against the Company that are being contested administratively, as well as lawsuits at various court levels, which in the opinion of legal advisors imply probable risks. All such lawsuits are provisioned at amounts deemed sufficient to cover contingencies, as shown below:

	HOLDING COMPANY			
	2005		2004	
	PROVISION	DEPOSITS IN COURT	PROVISION	DEPOSITS IN COURT
Labor Contingencies				
Employment relationship and rehiring	17,073	13,589	19,182	11,824
Risk premium	748	600	974	491
Overtime	684	650	698	281
Salary parity and job classification	783	237	689	179
Overtime while in commuter transportation	757	173	820	190
Others	1,992	2,876	2,062	2,408
	22,037	**18,125**	**24,425**	**15,373**
Civil Lawsuit Contingencies				
Suppliers	63,097	-	31,020	-
Affected by UHE Itá	1,679	-	1,720	-
Actual damages and loss of profits	642	542	967	-
Occupational illness and accident	20,317	-	18,419	-
Others	752	-	2,436	-
	86,487	**542**	**54,562**	**-**
Tax Contingencies				
Social Contribution	14,720	6,678	11,066	5,034
Income tax	-	2,447	-	-
PIS/COFINS	-	25,624	-	-
INSS (Social security)	20,957	11,406	18,366	5,641
	35,677	**46,155**	**29,432**	**10,675**
	144,201	**64,822**	**108,419**	**26,048**
Classification of provision for contingencies in the balance sheet				
Current	41,595	-	-	-
Long-term	102,606	64,822	108,419	26,048
	144,201	**64,822**	**108,419**	**26,048**

	CONSOLIDATED			
	2005		2004	
	PROVISION	DEPOSITS IN COURT	PROVISION	DEPOSITS IN COURT
Labor Contingencies				
Employment relationship and rehiring	17,073	13,589	19,182	11,824
Risk premium	748	600	974	491
Overtime	684	650	698	281
Salary parity and job classification	783	237	689	179
Overtime while in commuter transportation	757	173	820	190
Others	1,992	2,876	2,062	2,408
	22,037	**18,125**	**24,425**	**15,373**
Civil Lawsuit Contingencies				
Suppliers	64,334	-	31,020	-
Affected by UHE Itá	3,028	-	2,451	-
Actual damages and loss of profits	642	542	967	-
Occupational illness and accident	20,317	-	18,419	-
Others	1,674	-	2,654	2
	89,995	**542**	**55,511**	**2**
Tax Contingencies				
Social Contribution	14,720	6,678	11,066	5,034
Income tax	-	2,447	-	-
PIS/COFINS	-	32,207	-	-
INSS (Social security)	20,957	11,406	18,366	5,641
	35,677	**52,738**	**29,432**	**10,675**
	147,709	**71,405**	**109,368**	**26.050**
Classification of provision for contingencies in the balance sheet				
Current	42,326	-	731	-
Long-term	105,383	71,405	108,637	26,050
	147,709	**71,405**	**109,368**	**26,050**

On July 5, 2005, the Company filed an Injunction against the Internal Revenue Service in Florianópolis, since the management understands that Regulatory Instruction SRF 468/2004 overrode the limits of the Legislative Power by giving a new concept to the term "pre-determined price", provided in article 10 of Law 10,833/03. The Company understands that the acceptance of the said term is already a common practice in the Brazilian Tax System and has been in use since the enactment of Executive Law 1.598/1977, what implies that the indicated Regulatory Instruction is illegal.

As a consequence, the Company is paying PIS and COFINS on revenue from agreements entered into before October 31, 2003 for periods longer than one year and at a pre-established price, based on the cumulative taxation system provided in the previous law, depositing the amounts the Company understands to be undue in an account linked to court where the suit is in progress.

In the opinion of the Company's legal advisors, the possibility of loss arising from such lawsuit is lower than the chances of a favorable outcome, so the Company has not set up a provision for the unpaid amount starting in June 2005.

The Company is a part in other lawsuits that in the evaluation of the legal advisors, based on the experience of similar cases, do not pose probable risk and, therefore, have not been recognized in the financial statements.

The amounts involved are detailed below:

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The amounts involved are detailed below:

	HOLDING COMPANY					
	2005			2004		
	POSSIBLE RISK	REMOTE RISK	TOTAL	POSSIBLE RISK	REMOTE RISK	TOTAL
Labor Contingencies	8,107	9,518	17,625	9,261	11,269	20,530
Civil Lawsuit Contingencies	9,519	18,236	27,755	3,618	16,352	19,970
Tax-related	27,804	4,920	32,724	-	-	-
	45,430	**32,674**	**78,104**	**12,879**	**27,621**	**40,500**

	CONSOLIDATED					
	2005			2004		
	POSSIBLE RISK	REMOTE RISK	TOTAL	POSSIBLE RISK	REMOTE RISK	TOTAL
Labor Contingencies	8,107	9,518	17,625	9,261	11,269	20,530
Civil Lawsuit Contingencies	30,903	26,480	57,383	19,090	24,048	43,138
Tax-related	35,464	4,920	40,384	-	-	-
	74,474	**40,918**	**115,392**	**28,351**	**35,317**	**63,668**

Contingencies receivable

In November 2005, the Brazilian Federal Court judged unconstitutional the increase in the calculation basis of PIS/COFINS established by Law 9.718/98.

The Company has a similar process awaiting court decision, with a probable chance of favorable outcome.

The revenue affected by the increase in the calculation basis is the subvention to fuel CCC/CDE and financial earnings.

The value the Company expects to recover, adjusted until December 31, 2005 is R$ 82,054 for the Parent Company and R$ 83,128 in the consolidated, not recognized in the financial statements.

NOTE 17 - CONCESSIONS PAYABLE

The subsidiary Companhia Energética Meridional - CEM will pay to the Federal Government the amounts shown below for the concession for exploitation of the hydraulic energy potential of the hydroelectric utilization of Cana Brava, in monthly installments equivalent to 1/12 of the corresponding amounts of annual payment, adjusted based on the annual variation of the General Price Index - Market - IGP-M:

		ORIGINAL AMOUNT		UPDATED	
YEAR	PAYMENT STARTS ON	ANNUAL AMOUNT	TOTAL AMOUNT	ANNUAL AMOUNT	TOTAL AMOUNT
1	-	1	1	2	2
2 to 6	-	-	-	-	-
7 to 25	08.30.2004	680	12,920	1,536	29,184
26 to 35	08.30.2023	61,280	612,800	138,421	1,384,210
			625,721		**1,413,396**

The payment flow above is set forth under section six of the Concession Agreement. In order to adequately reflect the granting of remunerated concession and corresponding obligation to the Federal Government, CEM recorded its value in intangible assets against current and long-term liabilities. Taking into consideration that values under the agreement are determined at future prices, CEM adjusted them to present value based on a discount rate of 10% p.a., as provided in the Invitation to Bid N. 04/97 for the bidding of the concession under reference. Until the commercial start-up of the Cana Brava plant, the adjustment of liabilities based on the discount rate and variation of IGP-M price index was capitalized in intangible assets and, thereafter, recognized directly in income. The balance of that obligation, adjusted until 12.31.2005, amounts to R$ 179,660. From this amount R$ 1,530 under current liabilities and R$ 178,130 in long-term liabilities (up to 12.31.2004, R$ 161.889, R$ 1,472 under current liabilities and R$ 160,417 under long-term liabilities).

The total value amount due on a long-term basis has the following scheduled maturities:

2007	1,530
2008	1,530
2009	1,530
2010	1,530
2011	1,530
From 2012 to 2033	170,480
	178,130

NOTE 18 - POST-EMPLOYMENT BENEFITS

Actuarial liabilities of the Company are determined by an independent actuary, based on the Projected Unit Credit Method.
Post-employment benefits maintained by the Company are the following:

a) Pension Plan

The Company, through PREVIG - Sociedade de Previdência Complementar, keeps Complementary Pension Plans to its employees. PREVIG is a non-profit closed supplementary pension entity governed by private law, sponsored by the Company in the condition of its Founder and by companies of Suez Group.

The benefit plans managed by PREVIG are of the kinds Defined Benefit and Defined Contribution. The Defined Benefit Plan is closed to new associations of employees.

Defined Benefit Plan

The Defined Benefit plan, with a financial regime of capitalization for retirement and pension benefits and pension and simple sharing for benefits, as specified below:

- Retirement for length of service;
- Retirement for disability;
- Retirement for age;
- Special retirement and retirement of ex-former combatants;
- Pension;
- Inmate pension; and
- Funeral expense payment.

The initial retirement benefit is basically the difference between the arithmetic mean of the employee's last 36 actual salaries of contribution to the Plan, adjusted on a monthly basis by the same indexes adopted by the Social Security, and the hypothetical amount of the Social Security retirement benefit, determined by using rules in force before Law 9876 of 11.26.1999 became effective. After being granted, the benefit complement is adjusted annually based on the INPC variation. The financing of the Benefit Plan is covered by contributions of participants and of the sponsor. The Company's contribution corresponds to twice the contribution of its employees. Additionally, the Company contributed with 1.7825% on of the payroll, which amount is monthly adjusted by a factor determined by the fluctuation in the number of employees who take part of the plan, for the purpose of amortizing reserves recognized referring to length of service that are revalued by an actuarial. The obligation for payment of benefits ends in December 2023. The value of those contributions in the year 2005 was R$ 3,595 (R$ 7,300 in 2004).
The Company is also responsible for 100% of the administrative expenses of PREVIG, limited to 15% of the total respective revenue received by the plan. The value of those expenses in the year 2005 was R$2,110 (R$ 2,450 in 2004). Before the organization of PREVIG, the Defined Benefit Plan was managed by Fundação Eletrosul de Previdência e Assistência Social - ELOS, sponsored by Tractebel and another company, without joint and several liabilities (responsibility) between the sponsors. In October 2002, Secretaria de

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Previdência Complementar (Supplementary Benefit Secretariat - SPC) approved the termination of the Agreement with ELOS and the complete consult transfer of the management of the benefits to PREVIG. Despite the termination of the Agreement, the Benefit Plan, composed of participants who started receiving benefits until December 23, 1997, the date of split of ELETROSUL, as well as of participants who opted for Deferred Proportional Benefit until that date, continues under the responsibility of Tractebel.

While this situation lasts, the Company is responsible for funding 57% of the value of administrative expenses of ELOS (the remaining 43% is funded by the Benefit Plan of the other sponsor of that foundation). Expenses are limited to 15% of the total corresponding pension income of ELOS and the value borne by the Company in the year 2005 amounted to R$ 1,777 (R$ 1,127 in 2004).

The parties continue to seek alternatives to that approved by SPC in order to regularize the current situation.

On April 5, 2004, the Company entered into an Adhesion Agreement with PREVIG that began to offer a plan of the kind Defined Contribution to its employees and started the migration process provided in its bylaws. The actual registration of participants in the Defined Contribution Plan began in January 2005 and the migration process ended on July 31, 2005, with migration of approximately 94% of participants.

As per the instructions included in CVM Decision 371, dated of December 13, 2000, the gains and losses from anticipated reductions and settlement of a Defined Benefit Plan should be recognized as they occur. In the actuarial report of independent actuaries dated July 31, 2005, the moment where there was the separation between the two plans, the following impacts from the migration process of participants were assessed:

	BEFORE REDUCTION	GAIN IN THE REDUCTION	AFTER THE REDUCTION	LOSS IN THE TRANSFER	AFTER TRANSFER
Present value of actuarial obligations totally or partially secured	1,254,857	(22,883)	1,231,974	(104,487)	1,127,487
Fair value of assets	(754,553)	-	(754,553)	105,052	(649,501)
Net value of actuarial losses not recognized in the balance sheet	(231,686)	4,225	(227,461)	23,916	(203,545)
Net actuarial liabilities	**268,618**	**(18,658)**	**249,960**	**24,481**	**274,441**

The actuarial assumptions used in the assessment of those benefits are described below:

Economic Hypotheses (nominal)

	2005	2004
Discount rate (p.a.)	11.25%	12.25%
Expected rate of return on assets (p.a.)	11.50%	12.50%
Future salary growth		
- Active participant (p.a.)	7.50%	8.00%
- Self-sponsored participant (p.a.)	5.50%	6.00%
Growth in social security benefits (p.a.)	5.50%	6.00%
Growth in benefits of the Plan sponsored by the Company (p.a.)	5.50%	6.00%
Inflation	5.50%	6.00%
Capacity factor		
- Salaries	100%	100%
- Benefits	100%	100%

Demographic Hypotheses

- Mortality Table (assets) - GAM 1983, with age adjustment of -1
- Mortality Table of individuals with disabilities - IAPB 57
- Disability Start Table - TASA27
- Turnover Table - T-1 Experience
- Retirement Age - First date when all grace periods are complete
- % of active participants married on the date of retirement - 90%
- Age difference between the participant and spouse - Wives are 4 years younger than their husbands

Other Hypotheses

- % of participants entitled to conversion of special retirement into retirement by length of service (SB-40) who will opt for the conversion - 100%
- Conversion factor of SB-40 -140%

The reconciliation of liabilities resulting from post-employment benefits recognized in the Company's financial statements, is as follows:

	2005			2004		
	RETIREMENT PLAN	CONFIDENTIALITY BONUS	TOTAL	RETIREMENT PLAN	CONFIDENTIALITY BONUS	TOTAL
Present value of actuarial obligations totally or partially secured	1,145,672	-	1,145,672	1,102,860	-	1,102,860
Fair value of assets	(689,903)	-	(689,903)	(695,397)	-	(695,397)
Present value of actuarial obligations totally unsecured	-	1,359	1,359	-	1,143	1,143
Subtotal	**455,769**	**1,359**	**457,128**	**407,463**	**1,143**	**408,606**
Net value of actuarial losses not recognized in the balance sheet	(170,048)	(305)	(170,353)	(158,295)	(184)	(158,479)
Liabilities recognized in the balance sheet	**285,721**	**1,054**	**286,775**	**249,168**	**959**	**250,127**

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The value of actuarial losses exceeding 10% of the present value of actuarial obligations will be annually amortized as per the straight-line method, over approximately 7.27 years, what corresponds to the average time of future contribution estimated for the employees who take part of the plan.

Part of the actuarial liabilities recognized in the balance sheet, resulting from post-employment benefits is covered by obligations contracted/recognized through a debt confession instrument and an agreement entered into by the Company. The composition of liabilities recognized in the financial statements is the following:

	2005			2004
	CURRENT	LONG-TERM	TOTAL	TOTAL
Agreed to/recognized obligations				
Agreement of acknowledgement of past debts, including the financing of administrative expenses.	17,613	72,430	90,043	97,626
Coverage of costs relating to conversion of special retirement into retirement by length of service (SB-40) and extraordinary contributions.	16,890	8,109	24,999	41,217
Actuarial liabilities not agreed to	46,517	125,216	171,733	111,284
Total actuarial liabilities	**81,020**	**205,755**	**286,775**	**250,127**

Entries made to actuarial liabilities, recognized in the balance sheet of 2005, are summarized below:

	RETIREMENT PLAN	CONFIDENTIALITY BONUS	TOTAL
Liabilities on 12.31.2003	**243,307**	**794**	**244,101**
Expenses of 2004	57,062	186	57,248
Actual contributions by the Company in 2004	(51,201)	-	(51,201)
Benefits paid by the Company in 2004	-	(21)	(21)
Liabilities on 12.31.2004	**249,168**	**959**	**250,127**
Expenses of 2005	75,128	188	75,316
Actual contributions by the Company in 2005	(38,575)	-	(38,575)
Benefits paid by the Company in 2005	-	(93)	(93)
Liabilities on 12.31.2005	**285,721**	**1,054**	**286,775**

The estimated amount to be recognized in the income for 2006 as expenses are the following:

	RETIREMENT PLAN	CONFIDENTIALITY BONUS	TOTAL
Cost of current service	817	55	872
Cost of interest	124,487	130	124,617
Earning expected from plan´s asset	(75,248)	-	(75,248)
Amortization of actuarial losses	8,344	14	8,358
Contribution of employees	(266)	-	(266)
Total	**58,134**	**199**	**58,333**

Defined Contribution Plan

Besides the above-mentioned benefit plan, PREVIG started managing another plan of the kind Defined Contribution, closing the initial plan to new participants on October 5, 2004, the date where the new plan was approved and communicated by Secretaria de Previdência Complementar - SPC.

In the Defined Contribution plan, of which 94% of the Company's employees take part (887 participants), the funding of the plan is composed of basic contributions of the participants and of the sponsor. The basic contribution of the Company corresponds to the same value of the basic contribution of its employees. The value of the Company's contribution in 2005 was R$ 2,236.

In addition, as an incentive to migration, the Company undertook a special contribution that will be paid to each participant with at least 10 (ten) years of participation in the plan, calculated with the objective of increasing the mathematic accruals for the participant, with the purpose of neutralizing a possible impact for the participant by opting for the migration.

The Company is responsible for funding 100% of the administrative expenses of the Defined Contribution Plan until December 31, 2006. After that, they will be apportioned among the participants of the plan. The value of those expenses in the year 2005 was R$ 241.

In recognition of the trust placed by the employees who entered the new Benefit Plan of PREVIG, the Company paid a discretionary contribution to the Defined Contribution Plan in addition to the contributions already established in the bylaws, corresponding to 50% of the monthly compensation of each participating employee, calculated based on the month of November 2005. That generated an expense in the amount of R$ 2,135.

b) Confidentiality Bonus

Refers to the payment of a bonus to employees of management level when their work relationship is terminated.

NOTE 19 - DEFERRED TAX DEBTITS

Recorded under this entry are income tax and social contribution on net income, in the amount of R$ 36,532 in long-term liabilities (R$ 39,616 in 2004 in current liabilities), calculated on the provision for sale of electric energy within MAE, in the amount of R$ 107,446 (R$ 116.516 in 2004), corresponding to the period from September 2000 to September 2002. Considering that the amount of revenue is being challenged in court by agents who disagree with the interpretation adopted by MAE in the application of certain accounting rules, as provided under ANEEL Order N. 288 of 05.16.2002, if the petitioner agents win, both the revenue and the corresponding asset will no longer exist, and therefore it is being treated as a provision and deemed a timing difference for tax purposes. Due to the expectation that the contestation will not be solved in the next year, in 2005, deferred liabilities are presented in long-term liabilities.

NOTE 20 - SHAREHOLDERS' EQUITY

a) Authorized share capital

The Company is authorized to increase its capital up to the limit of R$ 5,000,000, regardless of an amendment to its by-laws. In accordance with the New Market's regulations for trade of shares, the Company cannot issue preferred shares nor have beneficiary parties. The Company does not have treasury shares.

b) Grouping and conversion of shares

In compliance with a decision made during an Extraordinary Meeting held on April 7, 2005, the Company's shares were grouped on May 23, 2005 at the ratio of 1,000 (one thousand) shares to 1 (one) share of the same existing type and class.

In parallel to that operation in Brazil, the ratio of shares with ADR - American Depositary Receipts in the American market also changed, becoming 5 (five) shares to 1 (one) ADR.

The Company's Management Board, during a meeting held on June 7, 2005, approved a proposal for conversion of all preferred shares of the classes “A” and “B” into common shares, at the proportion of one common share to each preferred share.

The mentioned proposal had as essential purpose: (i) equalize the rights entitled by the shares issued by the Company; (ii) to adapt its shareholding structure to the most recommended procedures of corporate governance; (iii) to assure more liquidity to all shares of the Company; and (iv) to the Company to have conditions for entering into the "New Market" of the Stock Exchange of São Paulo - BOVESPA.
Extraordinary Meetings of holders of preferred shares of the classes "A" and "B" were held on June 27, 2005, approving only the conversion of all preferred shares of the class "B" and later consolidation of the Company's bylaws. On August 17, 2005 it was approved during a second Special Meeting of holders of preferred shares of class "A" (second call) the conversion of all preferred shares of the class "A" and also the subsequent consolidation of bylaws.

c) Subscribed and paid-up capital
Currently, the Company is a publicly traded company, incorporated in accordance with the Brazilian laws and listed in the New Market of the São Paulo Stock Exchange - BOVESPA. As of December 31, 2005, the Company's capital amounted to R$ 2,445,766, totally subscribed and paid-up, represented by 652,742,192 common shares, all nominative and without face value. The equity value of shares as of December 31, 2005 was R$ 4.11 (R$ 4.27 per thousand of shares as of 12.31.2004).

The Company's ownership structure is as follows:

SHAREHOLDERS	% OF CAPITAL	
	2005	2004
Suez Energy South America Participações Ltda.	68.73	78.30
Banco Clássico S.A.	10.00	10.00
BNDES Participações S.A. - BNDESPAR	2.80	5.62
União Federal	1.90	1.90
Others	16.57	4.18
	100.00	**100.00**

With the purpose of increasing the liquidity of shares traded at BOVESPA, the controlling shareholder Suez Energy South America Participações Ltda. sold, through Secondary Public Distribution of Common Shares, 62,500,000 shares, corresponding to 9.75% of the Company's share capital.

The composition of reserves is demonstrated as follows:

Reserves:	2005	2004
Capital reserve		
Compensation of assets and rights created with equity capital	91,695	91,695
Surplus Reserves		
Statutory reserve	148,257	102,252
Retained earnings reserve	243	147,243
	148,500	**249,495**

NOTE 21 - PROPOSED DIVIDENDS

During the year 2005, the Company's Board of Directors approved the credit of interest on share holders equity, in compliance with Law 9,249/95 and CVM Resolution 207/96, with the following values:

- R$ 110,000, corresponding to R$ 0.199740 per thousand of Class A preferred shares, R$ 0.268416 per thousand of Class B preferred and common shares as of May 12, 2005. Payments were made as from July 8, 2005.
- R$ 122,000, corresponding to R$ 0.186904 per common share as at October 19, 2005. Payments were made as from November 10, 2005.
- R$ 39,700, corresponding to R$ 0.060820 per common share, approved on December 15, 2005. Payments are scheduled to start on April 19, 2006.

The mentioned amounts above, net of withholding tax, are being imputed to dividends in connection with the year of 2005.

Interest on shareholders' equity has been recorded under financial expenses and reverted in this same entry and is not shown in the income statement for the year, since it has no effect on operating income and only on the lines of income tax and social contribution.

On October 19, 2005, the Company's Director Board, using the authority attributed to it by article 19, subsection XV of the Bylaws, approved a distribution of interim dividends based on the existing revenue reserves on December 31, 2004, except for the legal reserve, amounting to R$ 147,000 and corresponding to R$ 0.225204 per share, which were paid on November 10, 2005. It also approved the distribution of interim dividends, based on the financial statements as of June 30, 2005, amounting to R$ 141,000 and corresponding to R$ 0.216012 per share, which were paid on November 10, 2005. Those distributions are based on the caput and paragraph 2 of article 204 of Law 6.404/76.

Minimum mandatory dividends correspond to 30% of the net income, adjusted pursuant to the Brazilian Corporate Law (Lei das Sociedades por Ações), as provided under paragraph 1 of section 37 of the Company's By-laws.

	2005	2004
a) Determination of minimum mandatory dividends		
Net income for the year	920,096	775,192
Creation of statutory reserve (5%)	(46,005)	(38,760)
Tax basis	874,091	736,432
Minimum mandatory dividends (30% in 2005 and 25% in 2004)	**262,227**	**184,108**
b) Proposed dividends / interest on shareholders´ equity		
Interest on shareholders' equity, net of withholding tax (IRRF)	232,132	216,750
Interim dividends	141,000	-
Balance of proposed dividends	461,391	335,032
Subtotal	834,523	551,782
Withholding tax on interest on shareholders' equity	39,568	38,250
Total	**874,091**	**590,032**

Dividends / interest on shareholders' equity before withholding tax, per thousand (1.000) shares **(in R$ 1.00)**:		
Preferred class A shares	-	0.920260
Preferred class B shares	-	0.845321
Common shares	1.339106	0.845321

The balance of proposed dividends, in the amounting of R$ 461,391, corresponding to R$ 0.706850 per share and will be paid after the resolution of the Annual Shareholders Meeting that approving the Financial Statements.

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NOTE 22 - OPERATING EXPENSES DETAILED BY TYPE

	HOLDING COMPANY					
	2005					2004
	COSTS		EXPENSES			
	PRODUCTION AND SALES	SERVICES RENDERED	SELLING EXPENSES	GENERAL AND ADMINISTRATIVE EXPENSES	TOTAL	TOTAL
Personnel	73,943	6,391	5,785	37,400	123,519	111,913
Material	19,568	229	38	1,016	20,851	16,840
Third-party services	41,085	2,188	1,968	20,460	65,701	59,293
Fuel to produce energy - CCC/CDE	311,131	-	-	-	311,131	275,502
Fuel to produce energy without subvention	101,570	-	-	-	101,570	134,666
Financial compensation for use of water resources	54,445	-	-	-	54,445	47,049
Charges on the use of electric system	-	-	116,395	-	116,395	106,636
Use of public assets - UBP	3,671	-	-	-	3,671	4,831
Depreciation and amortization	157,394	-	36	1,178	158,608	175,057
Creation/reversal of provisions for doubtful debtors	40,747	-	-	56,393	97,140	11,019
Creation/reversal of operating provisions, net	-	-	(9,071)	-	(9,071)	(12,133)
Insurance	6,530	414	-	280	7,224	8,434
Pension plan - SB-40	-	-	-	17,442	17,442	23,435
Severance pay	-	-	-	1,199	1,199	2,940
Indemnities to third parties	32	-	2,920	75	3,027	1,762
Industry contributions	1,978	-	-	2,024	4,002	3,630
Inspection fee	-	-	-	7,812	7,812	5,863
Contributions and donations	457	45	-	3,928	4,430	3,828
Other expenses	8,401	61	224	9,186	17,872	22,112
	820,952	**9,328**	**118,295**	**158,393**	**1,106,968**	**1,002,677**

	CONSOLIDATED					
	2005					2004
	COSTS		EXPENSES			
	PRODUCTION AND SALES	SERVICES RENDERED	SELLING EXPENSES	GENERAL AND ADMINISTRATIVE EXPENSES	TOTAL	TOTAL
Personnel	74,233	6,391	5,785	39,558	125,967	113,812
Material	21,379	229	38	1,207	22,853	17,931
Third-party services	48,123	2,188	2,453	22,566	75,330	66,568
Fuel to produce energy - CCC/CDE	311,131	-	-	-	311,131	275,502
Fuel to produce energy without subvention	104,694	-	-	-	104,694	136,933
Financial compensation for use of water resources	69,152	-	-	-	69,152	59,182
Charges on the use of power grid	-	-	162,431	-	162,431	134,899
Use of public assets - UBP	3,671	-	-	-	3,671	4,831
Depreciation and amortization	197,660	-	36	10,412	208,108	223,487
Creation/reversal of provisions for doubtful debtors	40,083	-	-	56,499	96,582	10,598
Creation/reversal of operating provisions, net	-	-	(9,126)	-	(9,126)	(12,095)
Insurance	8,348	414	-	477	9,239	10,752
Pension plan - SB-40	-	-	-	17,442	17,442	23,435
Severance pay	-	-	-	1,199	1,199	2,940
Indemnities to third parties	32	-	2,920	167	3,119	1,780
Industry contributions	1,978	-	-	2,190	4,168	3,777
Inspection fee	-	-	-	9,156	9,156	7,138
Contributions and donations	471	45	-	4,369	4,885	5,092
Others	8,635	61	259	24,357	33,312	33,041
	889,590	**9,328**	**164,796**	**189,599**	**1,253,313**	**1,119,603**

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NOTE 23 - LEASING

The Company uses leasing to renew its information technology equipment and fleet of vehicles.
Leasing agreements currently in force include the following assets:

a) Information technology equipment
The lease term is of 36 months and the purchase of assets by the lessee is ensured in the agreement for a value of R$ 1.00 per unit. On 12.31.2004, there are 341 personal computers leased (341 on 12.31.2004), which represents around 60% of the total.
As of December 31, 2005, the balance of amounts payable was R$ 655, of which R$ 395 maturity within 12 months and R$ 260 in the following months. The amount of payments during 2005 was R$ 535 (R$ 441 in 2004).

b) Fleet of vehicles
The Company has lease agreements for 43 vehicles on 12.31.2005. The term of the agreements is 36 months, and the purchase of assets at the end of the agreements at a value equivalent to 20% of the asset value is ensured to the lessee. The balance of amounts payable, which started this year, is R$ 776. From that, R$ 553 are due in the next 12 months and R$ 223 in the following months. The amount of payments during 2005 was R$ 967 (R$ 658 in 2004).

NOTE 24 - FINANCIAL INSTRUMENTS

a) Risk management
a.1) Market Risk
The use of financial instruments by the Company aims to protect its assets and liabilities, minimizing its exposure to market risks, especially in connection with fluctuations of interest rates, price indexes and currencies. Such risks are monitored by the Financial Management Committee that assesses on a regular basis the Company's exposure and proposes operating strategies, control systems, position limits and credit limits with other partners in the market.
The Company has been recording on its books interest rate swap transactions in the international market and has a net liabilities balance at the average fixed rate of 5,272% p.a. and a net asset balance in Libor US$ six months, with flow starting on October 15, 2001 and ending on April 4, 2006. It has principal amount of US$ 4,426 thousand, corresponding to R$10,360 on December 31, 2004, amortized every six months starting on April 15, 2002.
In November 2004, taking advantage of the devaluation of dollar as opposed to Real (R$), the Company implemented a policy of higher protection to its liabilities in foreign currency, through swap operations at the over-the-counter market, using as means its Exclusive Investment Fund (see Note 3), where the variation of CDI replaced the exchange rate variation on loans and financing. The maturity of the swap transactions are simultaneous to the due dates of the flow of obligations of liabilities in foreign currency, considering a period of twenty-four months, starting in November 2004. The transactions are recorded with CETIP and are made with financial institutions known for their equity and financial solidity, within the credit limits defined by the Company.
Those operations are presented in the financial statements in the accounts “Derivatives”, in current liabilities and "Losses with exchange rate swap/interest”, in financial expenses, as demonstrated below:

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
Current liabilities				
Operations with derivatives	46,181	18,984	65,876	28,002
Financial expenses				
Losses with exchange rate swap/interest	104,537	19,554	130,253	28,157

The net exposition of the Company to exchange rate market risk is as follows:

	HOLDING COMPANY		CONSOLIDATED	
	2005	2004	2005	2004
Loans and financing in foreign currency	498,722	716,778	498,722	1,059,280
Hedging - swap instruments	(96,031)	(237,976)	(146,356)	(339,714)
Assets in foreign currency	(19,749)	(23,776)	(36,790)	(23,776)
Net exposition	**382,942**	**455,026**	**315,576**	**695,790**

a.2) Credit Risk

In long-term bilateral agreements and initial purchase and sale agreements of electric energy entered into with distributors, the Company seeks to minimize its credit risk with the use of a collateral mechanism involving receivables from its clients. Starting in 2003, in view of the decrease in sales of eletric energy linked to initial agreements, together with the beginning of operations of new power plants, the Company started to broaden of its client portfolio, focusing on industrial clients, also known as Free Consumers. In order to minimize the credit risk in relation to those commercial partners, it was created a credit area in the Company, which work scope is the analysis and rating, together with the Credit Committee, of credit limits and collateral to be required from the other parties.

In financial market transaction, the Company also has credit limits with financial institutions, which are regularly reviewed by its Financial Management Committee, based on an in-house evaluation and on ratings published by risk rating agencies.

As mentioned in Note 3, starting this year, the Company has investments in an Exclusive Investment Fund. The amount of investments by financial institution is within the limits defined by the Company in its credit policies for financial institutions.

b) Market value

In transactions involving financial instruments, significant differences between market values and book values were found only under loans and financing, mainly due to the fact that such financial instruments have quite extended settlement terms and significantly low costs when compared to the rates currently in effect for similar agreements. In the assessment of market values, the Company's management used discounted future cash flows at rates deemed adequate for similar transactions or international market rates, when available.

	HOLDING COMPANY			
	2005		2004	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
Loans, interest and charges in foreign currency	498,722	495,438	716,778	699,768
Loans, interest and charges in domestic currency	297,362	283,941	366,318	358,058
	796,084	**779,379**	**1,083,096**	**1,057,826**

In subsidiaries, transactions involving financial instruments do not present relevant differences between average market values and the ones stated in the financial statements.

Notes to the Financial Statements

As of December 31, 2005 and 2004

NOTE 25 - RELATED PARTY TRANSACTIONS

The Company has agreements with its subsidiaries and joint subsidiary, as specified below:

Itá Energética S. A. - ITASA

A Service Rendering Agreement for Operation and Maintenance of the Itá Hydroelectric Power Plant, through the consortium Itá, was entered into on September 11, 1998, in effect until October 16, 2030, and which amounts are adjusted annually based on the index IGP-M.

An Agreement of Purchase and Sale of Electric Energy was entered into on January 15, 2001 with the purpose of regulating the purchase by Tractebel of 61 MW average of energy owned by ITASA at Itá hydroelectric plant. In effect until October 16, 2030, it is regulated by the applicable law and market rules and it is annually restated based on the variation of the dollar rate, plus American inflation.

An Agreement for Purchase and Sale of Electric Energy was entered into on January 15, 2001 with the purpose of regulating the purchase by the Company of average 167 MW of energy owned by ITASA in the Itá hydroelectric plant. In effect until October 16, 2030, it is regulated by the applicable law and market rules and it is annually restated based on the index IGP-M.

Companhia Energética Meridional - CEM

Agreement entered into on April 9, 1999 and amended on April 15, 1999 and November 9, 2002, value for indefinite term, with the purpose of rendering operating administration services, since CEM does not have its own staff.

The agreement value is adjusted annually based on the index IGP-M.

Agreement of Purchase and Sale of Electric Energy, entered into on January 5, 2002, amended on March 6, 2001 and August 9, 2002 in effect until 2015, for acquisition of electric energy produced at the UHE Cana Brava. The agreement establishes the purchase, by the Company, in the annual amounts of 1,125,616 MWh, 2,189,036 MWh and 2,395,903 MWh, as from the months of October 2002, November 2002 and December 2002, respectively.

The agreement value is adjusted annually based on the index IGP-M.

Operation and Maintenance Agreement of UHE Cana Brava entered into on January 5, 2001, amended on March 9, 2001 and June 1, 2002, in effect until the end of the concession of the plant, with amounts adjusted annually based on the index IGP-M, under which the Company undertakes to operate and perform maintenance of the business.

Lages Bioenergética Ltda.

Agreement entered into on January 2, 2003, valid for an indefinite term, with the purpose of rendering operating administration services, as Lages does not have its own personnel. The agreement value is adjusted annually on the index IGP-M.

Agreement for Purchase and Sale of Electric Energy entered into on March 15, 2004, with the purpose of regulating the purchase by the Company of average monthly 26 MW of energy owned by the Company, in effect from April 1, 2004 to March 31, 2017.

Operation and Maintenance Agreement of the Co-generation power plant Cana Brava signed on April 1, 2004, in effect until March 31, 2012, under which the Company undertakes to operate and perform the maintenance of the facilities.

The agreement value is adjusted annually based on the compensation defined in the Collective Labor Agreement of the Company's employees.

Tractebel Energia Comercializadora Ltda.

Agreement entered into on November 1, 2004, valid for an indefinite term, whose it has as purpose the rendering of services of management, planning, economic control and supervision, as well as accounting, legal and financial services to the subsidiary. The agreement value is adjusted as per the shortest period allowed by law (currently, in annual basis) according to the variation of the index IGP-M.

The amounts recognized in balance sheet and income statement accounts are the following:

	HOLDING COMPANY							
			2005					2004
	SUEZ ENERGY SOUTH AMERICA PARTIC. LTDA	CEM	ITASA	LAGES	TRACTEBEL ENERGIA COMERC. LTDA	CESS	TOTAL	TOTAL
Assets								
Accounts receivable	664	131	6,550	902	13,129	318	**21,694**	**16,531**
Liabilities								
Suppliers	-	30,578	9,831	1	-	-	**40,410**	**42,312**
Dividends and interest on shareholder's equity	340,307	-	-	-	-	-	**340,307**	**432,054**
Income								
Operating revenue								
Supply of energy	-	-	-	5,959	58,371	-	**64,330**	**12,100**
Service income management	-	594	-	93	26	395	**1,108**	**794**
Operation and maintenance	-	1,690	9,620	1,362	-	-	**12,672**	**11,254**
Cost of electric energy and services								
Purchase of energy	-	249,310	121,256	-	-	-	**370,566**	**414,801**
Others	-	-	-	10	-	-	**10**	**7**
Financial								
Revenue	-	-	14	-	-	-	**14**	**3,291**

NOTE 26 - GUARANTEES TO THIRD PARTIES

Itá Energética S.A. - ITASA

The Company and other shareholders of ITASA are intervening parties in the agreements entered into by and between the investee and BNDES and other financial agents, linked to the construction of UHE Itá. The intervening parties have given as collateral the total amount of shares issued by ITASA and owned by them, until the final settlement of all obligations undertaken in the agreements under reference. As of December 31, 2005, the debt presented in the consolidated financial statements of the Company was R$ 273,526 (R$303,736 as of December 31, 2004).

In order to ensure the payment of obligations resulting from the above-mentioned agreements, ITASA has given the following guarantees to BNDES and to Financial Agents: a) Pledge of Concession Emerging Rights to exploit UHE Itá; and b) Pledge of Credit Rights resulting from the Agreements of Purchase and Sale of Electric Energy entered into with its investors.

Companhia Energética Meridional - CEM

Tractebel Energia is an intervening party to the Agreement of Subscription and Payment of Debentures Nonconvertible into Shares and the Financing Agreement by opening of credit facility, entered into by and between CEM and BNDES, the first on May 19, 1999, and amended on May 25, 1999, and the second on May 4, 2000. As an intervening party, the Company has undertaken the following obligations in relation to the agreements:

to ensure anticipated payment in the following exclusive cases: a) end of the concession for reason imputable to CEM, to the intervening parties or their subsidiary, associated or holding companies; and b) agreement entered into with the Granting Authority by CEM, by the intervening parties or by any of their subsidiary, associated or holding companies, with the purpose of ending the concession;

assignment to BNDES and IDB of any amounts resulting from indemnity received as a result of the end of concession of UHE Cana Brava, by the Granting Authority.

In addition to the obligations specified above, Tractebel Energia has given to BNDES, as collateral, the total amount of its shares, representing the share capital of CEM, until the final settlement of all obligations undertaken in the above mentioned agreements. As of December 31, 2005, the debt amounted to R$ 200,926 (R$ 558,525 as of December 31, 2004) CEM has assigned receivables resulting from the generation and sale of energy from UHE Cana Brava as a guarantee for payment of its loans and financing.

Lages Bioenergética Ltda.
The Company is the intervening guarantor in the Agreement of Fixed Credit Facility entered into by and between Lages Bioenergética and Banco Regional de Desenvolvimento do Extremo Sul - BRDE, on July 25, 2003, and gave as collateral, its shares in the share capital of the subsidiary, until the final settlement of all obligations undertaken in the agreement under reference. As of December 31, 2005, the debt amounted to R$ 44,597 (R$ 48,743 as of December 31, 2004).
In order to ensure the payment of the obligations resulting from the above-mentioned agreement, Lages Bioenergética has given as collateral the receivables resulting from the sale of electric energy from the Cogeneration Unit.

NOTE 27 - INSURANCE

The Company has a comprehensive operating risk insurance policy with a declared value for property damage of US$ 3.515.233 thousand, equivalent to R$ 8,228,106 thousand on December 31, 2005, and with a declared value for loss or profits of US$ 98,503 thousand, equivalent to R$ 230.566 thousand on December 31, 2005. The maximum combined limit for indemnity of material damage and loss of profits is US$ 150.000 thousand, corresponding to R$ 351.105 thousand on December 31, 2005, per event. The policy and values above refer to property owned by Company's, UHE Cana Brava, whose concession belongs to the subsidiary CEM, was included in the insurance policy of Tractebel Energia with a declared amount for material damages of US$ 320.000 thousand corresponding to R$ 749.024 thousand on December 31, 2005 and loss of profits of US$ 8,105 thousand equivalent to R$ 18.971 thousand on December 31, 2005.

In addition to such coverage, the Company has liability insurance policies with coverage of US$ 50.000 thousand, corresponding to R$ 117.035 thousand on December 31, 2005. Such policies include UHE Itá, built and exploited in consortium with the jointly controlled subsidiary ITASA.
The subsidiary Lages Bioenergética Ltda. has Operating Risk insurance with coverage of US$ 25.000 thousand corresponding to R$ 58.518 thousand on December 31, 2005, and liability insurance with coverage of US$ 50,000 thousand, equivalent to R$ 117,035 thousand on December 31, 2005.
Besides these strategic insurance, the Company has insurance to cover risks of national and international transport, civil responsibilities of the director board members, officers and managers, including the subsidiaries, as well as group life insurance to its directors and employees.

NOTE 28 - LONG-TERM AGREEMENTS

In addition to the agreements with the subsidiaries mentioned in Note 23, the Company has long-term rights and undertaking. Among them we highlight:

a) Connection Agreement
In accordance with Law 9.648/98 and Decree 2.655/98, establishing that the access and use of electric energy transmission systems should be separately contracted from the purchase and sale of the energy itself, on August 20, 1998, the Company entered into a Connection Agreement with Empresa Transmissora de Energia Elétrica do Sul do Brasil S.A. - ELETROSUL, in effect from September 1, 1998 until the concession termination date of the generation units of Tractebel Energia or the liquidation of the transmitter, what comes first.

b) Agreement for the Use of Transmission and Distribution System
In order to meet the agreements for sale of the eletric energy released in the Initial Agreements and electric energy from plants that started their operations on January 1, 2002, the Company entered into agreements with the Electric System National Operator - ONS, with eletric energy carriers and with Empresa Energética do Mato Grosso do Sul S.A. - Enersul , in effect until the termination of the concessions or authorizations of the generation units of Tractebel Energia or liquidation of carriers and distributors, what comes first. Through them, it undertook 75% of transmission costs. The remaining 25% are under the responsibility of distribution concessionaires.
The costs for the Company amounted to R$ 110,280 in 2005 (R$ 100,964 in 2004).

c) Bilateral Agreements for Purchase and Sale of Electric Power

On December 31, 2005, the Initial Agreements for Purchase and Sale of Electric Power were terminated, in accordance with the 25% reduction per year established, starting in the year 2003. Thus, the power released in those Agreements was contracted through sale to Industrial Consumers, Sellers and Distributors.

CLIENT	CONTRACTING PERIOD	CONTRACTED ENERGY (MWH)
RGE	01.01.2006 to 12.31.2014	33.324.510
CELESC	01.01.2006 to 12.31.2007	262.760
	01.01.2006 to 12.31.2008	18.542.585
Companhia Paulista de Força e Luz	01.01.2006 to 12.31.2010	8.456.168
Companhia Piratininga de Força e Luz	01.01.2006 to 12.31.2010	4.931.584
Light	01.01.2006 to 12.31.2007	665.658
Sellers	01.01.2006 to 12.31.2007	5.854.802
	01.01.2006 to 12.31.2010	15.749.276
	01.01.2006 to 12.31.2016	10.525.045
Industrial Consumers	01.01.2006 to 12.31.2007	7.932.943
	01.01.2006 to 12.31.2010	4.081.552
	01.01.2006 to 12.31.2012	2.786.208
Distributors		
1st Auction of Existing Energy (2004)	01.01.2001 to 12.31.2014	701.280
2nd Auction of Existing Energy (2005)	01.01.2008 to 12.31.2015	10.512.000
4th Auction of Existing Energy (2005)	01.01.2009 to 12.31.2016	26.709.648
New Energy Auction (2005)	01.01.2010 to 12.31.2039	52.560.000

d) Purchase of Electric Energy from Argentina

The Company entered into an agreement with CIEN - Companhia de Interconexão Energética, for a term of 20 years starting on June 21, 2000, to purchase 300 MW of firm power with associated energy, to be made available at substation of Itá, of ELETROSUL.

In the month of March 2005, the National Electric Energy Agency - ANEEL made an inspection to check the conditions of physical delivery guarantee of power at the Thermo-electric plant Uruguaiana and at the Interconnections of Garabi (CIEN). It was verified a non-availability of generation and transmission of electric power at the contracted amounts by the inspected agents. As a result of that fact, the Ministry of Mining and Energy issued Order 153, dated March 30, 2005, defining new amounts of physical assurance for the respective generation facilities and interconnections.

On April 1, 2005, Regulation Instruction ANEEL 155/05 was published, establishing the criteria to be used by the Electric System National Operator - ONS and by the Câmara de Comercialização de Energia Elétrica - CCEE (Electric Power Trade Chamber) in the determination of availability limits for generation and physical assurance of power at the UTE Uruguaiana and for the Interconnections of Garabi. Based on these regulations, the value of physical assurance originally attributed to CIEN to meet the agreement was reduced from 300 MW to approximately 72 MW. Due to the way the agreement was registered with CCEE, that reduction would subject the Company to the penalties provided in the laws of

that segment, for lack of physical assurance, besides exposition to the short-term market of CCEE, what led that Company to enter into an agreement for the corresponding purchase of electric energy from another agent.
As a result, the Company understands that it was characterized a contract breach on the part of CIEN and that the fines and damages provided in the agreement became payable to Tractebel. Thus, based on the contract mechanisms that determine that the amounts included in the invoices issued by CIEN should be net of all amounts owed to Tractebel as fine and damages (what CIEN has not been following in relation to any issued invoices in relation to that agreement, since the reduction of the physical assurance), the Company has not been paying the said invoices since March 2005 for considering them inadequate.

e) Purchase of natural gas
On November 10, 2000, the Company entered into an agreement to purchase natural gas with the Companhia de Gás do Mato Grosso do Sul - MSGÁS, effective for 5-year as of in 2001, when the Thermoelectric Plant William Arjona, located in Campo Grande - MS has started its commercial operation.

f) Revitalization of generators of the Hydroelectric Plant Salto Osório
On December 19, 2003, the Company entered into an agreement with GE Hydro Inepar do Brasil S.A., valid for four years, for the complete renovation of the six generation units of UHE Salto Osório.

NOTE 29 - AUDIT SERVICES

The independent auditors of the Company and its subsidiaries do not render any services other than audit services.

Board of Directors

Maurício Stolle Bähr
Chairman

Jan Franciscus María Flachet
Vice- Chairman

Manoel Arlindo Zaroni Torres
Chief Executive Officer

Victor-Frank de Paula Rosa Paranhos
Director

Dirk Beeuwsaert
Director

Nicolas Alain Marie Tissot
Director

Luiz Antônio Barbosa
Director

Executive Officers

Manoel Arlindo Zaroni Torres
Chief Executive Officer

Marc Verstraete
Finance and Investor Relations Director

Miroel Makiolke Wolowski
Business Development and Commercialization Director and Project Implementation Director

José Carlos Cauduro Minuzzo
Energy Production Director

Marco Antonio Amaral Sureck
Planning and Control Director

Luciano Flávio Andriani
Administrative Director

Accounting Department

Marcelo Cardoso Malta
Accountant - CRC RJ 072259/O-5

Independent Auditors' Opinion

To the Board of Directors and Shareholders
Tractebel Energia S.A.

1. We have examined the individual (holding company) and consolidated balance sheets of Tractebel Energia S.A. as of December 31, 2005 and 2004, and the related statements of income, of changes in shareholders' equity (holding company) and changes in the financial position for the years then ended, prepared under the responsibility of its management. Our responsibility is to express an opinion on these financial statements. Other independent auditors examined the financial statements of the jointly controlled subsidiary Itá Energética S.A. for the years ended December 31, 2005 and 2004. Our opinion is based on the report of those auditors, with regard to the investment amounts and income resulting from such subsidiary.

2. Our audits were conducted according to the auditing standards applicable in Brazil and included: (a) planning the work, taking into consideration the materiality of balances, volume of transactions, and accounting and internal control system of the company; (b) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; and (c) evaluating the accounting practices used and the most significant accounting estimates made by management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the consolidated financial position of Tractebel Energia S.A. as of December 31, 2005 and December 31, 2004, and the consolidated results of its operations, the changes in its shareholders' equity (Company) and the consolidated changes in its financial position for the years ended on December 31, 2005 and December 31, 2004, in conformity with the accounting practices adopted in Brazil.

4. Our examination was carried out with the purpose of issuing an opinion on the financial statements referred to in paragraph 1, taken as a whole. The statements of cash flows and added value for the years ended December 31, 2005 and 2004 are presented in order to enable additional analyses and are not an integral part of the basic financial statements. Such statements were submitted to the auditing procedures described in paragraph 2 and, in our opinion, they are properly presented, in all material respects, with regard to the financial statements as a whole.

Florianópolis, January 20, 2006.

Paulo Ricardo Pinto Alaniz
Accounting partner
CRC RS - 42.460/S - SC
BDO Trevisan Auditores Independentes
CRC 2SP013439/O-5 “S” SC

Report of the Audit Committee

The undersigned members of the Audit Committee of Tractebel Energia S.A., Newton de Lima Azevedo Junior, Carla Carvalho de Carvalho and Manoel Eduardo Lima Lopes, after examining the Financial Statements for the year 2005 and the proposed appropriation of income, and based on the independent auditors' opinion issued by BDO Trevisan Auditores Independentes on January 20, 2006, state that the financial statements are an adequate representation, in all material aspects, of the equity and financial position of Tractebel Energia S.A. as at December 31, 2005, and are suitable to be submitted to the General Meeting of Shareholders of the Company.

Florianópolis, March 9, 2006.

Newton de Lima Azevedo Junior
Chairman

Carla Carvalho de Carvalho
Council Secretary

Manoel Eduardo Lima Lopes
Council Member

Tractebel Energia

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