
Tractebel Energia
SUEZ
generating
energy
for
life
2006 annual report

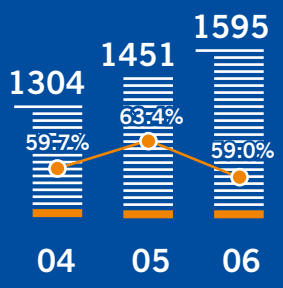
2006 highlights

All power plants are certified with NBR ISO 9001 e 14001 standards.

Net operating revenue grows 18.2%.

Net income reaches record amount of R$ 979 million.

EBITDA and EBITDA Margin
R$ million I %



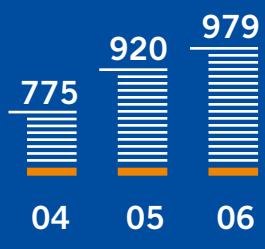
Net Operating Revenue
R$ million



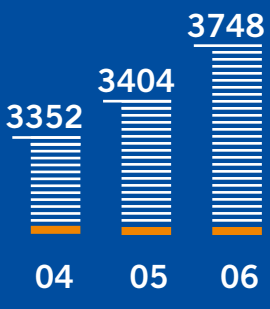
Distribution of Dividends
R$ million



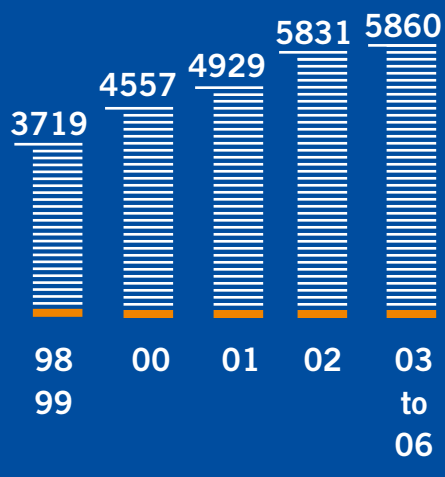
Net Income
R$ million



Energy Sales
average MW



Evolution of Installed Capacity
MW



	2004[1]	2005[1]	2006	06/05 (%)
ECONOMIC INDICATORS (R$ MILLION)				
Gross Operating Revenue	2,376	2,593	3,061	18.1%
Net Operating Revenue	2,184	2,288	2,706	18.2%
EBITDA[2]	1,304	1,451	1,595	9.9%
EBITDA Margin	59.7%	63.4%	59.0%	- 4.4 p.p.
Service Income – EBIT	1,081	1,243	1,387	11.6%
Financial Result	(210)	(136)	(156)	-15.1%
Net Income	775	920	979	6.4%
FINANCIAL INDICATORS (R$ MILLION)				
Total Assets	6,161	5,652	5,539	-2.0%
Shareholders' Equity	2,787	2,686	2,765	2.9%
Investments	38	44	69	56.8%
Adjusted Net Debt	1,345	1,244	1,025	-17.6%
SHARES				
Number of Shares (thousands)	652,742	652,742	652,742	0.0%
Net Income per Share (R$)	1.1876	1.4096	1.5001	6.4%
Average Share Price – Common Share (R$)	7.48	10.09	16.53	63.8%
Distribution of Dividends (R$ million)	737	874	930	6.4%
MARKET				
Energy Sales (GWh)	29,440	29,823	32,836	10.1%
Energy Sales (average MW)	3,352	3,404	3,748	10.1%
WORK FORCE				
Headcount (number)	849	893	905	1.3%

Note: [1]Considering accounting restatement.
[2]EBITDA represents earnings + financial result + non-operating result + social contribution and income tax + depreciation and amortization + goodwill amortization in subsidiaries.

Values

Professionalism

Professionalism is a sine qua non for skills, discipline and passion for a profession. All work must be executed in accordance with the best techniques for providing customers with quality service.

Sense of Partnership

Represents a long-term commitment to all partners through loyal and transparent conduct. We operate with greater efficiency if we cooperate with others in our development.

Team Work

Team work 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, both individual and 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.

Ethics

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.

Tractebel Energia

suez

The cover picture shows the ecological basin located in the city of Tubarão (SC). The area, which was used as ash basin for the Jorge Lacerda Thermoelectric Complex, has undergone self-regeneration, and it is currently covered by native vegetation and inhabited by wild animals. The area is preserved and monitored by Tractebel Energia.

01_ message from the management 04

02_ corporate profile 08

03_ strategy 18

04_ macroeconomic scenario 22

05_ the electric power industry 26

06_ operating performance 32

07_ economic and financial performance 38

08_ capital markets and corporate governance 48

09_ relationship with the community and the environment 56

10_ relationship with employees 70

11_ acknowledgments 82

12_ glossary 84

13_ consolidated social balance sheet 92

14_ financial statements 95

Note: The terms included in the glossary of this Annual Report are capitalized.

01

message from the management



Tractebel Energia's performance in 2006 was positive from every point of view, whether economic, financial, operational or institutional. We are able to report various achievements during the year, all of them strongly characterized by actions aligned to management based on the principles of the long-term sustainable development of the business. We understand that it is of fundamental importance the creation of value to our shareholders, permanently preserving ethical, transparent and fair relationship with the other stakeholders – suppliers, employees, government entities and the communities in which we are located.

Our business vision is sustained by values, which we share with our controlling company, the Franco-Belgian SUEZ group. These values are professionalism, sense of partnership, team work, creation of value, respect for the environment and ethics. And as demonstrated by our results and the Company highlights - which we shall examine in greater detail below -, we believe we are headed in the right direction.



Tractebel Energia's business vision is based on values such as professionalism, sense of partnership, team work, creation of value, respect for the environment and ethics

One of our main achievements during the year was the full certification of all 13 of our generating plants according to NBR ISO 9001 and 14001 standards – the only one among the leading companies in the industry to enjoy such a position. Again the Lages Co-generation Unit obtained its registration with the United Nations Organization's Clean Development Mechanism (CDM) Committee, thus earning the right to trade carbon credits in the international market through the Emissions Reduction Certificate program.

The three pillars of sustainability – economic, social and environmental – are the bedrock of the Company's management practices. Our entire medium and long-term planning takes into account these dimensions in the decision-making process and in the establishment of annual goals and objectives both for the Company as well as for each one of our subsidiaries.

The adhesion to the Novo Mercado listing regulations at the end of 2005 is another indicator of our commitment to ethics, responsibility and transparency – intangible aspects that we believe the market has recognized and given due value in a tangible manner.

The first year in which our shares traded in the Novo Mercado was marked by an even closer relationship between the Company and its investors. This posture reflected positively in the performance of our stocks, and resulted in the Company's continued presence as a component of the Special Corporate Governance Stock Index (IGC), the Special Tag Along Stock Index (ITAG) and the Corporate Sustainability Stock Index (ISE). In addition, we were honored with "The Most Progress in Investor Relations" award presented by Investor Relations Magazine.

From the economic and financial point of view, we are well prepared to defend our position as the largest private sector generator of electricity in Brazil. With this in mind, we are alert to all the opportunities for growth, whether through the acquisition of assets or the development of new undertakings, seeking larger sales volumes in the electric energy auctions and in servicing the industrial sector.

Our financial situation is a favorable and comfortable one, with low leverage and strong and stable cash generation. In 2006, our EBITDA – earnings before interest, taxes, depreciation and amortization - was R$ 1,595 million while net income reached R$ 979 million, a growth of 9.9% and 6.4%, respectively, in relation to 2005.

The outlook continues favorable, and we stand ready to take on the additional responsibilities that new opportunities and further growth may demand of us. Among the challenges in 2007, we envisage the investment required to develop São Salvador Hydro Power Plant in the state of Tocantins to Tractebel Energia. Work on this project began in 2006, adding a further 241 MW to our Installed Capacity. Further, in the medium-term we will invest in Estreito Hydro Power Plant, located on the state divide between Tocantins and Maranhão, a project which will increase the Company's Installed Capacity by 435 MW. We also intend to enhance the diversification of our Free Customer portfolio, sell further carbon credits under the agreement with the World Bank and invest in improvements in the Salto Osório Hydro Power Plant and the Jorge Lacerda Thermal Power Plant.

The Company also places great importance on further improving the way we preserve the environment, undertaking actions not only to offset the affects arising from our activities but also with the purpose of creating significant advantages in relation to demand for our businesses.

Responsibility, ethics and sustainability: these are all key concepts that guide our day-to-day activities. We would like to thank all for the trust, encouragement and dedication to Tractebel Energia's businesses. We wish to reiterate our commitment to proceed along this chosen path for the good of the Company, its shareholders, its employees and all others that have a stake in its activities.

We are the only company among the main ones in the energy industry to hold NBR ISO 9001 and NBR ISO 14001 certifications for all the plants

Manoel Arlindo Zaroni Torres
Chief Executive Officer

Maurício Stolle Bähr
Chairman of the Board of Directors

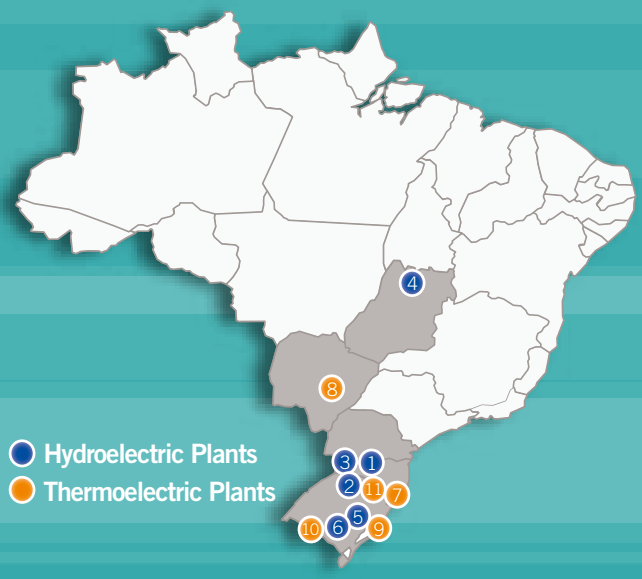
02

corporate profile



Tractebel Energia is the largest private generator of electric energy in Brazil. Headquartered in Florianópolis (State of Santa Catarina), the Company has a generating complex comprised of six hydroelectric plants and seven thermoelectric plants, located in the States of Santa Catarina, Paraná, Rio Grande do Sul, Mato Grosso do Sul and Goiás, with a 5,860 MW Installed Capacity, corresponding to 7% of Brazil's total Installed Capacity. Eleven of the thirteen plants are wholly owned by the Company, the remaining two held partially and operated as a consortium with other companies. Including its sales office in São Paulo (State of São Paulo), Tractebel Energia has 905 employees.

Hydroelectric Plants	Installed Capacity (MW)	Assured Energy (MWm)
1 Salto Santiago	1,420	723
2 Itá	1,090	513
3 Salto Osório	1,078[1]	522[1]
4 Cana Brava	450	273
5 Machadinho	383	136
6 Passo Fundo	226[1]	119[1]
Total	**4,647**	**2,286**
Thermoelectric Plants	**Installed Capacity (MW)**	**Assured Energy (MWm)**
7 Jorge Lacerda Complex[2]	57	598
8 William Arjona	190	177
9 Charqueadas	72	45
10 Alegrete	66	41
11 Lages	28	25
Total	**1,213**	**886**



Notes: [1] Portion owned by Tractebel Energia.
[2] Complex with 3 units.



Tractebel Energia is the leader in private electricity generation in Brazil

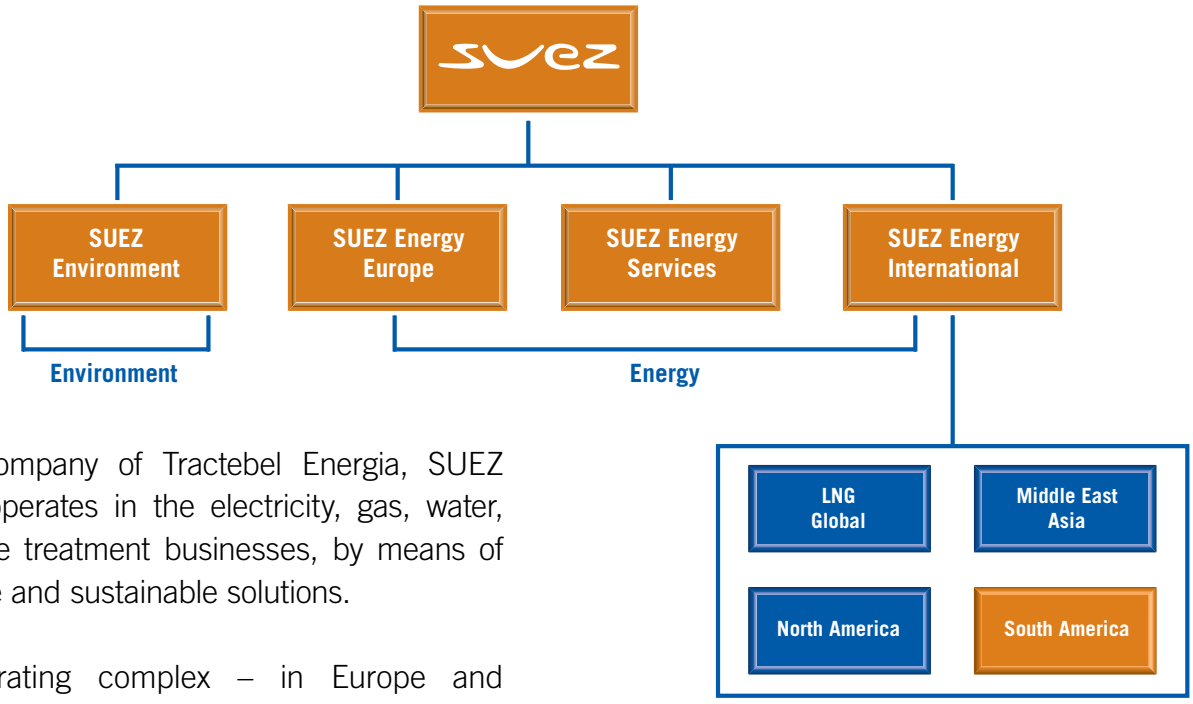
The supply of energy in a sustainable and environmentally responsible manner is part os Tractebel Energia's mission. This is reflected by the excellent availability rate, its client satisfaction rate, and its retention of environmental certifications

In addition to generating energy, the Company also offers the following services:

- Monitoring energy quality, by means of gauges which evaluate the energy consumed;
- Energy measuring control, which eases cost control by Free Customers;
- Operation and maintenance of energy output equipment;
- Energy co-generation;
- Steam generation;
- Change in voltage class of equipment connected to the energy grid; and
- Trading of energy surpluses.

Over the last eight years, Tractebel Energia has invested R$2.5 billion in the expansion and improvement of its plants. By the end of 2006, the Company's net income reached R$979 million, its shareholders' equity totaled R$2,765 million, and its net debt amounted to R$1,205 million.

Ownership Structure and Control

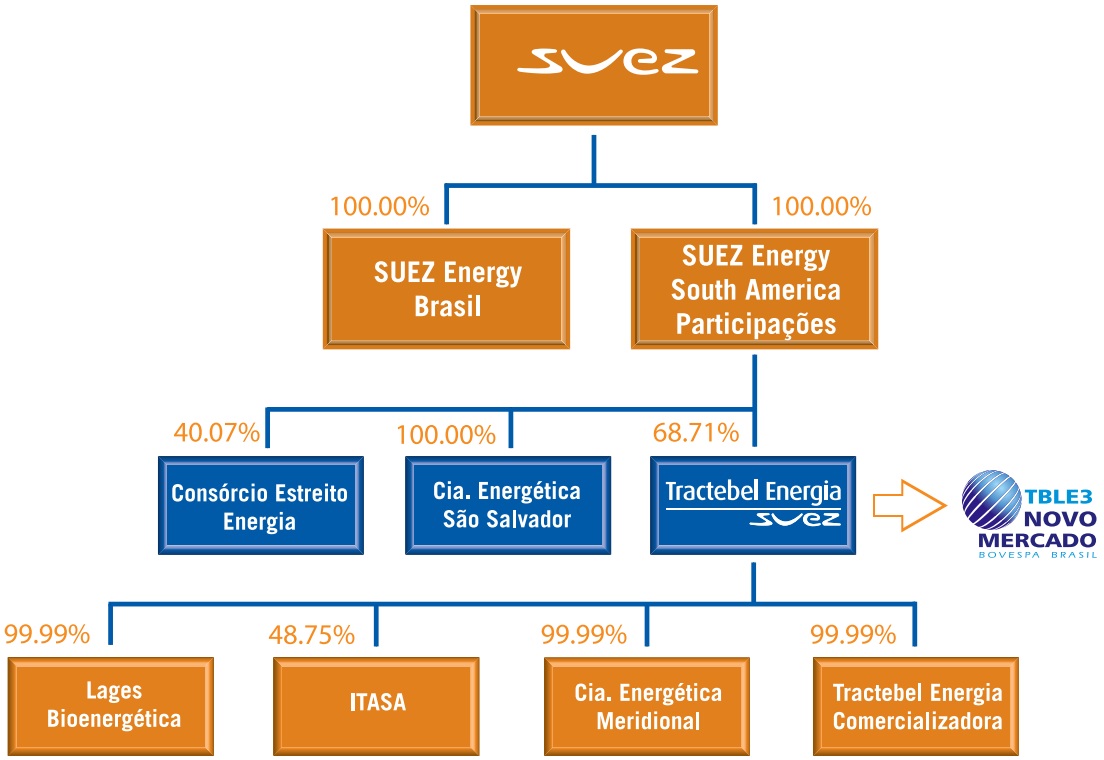


Parent company of Tractebel Energia, SUEZ globally operates in the electricity, gas, water, and waste treatment businesses, by means of innovative and sustainable solutions.

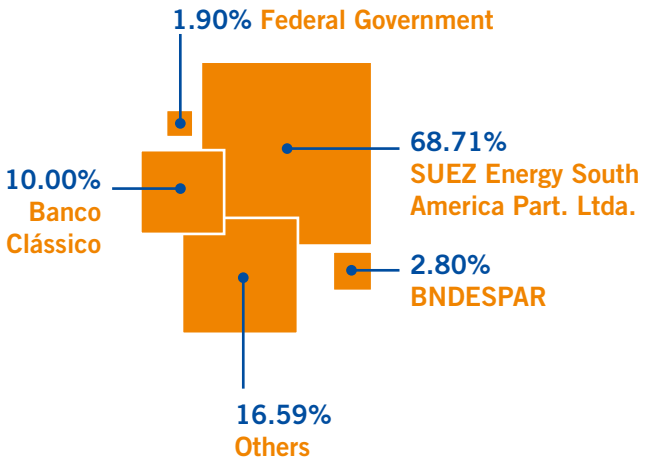
Its generating complex – in Europe and worldwide – totals 58,000 MW of Installed Capacity. In Europe, it is the largest supplier of energy and industrial services, and the second largest in waste management and water treatment plants. At the end of 2006, it served more than 200 million people as well as 500 thousand industrial and commercial clients and public companies globally.

SUEZ, Tractebel Energia's controlling shareholder is Europe's largest supplier of energy and industrial services, and is the second largest in waste management and in water treatment plants





Share Control of Tractebel Energia



SUEZ Energy South America Participações Ltda (SESA) is part of SUEZ Energy International (SEI), the business line of SUEZ responsible for the group's energy, gas and liquefied natural gas (LNG) activities outside Europe. In South America, SESA maintains operations in Argentina, Chile, Peru and Brazil, which is the main operation center.

As of December 31, 2006, Tractebel Energia's share capital reached R$2,446 million, represented by 652,742,192 non-par registered common shares, almost 17% of which were pulverized in the market.

Subsidiaries' Profile

Lages Bioenergética Ltda.
Special Purpose Company (SPC) responsible for the construction of the Lages Co-generation Unit, located in the State of Santa Catarina. In 2002, it was authorized by the Brazilian Electricity Regulatory Agency (ANEEL) to operate as an Independent Power Producer. With an Installed Capacity of 28 MW and the capacity to provide 25 t/h of steam, this plant produces energy using wood waste (Biomass) as fuel, which enabled its registration in the CDM Executive Board of the UN. Its concession period expires in 2032.

Itá Energética S.A. – ITASA
By means of a partnership entered into with Companhia Siderúrgica Nacional (CSN) and Companhia de Cimento Itambé, the Company holds the concession to explore the Itá Hydroelectric Plant until 2030. Located on the Uruguai River, in an area between the cities of Itá (State of Santa Catarina) and Aratiba (State of Rio Grande do Sul), its Installed Capacity is 1,450 MW.

Cia. Energética Meridional – CEM
Special Purpose Company (SPC) which holds the concession, up to 2033, of the Cana Brava Hydroelectric Plant, located on Tocantins River, in the State of Goiás, with an Installed Capacity of 450 MW.

Tractebel Energia Comercializadora Ltda.
Its purpose is trading, importing and exporting electric energy in the Regulated Contracting Environment, as well as the intermediation of such operations.



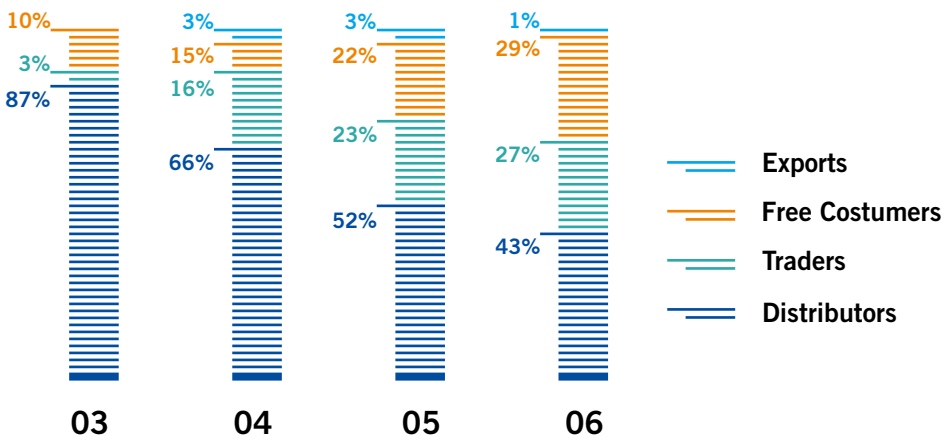
Clients Base

The client portfolio of Tractebel Energia is diversified, comprising energy Distributors, Traders and Free Customers. In addition, a small part of its energy is exported.

Over the last four years, Tractebel Energia has focused on a more balanced distribution of its client base, increasing its participation in Traders and Free Custumers. Most Free Customers are industries, mainly those in the sectors of pulp and paper, fertilizers, industrial gases, petrochemicals, automobiles and food. The Company's goal is to increase this segment, which already represents almost 30% of physical sales and counts on more than 120 industrial units of more than 80 companies.

During the course of the year, Tractebel Energia added blue chips to its Free Customer portfolio, such as Aracruz Celulose, Cargill, John Deere, Kimberly Clark, Malwee Malhas, Michelin, Petroflex, Pirelli, Procter & Gamble, Schincariol, Schulz, Vega do Sul (of Arcelor group), Wetzel and Whirlpool, among others.

Client Breakdown by Physical Sales

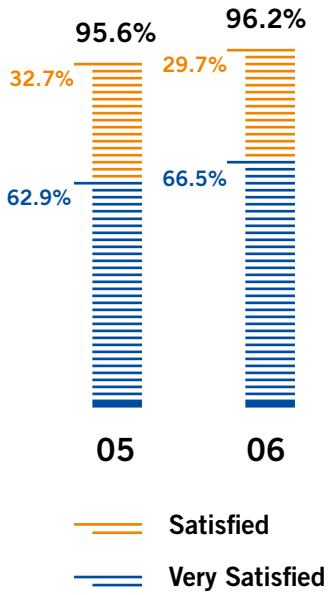




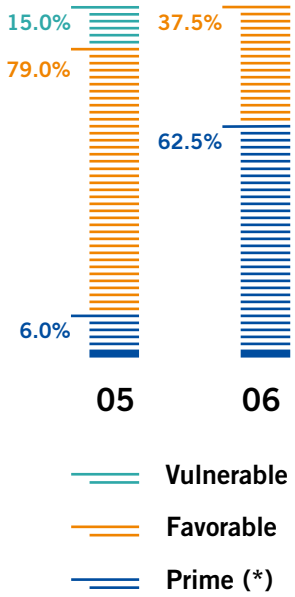
Client Satisfaction Survey

The increase in the Free Customer base reflects the adequate service provided by the Company, which can be observed according to annual outsourced researches, which measure the client satisfaction and loyalty index. The latest one, carried out in 2006, showed an important evolution in the Company's assessment in both aspects, especially the loyalty index, which indicated the inexistence of vulnerable clients.

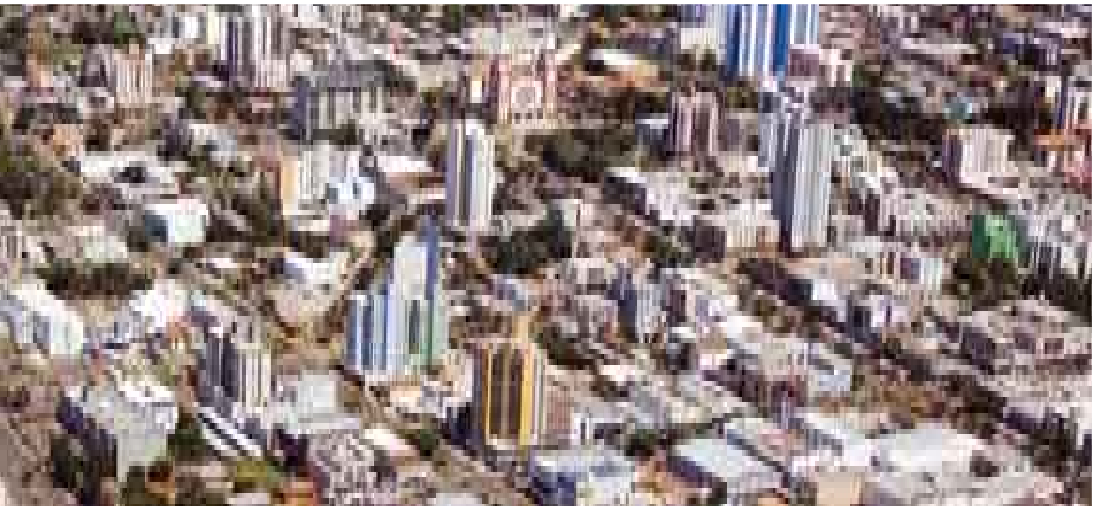
Client Satisfaction Index



Client Loyalty Index



(*) Maximum rating





Main Events in 2006

January

• Tractebel Energia's shares are included in the Corporate Sustainability Index (ISE) of the São Paulo Stock Exchange (Bovespa). This index is comprised of shares of 28 companies recognized for their higher liquidity and better performance regarding financial, economic, environmental and corporate governance aspects.

June

• The Lages Co-generation Unit obtains registration in the CDM Executive Board of the UN, and becomes the first plant of SUEZ and in Brazil to have the right to trade carbon credits for using timber waste as fuel.

• Tractebel Energia sells 220 and 273 average MW of Itá and Cana Brava Hydroelectric Plants respectively in the energy auction organized by ANEEL, for the average price of R$128.30/MWh, for a 30-year period beginning 2009.

• Tractebel Energia is awarded with the Investor Relations Magazine Brazil Awards 2006 in the category of "The Most Progress in Investor Relations", as recognition for its effort in adopting a policy of greater proximity to capital markets, in addition to its commitment to transparency and better corporate governance practices.

• *Prêmio Brasil Ambiental* 2006 (2006 Brazil Environmental Award) is granted to Tractebel Energia by the Câmara de Comércio Americana do Rio de Janeiro (Amcham-Rio – American Trade Chamber of the State of Rio de Janeiro), in the special category "Clean Development Mechanism (CDM)", for the work performed in the Lages Co-generation Unit.

July

• Standard & Poor's increases Tractebel Energia's corporate credit rating from brA+ to brAA. Fitch Ratings, in turn, increases the Company's rating from AA- (bra) to AA (bra).

October

• Companhia Energética São Salvador (CESS) sells 148 average MW of the future São Salvador Hydroelectric Plant for 30 years, starting 2011, for the average price of R$135.01/MWh.

• CESS is certified by Bureau Veritas (BVQI), attesting its compliance with prevailing legislation and regulations for the implementation of socio-environmental programs during the construction of the plant.

December

• With the certification of the six remaining plants, all 13 plants of Tractebel Energia obtain NBR ISO 9001 and NBR ISO 14001 certifications, granted by BVQI, which certify productive quality and environmental responsibility, respectively. The Company is the first among the Country's main Generators to obtain 100% of its plants certified in these rules.

• Tractebel Energia's shares remain in Bovespa's Corporate Sustainability Index (ISE) portfolio, comprised of securities of 34 companies among the ones with the highest liquidity, recognized by its commitment to social responsibility and corporate sustainability.

• The Federal Environment Protection Agency (Ibama) grants the installation license to the Estreito Hydroelectric Plant.



• The executive board of the National Bank of Economic and Social Development (BNDES) approves the financing of R$570 million for the construction of the São Salvador Hydroelectric Plant, which represents 67.25% of the total investment.

• In the sale of Centrais Elétricas de Santa Catarina S.A.'s (Celesc) assets in the Machadinho Hydroelectric Plant by means of an auction, Tractebel Energia acquires, after the exercise of the preemptive rights by the partners of Machadinho Energética S.A. (Maesa), 10 average MW from February 2007.

Subsequent Events:

January 2007

• Tractebel Energia concludes the sale of 190,000 tonnes of Certified Emission Reduction (CER), or carbon credits, to the Japanese company Chugoku Electric Power, for approximately € 3.1 million.

• Sale contract of 750,000 tonnes of CERs is executed, to be delivered up to 2014, with Prototype Carbon Fund (PCF), an investment fund managed by the World Bank, at the amount of US$7.5 million.

• Fitch Ratings agency states the long-term national ratings AA (bra) of Tractebel Energia and its first debenture issuance.

03

strategy



Tractebel Energia aims to maintain its position as the leading energy generation private company in Brazil, pursuing to add value for increasing profitability and financial solidity, ensuring, thus, its autonomy and the continuity of its businesses. In order to achieve this goal, it adopts a strategy based on the following principles:

Growth with financial discipline: increase in revenues based on two factors: benefiting from best future energy prices and increasing the generating complex. The Company has chosen to have a substantial portion of its Assured Energy uncontracted as of 2009, when forecasts in the sector indicate a potential price increase. In addition, its solid financial condition, with reduced indebtedness level, aligned to a strong cash generation, has enabled its participation in new projects and possible acquisitions.

Maximization of client portfolio efficiency: making use of its history and its capacity to establish permanent relationship with Free Customers, Tractebel Energia intends to optimize its contract portfolio focusing on this segment. Among the initiatives in this regard are: its loyalty program, the strategy to invest in service rendering, the adjustment of energy purchasing to each consumer's production process and the energy audit.

Operating efficiency: it is the basis of the strategy for Tractebel Energia to become more competitive and efficient. The solid operating performance and the increasing productivity indices enable the Company to continuously improve operating margins.

The solid financial condition and strong cash generation of Tractebel Energia enabled the accomplishment of new projects



Competitive Advantages

Growth potential: since 1998, the Company has increased its Installed Capacity by 57.6%. New projects, already in progress, show the group's commitment to continuing this expansion.

Adequate contracting profile: balanced contracting level among Distributors, which offers cash generation stability in the long term, and Free Customers, which allows flexible commercial conditions. The Company's energy availability, comprised of Assured Energy and purchases for resale, is almost totally contracted up to 2008, for competitive prices.

Pioneerism in large scale supply to Free Customers: its pioneerism in the acquisition of Free Customers and in the development of loyalty policies of these clients has allowed the Company to acquire the experience required to manage contracts, which offers higher efficiency in client management.

Continual evolution of main financial indicators: over the past four years, Tractebel Energia showed consistent average growth in net revenues (19.0% p.a), EBITDA (18.4% p.a) and net income (23.7% p.a).

Experienced management committed to the best corporate governance practices: the Company's consistent growth is also a result of its commitment to better corporate governance practices and the high level of experience of its executive board within the electric power industry.

High payout: one of Tractebel Energia's differentiation is the substantial profit distribution. The Board of Executive Officers adopts a policy of payment of dividends not below 55% of adjusted net income in semiannual distributions, and it is, therefore, higher than the 30% set forth in the bylaws. Notwithstanding, the distribution recorded in 2003, 2004, 2005 and 2006 was 95% of its net income, as interest on shareholders' equity and dividends.

Controlling shareholder with a high level of experience in Brazil and in the electric power sector: SUEZ has been operating in Brazil for more than 50 years, including eight in the electric power industry. Tractebel Energia's Installed Capacity represents more than 10% of the worldwide generation capacity of SUEZ.

Expansion of the Generating Complex

SUEZ Energy South America Participações Ltda (SESA), controlling shareholder of Tractebel Energia, has been developing two hydroelectric projects: the São Salvador and the Estreito Plants.

In the first half of 2007, SESA will be transferring its control over São Salvador to Tractebel Energia, which will be responsible for the conclusion of works and its subsequent operation. The beginning of its construction by SESA occurred in 2006, when there was the sale of 148 average MW in a new energy auction, to a pool of Distributors which will disburse R$135.01 per MWh for a 30-year period.

The future hydroelectric plant, located in the city of São Salvador, in the State of Tocantins, will receive investments of around R$850 million, and it will represent an increase of 241 MW in the Company's Installed Capacity. The beginning of the production is scheduled for 2011.

The Estreito project, for its part, received in December 2006 installation license from the Federal Environment Protection Agency (Ibama). This license offers safer conditions for the participation of the plant in the new energy auctions, enabling its construction. The Estreito Hydroelectric Plant is one of Brazil's largest generation projects, and will add 435 MW to the Company's Installed Capacity.

In the event that the sale of Estreito's energy occurs in 2007, the beginning of the construction of the hydroelectric plant, which will have 1,087 MW of Installed Capacity, will be expected to occur shortly following, and the transfer of control of SESA to Tractebel Energia will be sequential.

The Estreito Plant is controlled by Consórcio Estreito, comprised of SESA, which holds 40.1%; Companhia Vale do Rio Doce, with 30%; Alcoa Alumínio, with 25.5% and Camargo Corrêa Energia, with 4.4%.



UHE Estreito	
Installed Capacity	1,087 MW
Assured Energy	585 MW
SESA's Share	40.1%
Investment (R$ mm)[1]	1,250
Start of construction [2]	2007
Start of operation [2]	2010
Conclusion of construction[2]	2011

UHE São Salvador	
Installed Capacity	241 MW
Assured Energy	148 MW
SESA's Share	100%
Investment (R$ mm)[1]	845
Start of construction	2006
Start of operation	2011
Conclusion of construction	2010

Note: [1]Estimate of Tractebel Energia's investment in the project.
[2]Estimate of Tractebel Energia.

04

macroeconomic scenario



Over the past several years, Brazil has followed a consistent path towards the stabilization of its macroeconomic scenario, a fundamental condition for sustained growth. Good performance in this sector is mainly due to the maintenance of the economic policy by the Brazilian government, which strengthens the solidity of the Country's financial institutions.

Exports closed the year at over US$137.5 billion, representing a 17% increase from 2005. Imports also increased 25% when compared to the previous year. In addition, primary surplus closed in at 4.30% of Gross Domestic Product (GDP), exceeding the target of 4.25% determined for the year.

Inflation has been under control with price indices within targets. Variation in the Extended Consumer Price Index (IPCA) was 3.14%. As a result of this, the Central Bank started a process of successive drops in interest rates – the Selic rate decreased from 17.25% p. a. at the beginning of 2006 to 13.25% in December. However, interest rates are still high, which resulted in the entrance of foreign debt into the Country, occasioning the depreciation of 8.1% of the Dollar against the Real.

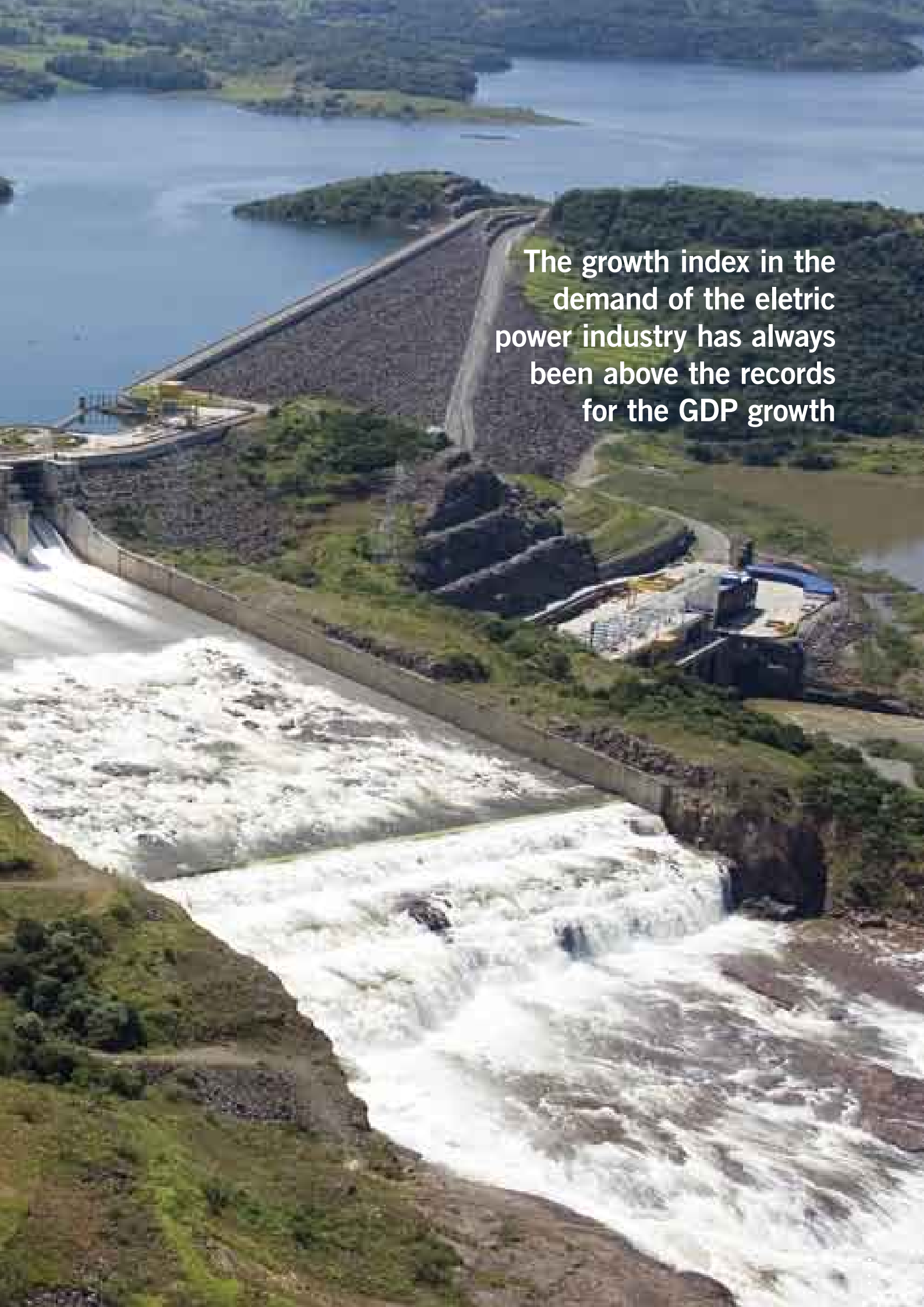




Growth in the Brazilian economy in 2006 was below expectations, strongly impacted by interest rates, and the GDP increased 2.9%, according to the Brazilian Institute of Geography and Statistics (IBGE). A significant part of the growth is mainly due to domestic consumption, which increased by 3.7% and was the engine of the economy, boosted by the increase in family income and credit. It is important to point out that the electric energy industry has followed the GDP growth, always exceeding it.

In the political sphere, the presidential elections were a highlight, occurring in two rounds in October and November. This was further evidence of the consolidation of democracy and institutions in Brazil, which is essential for the creation of a favorable scenario for long-term investment in the Country. It is worth pointing out there were no impacts in economy resulting from elections, which strengthened Brazil's image in the global scenario. Country risk ended 2006 with the lowest rate in its history: 192 basis point.

On the foreign side, the environment was favorable, and a strong demand was observed, in addition to higher prices and abundant liquidity. Figures of the International Monetary Fund (IMF) showed a 5.2% expansion in the worldwide economy.



The growth index in the demand of the eletric power industry has always been above the records for the GDP growth

05

the electric power industry



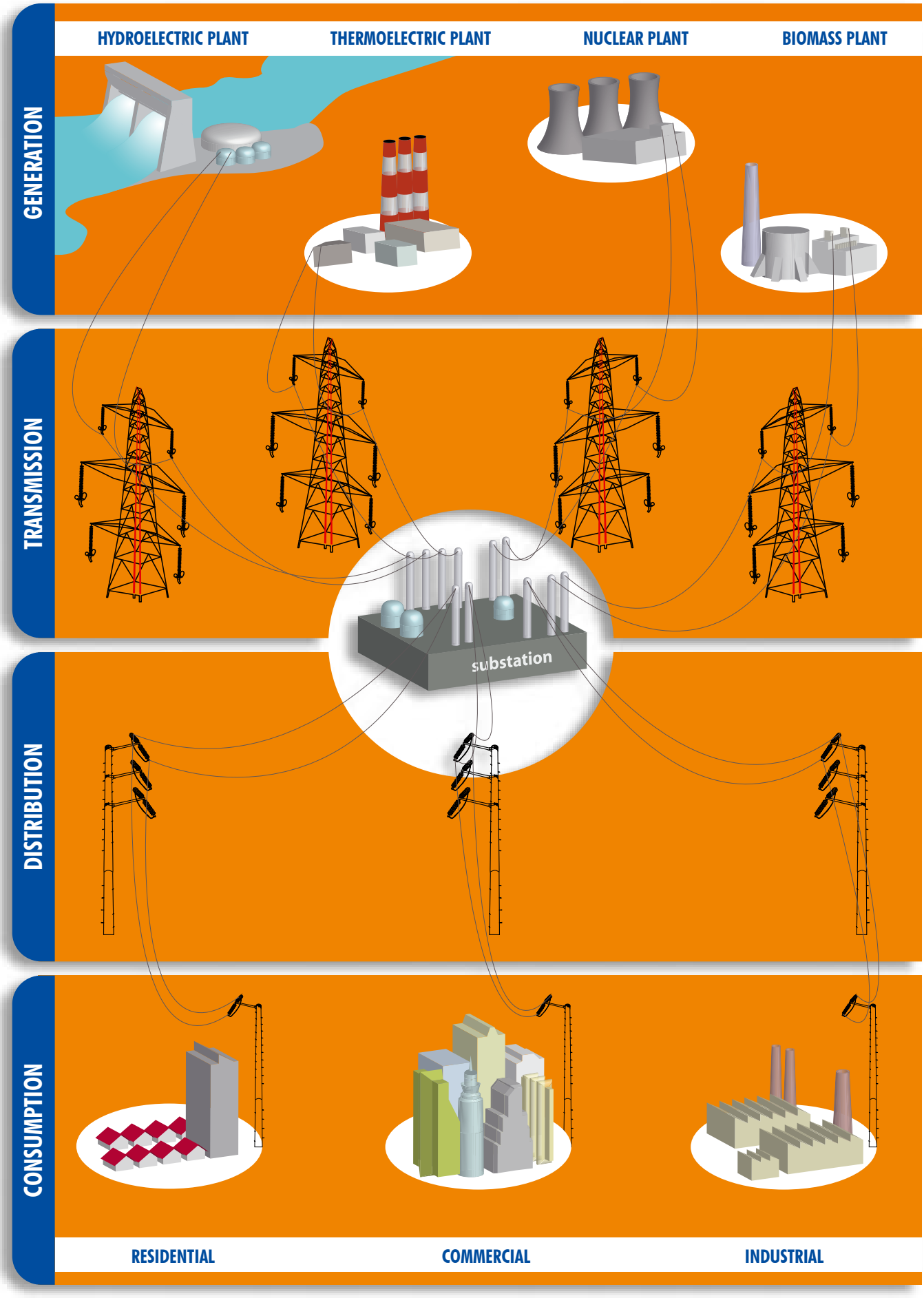
According to the National Electricity System Operator (ONS) and the Electric Power Trade Board (CCEE), 47.8 average GW were generated in Brazil in 2006. Hydroelectric plants were responsible for the generation of most of the energy, 92%, as from approximately 640 plants.

Also according to CCEE, 69% of the total generation recorded in the period was destinated to the captive market, 21% to the free market – segment in expansion –, 5% to self production and 5% of losses. The Southeastern Region accounted for 54% of the demand in the Country, followed by the Southern and Northeastern Regions, representing 17% each. As to consumption classes, industry remains as the largest consumer, absorbing 44% of the energy. It is within this segment that one will find the vast majority of the so-called Free Customers, which compose a significant portion of the Tractebel Energia's client base.

Also in 2006, there was a 3.8% growth in electric energy consumption in Brazil, versus a 2.9% growth in economy, resulting in a multiple of 1.3 between both indicators, in line with historic elasticity. For 2007, an increase higher than that of 2006 is expected, which may reach more than 5.0%, according to the Energy Planning Agency (EPE).



Energy Generation, Transmission and Distribution Flowchart



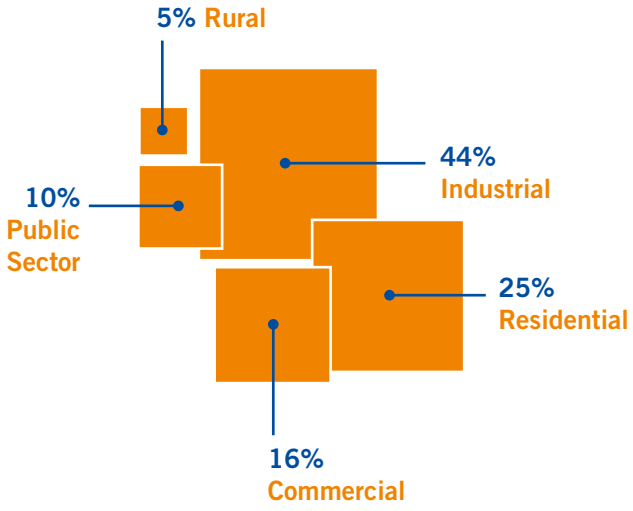
That level of increase demands more investments in the industry. Thus, the Ministry of Mining and Energy (MME) has established, in 2005, the Plano Decenal de Expansão (Decennial Expansion Plan), which forecasts in up to 39 GW the increase in the generation capacity by 2015, out of which 30 GW (77%) should correspond to hydroelectric energy and 9 GW (23%) to thermoelectric energy.

ANEEL promoted, throughout 2006, 2 auctions destined to energy contracting from new undertakings whose results will add, between 2009 and 2011, 2,102 average MW Brazilian generating complex, 45% of which will come from hydroelectric undertakings and 55% from thermoelectric undertakings. For 2007, four auctions destined to new undertakings are scheduled, and one of them is exclusive for undertakings of alternative sources and another one for one of the plants of the Rio Madeira Complex.

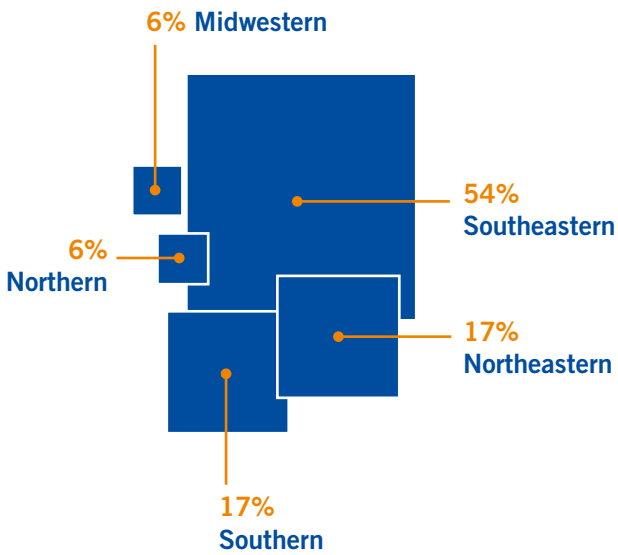
The hydroelectric plants were responsible for 92% of all electricity produced in Brazil in 2006

Electric Power Industry - Brazil 2006

Consumption by Consumer Class



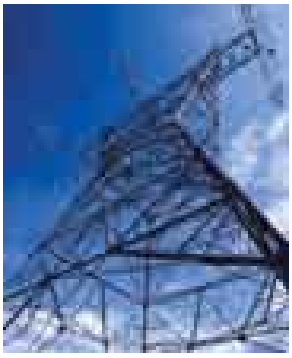
Consumption by Region



Concessions and Authorizations

The exploration of services of construction and operation of facilities for hydroelectric generation, transmission and distribution of electric energy in Brazil is performed by means of concessions through biddings. The companies which aim to operate in trading or thermoelectric generation must request permission or authorization from the Ministry of Mining and Energy (MME) or ANEEL, as the case may be.

The concession agreements for hydroelectric generation are valid for a period of 30 to 35 years, the authorizations for thermoelectric generation, 30 years, and the transmission and distribution agreements, also for 30 years, and they may be renewed. This renovation, however, depends exclusively on the granting authority.





The new regulatory model has created the Free Contracting Environment giving room for competition

Regulatory Framework

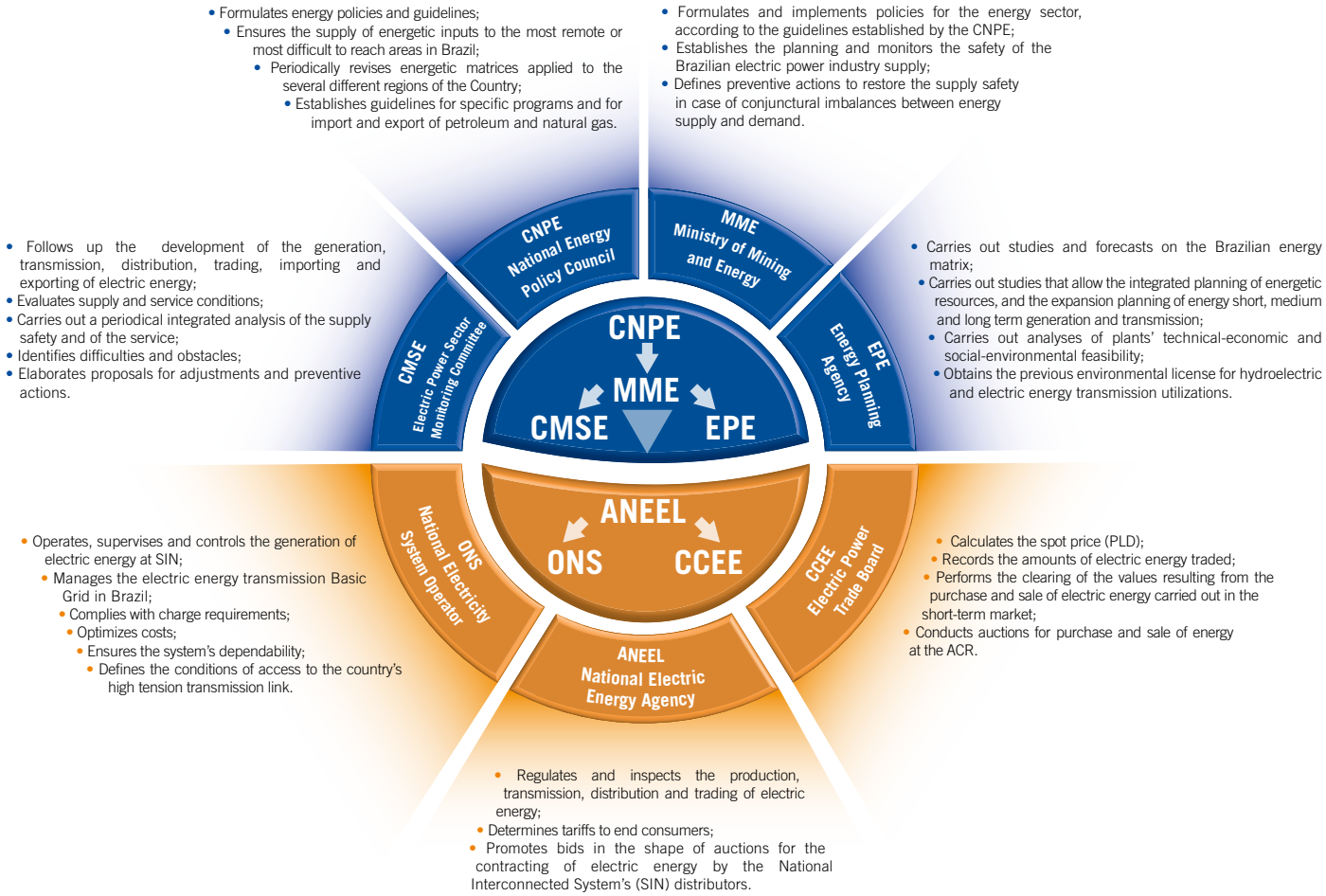
Since 2004, the industry has been ruled by the Industry New Model Law (Law no. 10,848/2004), which promoted significant changes. Over the past two years, it could be observed that, although it represented a significant advance in the sector regulatory mark – resuming expansion planning and pursuing greater regulatory stability – the new model will still undergo adjustments, mainly associated with higher predictability of sector charges, making it even more attractive for new investments.

With the new model, Distributors started to contract 100% of its demand by means of auctions organized by the government. The estimates for national consumption are determined by all the Distributors in the Country, which present the government with projections of their own demands for upcoming years.

The law has also created two environments for trading energy: the Regulated Contracting Environment, a market in which prices practiced are determined by means of auctions, and which offers a guarantee of supply to Captive Customers – those served by Distributors; and the Free Contracting Environment, in which prices practiced can be freely negotiated, in which the Generators, Free Customers and Traders can participate, giving room for competition.

The Free Contracting Environment allows, for instance, Free Customers, that is, clients whose demand is above 3 MW and with a connection voltage equal or higher than 69 kV, to purchase directly from a Generator instead of a Distributor. Energy producers, thus, became capable of exploring a new segment of the market and selling energy at differentiated prices and conditions.

Brazil's Electric Power Industry: Entities and their Attributions



06

operating performance



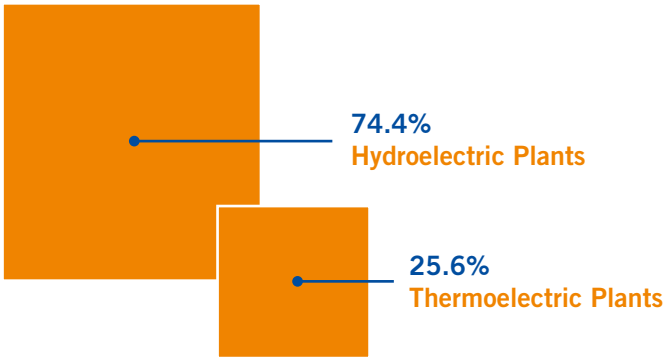
Generation

In 2006, global generation was comparatively lower than previous years, due to the prolonged drought which affected the Southern Region of Brazil, regarded as one of the most severe droughts ever recorded. The Company generated 21,351 GWh (2,437 average MW), out of which 15,885 GWh (1,813 average MW) originated from hydroelectric plants and 5,466 GWh (624 average MW) from thermoelectric plants. These data include the total output of the Itá and Machadinho Plants, in which Tractebel Energia holds 70.0% and 16.9% of shares, respectively.

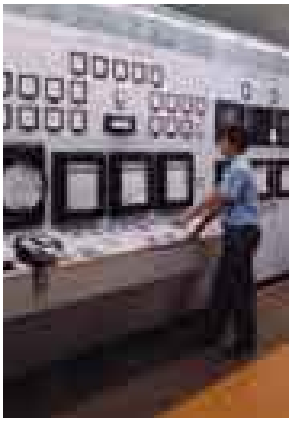
It is worth pointing out that the effects of this drought in the Company were significantly lessened, due to a system denominated Energy Reallocation Mechanism (MRE), which apportions hydrological risks among Generators, by allowing energy interchange among them at operation prices.



2006 Tractebel Energy Production







Also due to the drought and to the request of the National Electricity System Operator (ONS), the Company resumed the operation of the Alegrete Thermoelectric Plant, which, since 2002, due to the lack of dispatch by the ONS, had been under conservation – when operations are interrupted for an undetermined period and equipment is preserved, minimizing, thus, the effects of natural wastage.

Availability

One of the corporate purposes for 2006, the obtainment of generation availability higher than 96% - Programmed Stoppages being discounted, the Company reached 98.4% that year. Taking the stoppages into account, the global availability reached 93.5%, over the 92.7% target, and in hydroelectric plants this index was 95.0% and, in thermoelectric plants, it was 86.4%.

These indices are above average national levels and, regarding the thermoelectric plants, are equivalent to a worldwide benchmarking, whose average is 85%. In the pursuit for permanent operating improvement, in 2007, the generation availability target is 97%.



Integrated Metering System

In 2006, Tractebel Energia made the Integrated Metering System available to the totality of its industrial clients. This service enables the measurement of the energy consumed by Free Customer, which eases the control of its costs. These data are available to clients in a designated and safe part of the Company's website (www.tractebelenergia.com.br), which offers services such as consultation on consumption throughout the month or year, customization of reports, online invoice issuance and invoice simulation before the end of the month.

Safety and Environment: Investment Plan

In addition to permanent investments made in the maintenance and renovation of Tractebel Energia's generating complex, it is worth pointing out investments associated to the environment, personal safety and plant reliability matters, and also the approval of a a plan of nearly R$500 million focusing on these issues, to be invested up to 2030.

In 2006 alone, there were three important reviews, involving Salto Osório Unit 2, with an investment of R$15 million in renovation; and Units 2 and 3 of the Jorge Lacerda A Thermoelectric Plant, which received an investment of R$35 million in services in the Electrostatic Precipitator, Boiler, Turbine and Generator. Specifically in Unit 3, due to environmental reasons, an Electrostatic Precipitator was replaced for the improvement of air quality, at the cost of R$15 million.

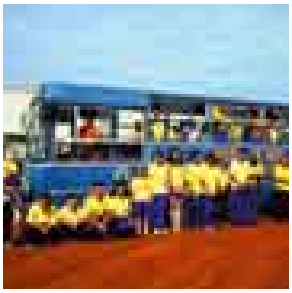
Tractebel Energia forecasts investments of around R$ 500 million to be applied by 2030, aimed at issues related to the environment, personnel and facility safety, and plan reliability

Research and Development Program

As a means of seeking sustainable solutions for its operations and interacting with institutions and foundations of education and local research, Tractebel Energia also invests in scientists and researchers, by means of its Research and Development Annual Program, under the responsibility of the Energy Production Director.

Between 1999 and 2006, the Company invested more than R$23 million in 113 projects, which focused mainly on the environment, technological development of the energy generation processes, the efficiency of plants and renewable energy sources.

In 2006, R$6.0 million were invested in Research and Development, that is, 0.25% of 2005 net revenue, as set forth by Law no. 10,848 as of 2004, under the inspection of ANEEL. This percentage was increased to 1% in 2006, for investment beginning in 2007. Part of this amount corresponding to R$2.4 million was destined to the 19 projects approved by ANEEL. Investments were focused on environmental research projects (40% of the total invested), as well as on studies focused on planning, operation and thermoelectric generation.





Among the projects, we point out the following:

- Use of thermoelectric plant ash for building houses (further details in chapter on "Relationship with the Community and the Environment");
- Discovery of new species of fish in the Passo Fundo Hydroelectric Plant reservoir;
- Reproduction in captivity of species of fish in danger of extinction (further details in chapter on "Relationship with the Community and the Environment");
- Development of technologies of:
  - environmental control in the thermoelectric plants;
  - innovative welding technology;
  - increase of the thermoelectric plants' thermal efficiency;
  - use of timber waste for generating electric energy.

These projects are developed with research institutions located in the plant regions, such as Universidade Federal de Santa Catarina, Universidade Federal do Mato Grosso do Sul, Universidade Federal do Rio Grande do Sul, Universidade Estadual do Oeste do Paraná, Neotropical Consultoria do Rio Grande do Sul, Universidade Federal de Goiás, Universidade Católica de Goiás, Universidade do Planalto de Lages de Santa Catarina, and others.

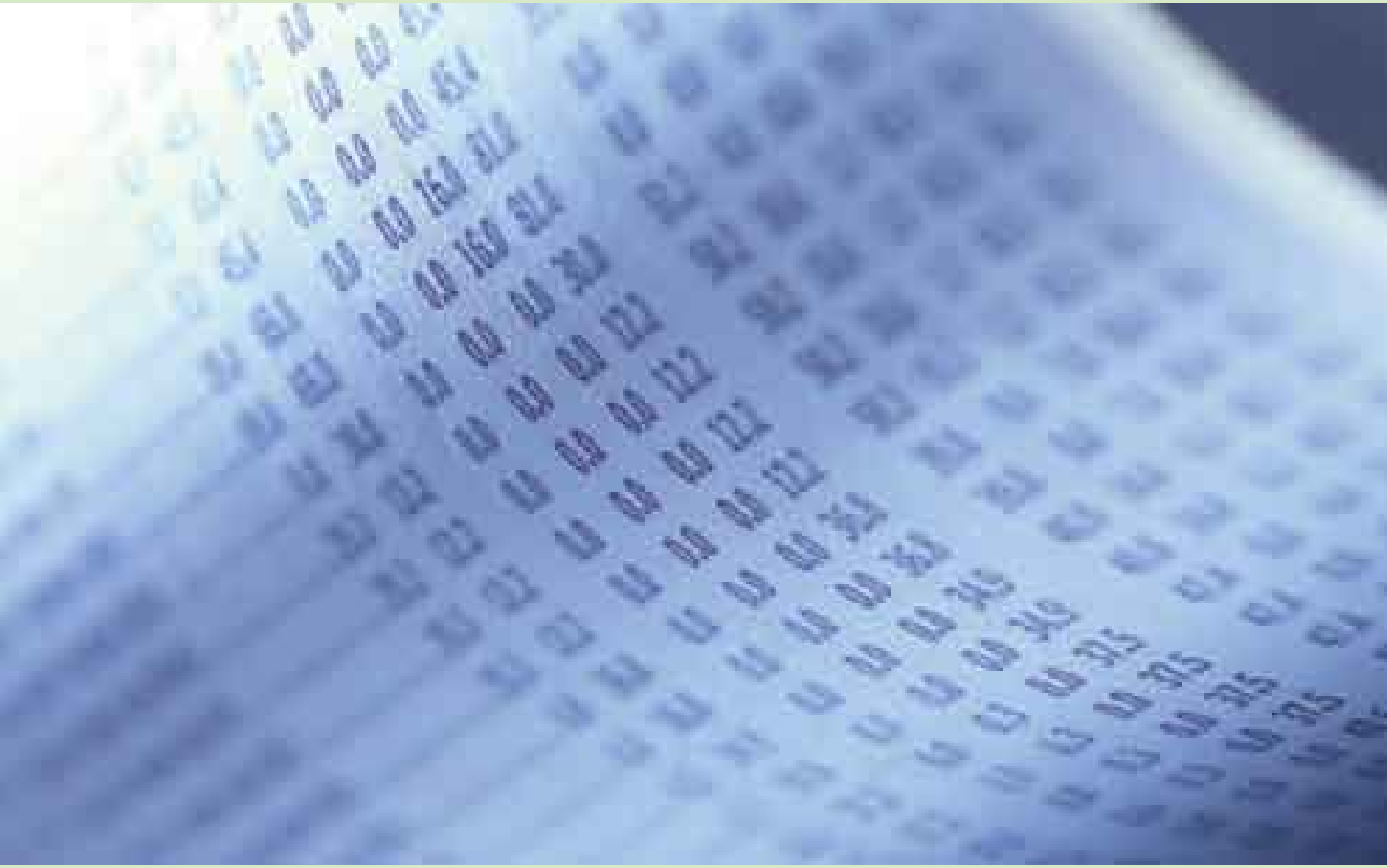
Additionally, it is worth pointing out that the Company has deposited a portion higher than R$2 million in the National Scientific and Technological Development Fund, managed by the Study and Project Financing Agency (FINEP) of the Brazilian Ministry of Science and Technology, and more than R$1 million was destined to the Ministry of Mining and Energy (MME).

Between 1999 and 2006, the Company invested more than R$23 million in 113 research projects on Research and Development



07

economic and financial performance

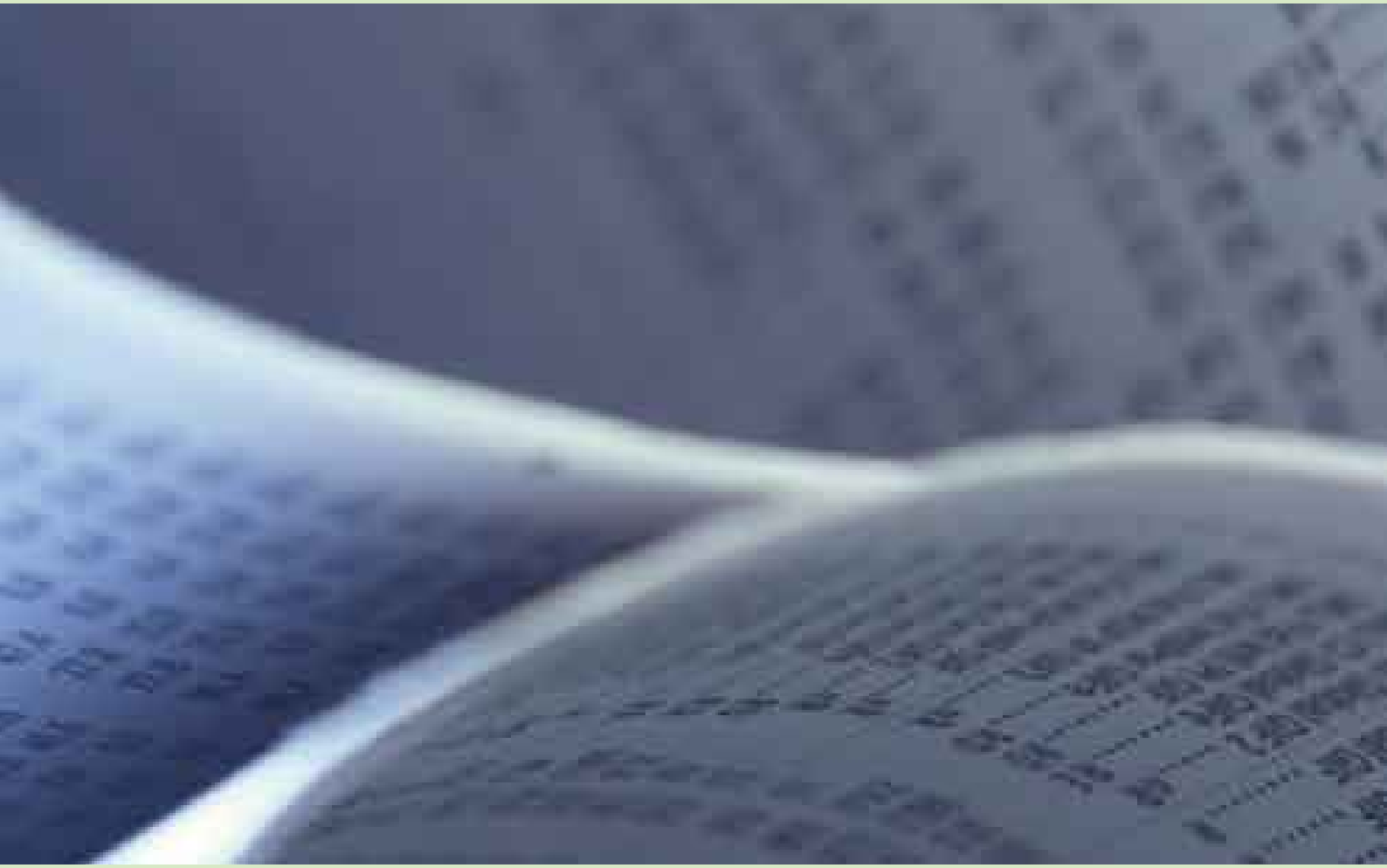


Revenue

Gross operating revenue amounted to R$3,061 million in 2006, an increase of 18.1% from 2005, which was R$2,593 million. Main factors contributing for the increase included the 10.1% increase in the energy sales volume jointly with the higher sales average prices, which increased by 7.1%.

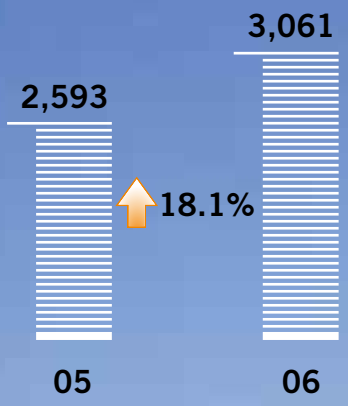
Net operating revenue for 2006, for its part, totaled R$2,706 million, versus R$2,288 million in the previous year, an 18.2% increase, consistent with the increase in gross operating revenue.

In 2006, Tractebel Energia posted a record net income of R$ 979 million



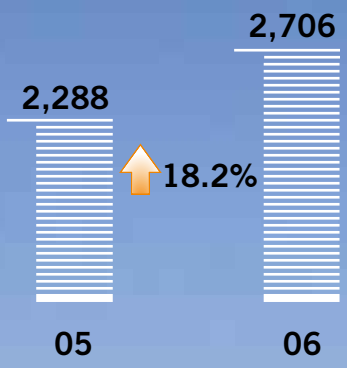
Gross Operating Revenue

R$ million

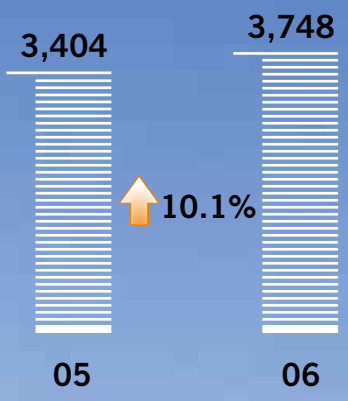


Net Operating Revenue

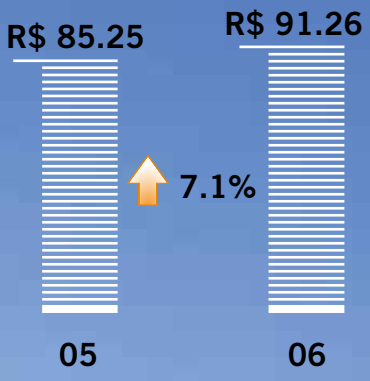
R$ million



Energy Sales
average MW



Sales Average Price per MWh



Costs and General and Administrative Expenses

Costs and operating expenses totaled R$1,425 million in 2006, representing a 43.1% increase from the figure posted in the previous year, which was R$996 million. This variation was due mainly to the behavior of the main components as follows:

Electric energy purchased from third-parties: increase of R$131 million due to the higher volume of contractual commitments of energy sales.

Transactions in the scope of the Electric Power Trade Board (CCEE): increase of R$274 million, mainly due to: (a) the need for restitution of energy of the contract with Companhia de Interconexão Energética (CIEN), which was shown unavailable as from the first half of 2006; (b) the average increase in spot prices (PLD), in the CCEE, which resulted in the increase in the costs of thermoelectric energy replacement; and (c) the increased costs of the Energy Reallocation Mechanism (MRE), as a consequence of the reduced output, due to the strong drought which affected the Southern Region of the country, where most of the hydroelectric plants of Tractebel Energia are located, in 2006.

Charges for use of the transmission and distribution grid: increase of R$40 million, due to increased sales volume by means of Billateral Contracts in substitution for Initial Contracts, on which there are no transmission, distribution or connection charges, and also due to the increase in tariffs for transmission services.

Financial compensation for use of water resources: R$29 million reduction, as a result of the impact on the calculation basis of this contribution, caused by the reduction of the dispatch of hydroelectric plants by the ONS, due to the aforementioned drought that affected the Southern Region.



Net Operating Provisions

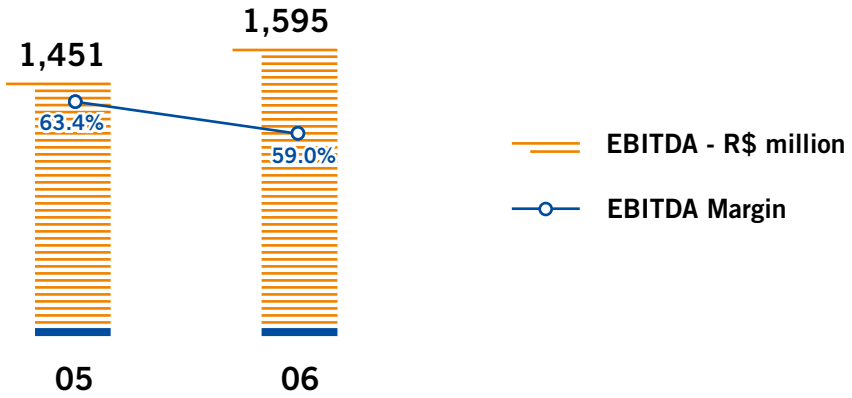
R$61 million decrease mainly due to: (a) the occurrence of reversal of provision for civil contingence in 2006, because of the remote probability of loss; and (b) in 2005, recognized non-recurring provisions related to post-employment benefits, due to changes in the benefit plan and to scheduled maintenance programs in virtue of revaluations of the maintenance program.

Favorable Court Rulings

In 2006, the Company benefited from a favorable court ruling, at the amount of R$89 million, in the final and unappealable decision regarding the digression of the calculation basis for PIS and COFINS contributions.

EBITDA

Reflecting aforementioned effects, 2006 EBITDA amounted to R$1,595 million, a 9.9% increase from the previous year, with an EBITDA margin of 59.0%, compared to 63.4% in 2005.



Note: EBITDA represents earnings + financial result + non-operating result + social contribution and income tax + depreciation and amortization + goodwill amortization in subsidiaries.



Financial Result

Financial Income: R$31 million reduction primarily due to the decrease in income from financial investments caused by the lower volume of funds available for investments and the lower interest rates practiced by the market.

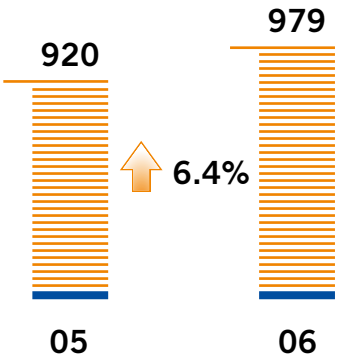
Financial expenses: R$11 million decrease mainly due to the reduction of interest over debt, due to the decrease in the Long-Term Interest Rate (TJLP) and financing amortization.

Net Income

Net income in 2006 reached the record amount of R$979 million, 6.4% above the figure recorded in 2005, representing an income of R$1.50 per share.

Net Income

R$ million



Both gross debt and net debt decreased in 2006: 16.2% and 17.6% respectively

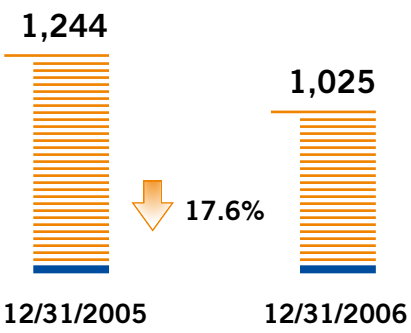


Debt

As of December 31, 2006, the total gross debt, mainly represented by loans, debentures and financings, amounted to R$1,278 million, a 16.2% decrease versus December 31, 2005. Similarly, net debt (total debt net of cash and cash equivalents and the result of swap agreements) of the Company totaled R$1,025 million, a 17.6% reduction when compared to that of the previous year. 30.4% of the total debt was exposed to foreign currency, 48.0% of which was protected from exchange variation by means of hedging instruments.

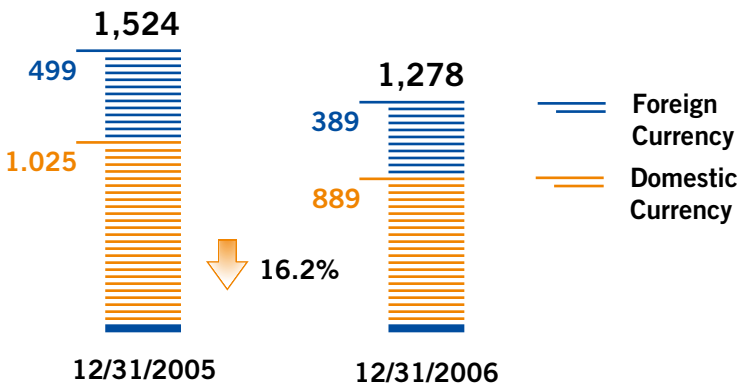
Change in Net Debt

R$ million



Gross Debt Breakdown

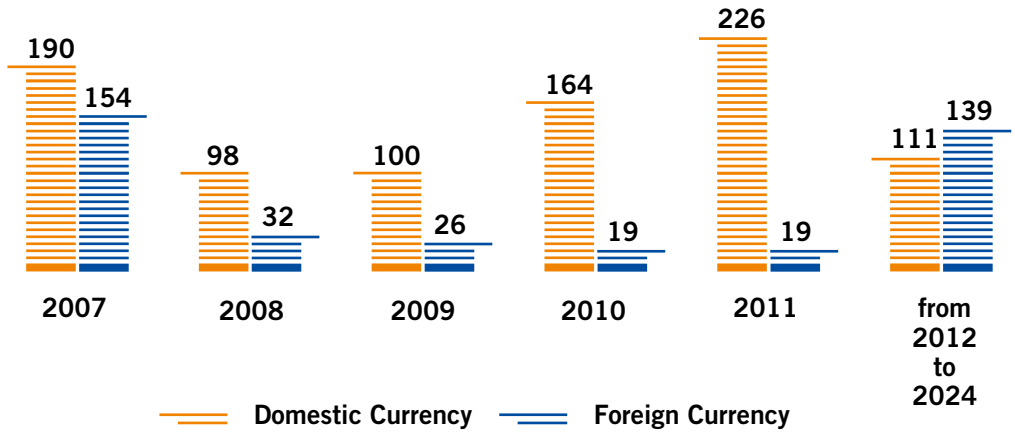
R$ million





Debt Maturity Schedule

R$ million

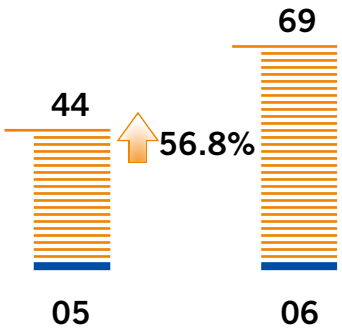


Capital Expenditures

In order to maintain the excellent indicators of efficiency and performance, Tractebel Energia invested R$69 million in maintenance and renovation projects in the generating complex, which allowed it to present an average of 98.4% of energy availability, taking Programmed Stoppages into account, above the targets established by the Company.

Investments

R$ million



08

capital markets and corporate governance



Tractebel Energia's shares are traded at Bovespa under the ticker TBLE3. The Company also has Level 1 American Depositary Receipts (ADRs), traded at the US OTC over-the-counter market, under the ticker TBLEY, at a ratio of 1 ADR to 5 common shares.

On November 16, 2005, Tractebel Energia's shares began to be traded in the Novo Mercado segment of the São Paulo Stock Exchange (Bovespa).

During the course of its first year in the Novo Mercado, the Company worked towards strengthening the relationship with capital markets, in addition to having created, in September 2005, the Investor Relations department. Among other activities, the Company began disclosing press releases and making teleconferences, both focusing on disclosing quarterly results, in addition to having significantly increased the number of meetings with investors and analysts, including visits to the plants.

Its efforts in adjusting to the best corporate governance practices enabled the Company to integrate the Differentiated Corporate Governance Stock Index (IGC), the Differentiated Tag Along Stock Index (Itag) and the Corporate Sustainability Index (ISE), which joins companies that stand out for their corporate responsibility and sustainability practices. There has also been an increase in the number of analysts covering the Company, which increased from eight at the end of 2005 to 12 at the end of 2006.

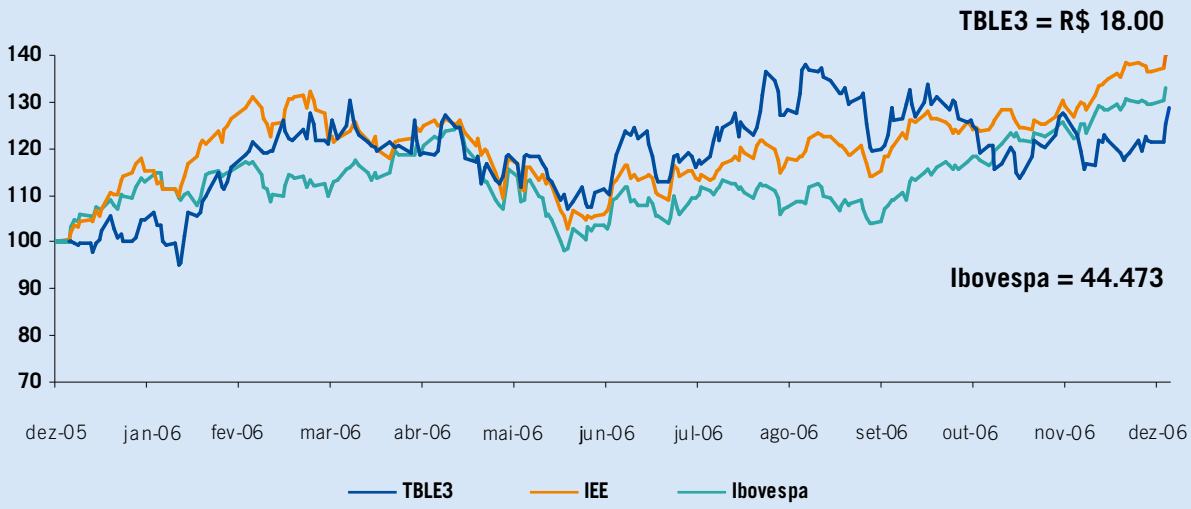


Tractebel Energia's businesses are based on a commitment to transparency

As a result of all these actions, Tractebel Energia's volume of shares traded at Bovespa presented a strong increase. The secondary offering, held in December 2005, caused free float to increase to 31.3% and contributed to the outstanding performance of shares that year. The shares appreciated 30% between 12/30/2005 and 12/30/2006, versus 33% of Ibovespa and 41% of IEE (Electric Power Index). At the closing of the period, stocks were priced at R$18.00/share, representing the Company's market cap equivalent to R$11,749 million. Compared to the 2005 average, shares appreciated 63.8% in 2006, the average being R$16.53 per share.

The Company's stocks were present at all floors of Bovespa in 2006, and the daily average trading volume in the period was R$8.2 million.

TBLE3 vs. IBOVESPA vs. IEE
(Base 100 - 12/29/2005)

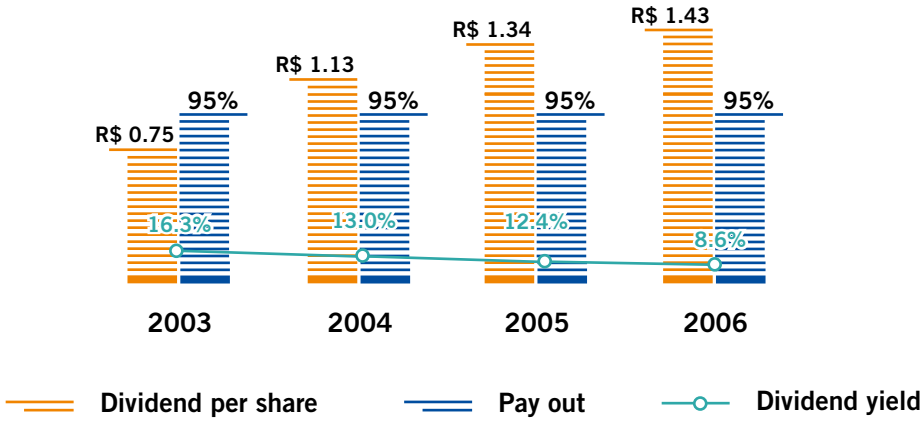


Dividend Policy

Tractebel Energia has a history of differentiated dividend payment, and the minimum set forth in its bylaws is 30% of adjusted net income, a percentage above the 25% determined by Brazilian Corporate Law. However, there is the Board of Executive Officers' commitment to pay dividends and/or interest on shareholder's equity not below 55% of net income, in semiannual distributions.

The total amount of provisions credited to shareholders in 2006 totaled R$930 million, that is, 95% of adjusted net income, R$717 million of which were dividends and R$213 million were interest on shareholder's equity, which represented a payment of approximately R$1.43 per share, a 6.4% increase over 2005. This 95% was the basis of distribution of provisions in 2003, 2004 and 2005.

Dividends



Note: Dividend Yield is based on average price weighted per common share volume traded.

Shareholders' Rights

Each Company's common share grants its holder one vote at extraordinary or ordinary general meetings, and the right to receive dividends; to take part in the income distribution or other distributions to shareholders; to monitor the Company's management, pursuant to the bylaws; to have preferential rights in the subscription of shares, debentures convertible into shares or subscription bonuses; and to leave the Company in cases set forth in Brazilian Corporate Law. In accordance with Novo Mercado listing rules, common shares may be included in the public offering, due to the transfer of the Company's control, receiving at least 100% of the price paid per common share in the control block.

Arbitration Clause

The Company, its shareholders, managers and members of the Fiscal Council undertake to resolve, by means of arbitration, each and every dispute or controversy which may arise among them, related to or resulting from the application, validity, effectiveness, interpretation, violation and its effects, of the provisions provided for in the Corporate Law, in the Company's bylaws, in the rules published by the Brazilian Monetary Council, the Brazilian Central Bank and the Brazilian Securities and Exchange Commission, as well as on further rules applicable to the capital markets in general, in addition to those included in the Novo Mercado Listing Rules, the Market Arbitration Chamber Arbitration Regulations and the Novo Mercado Listing Agreement.

Sarbanes-Oxley Act

In addition to the Novo Mercado rules, Tractebel Energia complies with the regulations of the Sarbanes-Oxley Act, since it is aligned to the rules of its controlling shareholder, SUEZ, which is listed in the New York Stock Exchange (NYSE). This law, which aims to discourage unethical conduct and offer more reliability to financial statements, is ruled by the Securities and Exchange Commission (SEC) and requires the Company to create a code of ethics and adopt procedures of internal administrative, auditing and risk controls, among others.



Specialized companies perform auditing on social, environmental, economic and financial aspects of the Company, and this information is disclosed on its website, as well as in other specific vehicles. Among the means of disclosure of corporate information we point out: the Management Report, the Annual Report, the Boas Novas external newspaper, the Conexão internal newspaper, press releases, internal electronic bulletins and Intranet with information for employees.

Management

Tractebel Energia is managed by a Board of Directors and a Board of Executive Officers, and one of the officers integrates both of them. Inspection is performed by the Fiscal Council and there is no family relation among the members of the management or among them and the Company's controlling shareholder. There is no relevant contract or liability among managers and the Company.

Board of Directors

The Board of Directors is responsible for determining the general orientation of the Company's businesses, the election and destitution of officers and for determining their respective functions, as well as for monitoring their management.

When Tractebel Energia adjusted its bylaws to the new rules and procedures of the Novo Mercado Listing Rules, its Board of Directors started counting on nine sitting members, one of them representing employees and two independent members. Except for the sitting member appointed by employees, all of them are elected by shareholders at the General Meeting.

The term of office is for two years, reelection being permitted. The current Board was invested in office on April 26, 2006, and its term of office ends in April 2008. Over the year, the Board of Directors held seven meetings.

Sitting Member	Position
Maurício Stolle Bähr	Chairman
Jan Franciscus Maria Flachet	Vice-Chairman
Victor-Frank de Paula Rosa Paranhos	Board Member
Manoel Arlindo Zaroni Torres	Board Member
Dirk Beeuwsaert	Board Member
Pierre Michel Philippe Chareyre	Board Member
Luiz Antônio Barbosa	Board Member
José Pais Rangel	Board Member
Antônio Alberto Gouvêa Vieira	Board Member
Patrick Charles Clement Obyn	Alternate member
Luiz Eduardo Simões Viana	Alternate member
Manuel François Colcombet	Alternate member
Alexandre Jean Keisser	Alternate member
Gil de Methodio Maranhão Neto	Alternate member
José Carlos Cauduro Minuzzo	Alternate member
Ângelo Rabelo da Silva	Alternate member
Altair Moreira de Souza	Alternate member
Luiz Leonardo Cantidiano Varnieri Ribeiro	Alternate member

Board of Executive Officers

The Board of Executive Officers is responsible for the general management and representation of the Company. It is comprised of six members elected by the Board for a three-year term of office, reelection being permitted. The current Board was invested in office on April 30, 2006, and its term of office will expire on April 30, 2009.

Sitting Member	Position
Manoel Arlindo Zaroni Torres	Chief Executive Officer
Marco Antônio Amaral Sureck	Planning and Control Director
José Carlos Cauduro Minuzzo	Energy Production Director
Marc Verstraete	Finance and Investor Relations Director
Miroel Makiolke Wolowski	Business Development and Commercialization Director and Project Implementation Director
Luciano Flávio Andriani	Administrative Director

Fiscal Council

The Fiscal Council is responsible for monitoring managers' actions and examining and voicing opinions on financial statements. It is a non-permanent body, independent of the Company's management and external audit, and it may comprise a minimum of three to a maximum of five members, one of whom is appointed by minority shareholders. The current Council was invested in office on April 26, 2006, and its term of office ends on April 26, 2007. In 2006, the Fiscal Council held four meetings.

Sitting Member	Position
Newton de Lima Azevedo Júnior	Chairman
Carla Carvalho de Carvalho	Secretary
Manoel Eduardo Lima Lopes	Board Member
Manuel Eduardo Bouzan de Almeida	Alternate Member
Flávio Marques Lisboa Campos	Alternate Member
Ailton Pinto Siqueira	Alternate Member



Tractebel Energia has carried out socio-environmental impact studies since the beginning of the construction project of its undertakings

09

relationship with the community and the environment



The concession agreements of the power plants operated by Tractebel Energia have a duration of up to 35 years, and, consequently, the Company considers it vital to also maintain long-term investments with the local communities, as well as with the preservation of the environment in which it is involved.

Sustainable Energy Production

The guidelines that support the Company's environmental management plans and make it act under the principles of sustainable development are found in its Environment Code, available at www.tractebelenergia.com.br. It establishes compliance with the demands of the environmental organs, as well as the interaction with the communities that live under the power plants' influence, cooperating with the improvement in their quality of life. Such guidelines are in line with those of its parent company, SUEZ, which sets forth strict environmental targets.

Every power plant is regulated by environmental licensing agencies, and their activities are developed so as to seek the continuous improvement of all their processes.

Two important facts in 2006 bore witness to the Company's commitment to the environment: the certification of all its power plants with the NBR ISO 9001 and NBR ISO 14001 standards, and the Lages Unit's registration in the Clean Development Mechanism



Environmental Management

Tractebel Energia has an Integrated System for Quality and Environmental Management, certified by NBR ISO 9001 standards (quality standards) and NBR ISO 14001 (environmental standards) for all the power plants operated by the Company. In addition, the Company's commitment to sustaining natural resources resulted in its continuation in Bovespa's Corporate Sustainability Index (ISE), a portfolio comprised of shares of companies considered to be sustainable in the long term, and with excellent performance in the financial, social, environmental and corporate governance aspects.





The Company develops projects for environmental monitoring to mitigate or offset the impacts resulting from the operation of its hydroelectric or thermoelectric plants, which use mineral coal, combustible oil, natural gas and Biomass. It also sees to the preservation of natural resources and the recovery of degraded areas or ecosystems.

These initiatives include:

1) Ichthyofauna Studies and Water Quality

The monitoring of and research on ichthyofauna (fish) and reservoir water quality is carried out regularly, and usually in partnership with companies and research entities from universities of the regions where Tractebel Energia operates.

The monitoring is in line with requirements from the licensing environmental agency. The Company, however, has voluntarily promoted research on the preservation and reproduction of the offspring of native species, with emphasis on those species that are threatened with extinction, to repopulate the hydroelectric plant reservoirs and contributing rivers. It also keeps an agreement with the Federal Environment Protection Agency (Ibama) to repopulate the Uruguai River basin, where approximately one million recently hatched fish are returned per year.

Water resources in areas affected by the presence of thermoelectric plants are also systematically monitored. Water quality in surrounding rivers is checked, and the impact on the direction of waterflow is evaluated. In order to avoid water pollution, there are systems with specific targets for treating, decreasing and re-circulating industrial effluents, avoiding the discharge of these effluents, even when treated, into the watersheds.

2) Hydrographic Basin Management

Tractebel Energia sits in the following hydrographic committees of its concession area:

- State of Rio Grande do Sul
  - Baixo Jacuí (Charqueadas Thermoelectric Plant)
  - Ibicuí River (Alegrete Thermoelectric Plant)
  - Passo Fundo River (Passo Fundo Hydroelectric Plant)
  - Apuaê and Inhandava Rivers (Machadinho Hydroelectric Plant)
  - Jacutinga River (Itá Hydroelectric Plant)
- State of Santa Catarina
  - Peixe River (Itá Hydroelectric Plant)
  - Tubarão River and Lagunar Complex (Jorge Lacerda Thermoelectric Complex)

The company is also an alternate member in the Paraná State Hydro Resources Council. These committees approach issues such as the rational use of water resources, the importance of basic sanitation, the multiple use of reservoirs and pollution control, among others, with strong participation from the communities involved. The management of the basin's water resources is the purpose of the National Water Resources Policy, whose implementation is part of the commitments assumed by the federal government.

Water Collected for Generation

Unit	Surface Water (m³)	Groundwater (m³)
Lages Co-generation Plant	283,068 (*)	-
William Arjona Thermoelectric Plant	-	1,209
Charqueadas Thermoelectric Plant	140,107	-
Alegrete Thermoelectric Plant	1,991	-
Jorge Lacerda Thermoelectric Complex	17,898,306 (**)	-
Total	**18,324,681**	**1,209**
Total consumption in m³/MWh	**0.858**	**-**

(*) Industrial water (62,770 m3) and refrigeration tower water (220,298 m3).
(**) Industrial water (13,999,273 m3) and refrigeration tower water (3,899,033 m3).

Note: Industrial water returns to the course of the receiving water body after treatment. The refrigeration water is evaporated. The industrial water volume is irrelevant to hydroelectric power plants.



3) Flora Management

The Company maintains tree nurseries in the Passo Fundo, Salto Osório and Itá Hydroelectric Plants, and in Jorge Lacerda Thermoelectric Complex. Together, they have the capacity to grow over 50 thousand seedlings of native species per year, which are used in the reforestation of areas surrounding the reservoirs, protect watersheds (Areas of Permanent Preservation), and for donations to public authorities, Non-Governmental Organizations (NGOs) and local communities. In 2006, 110 thousand seedlings were planted in the plants' areas, and 54 thousand were donated to adjacent communities.

4) Park Stewardship

Tractebel Energia, along with Itá Consortium and with the Santa Catarina State Foundation for the Environment (Fatma), is implementing an infrastructure project concerning the Stewardship Plan for Fritz Plaumann park. The park, which provides environmental compensation in Santa Catarina State for the construction of the Itá Hydroelectric Plant, has an area of 741 hectares and is located in the municipality of Concórdia, in the State of Santa Catarina.

The Company also develops, along with Itá Consortium, the Stewardship Plan for the Teixeira Soares Municipal Park, in the municipality of Marcelino Ramos, in Rio Grande do Sul, which comprises approximately 400 hectares of the Uruguay River highlands' forest area.

The purpose of these parks is to preserve forest remnants of the Uruguay River highlands, which, by virtue of its geography and the development, have a high level of anthropization. In addition, these parks are a means of favoring the research and the preservation of regional biodiversity in the States of Rio Grande do Sul and Santa Catarina.

5) Inspection and Management of the Reservoirs

The Plan for the Use and Occupation of the Reservoir Waters and Margins, which is part of the Integrated System for Quality and Environmental Management, aims at regularizing the use and occupation of the reservoirs' water and margins, fighting its illegal use. By the end of 2006, all reservoirs of Tractebel Energia's plants had their Usage Plan, some of which have already been approved, while others are undergoing analysis by environmental agencies.

Inspection is made by an environment and property security team. Cases involving property are solved by the Company, while environmental cases are forwarded to the appropriate authorities of the regions where the reservoir is located (Environmental Agencies and Public Prosecution Office).

6) Pollution Control

Tractebel Energia voluntarily promotes resarches on the preservation and reproduction of native fish species, focusing on those that are threatened with extinction, to repopulate the hidroeletric plant reservoirs and contributing rivers

The Company has programs for monitoring air quality and controlling atmospheric emissions, which aim at evaluating and mitigating environmental impact.

All the thermoelectric plants have systems of atmospheric emission control, which include particulate material retention equipment, and contract procedures for the acquisition of low-sulfur fuels (coal and oil), thereby reducing sulfur dioxide emissions. The thermoelectric plants fueled by mineral coal, for instance, have Electrostatic Precipitators that allow the reduction of at least 98% of particle emissions.

In addition to emission monitoring, the Company evaluates air quality, analyzing parameters such as particulates, sulfur dioxide and nitrous oxide, among others, whose reports are periodically disclosed to environmental agencies and municipalities, city councils and public prosecutors' offices of the cities where the Company's plants are located.

The disclosure of the results of this program for monitoring emissions and their impact on air quality meets the guidelines set aside by environmental agencies, and is part of the Company's policy of transparency.

Atmospheric Emissions (in tonnes)

Unit	NOx	SO_2	Particulates
Lages Co-generation Plant	15.9	6.28	52.29
William Arjona Thermoelectric Plant	2,148.07	40.74	311.58
Charqueadas Thermoelectric Plant	193.28	7,250.62	184.83
Alegrete Thermoelectric Plant	2.48	8.89	0.92
Jorge Lacerda Thermoelectric Complex	11,816.01	106,355.68	3,040.89
Total	**14,175.74**	**113,662.21**	**3,590.51**
Total Emissions in kg/MWh	**0.66**	**5.32**	**0.17**

7) Waste Disposal and Recycling



Over the last several years, the Company has improved the sustained management of the main solid waste produced by mineral coal fueled plants: both light and heavy ash. These are the result of coal combustion: the former is swept upward along with the gases, and the latter remains at the bottom of the Boiler, to be subsequently removed through hydraulic dragging.

Light ash contains properties that allow for its reuse by the cement industry, as a substitute for lime. Each year, approximately 800 thousand tonnes, or 90% of the total generated ash, is sent for pozzolanic cement production. Heavy ash, on the other hand, is used in the recovery of soil and coal reject deposits, or returned to the coal mines. Due to its alkaline pH, this kind of ash acts as a neutralizer of soil acidity. Heavy ash has been employed in areas degraded by third-parties coal reject deposits in the Capivari de Baixo (SC) region, and for recomposing open-air mining areas in the coal region of Baixo Jacuí (RS).

Dangerous waste, for its part, is sent for co-processing, and is subsequently used as fuel in the cement industry. The oil used is reprocessed for reuse.

Amount of Ash Generated (in tonnes)

Unit	Light Ash	Recovered light ash	% Recovered light ash	Heavy ash	Recovered heavy ash	% Recovered heavy ash
Lages Co-generation Plant	-	-	-	8,772	8,772	100%
Charqueadas Thermoelectric Plant	159,320	159,320	100%	43,183	43,183	100%
Jorge Lacerda Thermoelectric Complex	750,782	656,521	87%	523,357	585,597 (*)	112%
Total	910,102	815,841	90%	575,312	637,552 (*)	111%
Total generated ash in kg/MWh	43			27		

(*) The amount of recovered heavy ash is higher than the one produced, due to the addition of the light ash not used by the cement industry, which is directed as heavy ash.

Waste Destination (in tonnes)		
Type of waste	**Reprocessing**	**Co-processing**
Waste considered dangerous(*)	-	380.17
Oil used	67.3	-

(*) According to the NBR 10004 standard.

Environmental Accidents

No environmental accidents were recorded in the Company over the last six years.

Certifications

In December 2006, Tractebel Energia became the only company among the large companies in the Brazilian electric power industry to have 100% of its generating complex certified by NBR ISO 9001 and 14001 standards. In 2004, seven of its plants (Jorge Lacerda Thermoelectric Complex – UTLA, UTLB and UTLC, and the Itá, Passo Fundo, Salto Osório and Salto Santiago Hydroelectric Plants) had already been certified, and, in 2006, other six plants were certified: Machadinho and Cana Brava Hydroelectric Plants, and the William Arjona, Charqueadas, Alegrete and Lages Co-Generation unit Thermoelectric Plants, totaling 13 Plants.

The certifications were the result of five years of planning, preparation and adequacy to the standards. NBR ISO 14001 sets the requirements for the establishment and the operation of an environmental management system; NBR ISO 9001 attests that the Company has a management model which meets its clients' quality demands.



Clean Development Mechanism (CDM)

In June 2006, the Lages Co-Generation Unit obtained its registration at the Clean Development Mechanism (CDM) Executive Board of the United Nations (UN), becoming the first unit in Brazil and of the SUEZ group worldwide to use wood waste to negotiate carbon credits.

Waste from timber mills, when not reused, is disposed of in nature, polluting the soil and the rivers, and producing methane, a gas whose Global Warming Potential (GWP) is 21 times higher than that of CO_2. In Brazil, the other initiative of this nature registered at CDM uses sugarcane bagasse for fuel.

The Lages Co-Generation unit, which generates 28 MW and 25 tonnes/hour of steam, will reduce its emissions of greenhouse effect gases by 220,000 tonnes of CO_2 equivalent per year under the operation's current conditions, thereby being entitled to 220,000 credits of Certified Emission Reduction (CERs) per year, for 10 years.

Do you know the meaning of Kyoto Protocol?

The Kyoto Protocol is an international treaty which establishes that, by 2012, developed countries are to reduce by 5% their emission of greenhouse effect gases as compared to 1990 levels. In order to obtain that reduction, they may implement projects in their own countries, or they may buy CERs from implementations in developing countries, which do not have reduction targets.

CDM is one of the three flexible mechanisms established by the Protocol that aim at reducing general costs, so that the targets of greenhouse effect emissions can be reached. These mechanisms allow the Protocol signatories that cannot reach the target in their countries have the opportunity to reduce the emission or remove carbon dioxide from the atmosphere in other nations, while contributing to their sustainable development.

Since February 2005, when the Kyoto Protocol came into effect, carbon credits started to be traded in the international markets and may be used within the European Emissions Trading Scheme. Tractebel Energia's intention is to trade part of the Certificates with the Inter-American Development Bank (IDB) and other companies of the group, leaving the remaining ones for future sale in the spot market.

Social Actions

Tractebel Energia acknowledges its social responsibility, and considers community involvement fundamental for the success of its business.

The search for a better quality of life for employees and the communities where its operations are located is a commitment undertaken by Tractebel Energia. The process of integration with the community is a philosophy of the Company, and several institutions are contemplated, such as hospitals, day-care centers and philanthropic entities.

Since 1998, Tractebel Energia has kept sponsorship programs and donations for entities of the communities where it is located. Our actions always focus on socially-disadvantaged children, health, education and the environment. With a far-reaching positioning, the Company takes part in community events, partnerships with municipalities, and sponsorship actions in cultural and assistance activities.



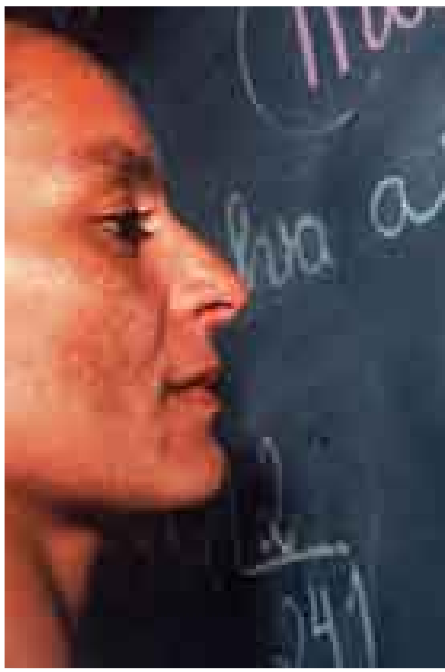
Impact Study of Plants in the Community

Since the beginning of its undertaking of the construction project, the Company has carried out studies of socio-environmental impacts in the local communities. Aspects of the flora and fauna are recorded for the proposal of programs for the impact mitigation, so as to enable an improvement in the impacted population's quality of life, such as identity rescue, inhabitants' memory, and lake construction, a developer of tourism and, consequently, of the local commerce development.

In addition, meetings are promoted with the communities' representatives, and these events help understand the features of local constructions. This facilitates the accomplishment of improvements, understood as compensating measures, which comprise aspects that are beyond those required by law.

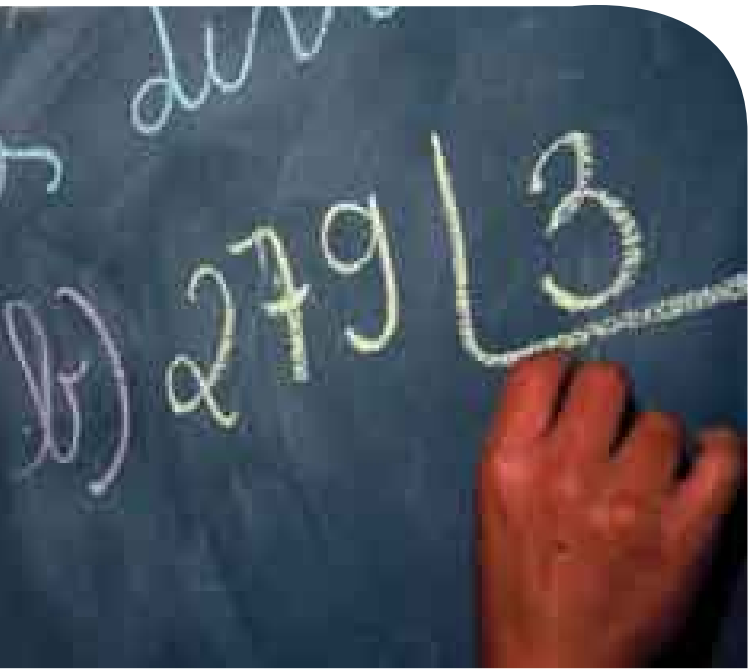
The Itá municipality is an example: the city was relocated and completely rebuilt, respecting local customs, with visible improvement of sanitation and urban conditions.





Besides socio-environmental studies, periodical image studies are conducted, during and after the construction of the plants, aiming at:

- Measuring the degree of information and the positioning of the population of the impacted areas towards the plant;
- Measuring the degree of the plant's impact on the daily lives of the population under study;
- Determining the spontaneous and stimulated image of the companies responsible for the undertaking (some plants are built through consortium);
- Estimating the approval and/or rejection to the Company's undertakings;
- Determining the community's perception towards the Company's attitudes and positioning concerning the municipalities' demands, main needs, sponsorships, supports, etc;
- Knowing the population's expectations and prospecting the areas where the Company may operate to the benefit of the communities;
- Determining the vehicles and information means capable of reaching the communities;
- Classifying the public as to the following variables: sex, age, family income, place of living and level of education.



The data are collected by means of a questionnaire. Based on the data received, the effects of the plant on the community are analyzed, and the need for incentive application and the areas requiring the most assistance, are identified. Thus, the financial amount to be transferred to the municipalities is defined and implemented within the local infrastructure.

The result of the study guides the Company's actions in what regards its participation in projects concerning the communities, both social and environmental. Under both aspects, Tractebel Energia's contribution goes beyond that required by norms and regulations.

The Cana Brava Example

Tractebel Energia takes part in the Serra da Mesa and Cana Brava Regional Development Fund, which will be implemented starting 2007 in nine municipalities of the State of Goiás that are located within areas adjacent to the Cana Brava and São Salvador Hydroelectric Plant reservoirs. The Company contributes a total of US$333 thousand, aiming at developing activities capable of generating jobs and income to the region's community.

Companhia Energética Meridional (CEM) has carried on works with communities of the Cana Brava Plant insertion area, with a total expenditure of R$1.5 million in the hiring of labor for roads and homes and in community economic opportunities. This operation was mediated by the Minaçu Public Prosecution Office and by the representation of a committee of local community leaders, as well as by direct contact with people and resident associations.

The project is in compliance with the IDB's and the Equator Principle's performance standards.





Social Projects

Needy children's education is the main focus of Tractebel Energia's social actions. which is conducted through support for educational projects at the community level, incentives for institutions that assist children from needy communities, and the promotion of educational events aimed at disadvantaged youth.

Further information on the main projects accomplished or supported by the Company can be found on Tractebel Energia's website (www.tractebelenergia.com.br):

- Programa Jovem Trabalhador (Young Worker Program) (Florianópolis, Santa Catarina): offers job opportunities to young people from low-income families;

- Education Support Program (Tubarão, Santa Catarina): educational initiative carried out in partnership with the National Industrial Training Service (SENAI);

- Support for the Junior Achievement Program (Florianópolis, Santa Catarina): aims at developing the entrepreneurial spirit among young people enrolled in elementary school;

- Sociedade Eunice Weaver Society – Educandário Santa Catarina (São José, Santa Catarina): project that assists 500 children from low-income communities;

- Bandeirante Esporte: support for the soccer school for youth from low-income communities;

- Espaço Cultural Consulado and Casa da Memória do Caeira (Florianópolis, Santa Catarina): donation to Caeira 21 Project, whose purpose is to educate, inform, prevent and raise the awareness of children from needy communities;

- Edson Filho Association (Capivari de Baixo, Santa Catarina): support for the Specialized Pedagogic Action Project for Children and Adolescents with Special Needs from Centro de Integração Humana;

- AfriCatarina Group (Florianópolis, Santa Catarina): support for the free art and education program for children from needy communities;

- Palhoça's Swimming Program (Palhoça, Santa Catarina): assists 800 children and adolescents from needy communities from four cities in Santa Catarina, including children with special needs;

- Programa Orquestra Escola (School Orchestra Project) (Florianópolis, Santa Catarina): musical education program for children and adolescents from needy communities in partnership with Fundação de Cultura Franklin Cascaes;

- Tubarão Municipality (Tubarão, Santa Catarina): support for projects with children and adolescents with Tubarão municipality, through the Childhood and Youth Fund (FIA);

- Maranata Association (Laguna, Santa Catarina): support for projects focused on children from the region's needy communities, through the Childhood and Youth Fund (FIA);

- Cidade da Criança (Children's City) (Florianópolis, Santa Catarina): project in partnership with the Florianópolis municipality, which assists children and adolescents from the region's needy communities, through the Childhood and Youth Fund (FIA);

- Projeto Paternidade Responsável (Responsible Parenthood Project) (Lages, Santa Catarina): Educational project for adolescents from the region's needy communities;

- Projeto Formando o Cidadão (Educating the Citizen Project) (Florianópolis, Santa Catarina): sports project that assists approximately 200 children from needy communities;

- Association of Parents and Friends of Mentally Handicapped Children (APAE) (Florianópolis and Palhoça, Santa Catarina): support for several projects of that entity, which assists mentally handicapped children;

- Hospital de Caridade (Charity Hospital) (Florianópolis, Santa Catarina): donation of equipment and of a generator for the expansion of the hospital's bed capacity;

- Sapiens Park (Florianópolis, Santa Catarina): support for the Gincana do Milênio (millennium jamboree), an educational project carried out in partnership with schools of the Florianópolis region.

10

relationship with employees



Tractebel Energia values its employees by promoting personal development and improvement programs, prepared based on opportunity, equality and diversity.

The Company endeavors permanent efforts focusing on developing the health and work safety collective awareness, respect for the environment and social responsibility, contributing to sustainable development and to the favorable performance of the organization's indicators and results.

In addition, Tractebel Energia's actions are guided by the Organizational Climate Management Program, launched in 1999, which has given rise to several new projects, as well as to the improvement of existing processes.

85% of employees consider Tractebel Energia as one of the best companies to work for



In 2006, among the findings achieved, the highlights are:

- 93% of employees perceive as very high the Company's image of credibility and reliability;
- 93% of employees consider that Tractebel Energia applies Work Safety Standards;
- 89% believe that Tractebel Energia always seeks to improve the quality of its products and services;
- 89% see Tractebel Energia as being dedicated to environment protection;
- 87% notice Tractebel Energia's constant attention to changes in the external environment;
- 85% of employees consider Tractebel Energia one of the best companies to work for;
- 84% are proud to work for Tractebel Energia;
- 82% see the future with optimism.

The management policies are applied in other projects, such as the Training and Development Program, which focus on developing competencies and leaderships and which influences, among others, recruitment and selection and performance evaluation, that is, career management and succession inside Tractebel Energia.

All 905 employees are hired under the Labor Laws (CLT), and the Administrative Board is responsible for labor issues.

The Company has rules in written form that prohibit discrimination and regulate admission and promotion processes. There is also the Ethics Committee, which is responsible for identifying, providing guidance for denouncements, and finding solutions for possible cases of discrimination in the workplace. From 1998 up to December 31, 2006, no cases of discrimination were reported.

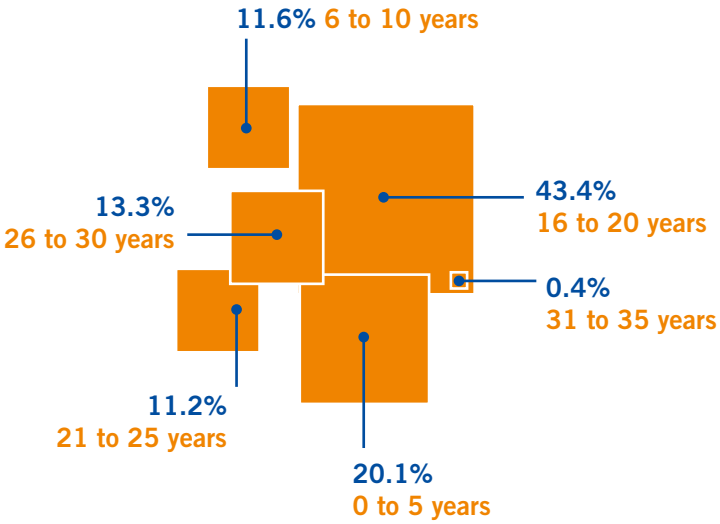
These rules also expressly prohibit child and forced labor, criteria that apply to suppliers as well, by means of agreements.

The target in that area is to seek the implementation of management systems whose purpose is to promote the improvement of relationships and of the work environment, and extend the commitment to social responsibility to suppliers. These management systems will be guided by the OHSAS 18001 and AS 8000 standards.

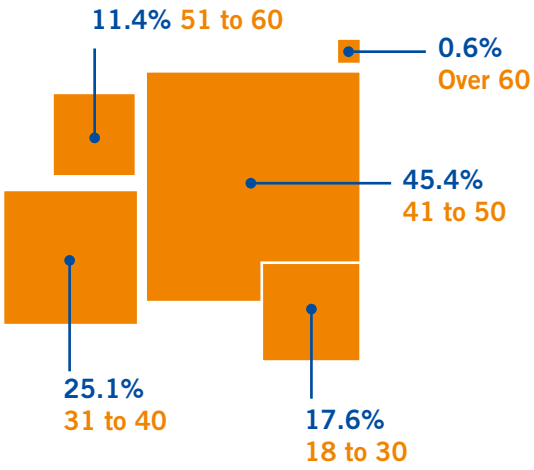
The breakdown of the Company's staff is a follows:

Breakdown by State	Number of Employees	%
Santa Catarina	629	69
Rio Grande do Sul	151	17
Paraná	93	10
Goiás	17	2
Mato Grosso do Sul	10	1
São Paulo	5	1
Total	**905**	**100**

Time of Service

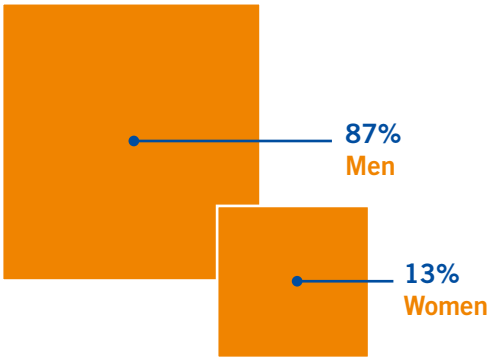


By Age Group



* Average time of service for the Company: 15.23 years.
* Turnover rate: 2.33.
* Average age: 40.76 years.

Breakdown by Gender



Breakdown by Gender (by Functional Category)

Gender	Executive Officers	Managers	O&M Managers	O&M	Technical/ Administrative	Total
Male	6	202	136	377	73	788
Female	0	57	0	2	58	117
Total	**6**	**259**	**136**	**379**	**131**	**911***

*Including Executive Officers

Breakdown by Gender in Boards	Female	Male
Fiscal Council	1	2
Board of Directors	0	9

Health and Work Safety Management



Tractebel Energia understands that the valuation policy reaches beyond the corporate environment, and is aware of its responsibility and its commitment to human health as well as to the safety of the working conditions in all its facilities. Therefore, it has been developing a health management and work safety system that strengthens the preventionist culture and the actions promoting the organization's continuous improvement; it has also been expanding its investments in Quality of Life Projects.

On the health front, the Company has been developing the Individual Health Program, which benefits all employees with an annual check-up and a regular medical follow-up. The program has established health goals, such as weight and cholesterol reduction, based on the results of the exams administered.

There is also a national agreement with a health cooperative, and the Assistance Benefits Program, which is extended to employees' dependents, and covers medical, odontological, pharmaceutical, psychological, and phonoaudiological areas.

Among the programs focusing on the maintenance of employees' and their families' health are: Physical Conditioning; Healthy Diet; Chemical Addiction; Assistance to People with Special Needs.



On the safety front, the Company's main objective is a zero accident rate. With that purpose in mind, the Company has developed programs for the prevention of work-related accidents, which are set up according to the results of technical reports on workplace conditions. These reports indicate what measures should be taken, which employees are at greater risk, and what equipment of individual or collective protection is necessary.

The Company has also established targets for reducing the number of work-related accidents, their frequency and severity rates, even though the current accident indicators are among the lowest, and are a benchmark in the electric power sector. In 2006, the accident frequency rate was 1.14, and the severity rate was 0.008.

In order to mitigate the number and severity of accidents in its facilities, the Company promotes, by means of agreements with labor unions, first-aid training and the integration between its Internal Commission for Accident Prevention (CIPA) and that of other service-providing companies. In addition, 25% of its employees are represented by formal health and safety committees.

Among the targets for 2007 on the safety front is the full implementation of NR10, the Regulatory Standard from the Labor Ministry that establishes the minimum conditions to ensure the safety of employees working in electrical facilities at all stages, including design, execution, operation, maintenance, remodeling and extension – as well as the safety of users and third parties.

In spite of the current accident rate of the Company being among the lowest and being regarded as a benchmark in the electric power industry, the Company's main goal in the safety area is to reach an accident rate of zero





Compensation Policy

Tractebel Energia adopts a compensation policy aligned with market practices, systematically monitored through salary surveys, ensuring the competitiveness levels it needs in order to adequately compensate professionals and secure the retention of their talents. In addition to fixed compensation, it also provides variable compensation, comprised of the payment of Profit and Result Sharing pegged to the Company's operating results, and of bonus payments, pegged to the achievement of individual targets, negotiated directly with employees.

Both systems are grounded on a compensation policy based on the assessment of individual performances, that is, how much each employee contributes to the achievement of corporate results.

The employees' functional placement reflects the positions each individual holds within the Company, and is established through the assessment of responsibility levels and the results obtained from the activities performed. The assessment system is based on the methodology created by HAY, a company with a high degree of expertise in this area. The consistency of the Company's salary structure is periodically compared with companies of a similar size and the same branch of activity, through salary surveys conducted by HAY and by Fundação COGE, which compare typical positions in the electric power sector.

Salary Proportion between Men and Women, by Functional Category (%)*	Female	Male
Managers and Coordinators	103.9	115.8
Operational, Technical and Administrative	112.3	102.3

*As compared to the median of the placement grid of the compensation table.

Profit Sharing

In 2006, R$12 million was distributed to employees as profit sharing for 2005. The distribution was proportional to each employee's compensation, and took into account, besides the net income result and EBITDA, the following:

- Individual performance: calculated based on the index representing the percentage of the employee's performance assessment in relation to his/her area's average value.

- Targets: calculated through assessing the results achieved within the targets. For employees with managerial careers, an individual indicator is used; for other employees who do not have individual targets, the indicator used is that of their area's results.

Share Ownership

The Spring Program, which facilitates the purchase of SUEZ's shares, has direct participation of over 65% of Tractebel Energia's employees. It is offered approximately each two years, with the purpose of allowing the employees to benefit from the Controlling Shareholder's results.

Program Participants by Edition		
Edition	Number of participant employees	% in relation to the total number of employees
2000 (concluded)	585	70.5%
2002 (concluded)	729	87.0%
2004 (still in course)	712	83.8%
2005 (still in course)	613	68.6%

Career and Succession Management

The Company invests in its employees' development so as to ensure the sustainability of its processes, and prepare its functional staff for energy market challenges.

All employees take part in two formal processes of evaluation and feedback:

- Performance evaluation, carried out annually in order to evaluate the employees' targets and commitment to the Company's values;

- Competency Mapping, carried out every two years, through a 360° evaluation process, to generate an Individual Development Plan (PDI) based on organizational competencies.

Education and Training

The Company structures and offers to its employees a series of actions to support the process of competency development, as well as the necessary tools to ensure the accomplishment of organizational strategies in the medium and long terms.

In 2006, an average of 69 hours per employee of training was carried out, of which the highlights were investments in the health and work safety areas, distributed among the employees, according to the table below:

Hours/Man of Training by Career	
Career	**Hours/Employee**
Managers	54
Managerial Career	79
Technical Administrative Career	54
Technical Operational Career	75

The consolidated analysis of the development actions recorded in the PDIs generated a series of behavioral programs in 2006, as follows:

- Prisma Workshop, comprising 100% of employees in technical-administrative career fields;
- Sigma Workshop, aimed at technical employees of the Operation and Maintenance areas;
- Managerial Development, with two modules aimed at the Top Management;
- Middle Management Development Program, involving 200 employees in leadership positions;
- Finance Course for Non-Financials;
- Writing Course for Businesspeople;
- Time Management and Personal Effectiveness Course.

Internship Program

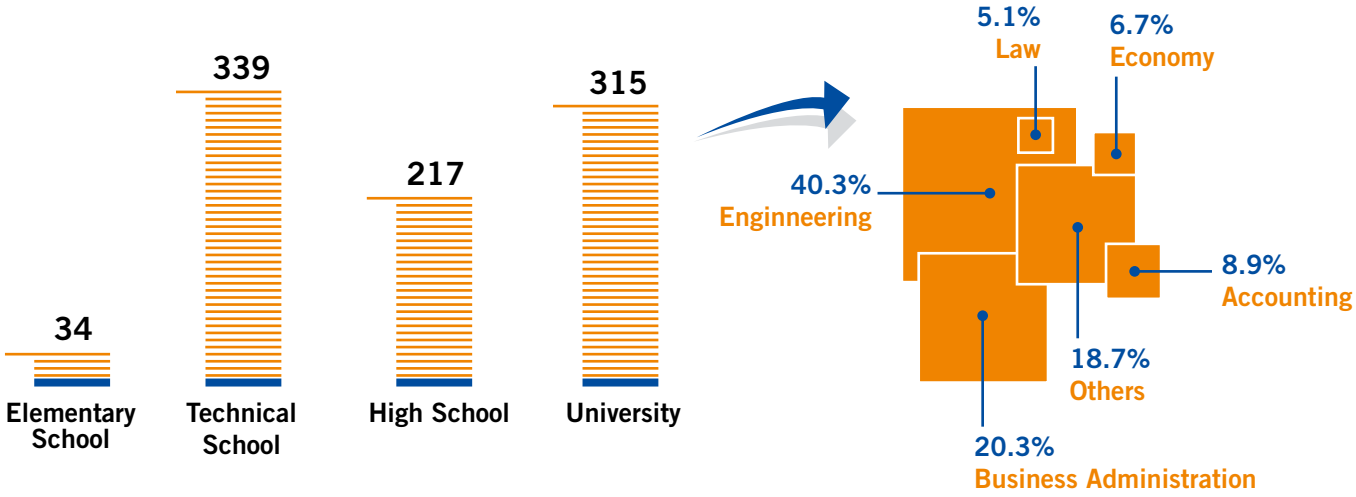
Since 2000 the Company has offered a periodical Internship Program for the technical and university levels, designed to supply specific labor to several Company areas and to develop new talents. The program has a duration 10 months, over which the interns get to know the different areas of the Company and receive training to accelerate their adjustment and professional development.



Education

Tractebel Energia invests in its employees' education, offering a scholarship that covers 100% of expenses with elementary school, 50% of expenses with high school, and up to 80% of expenses with undergraduate studies, in addition to incentives for graduate studies and MBA.

Education


34
Elementary School
339
Technical School
217
High School
315
University
5.1%
Law
6.7%
Economy
40.3%
Enginneering
8.9%
Accounting
18.7%
Others
20.3%
Business Administration

Collective Labor Agreement

The Company has a collective labor agreement with several unions, encompassing 100% of its employees, by means of which their rights are defined. The unions themselves formulate queries and seek solutions through a joint committee. The Company, for its part, keeps a transparent and open dialogue with employees and representative entities in order to solve any possible conflicts that may arise.

Private Pension Plan

Tractebel Energia is the sponsor of the PREVIG Foundation, through which it offers to employees the opportunity to hold a supplementary pension plan to the one offered by the Government, and which covers 94% of the Company's employees. This plan's financing is constituted by contributions from the employees and the Company. The value of Tractebel Energia's contribution to that plan, in 2006, was around R$7.8 million.



11

acknowledgments



- Investor Relations Magazine Brazil Awards 2006 award in the category “The Most Progress in Investor Relations”.
- Brasil Ambiental (Environmental Brazil) award from the American Chamber of Commerce (Amcham – Rio), in the special category of Clean Development Mechanism (CDM), for the work accomplished in the Lages Co-Generation Unit.
- 4th place among the 100 largest companies of Santa Catarina, according to Amanhã magazine.
- 10th place among the 50 largest by region, and 19th place in profits by activity, according to Valor 1000 magazine.
- Gold Trophy, of OUTSTANDING Supplier 2005, granted by Petroquímica União (PQU) at the 3rd Encounter PQU + Você Fornecedor. The Company was selected among 1,617 companies.



12 glossary



ANEEL

Brazilian Electricity Regulatory Agency. Enacted by Law 9,247/96 and established by Decree 2,335/97, with the duties of regulating and inspecting the production, transmission, distribution and trading of electric energy, caring for the quality of the services provided, for the universalization of the assistance, and for the determination of the prices for end consumers.

The alterations brought forward in 2004 by the sector's new model determined that it is ANEEL's direct or indirect responsibility to promote bids in the shape of auctions for the contracting of electric energy by the National Interconnected System's (SIN) Distributors.

Assured Energy

Assured Energy is the hydroelectric plant's Physical Assurance, that is, it constitutes its contracting limit. The Assured Energy of each hydroelectric plant is understood to be the fraction of the system's global Assured Energy allocated to it. The allocation of the Assured Energy and its revisions are defined by MME, based on a methodology applied by ONS/MME, pursuant to the provisions in Decrees 5,163/04 and 2,655/1998. For the purposes of this Annual Report, the term Assured Energy is being used regarding the maximum amount of energy that can be used for trading, both by the thermoelectric plants and by the hydroelectric plants, therefore being equivalent to the concept of Physical Assurance.

Basic Grid

Group of transmission lines, bus bars, power transformers, and equipment with tension equal or higher than 230 kV, or lower tension installations defined by ANEEL.

Bilateral Agreements

Agreements for the Purchase and Sale of Electric Power negotiated freely among Generators and Distributors for delivery from 2003, when the energy contracted through Initial Agreements started to be reduced by 25% per year, pursuant to the Electric Sector Law, besides the agreements executed between Generators and Free Customers, and Generators and Traders.

Biomass

Organic sources used to produce energy to be converted into electricity, fuel or heat. That energy originates from the photosynthesis process performed by plants, which capture energy from the sun and turn it into chemical energy. Examples of Biomass used in generating electricity are: sugarcane bagasse, rice skin, and timber waste, among others.

Boiler

Static equipment for generating steam. The boiler is divided into two environments: one is formed by a network of pipes or coils where demineralized water circulates, which will then be turned into steam; the other is the area where fuel is burned and the hot gases originating from this combustion circulate. A boil can burn several different types of fuel, such as mineral coal, diesel, heavy oil, natural gas, wood, rice skin, sugarcane bagasse, etc. In a thermoelectric plant, the steam generated goes on to the turbine, to allow electric energy generation.

Captive Customers

Customers acquiring energy from the Distributor to which they are connected, as from the payment of tariffs defined by ANEEL.

CCC

Fossil Fuel Consumption Account, whose objective is to allow for the coverage of pre-established percentages of the cost of the fuel used by the thermoelectric plants by means of monthly contributions made by all agents of the electric power sector who trade electric energy with end consumers, be they Distributors, Generators or Traders.

CCEE

Electric Power Trade Board. Enacted by Law 10,848/04 and established by Decree 5,177/04, it assimilated the Wholesale Electric Energy Market's (MAE) functions and its organizational and operational structures. Some of its main duties are: the calculation of the spot price (PLD), used to value the transactions carried out in the short-term market; the recording of the amounts of electric energy traded; the financial liquidation of the values resulting from the purchase and sale of electric energy carried out in the short-term market, and the conduction of auctions for purchase and sale of energy at the ACR, as delegated by ANEEL.

CDE	Energy Development Account, enacted by Law 10,438, of April 26, 2002, as CCC's successor in what concerns the subsidy of the fuel costs to the thermoelectric generation plants that use national mineral coal. It was created to support the development of energy production throughout the Country, the production of energy through alternative energy sources, and the universalization of energy services throughout the Country.
CER	Certified Emission Reduction. Unit of reduction of greenhouse effect gases, generated and certified in accordance with the provisions of the Kyoto Protocol for Clean Development Mechanism (CDM).
CMSE	Electric Power Sector Monitoring Committee. Agency created in the scope of the Brazilian Mining and Energy Ministry (MME), under its direct coordination, with the purpose of following up on and evaluating the continuity and safety of the electric supply across the national territory. Its main duties include: following up on the development of the generation, transmission, distribution, trading, importing and exporting of electric energy; evaluating supply and service conditions; carrying out a periodical integrated analysis of the supply safety and of the service; identifying difficulties and obstacles that affect supply regularity and safety and expansion of the sector, and elaborating proposals for adjustments and preventive actions that may restore the safety in the electrical energy supply and service.
CNPE	National Energy Policy Council. Inter-ministry Agency which provides assistance to the Presidency, and whose main duties are to formulate energy policies and guidelines and ensure the supply of energetic inputs to the most remote or most difficult to reach areas of the Country. It is also responsible for periodically revising the energetic matrices applied to the several different regions of the Country, establishing guidelines for specific programs, such as those for use of natural gas, alcohol, other Biomass, coal, and thermoelectric nuclear energy, in addition to establishing guidelines for import and export of petroleum and natural gas.
Distributors	Public service, electric energy distribution concessionaires that operate in the Brazilian electric energy market.
Electrostatic Precipitator	Electrical-mechanical equipment used to retain particulate material present in gases. In the case of thermoelectric plants, the electrostatic precipitator retains the ash originating from the mineral coal or combustible oil combustion

dragged along with the combustion gases. It is indispensable equipment for the control of particulate material emissions, preserving the environment. It is a filter that retains ash through the creation of an electrostatic field produced inside it. As it passes through this electric field, the ash ionizes and is retained in metal plates, preventing its access to the chimney.

EPE

Energy Planning Agency. Enacted by Law 10,847/04 and established by Decree 5,184/04, EPE is a company linked to the MME, whose purpose is to provide services in the studies and research area, aiming at subsidizing the electric power sector's planning.

Its main duties include carrying out studies and forecasts on the Brazilian energy matrix and studies that allow the integrated planning of energetic resources, developing studies that allow the expansion planning of energy short, medium and long term generation and transmission, carrying out analyses of plants' technical-economic and social-environmental feasibility, as well as obtaining the previous environmental license for hydroelectric and electric energy transmission utilizations.

Free Customers

Consumers that can negotiate freely the acquisition of electric energy with any energy supplier operating in the market, by means of executing Bilateral Contracts at the Free Contracting Environment.

Free Contracting Environment (ACL)

Contracting environment where electric energy is purchased and sold at prices negotiated freely among Generators, Free Customers and Traders.

GCE

Chamber for Managing the Energy Crisis, created by the Federal Government to manage the electric energy crisis that arose in 2001.

Generating Unit

The electric generator and the turbine or another apparatus that propels it, when referred to as a group.

Generator

Rotation equipment responsible for converting mechanic energy from the turbine rotation into electric energy. The electric generator is also composed of a moving part, comprised of the shaft and a set of coils or mobile winding, and of a stationary part, comprised of a set of coils or winding attached to the generator's casing. The mechanical energy originating from the turbine is used to turn the rotor, which induces a tension in the winding terminals which, by means of transformers and transmission lines, are connected to the charges or electric energy consumers, allowing the electric current circulation.

Generators	Concessionaires or companies authorized to use public assets to generate energy or provide public services of electric energy generation.
Gigawatt (GW)	Unit equivalent to one billion watts.
Gigawatt-hour (GWh)	Unit equivalent to one gigawatt of electric energy supplied or requested per hour, or one billion of watts-hour.
Independent Power Producer	Corporation or companies gathered in a consortium that are granted a concession or authorization from the granting power to produce electric energy with the purpose of trading all or part of the electric energy produced, at their own discretion.
Initial Agreements	Agreements for electric energy supply expired in 2003, after gradual reduction in amounts. These agreements had prices and amounts approved by ANEEL, and were executed between the Generators and the Distributors, pursuant to the Electric Sector Law.
Installed Capacity	The maximum amount of electricity that can be delivered by a Generating Unit, by a hydroelectric or thermoelectric plant, particularly on a continuous full charge basis, under specific terms and conditions, as appointed by the producer.
Kilovolt (kV)	Unit equivalent to one thousand volts.
Kilowatt (KW)	Unit equivalent to one thousand watts.
Kilowatt-hour (KWh)	Unit equivalent to one kilowatt of electric energy supplied or requested per hour, or one thousand watts-hour.
MAE	Wholesale Electric Energy Market. Organized environment, in which the purchase and the sale of energy among its participants have been processed up to the Industry New Model Law, through both Bilateral Agreements and energy balance settlements, limited by the country's interconnected systems.
Megawatt (MW)	Unit equivalent to one million watts.
Megawatt-hour (MWh)	Unit equivalent to one megawatt of electric energy supplied or requested per hour, or one million watts-hour.

MME	Mining and Energy Ministry. Federal Government Agency responsible for conducting the Country's energy policies. Its main duties include formulating and implementing policies for the energy sector, according to the guidelines established by the CNPE. The MME is responsible for establishing the planning for the national energy sector, monitoring the safety of the Brazilian electric power sector supply, and defining preventive actions to restore the supply safety in case of conjunctural imbalances between energy supply and demand.
MRE	Energy Reallocation Mechanism, aimed at distributing the hydrological risk among the Generators, as it is guaranteed to each Generator the payment for the amount of its assured and contracted energy while the MRE members are capable of complying with the MRS's levels of Assured Energy.
National Interconnected System (SIN)	System comprised of the Basic Grid and other transmission installations, which interconnects the generation and distribution units in Brazil's South, Southeast, Midwest and Northeast systems.
ONS	National Electrical Systems Operator. Created by Law 9,648, of May 27, 1998, and regulated by Decree 2,655, of July 2, 1998, with the amendments of Decree 5,081, of May 14, 2004, to operate, supervise and control the generation of electric energy at SIN, and managing the Basic Grid in Brazil. Its main purpose is complying with the charge requirements, optimizing costs, and ensuring the system's dependability, as well as defining the conditions of access to the country's high tension transmission grid.
PCHs	Small hydroelectric plants. Plants with installed capacity between 1 MW and 30 MW that meet the requirements proposed at ANEEL Resolution 652, of December 9, 2003.
PCF	Prototype Carbon Fund. Investment fund managed by the World Bank, focusing on combating climate change and promoting sustainable development. PCF invests contributions made by companies and governments in projects focused on emission reduction, consistent with Kyoto Protocol and the Clean Development Mechanism (CDM) regulations of the United Nations (UN).

Physical Assurance	The Physical assurance of a generation undertaking, defined by the MME and included in a concession agreement or authorization act, corresponding to the maximum amount of energy that can be used for trading by means of agreements, pursuant to the provisions in Decree 5,163/04. See the definition of Assured Energy in this section of the Annual Report.
PROINFA	Program for Incentive to the Alternative Sources of Electric Energy, enacted by Law 10,438, of April 26 2002, and further amendments.
Rationing Program	Emergency Program for Reduction of Energy Consumption, established by GCE in 2001, which was operational from June 2001 to February 2002.
Regulated Contracting Environment (ACR)	Contracting environment where electric energy is purchased and sold at prices obtained through public auctions to cater for the Distributors' Captive Customer market.
Scheduled Stoppage	The stoppage of equipment or generation units provided for in the preventive maintenance plans made by the agent responsible for their operation. Each and every mechanical or electric equipment requires maintenance, aiming at reaching an optimal operational condition.
Self-Producer	Electric energy consumer that holds concession, permission or authorization to produce electric energy for own use.
Traders	Companies authorized by ANEEL to act as electric energy selling agents in the scope of CCEE.
Transmission Companies	Public service, electric energy transmission concessionaires that operate in the Brazilian electric energy market.
Turbine	Rotation equipment responsible for converting thermoelectric energy from steam or gas into mechanical work, called steam or gas turbines. There are also hydraulic turbines, more frequently used in Brazil, which convert the potential energy of the water into mechanical rotation energy. The turbine is composed of two main parts, the set of moving blades (rotating) attached to the turbine shaft interspersed with stationary blades, and connected to the turbine casing, which redirects the steam or gas as they expand in the turbine. The heated gas or steam, when entering the turbine at high temperature and pressure, meets the resistance of the moving blades, making them turn. That rotating movement makes the generator convert the mechanical energy into electric energy. Hydraulic turbines are comprised of only one set of moving and stationary blades.

UHE	Hydroelectric plant, generation unit that transforms the potential energy of the water into electricity.
UTE	Thermoelectric plant, generation unit that transforms chemical energy into electric energy from the combustion of a certain fuel, which can be coal, diesel, gas, or Biomass, among others.
Volt (V)	Thermoelectric plant, generation unit that transforms potential energy into electric energy from the combustion of a certain fuel, which can be coal, diesel, gas, or Biomass, among others.
Watt (W)	Basic electric energy tension unit.
Watt-hour (Wh)	Amount of energy used to feed a charge with a 1 watt (W) power for one hour.

13 Consolidated Social Balance Sheet

Tractebel Energia Consolidated
1. BASIS OF CALCULATION
1.1 - Net revenues
1.2 - Operating result
1.3 - Gross payroll
2. INTERNAL SOCIAL INDICATORS
2.1 - Nutrition
2.2 - Mandatory payroll taxes
2.3 - Private pension plan
2.4 - Private pension plan – conversion of special retirement into time of service retirement
2.5 - Healthcare
2.6 - Education
2.7 - Profit sharing
2.8 - Other benefits
TOTAL (2.1 to 2.8)
3. EXTERNAL SOCIAL INDICATORS
3.1 - Taxes (excluding mandatory payroll taxes)
3.2 - Contributions to society/Investments in citizenship
TOTAL (3.1 to 3.2)
4. ENVIRONMENTAL INDICATORS
4.1 - Related to the Company's operations
4.2 - Related to projects in progress
TOTAL (4.1)
Regarding the determination of "annual targets" to reduce wastes, the general consumption in production/operation and increase in effectiveness of natural resources usage, the company
5 - EMPLOYEE COMPOSITION INDICATORS
5.1 - Employees at end of period
5.2 - Employees hired during the period
5.3 - Interns during the period
5.4 - Employees older than 45
5.5 - Women employees
5.6 - Disabled employees or employees with special needs
6 - KEY INFORMATION REGARDING THE LEVEL OF BUSINESS CITIZENSHIP
6.1 - Ratio between maximum and minimum salary in the company
6.2 - Total number of occupational accidents
6.3 - Environmental and social projects developed by the company were defined by:
6.4 - Security and salubrity standards in workplace were defined by:
6.5 - As regards freedom of trade union activities, collective bargaining rights and internal employee representation, the company:
6.6 - Private pension plans are offered to:
6.7 - The company's profit sharing plan is distributed to:
6.8 - When selecting suppliers, the ethical, social and environmental responsibility standards adopted by the company:
6.9 - As regards the participation of employees in voluntary work programs, the company:
6.10 - Total number of consumer's complaints and critics:
6.11 - Total added value to be distributed (in R$ thousand):
6.12 - Distribution of added value (DVA):

2006				2005		
	R$ million			R$ million		
	2,706			2,288		
	1,224			1,100		
	94			88		
	R$ million	**% of Gross Payroll**	**% of Net Revenues**	**R$ million**	**% of Gross Payroll**	**% of Net Revenues**
	6	6.4	0.2	5	5.7	0.2
	26	27.3	0.9	26	29.5	1.1
	16	17.6	0.6	14	15.9	0.6
	3	3.7	0.1	17	19.3	0.7
	8	8.9	0.3	5	5.7	0.2
	4	4.2	0.1	2	2.3	0.1
	14	14.9	0.5	10	11.4	0.4
	3	2.7	0.1	2	2.3	0.1
	80	**85.7**	**2.8**	**81**	**92.1**	**3.4**
	R$ million	**% Operating Result**	**% of Net Revenues**	**R$ million**	**% Operating Result**	**% of Net Revenues**
	591	48.3	21.9	515	46.8	22.5
	10	0.8	0.4	10	1.0	0.4
	601	**49.1**	**22.3**	**525**	**47.8**	**22.9**
	R$ million	**% Operating Result**	**% of Net Revenues**	**R$ million**	**% Operating Result**	**% of Net Revenues**
	9	0.7	0.3	7	0.6	0.3
	18	1.5	0.7	6	0.5	0.3
	27	**2.2**	**1.0**	**13**	**1.1**	**0.6**
	(X) has no goals ( ) complies 51 to 75% ( ) complies 0 to 50% ( ) complies 76 to 100%			(X) has no goals ( ) complies 51 to 75% ( ) complies 0 to 50% ( ) complies 76 to 100%		

2006	2005
905	893
33	61
57	62
305	300
117	118
13	13

2006			Targets 2007		
19.51			19.51		
4			-		
( ) directors	(x) directors and managers	( ) all employees	( ) directors	(x) directors and managers	( ) all employees
( ) directors and managers	(x) all employees	( ) all + Cipa	( ) directors and managers	(x) all employees	( ) all + Cipa
( ) does not interfere	( ) complies with OITrules	(x) encourages activities and complies with OIT rules	( ) will not interfere	( ) will comply with OITrules	(x) will encourage activities and comply with OIT rules
( ) directors	( ) directors and managers	(x) all employees	( ) directors	( ) directors and managers	(x) all employees
( ) directors	( ) directors and managers	(x) all employees	( ) directors	( ) directors and managers	(x) all employees
( ) are not considered	( ) are suggested	(x) are required	( ) will not be considered	( ) will be suggested	(x) will be required
( ) are not considered	(x) gives support	( ) organizes and encourages participation	( ) will not interfere	(x) will give support	( ) will organize and encourage participation
in company 0	at Procon 0	at Court 0	in company 0	at Procon 0	at Court 0
In 2006: 2,052,016			In 2005: 1,914,741		
34% government 6% taxpayers 48% shareholders 12 % third parties - % withheld			32% government 6% taxpayers 48% shareholders 14 % third parties - % withheld		

Corporate Information

Shareholder Services
Banco Itaú S.A.
Departamento de Atendimento Unificado
Tel.: + 55 11 5029-7780

Depositary Bank
In Brazil: Banco Itaú S.A.
In the United States of America (American Depositary Receipts): The Bank of New York

Independent Auditors
BDO Trevisan Auditores Independentes

Investor Relations
Marc Verstraete
Finance and Investor Relations Director
marc@tractebelenergia.com.br

Antonio Previtali Jr.
Investor Relations Manager
previtali@tractebelenergia.com.br

Rafael J. Caron Bósio
Investor Relations Analyst
rbosio@tractebelenergia.com.br

Ana Sayuri H. Sylvestre
Investor Relations Analyst
ana.sylvestre@tractebelenergia.com.br

Phone: +55 48 3221-7221

Company's Address
Rua Antônio Dib Mussi, 366
CEP 88015-110 – Florianópolis – SC
Brazil
Phone: +55 48 3221-7000
Fax: +55 48 3221-7001

Website
www.tractebelenergia.com.br

Legal Publications
Diário Oficial de Santa Catarina
Diário Catarinense
Valor Econômico

General Coordination
Tractebel Energia S.A.

Text, Edition and Translation
MZ Corporate Communications

Design, Layout and Graphic Production
MZ Design

Images
Tractebel Energia's Files
JupiterImages Corporation

Printing
Atrativa Indústria Gráfica Ltda.

Tractebel Energia

SUEZ

financial statements 2006

01_balance sheets 96

02_statement of income 98

03_consolidated statements of shareholders' equity 99

04_statements of changes in financial position 100

05_statement of cash flows 101

06_statement of added value 102

07_notes to the financial statements 103

08_board of directors 167

09_executive officers 167

10_accounting department 167

11_independent auditors' opinion 168

12_report of the audit committee 170

Balance sheets as of December 31

(In thousands of Brazilian Reais)

ASSETS	Note	Holding Company		Consolidated	
		2006	2005 (Reclassified)	2006	2005 (Reclassified)
CURRENT ASSETS					
Cash and cash equivalents		7,454	9,466	23,593	12,179
Marketable securities	4	186,352	195,153	233,247	296,958
Funds linked to payment of obligations		21,643	-	21,643	-
Consumers, concessionaires and holder of permissions	5	314,663	302,792	358,002	320,605
Dividends receivable from subsidiaries	10	103,021	78,860	-	-
Taxes and social contributions recoverable	6	23,623	11,486	26,707	16,719
Inventories		22,719	22,515	23,623	23,512
Pledges and restricted deposits		51,511	47,399	53,947	47,867
Deferred taxes	7	19,683	81,097	21,351	82,344
Prepaid expenses		2,625	10,048	3,022	10,721
Others		18,041	26,133	26,917	25,627
TOTAL CURRENT ASSETS		**771,335**	**784,949**	**792,052**	**836,532**
NON-CURRENT ASSETS					
Long-Term Assets					
Concessionaires and holders of permission	5	16,063	38,314	16,063	38,314
Taxes and social contributions recoverable	6	10,342	7,136	13,124	10,296
Pledges and restricted deposits		-	-	29,422	26,119
Judicial deposits	18	111,204	39,341	131,331	45,924
Receivables from disposal of assets and rights	9	68,565	60,220	68,565	60,220
Deferred taxes	7	187,282	186,877	188,489	192,309
Others		2,216	1,315	2,216	1,315
		395,672	**333,203**	**449,210**	**374,497**
Permanent Assets					
Investments	10	843,659	887,117	36,873	43,619
Property, plant and equipment	11	2,836,435	2,927,305	4,148,898	4,272,779
Intangible	12	1,256	1,782	77,310	80,689
Deferred		-	-	34,766	43,985
		3,681,350	**3,816,204**	**4,297,847**	**4,441,072**
TOTAL NON-CURRENT ASSETS		**4,077,022**	**4,149,407**	**4,747,057**	**4,815,569**
TOTAL		**4,848,357**	**4,934,356**	**5,539,109**	**5,652,101**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Holding Company		Consolidated	
		2006	2005 (Reclassified)	2006	2005 (Reclassified)
CURRENT LIABILITIES					
Suppliers	14	235,924	112,939	239,319	94,346
Dividends and interest on shareholders' equity	23	478,043	495,487	478,043	495,487
Loans and financing	15	256,152	194,135	306,079	243,343
Debentures	16	15,004	10,286	37,834	31,090
Current taxes and social contributions		33,747	36,372	45,870	47,437
Estimated obligations	17	28,542	49,084	28,650	49,243
Derivatives	28	4,526	46,181	4,526	65,876
Research and development liabilities		31,364	-	35,135	-
Provision for contingencies	18	11,000	41,595	11,206	42,326
Post-employment benefits	20	20,369	81,020	20,369	81,020
Others		35,581	32,814	39,781	37,220
TOTAL CURRENT LIABILITIES		**1,150,252**	**1,099,913**	**1,246,812**	**1,187,388**
NON-CURRENT LIABILITIES					
Long-Term Liabilities					
Loans and financing	15	344,197	601,949	610,251	911,138
Debentures	16	200,000	198,348	323,344	338,196
Taxes and social contributions on installments		5,383	6,230	5,383	6,230
Estimated obligations	17	653	22,543	653	22,869
Provisions for contingencies	18	53,041	77,125	56,289	79,902
Concessions payable	19	-	-	201,546	178,130
Post-employment benefits	20	293,725	205,755	293,725	205,755
Deferred taxes	21	36,535	36,532	36,535	36,532
TOTAL NON-CURRENT LIABILITIES		**933,534**	**1,148,482**	**1,527,726**	**1,778,752**
SHAREHOLDERS' EQUITY					
Share capital	22	2,445,766	2,445,766	2,445,766	2,445,766
Capital reserves	22	91,695	91,695	91,695	91,695
Profit reserves	22	227,110	148,500	227,110	148,500
TOTAL SHAREHOLDERS' EQUITY		**2,764,571**	**2,685,961**	**2,764,571**	**2,685,961**
TOTAL		**4,848,357**	**4,934,356**	**5,539,109**	**5,652,101**

The accompanying notes are an integral part of these statements.

Statement of Income
for the years ended December 31

(In thousands of Brazilian Reais)

	Note	Holding Company		Consolidated	
		2006	2005 (Reclassified)	2006	2005 (Reclassified)
GROSS OPERATING REVENUE					
Provision of electric energy		337,579	338,985	743,177	479,493
Supply of electric energy		2,276,942	2,066,598	2,291,922	2,097,482
Other income		24,056	22,469	25,638	15,752
		2,638,577	**2,428,052**	**3,060,737**	**2,592,727**
DEDUCTIONS FROM OPERATING REVENUE					
Tax and social contributions		(199,631)	(266,703)	(320,587)	(298,830)
Research and development		(24,661)	-	(28,318)	-
Sale of ash, net of taxes – CCC/CDE		(6,300)	(5,531)	(6,300)	(5,531)
		(230,592)	**(272,234)**	**(355,205)**	**(304,361)**
NET INCOME FROM SALES AND SERVICES		**2,407,985**	**2,155,818**	**2,705,532**	**2,288,366**
COST OF ELECTRIC ENERGY AND SERVICES					
Electric energy purchased for resale		(391,995)	(429,528)	(287,404)	(156,366)
Transactions within CCEE		(270,281)	(4,764)	(281,313)	(7,090)
Production cost of electric energy	24	(432,819)	(467,257)	(502,421)	(538,026)
Cost of services rendered	24	(10,254)	(9,328)	(10,254)	(9,328)
		(1,105,349)	**(910,877)**	**(1,081,392)**	**(710,810)**
GROSS PROFIT		**1,302,636**	**1,244,941**	**1,624,140**	**1,577,556**
OPERATING EXPENSES					
Selling expenses	24	(169,719)	(118,295)	(210,149)	(164,796)
General and administrative expenses	24	(111,933)	(90,525)	(133,300)	(120,158)
Reversal (constitution) of operating provisions net	25	11,895	(50,249)	11,453	(49,691)
Income from favorable judicial court decisions	26	93,350	-	94,502	-
		(176,407)	**(259,069)**	**(237,494)**	**(334,645)**
SERVICE INCOME		**1,126,229**	**985,872**	**1,386,646**	**1,242,911**
Income from interests held in other companies					
Equity in the earnings of subsidiary companies	10	120,284	116,885	300	-
Amortization of goodwill	10	(6,746)	(6,746)	(6,746)	(6,746)
		113,538	**110,139**	**(6,446)**	**(6,746)**
Financial Income/(Expenses)					
Financial income	27	92,761	117,363	107,666	139,086
Financial expenses	27	(169,323)	(168,811)	(263,874)	(274,756)
		(76,562)	**(51,448)**	**(156,208)**	**(135,670)**
OPERATING INCOME		**1,163,205**	**1,044,563**	**1,223,992**	**1,100,495**
NON-OPERATING INCOME		**2,776**	**3,557**	**2,985**	**3,557**
INCOME BEFORE TAXES		**1,165,981**	**1,048,120**	**1,226,977**	**1,104,052**
Income tax	8	(111,663)	(68,549)	(156,297)	(109,521)
Social contribution	8	(75,172)	(59,475)	(91,534)	(74,435)
NET INCOME FOR THE YEAR		**979,146**	**920,096**	**979,146**	**920,096**
NET INCOME PER SHARE IN BRAZILIAN REAIS		**1.50**	**1.41**	**1.50**	**1.41**

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 CAPITAL	CAPITAL RESERVES	PROFIT RESERVES	RETAINED EARNINGS	TOTAL
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 R$ 1,339106 per share	-	-	-	(874,091)	**(874,091)**
DECEMBER 31, 2005	**2,445,766**	**91,695**	**148,500**	**-**	**2,685,961**
Adjustments to prior years **(Note 22-d)**	-	-	-	29,653	**29,653**
Net income for the year	-	-	-	979,146	**979,146**
Management's proposed appropriation of net income:					
- statutory reserve	-	-	48,957	(48,957)	**-**
- retained earnings reserve	-	-	29,653	(29,653)	**-**
- dividends / interest on shareholders' equity R$ 1,425048 per share	-	-	-	(930,189)	**(930,189)**
DECEMBER 31, 2006	**2,445,766**	**91,695**	**227,110**	**-**	**2,764,571**

The accompanying notes are an integral part of these statements.

Statements of Changes in Financial Positions for the years ended December 31

(In thousands of Brazilian Reais)

	Holding Company		Consolidated	
	2006	2005	2006	2005
SOURCES OF FUNDS				
From operations				
Net income for the year	979,146	920,096	979,146	920,096
Expenses (revenues) that do not affect the net working capital:				
Depreciation and amortization	159,004	158,608	208,364	208,108
Interest on non-current amounts	35,533	29,803	54,062	50,089
Monetary variation on non-current amounts	(23,564)	(102,059)	(15,175)	(112,838)
Equity in the earnings of subsidiary companies	(120,284)	(116,885)	(300)	-
Amortization of goodwill	6,746	6,746	6,746	6,746
Long-term provision (reversal), net	(5,479)	45,003	(5,544)	44,555
Deferred income tax and social contribution	45,736	11,546	49,469	11,745
Income (loss) in the sale of property, plant and equipment	(2,776)	(3,557)	(2,359)	(3,510)
	1,074,062	**949,301**	**1,274,409**	**1,124,991**
From third parties				
Debentures	-	200,000	-	200,000
Dividends receivable from subsidiaries	159,021	108,860	-	-
Sales of assets and rights	31,066	31,539	31,066	31,539
Transfer from non-current assets to current assets	28,981	40,884	30,489	45,151
Transfer from current liabilities to non-current liabilities	55,982	-	55,982	-
Redemption of collateral and linked deposits	-	-	-	30,083
Write-offs of extensive maintenance	16,025	-	16,055	-
	291,075	**381,283**	**133,592**	**306,773**
TOTAL SOURCES	**1,365,137**	**1,330,584**	**1,408,001**	**1,431,764**
USES OF FUND				
Increase in non-current assets	79,113	40,221	91,018	48,801
Transfer from current assets to non-current assets	53,159	-	53,159	-
Receivables from Jacuí disposal	30,263	30,103	30,263	30,103
Investments	2,025	201,200	-	-
Acquisition of property, plant and equipment and investment in deferred assets	64,347	37,519	69,040	43,916
Electric energy account receivable in installments	-	17,623	-	17,623
Interim dividends	-	147,000	-	147,000
Dividends and interest on shareholders' equity	930,189	874,091	930,189	874,091
Pre-payment of financing	-	-	-	275,247
Transfer of loans, financing and debentures to current liabilities	248,935	182,815	315,727	257,941
Transfer of non-current liabilities to current liabilities	21,059	46,510	22,509	48,055
TOTAL USES	**1,429,090**	**1,577,082**	**1,511,905**	**1,742,777**
DECREASE IN NET WORKING CAPITAL	**(63,953)**	**(246,498)**	**(103,904)**	**(311,013)**
CHANGES TO NET WORKING CAPITAL				
Current assets				
End of period	771,335	784,949	792,052	836,532
Beginning of period	784,949	1,033,097	836,532	1,165,483
	(13,614)	**(248,148)**	**(44,480)**	**(328,951)**
Current liabilities				
End of period	1,150,252	1,099,913	1,246,812	1,187,388
Beginning of period	1,099,913	1,101,563	1,187,388	1,205,326
	50,339	**(1,650)**	**59,424**	**(17,938)**
DECREASE IN NET WORKING CAPITAL	**(63,953)**	**(246,498)**	**(103,904)**	**(311,013)**

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	
	2006	**2005**	**2006**	**2005**
OPERATING ACTIVITIES				
Net income for the year	979,146	920,096	979,146	920,096
Expenses (revenues) that do not affect cash:				
Depreciation and amortization	159,004	158,608	208,364	208,108
Equity in the earnings of subsidiary companies	(120,284)	(116,885)	(300)	-
Amortization of goodwill	6,746	6,746	6,746	6,746
Monetary and exchange variation, net	(9,591)	(22,450)	9,425	(8,296)
Net interest	37,913	36,327	54,096	52,411
Estimated obligations (suppliers)	8,861	26,595	8,861	26,595
Operating provisions, net	4,340	76,222	4,271	75,630
Research and development	31,364	-	34,087	-
Deferred income tax and social contribution	45,736	4,419	49,469	7,078
Sale of carbon credits	-	-	(8,685)	-
Income from the disposal of fixed assets	(2,776)	(3,557)	(2,359)	(3,557)
Others	209	-	608	-
	1,140,668	**1,086,121**	**1,343,729**	**1,284,811**
Decrease (increase) in assets				
Consumers and concessionaires	14,155	(8,523)	(11,371)	(16,447)
Funds linked to payment of obligations	(21,643)	-	(21,643)	-
Advances to suppliers	1,842	6,243	1,858	5,521
Taxes and social contributions recoverable	(12,516)	25,299	(9,980)	24,452
Collateral and linked/judicial deposits	(71,900)	(34,556)	(85,490)	(13,972)
Inventories	(204)	(9,454)	(111)	(9,902)
Prepaid expenses	7,216	(6,618)	7,492	(5,886)
Others	6,097	3,376	5,402	2,744
	(76,953)	**(24,233)**	**(113,843)**	**(13,490)**
Increase (decrease) in liabilities				
Suppliers	87,313	1,281	107,723	6,227
Loans, financing and debentures	(898)	14,344	2,731	18,995
Taxes and social contributions	(12,214)	24,960	(11,157)	27,577
Estimated obligations	(11,864)	(26,970)	(11,870)	(26,930)
Provision for contingencies	(2,648)	(5,623)	(2,778)	(5,728)
Post-Employment benefits	(30,315)	(35,624)	(30,315)	(35,624)
Others	2,766	6,262	1,989	6,214
	32,140	**(21,370)**	**56,323**	**(9,269)**
FUNDS FROM OPERATING ACTIVITIES	**1,095,855**	**1,040,518**	**1,286,209**	**1,262,052**
INVESTMENTS ACTIVITIES				
Used in fixed assets and deferred items	(64,347)	(37,519)	(69,040)	(43,916)
Used in investments	(2,025)	(201,200)	-	-
Dividends received from subsidiaries	134,860	38,113	-	-
FUNDS RECEIVED FROM (USED IN) INVESTMENTS ACTIVITIES	**68,488**	**(200,606)**	**(69,040)**	**(43,916)**
FINANCING ACTIVITIES				
Payment of loans, financing and debentures	(177,169)	(167,350)	(243,541)	(548,375)
Debentures	-	200,000	-	200,000
Settlement of swap operations	(59,096)	(91,037)	(87,034)	(106,075)
Payment of dividends and interest on shareholders' equity	(938,891)	(1,110,233)	(938,891)	(1,110,233)
FUNDS USED IN FINANCING ACTIVITIES	**(1,175,156)**	**(1,168,620)**	**(1,269,466)**	**(1,564,683)**
TOTAL EFFECTS ON CASH	**(10,813)**	**(328,708)**	**(52,297)**	**(346,547)**
CASH AND CASH EQUIVALENTS				
Opening balance	204,619	533,327	309,137	655,684
Closing balance	193,806	204,619	256,840	309,137
	(10,813)	**(328,708)**	**(52,297)**	**(346,547)**
PAYMENTS MADE IN THE YEAR				
Interest on loans, financing and debentures	90,410	87,293	137,862	153,620
Income tax and social contribution	92,093	93,907	150,147	142,631
TRANSACTIONS THAT DO NOT AFFECT CASH				
Offsetting of income tax and social contribution	65,555	25,218	67,188	27,558
Proposed dividends and interest on shareholders' equity	492,189	500,891	492,189	500,891
Proposed dividends receivable from subsidiaries	103,021	78,860	-	-
Adjustment to prior years	29,653	-	29,653	-

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	
	2006	**2005**	**2006**	**2005**
GENERATION OF ADDED VALUE				
Revenue from sales, services and income	2,632,277	2,422,521	3,054,437	2,587,196
Reversal of provision for doubtful accounts	(74)	9,071	(75)	9,126
Other operating income	93,350	-	94,502	-
Non-operating income	2,776	3,557	2,985	3,557
	2,728,329	2,435,149	3,151,849	2,599,879
(-) Inputs				
Materials	(22,220)	(20,851)	(23,897)	(22,853)
Third party services	(67,727)	(65,701)	(78,240)	(75,330)
Fuel to produce energy	(95,575)	(101,570)	(102,070)	(104,694)
Electric energy purchased from third parties	(391,995)	(429,528)	(287,404)	(156,366)
Transactions within CCEE	(270,281)	(4,764)	(281,313)	(7,090)
Charges for the use of power grid	(162,625)	(116,395)	(202,545)	(162,431)
Insurance	(6,097)	(7,224)	(7,561)	(9,239)
Reversal (constitution) of operating provisions, net	11,895	(50,249)	11,453	(49,691)
Others	(15,787)	(20,985)	(21,112)	(21,676)
	(1,020,412)	(817,267)	(992,689)	(609,370)
GROSS ADDED VALUE	**1,707,917**	**1,617,882**	**2,159,160**	**1,990,509**
Depreciation and amortization	(159,004)	(158,608)	(208,364)	(208,108)
NET ADDED VALUE GENERATED	**1,548,913**	**1,459,274**	**1,950,796**	**1,782,401**
ADDED VALUE RECEIVED THROUGH TRANSFER				
Financial income	92,761	117,363	107,666	139,086
Equity in the earnings of subsidiary companies	113,538	110,139	(6,446)	(6,746)
ADDED VALUE TO DISTRIBUTE	**1,755,212**	**1,686,776**	**2,052,016**	**1,914,741**

DISTRIBUTION OF ADDED VALUE

	2006	%	2006	%	2006	%	2006	%
Compensation:								
Of work								
Compensation and labor charges	79,757	5	75,062	4	81,407	4	76,958	4
Benefits	21,622	1	23,281	1	21,885	1	23,488	1
Profit sharing	13,926	1	10,000	1	13,963	1	10,032	1
	115,305	**7**	**108,343**	**6**	**117,255**	**6**	**110,478**	**6**
Of third party capital								
Charges and monetary variation	152,838	9	135,827	8	241,700	12	251,399	13
Rentals	5,524	-	5,090	-	6,491	-	5,660	-
Other financial expenses	3,646	-	11,820	1	5,391	-	12,887	-
	162,008	**9**	**152,737**	**9**	**253,582**	**12**	**269,946**	**14**
Of government								
Taxes and contributions	233,259	13	307,645	18	358,614	17	344,048	18
Industry charges	78,659	4	69,931	4	95,588	5	86,217	4
Income tax and social contribution	186,835	11	128,024	8	247,831	12	183,956	10
	498,753	**28**	**505,600**	**30**	**702,033**	**34**	**614,221**	**32**
Of Shareholder's Equity								
Statutory reserve	48,957	3	46,005	3	48,957	2	46,005	2
Dividends and interest on shareholders' equity	930,189	53	874,091	52	930,189	46	874,091	46
	979,146	**56**	**920,096**	**55**	**979,146**	**48**	**920,096**	**48**
	1,755,212	**100**	**1,686,776**	**100**	**2,052,016**	**100**	**1,914,741**	**100**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements
As of December 31, 2006 and 2005

1 – BUSINESS OF THE COMPANY

The Company is an independent 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.

Installed capacity, including the indirect ownership of Hydroelectric Power Plants (UHEs) of Itá and Cana Brava and Cogeneration Unit of Lages, amounts to 5,860 MW, of which 79.30% is derived from hydroelectric plants and 20.70% from 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 agreement entered into with the subsidiary Itá Energética S.A. - ITASA, totals 5,896 MW.

On June 20, 2006, ANEEL determined that the Company's capacity to provide energy would be reduced by 72MW, due to Companhia de Interconexão Energética – CIEN current incapacity to supply the agreed-upon amount. This ruling will remain in force until CIEN proves energy availability.

The concessions and authorizations held by the Company and its subsidiaries are listed in Note 11-d.

The Company's controlling interest is owned by Suez Energy South America Participações 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 a 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. The Company also holds 99.99% of 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 in Note 10-d.

2 – PRESENTATION OF FINANCIAL STATEMENTS

The financial statements are presented in accordance with accounting principles and practices adopted in Brazil and all figures are expressed in thousands of Brazilian Reais and other currencies, except when indicated otherwise. For increased clarity purposes in the presentation, the Company is also presenting the statement of cash flows and of added value, in addition to the mandatory financial statements.

For better presentation and comparability, certain accounts in the balance sheet as of December 31, 2005 and in the statement of income for the year then ended, were reclassified. The main reclassifications are as follows:

Fuel for electric energy production

Following orientation in ANEEL Rule n° 657/2006, the consumption of fossil fuel acquired via CCC/CDE, previously recorded in the operating revenue under the caption "fuel subvention – CCC/CDE" is now recorded in the account which includes the cost of electric energy under the caption of "production cost of electric energy". The total amount reclassified in the holding company and in the consolidated amounted to R$ 311,481.

The amount which refers to the reimbursement of ELETROBRAS fuel, which is forwarded to coal suppliers for the payment of the fuel supplied, previously classified under the caption "Credits from fuel consumption account – CCC/CDE", is now being recorded under the caption "Suppliers". The total amount reclassified in the holding company and in the consolidated amounted to R$ 30,553.

Judicial deposits

In accordance with CVM Deliberation n° 489, as of October 31, 2005, the judicial deposits that refer to contingences provided for in the balance sheet were reclassified from the non-current assets to the accounts holding the corresponding contingences in liabilities. The total amount reclassified in the holding company and in the consolidated amounted to R$ 25,481.

Financial charges on post-employment benefits

The financial charges on the actuarial liabilities related to post-employment benefits were reclassified from operating expenses to financial expenses. The total amount reclassified in the holding company and in the consolidated amounted to R$ 33,238.

3 – GENERAL EVALUATION CRITERIA

a) 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 n° 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.

b) Marketable securities: 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.

c) Provision for doubtful debtors: associated with credits resulting from transactions made in the Wholesale Electric Energy Market – MAE (currently, CCEE - Electric Power Trade Chamber). Other accounts receivable have guarantees or no historical losses, and therefore no provision is needed.

d) Deferred income tax and social contribution (deferred tax credits): 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 based on the expectation of realization of amounts that give origin to such assets.

e) Inventories: recorded at their average weighted purchase cost, which does not exceed their market value.

f) Indexed assets: adjusted up to the date of the balance sheet.

g) Investments: 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.

h) Property, plant and equipment: recorded at the acquisition or construction cost, net of depreciation, determined on the straight-line basis, based on annual rates established by ANEEL, based on the book balances recorded for the Registration Units – UC that form the business ventures. Average annual depreciation rates determined by the Company and its subsidiaries, in compliance with the above regulations, are shown in Note 11-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 was capitalized, in compliance with the specific laws of the electric industry.

i) Loans, financing and debentures: adjusted by exchange rates or contractual indexes (see Note 15 and Note 16). Resulting interest and charges are allocated until the balance sheet date.

j) Derivatives: contracted to manage risks related to exchange currency variations associated to certain loans and financing contracts. The income and losses incurred are accounted for in accordance with the accrual basis of accounting.

l) Other liabilities: recorded at the known amount or calculated, increased, when applicable, by the corresponding charges and monetary variations.

m) Provision for contingences: based on the quantitative analysis of the tax, labor and civil lawsuits, for which the chances of loss are considered probable. These provisions are recorded net of their respective judicial deposits.

n) Post-employment benefits: 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 20).

o) Income for the period: income and expenses are recorded in accordance with the accrual basis of accounting.

p) Estimative: the preparation of the financial statements according to accounting practices adopted in Brazil requires that the Company's management uses estimates to register certain transactions that affect its assets, liabilities, revenues and expenses, as well as, other information presented in the financial statements. The final results of these transactions and information may differ from the estimates. The main estimative in the financial statements refer to provisions for doubtful debtors, contingences, post-employment benefits, as well as, the presentation of their profile.

q) Consolidated financial statements: investments in the capital of investees are eliminated on consolidation,

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 based on the proportion of Company's interest in its share capital, due to the shared control (see Note 10-d).

Due to the high proportion of participation of the holding company in the other subsidiaries (see Note 10-b), there is no minority shareholders' interest amount in the consolidated financial statements.

r) Change of Accounting Practices

Provision for extensive maintenance

The accounting practices for provisions for extensive maintenance of the Company's generation facilities were modified in accordance with the Technical Informative n° 01/2006, issued by the Brazilian Institute of Accountants - IBRACON (see Note 22-d).

Funds invested in research and development

The Company, according to current legislation, is obliged to invest, annually, the amount of, at least, one percent (one quarter of one percent, until 12.31.2005) of its net operating revenue in research and development related to the electric energy sector.

The accounting criteria to register the resources invested in such research and development was changed as per the orientation from IBRACON in its Technical Interpretation n° 03/2006.

The accounting procedures followed by the Company and by most of the Companies in the electric energy sector was to register the investment in research and development programs at the moment the programs were executed and the expenses were incurred. This procedure undermined the principle of matching revenues and expenses, since the month of the disbursement did not match that of the revenue.

According to the current accounting procedure, the percentage of the Company's revenue to be invested in research and development related to the electric energy sector is registered in the same month as the revenue, under the caption "research and development", in the group "deductions from operating revenues".

4 – MARKETABLE SECURITIES

	Holding Company		Consolidated	
	2006	2005	2006	2005
Certificate of Deposit– CDB	34,492	12,608	51,836	55,780
National Treasury Bonds – LTN	-	173,816	-	174,890
Central Bank Notes – NBC – E	-	19,749	-	31,731
National Treasury Notes – NTN - D	-	-	4,508	5,059
Committed transactions – Public bonds	153,637	37,148	157,341	83,137
Committed transactions – Third parties bonds	-	-	22,165	-
Others	-	69	-	129
(-) Collateral of swap operations in the Exclusive Investment Fund	-	(36,341)	-	(36,341)
	188,129	**207,049**	**235,850**	**314,385**
(-) Provision for investment losses	(1,777)	(11,896)	(2,603)	(17,427)
	186,352	**195,153**	**233,247**	**296,958**

The Company has an Exclusive Investment Fund that, as of 12.31.2006, was composed of Certificates of Deposits (CDB) and committed transactions, LTN pegged. Investments in that fund are separated in conformity with their type in the financial statements.

The amount of R$ 36,341, related to a contractual collateral for swap operations, was redeemed in December 2006. The amount was 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. Based on the conditions established in the Bankruptcy Order and on the considerations of the Judicial Administrator of the Bankrupt Estate, in 2006, the provision was written-off as a loss, in the Holding Company and in the Consolidated, amounting to R$ 10,119 and R$ 14,824, respectively.

5 – CONSUMERS, CONCESSIONAIRES AND HOLDERS OF PERMISSIONS

	Holding Company				
	2006				2005
	To fall due	Overdue		Total	Total
		For 90 days or less	For more than 90 days		
Current					
Concessionaires	181,914	-	-	181,914	178,112
Sellers	75,307	-	-	75,307	67,753
Free consumers	28,832	492	-	29,324	28,870
Exports	-	-	740	740	1,940
Transactions within CCEE/MAE					
- Installments	19,537	-	-	19,537	15,630
- Tariff recovery - RTE	7,618	-	223	7,841	10,428
- Agents in default or with lawsuits	109,873	-	11,947	121,820	121,804
	137,028	-	12,170	149,198	147,862
	423,081	**492**	**12,910**	**436,483**	**424,537**
(-) Provision for doubtful accounts	(109,873)	-	(11,947)	(121,820)	(121,745)
	313,208	**492**	**963**	**314,663**	**302,792**
Long-term					
Transactions within CCEE/MAE					
- Installments	13,820	-	-	13,820	27,697
-Tariff recovery- RTE	2,243	-	-	2,243	10,617
	16,063	**-**	**-**	**16,063**	**38,314**

	Consolidated				
	2006				2005
	To fall due	Overdue		Total	Total
		For 90 days or less	For more than 90 days		
Current					
Concessionaires	184,662	-	-	184,662	180,651
Sellers	75,136	-	-	75,136	54,787
Free consumers	67,346	492	-	67,838	54,971
Exports	-	-	740	740	1,940
Transactions within CCEE/MAE					
- Current	380	-	-	380	-
- Installments	19,537	-	-	19,537	15,630
- Tariff recovery - RTE	7,618	-	223	7,841	10,428
- Agents in default or with lawsuits	110,498	-	13,944	124,442	124,697
	138,033	-	14,167	152,200	150,755
	465,177	**492**	**14,907**	**480,576**	**443,104**
(-) Provision for doubtful accounts	(110,498)	-	(12,076)	(122,574)	(122,499)
	354,679	**492**	**2,831**	**358,002**	**320,605**
Long-term					
Transactions within CCEE/MAE					
- Installments	13,820	-	-	13,820	27,697
- Tariff recovery- RTE	2,243	-	-	2,243	10,617
	16,063	**-**	**-**	**16,063**	**38,314**

Amounts overdue for more than 90 days are related to transactions with the Wholesale Electric Energy Market - MAE and refer to debts of agents in default during the 1st settlement of the MAE, on December 30, 2002. Such amounts are under bilateral negotiations. However, due to uncertainties as to their realization, the Company maintains 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 the Electric Sector Common Agreement.

6 – TAXES AND SOCIAL CONTRIBUTIONS RECOVERABLE

	Holding Company		Consolidated	
	2006	2005	2006	2005
Current				
ICMS (Brazilian VAT)	44,375	40,354	45,857	41,459
Income tax	9,021	5,538	10,369	7,857
Social contribution	2,945	2,806	3,199	3,092
COFINS (Contribution for Social Security Financing)	1,139	1,923	1,139	3,174
PIS (Contribution for Social Integration Program)	249	418	249	690
INSS (Social Security)	7,245	198	7,245	198
	64,974	**51,237**	**68,058**	**56,470**
(-) Provision for losses on the recovery of ICMS credits	(41,351)	(39,751)	(41,351)	(39,751)
	23,623	**11,486**	**26,707**	**16,719**
Long-term				
ICMS (Brazilian VAT)	3,110	2,692	5,880	5,852
COFINS (Contribution for Social Security Financing)	5,943	3,652	5,953	3,652
PIS (Contribution for Social Integration Program)	1,289	792	1,291	792
	10,342	**7,136**	**13,124**	**10,296**

In 2006, the Company was granted a favorable decision regarding the collection of INSS related to the Voluntary Redundancy Program – PDV. The amount has been offset with the current INSS due.

A provision was set up for losses on 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 for local transactions and exemption from ICMS on interstate transactions.

7 – DEFERRED TAX CREDITS

	Holding Company				
	2006				2005
Credit nature	Tax basis	Income tax	Social contribution	Total	Total
Provision for losses on UTE Jacuí	-	-	-	-	27,282
Remuneration of Construction Work in Progress – RIC	136,667	34,167	-	34,167	34,167
Post-employment benefits	167,999	42,000	15,120	57,120	66,149
Provision for doubtful debtors	121,820	30,455	10,964	41,419	41,393
Provision for contingencies	98,724	24,680	8,885	33,565	49,028
Provision for accelerated depreciation UTE William Arjona	28,531	7,133	2,568	9,701	10,836
Provision for losses with ICMS credits	41,351	10,338	3,722	14,060	13,516
Employees profit-sharing program and provision of management bonus	16,858	4,214	1,517	5,731	5,100
Provision for losses on marketable securities	1,777	444	160	604	4,045
Provision for attorneys and auditors' fees	1,355	339	122	461	215
Provision for losses in Swap operations	4,526	1,132	407	1,539	-
Present value adjustment on receivables	25,290	6,322	2,276	8,598	-
Provision for extensive maintenance	-	-	-	-	15,706
Negative basis for social contribution	-	-	-	-	537
		161,224	**45,741**	**206,965**	**267,974**
Classification of deferred tax credits:					
Current		15,377	4,306	19,683	81,097
Non- Current		145,847	41,435	187,282	186,877
		161,224	**45,741**	**206,965**	**267,974**

	Consolidated				
	2006				2005
Credit nature	**Tax basis**	**Income tax**	**Social contribution**	**Total**	**Total**
Provision for losses on UTE Jacuí	-	-	-	-	27,282
Remuneration of Construction Work in Progress – RIC	136,667	34,167	-	34,167	34,167
Post-employment benefits	167,999	42,000	15,120	57,120	66,149
Provision for doubtful debtors	122,574	30,643	11,032	41,675	41,649
Provision for contingencies	100,899	25,224	9,081	34,305	49,800
Provision for accelerated depreciation UTE William Arjona	28,531	7,133	2,568	9,701	10,836
Provision for losses with ICMS credits	41,351	10,338	3,722	14,060	13,516
Employees profit-sharing program and provision of management bonus	16,858	4,214	1,517	5,731	5,100
Provision for losses on marketable securities	2,603	651	234	885	5,926
Provision for attorneys and auditors' fees	1,355	339	122	461	215
Provision for losses in Swap operations	4,526	1,132	407	1,539	-
Present value adjustment on receivables	25,290	6,322	2,276	8,598	-
Provision for extensive maintenance	-	-	-	-	15,777
Tax loss	4,576	1,144	-	1,144	2,692
Negative base for social contribution	5,049	-	454	454	1,544
		163,307	**46,533**	**209,840**	**274,653**
Classification of deferred tax credits:					
Current		16,572	4,779	21,351	82,344
Non- Current		146,735	41,754	188,489	192,309
		163,307	**46,533**	**209,840**	**274,653**

The realization of deferred tax credits, resulting from timing differences, will be made upon the payment of the provisions made or, where applicable, upon realization of the losses recorded in the provision. With regards to deferred tax credits, resulting from tax losses and negative basis for social contribution, realization will be made by offsetting their basis, limited to 30% of taxable income in the subsequent 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 the realization of such assets and their recovery via the generation of future taxable income have been estimated to be as follows:

	Holding Company	Consolidated
Deferred tax credits, recorded		
2008	12,676	12,997
2009	17,620	18,084
2010	31,183	31,219
2011	54,005	54,296
2012	11,034	11,068
2013 to 2015	30,414	30,465
2016 onwards	30,350	30,360
	187,282	**188,489**
Deferred tax credits, not recorded		
2017 onwards	**21,294**	**21,294**
	208,576	**209,783**

The not recorded tax credits refer to the Remuneration of Construction Work in Progress – RIC. The realization of RIC is carried out based on the proportion of depreciation of the corresponding assets, in compliance with CVM Instruction n° 371/02.

8 – RECONCILIATION OF TAXES IN INCOME

	Holding Company			
	2006		2005	
	Income tax	Social contribution	Income tax	Social contribution
Income before taxes	**1,165,981**	**1,165,981**	**1,048,120**	**1,048,120**
Permanent differences				
Additions				
Amortization of goodwill	6,746	-	6,746	-
Management bonuses and 13th month pay	1,784	-	1,614	-
Donations	2,235	2,235	1,049	1,049
Other non-deductible expenses	314	314	36	36
Exclusions				
Equity in the earnings of subsidiary companies	(120,284)	(120,284)	(116,885)	(116,885)
Provision for losses on UTE Jacuí	(303,131)	-	(303,040)	-
Remuneration of Construction work in Progress – RIC	(84,893)	-	(87,809)	-
Reversal of interest on shareholders' equity	(213,000)	(213,000)	(271,700)	(271,700)
(=) Calculation basis of taxes on income	**455,752**	**835,246**	**278,131**	**660,620**
Rates	25%	9%	25%	9%
(=) Social contribution and income tax	**(113,938)**	**(75,172)**	**(69,533)**	**(59,456)**
Tax incentives	2,181	-	934	-
Additional 10% on income up to R$ 20 per month	24	-	24	-
Others	70	-	26	(19)
(=) Social contribution on income and income tax	**(111,663)**	**(75,172)**	**(68,549)**	**(59,475)**
Composition of taxes:				
Current	(98,489)	(42,610)	(94,663)	(28,942)
Deferred	(13,174)	(32,562)	26,114	(30,533)
	(111,663)	**(75,172)**	**(68,549)**	**(59,475)**

	Consolidated			
	2006		2005	
	Income tax	Social contribution	Income tax	Social contribution
Income before taxes	**1,226,977**	**1,226,977**	**1,104,052**	**1,104,052**
Permanent differences				
Additions				
Amortization of goodwill	6,746	-	6,746	-
Management bonuses and 13th month pay	1,999	-	2,151	-
Donations	5,726	5,726	1,319	1,319
Swap exchange variation losses	8,243	8,243	-	-
Other non-deductible expenses	345	345	38	38
Exclusions				
Provision for losses on UTE Jacuí	(303,131)	-	(303,040)	-
Remuneration of construction work in progress – RIC	(84,893)	-	(87,809)	-
Reversal of interest on shareholders' equity	(213,000)	(213,000)	(271,700)	(271,700)
Adjustment of subsidiary taxed by presumed profit	(12,801)	(10,951)	(8,323)	(6,861)
Equity in the earnings of subsidiary companies	(300)	(300)	-	-
(=) Calculation basis of taxes on income	**635,911**	**1,017,040**	**443,434**	**826,848**
Rates	25%	9%	25%	9%
(=) Social contribution and income tax	**(158,978)**	**(91,534)**	**(110,859)**	**(74,416)**
Tax incentives	2,503	-	1,204	-
Additional 10% on income up to R$ 20 per month	108	-	108	-
Others	70	-	26	(19)
(=) Social contribution on income and income tax	**(156,297)**	**(91,534)**	**(109,521)**	**(74,435)**
Composition of taxes:				
Current	(140,376)	(57,986)	(133,677)	(43,201)
Deferred	(15,921)	(33,548)	24,156	(31,234)
	(156,297)	**(91,534)**	**(109,521)**	**(74,435)**

9 – DISPOSAL OF ASSETS AND RIGHTS

In June 2004 and July 2005, the Company transferred 33.33%, in each year, of the Jacuí project to Elétrica Jacuí S.A. - ELEJA. ELEJA is a special purpose entity, controlled by an owner of exploration rights of coal mines in the area of the Jacuí project. In the terms of the transfer contract, Company's remaining percentage in the Jacuí project was object of reciprocal options of purchase, by ELEJA, and of sale, by the Company. On 03.28.2006 ELEJA acquired the remaining share of 33.34% from the Company, becoming the sole owner of the venture, by exercising its second purchase option established in the contract. Under the terms of the contract, ELEJA assumed the responsibility for the conclusion of the Jacuí project.

In agreement with the contractual conditions, the sale amounts are being updated by IGP-DI and will be received in 36 installments starting at the date of the commercial operations of UTE Jacuí or at the date when four years from the sale and exercise of the purchase option are completed, whichever comes first.

Considering that the contractual values are at future prices, the Company adjusted the amount, in 2006, to its present value, applying the discount rate of 10% p.a. The nominal value and the present value adjustment, in the subsidiary and in the consolidated, are as follows:

	2006	2005
Disposal amount	93,855	60,220
(-) Present Value Adjustment	(25,290)	-
	68,565	**60,220**

10 – INVESTMENTS

a) Composition

	Holding Company		Consolidated	
	2006	2005	2006	2005
Permanent interests valued by the equity method of accounting	841,543	885,001	34,757	41,503
Permanent investments valued by the acquisition cost	1,742	1,742	1,742	1,742
Other investments	374	374	374	374
	843,659	**887,117**	**36,873**	**43,619**

b) Permanent interests

	2006				2005	
Companies	**Per thousand shares or quotas**	**Interest (%)**	**Net income (loss)**	**Shareholder's equity**	**Net income**	**Shareholder's equity**
Itá Energética S.A. – ITASA	253,607	48.75	28,380	567,580	16,255	545,941
Companhia Energética Meridional - CEM	344,528	99.99	88,217	480,558	78,446	532,009
Lages Bioenergética Ltda.	30,530	99.99	15,929	32,416	11,725	32,255
Tractebel Energia Comercializadora Ltda.	4,200	99.99	2,031	17,113	10,459	13,082
Delta Energética S.A.	35	99.99	(28)	3	-	6

c) Movement in investments

Companies	Balance on 12.31.2004	Capital increase	Equity accounting	Amortization of goodwill	Dividends	Balance on 12.31.2005
ITASA						
Equity accounting	253,751	-	16,255	-	(3,860)	266,146
Goodwill	12,588	-	-	(2,289)	-	10,299
CEM						
Equity accounting	348,562	200,000	78,446	-	(95,000)	532,008
Goodwill	35,661	-	-	(4,457)	-	31,204
Lages Bioenergética	30,530	-	11,725	-	(10,000)	32,255
Tractebel Comercializadora	1,423	1,200	10,459	-	-	13,082
Delta Energética	7	-	-	-	-	7
	682,522	**201,200**	**116,885**	**(6,746)**	**(108,860)**	**885,001**

Companies	Balance on 12.31.2005	Capital increase	Equity accounting	Prior year adjustment	Amortization of goodwill	Dividends	Balance on 12.31.2006
ITASA							
Equity accounting	266,146	-	13,835	-	-	(3,286)	276,695
Goodwill	10,299	-	-	-	(2,289)	-	8,010
CEM							
Equity accounting	532,008	-	88,217	139	-	(139,806)	480,558
Goodwill	31,204	-	-	-	(4,457)	-	26,747
Lages Bioenergética	32,255	-	15,929	161	-	(15,929)	32,416
Tractebel Comercializadora	13,082	2,000	2,031	-	-	-	17,113
Delta Energética	7	25	(28)	-	-	-	4
	885,001	**2,025**	**119,984**	**300**	**(6,746)**	**(159,021)**	**841,543**

Of the total amount of dividends proposed by its subsidiaries, the Company received R$ 56,000 in 2006 and will receive R$ 103,021 in 2007, on a date to be defined by its subsidiaries' boards of directors.

d) Permanent interests

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 its 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 and valid for 35 years starting in 1995. 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 of 1,450 MW, resulting from 5 generators of 290 MW and an average 720 MW of assured power.

Pursuant to the Consortium Agreement, ITASA is entitled to 60.5% of 668 MW average.

The economic basis for the goodwill from 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 of 35 years. 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 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	2006	2005
Current	74,786	66,067
Non-current		
Long-term assets	3,743	9,521
Permanent assets	1,022,962	1,064,089
	1,026,705	1,073,610
	1,101,491	**1,139,677**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current	109,534	104,004
Non-current		
Long-term liabilities	424,377	489,732
Shareholders' equity	567,580	545,941
	1,101,491	**1,139,677**
INCOME		
Gross operating income	219,049	233,129
Deductions from operating income	(22,280)	(21,564)
Net sale income	**196,769**	**211,565**
ELECTRIC ENERGY COST		
Electric energy purchased for resale	(16)	(1,336)
Electric energy production cost	(45,431)	(52,657)
	(45,447)	**(53,993)**
GROSS PROFIT	**151,322**	**157,572**
OPERATING EXPENSES		
Selling expenses	(29,926)	(19,859)
General and administrative expenses	(19,526)	(19,138)
	(49,452)	**(38,997)**
Service income	**101,870**	**118,575**
Net financial expenses	**(59,434)**	**(67,975)**
OPERATING INCOME	**42,436**	**50,600**
NON OPERATING INCOME	**432**	**-**
INCOME BEFORE TAXES	**42,868**	**50,600**
Income and social contribution taxes	(14,488)	(17,256)
NET INCOME FOR THE YEAR	**28,380**	**33,344**

Companhia Energética Meridional – CEM (subsidiary)

CEM holds the concession for 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 economic basis for the goodwill form the acquisition of the 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 projection calculated by an expert financial institution, according to assumptions applicable to the context of the investee, and projected for the concession period of the plant of 35 years, 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.

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 28 MW, 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 venture is valid for 30 years, starting on October 30, 2002.

The Co-generation Plant, in the year of 2006, obtained the registration in the Clean Development Mechanism (CDM) of UNO for using wood residues to negotiate carbon credits.

The market of commercialization of carbon credits boosts the economy of developed and in development countries since February of 2005, when Kyoto Protocol went into effect. To become a potential seller of the credits, Lages had to accomplish several tasks from different entities, such as the Kyoto Protocol, the United Nations, the Federal Government and independent auditors.

The plant, which consumes 15 thousand tons of wood residues per month, demonstrated that it will reduce and, as consequence, negotiate the equivalent of 220 thousand tons of CO2 per year.

Tractebel Energia Comercializadora Ltda. (subsidiary)

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

Delta Energética S. A. (subsidiary)

The Company holds 34,999 of the 35,000 shares that represent the share capital of Delta. The subsidiary has not performed any activities until the present moment.

11 – PROPERTY, PLANT, AND EQUIPMENT

a) Composition

	Consolidated					
		2006			2005	
	Average depreciation rates	Adjusted cost	Accumulated depreciation/ amortization	Net amount	Net amount	Company
Property, plant and equipment in operation						
Hydroelectric generation						
UHE Salto Santiago	2.5	640,750	(490,255)	150,495	163,652	Holding Company
UHE Salto Osório	2.8	304,141	(233,387)	70,754	69,241	Holding Company
UHE Passo Fundo	2.5	123,027	(92,674)	30,353	33,261	Holding Company
UHE Itá (consortium)	2.3	1,781,075	(259,809)	1,521,266	1,560,796	Holding Company/ ITASA
UHE Machadinho (consortium)	2.4	179,161	(20,096)	159,065	164,143	Holding Company
UHE Cana Brava	2.5	874,444	(93,514)	780,930	799,252	CEM
		3,902,598	**(1,189,735)**	**2,712,863**	**2,790,345**	
Thermoelectric generation						
Jorge Lacerda complex	4.3	2,451,072	(1,262,294)	1,188,778	1,271,460	Holding Company
UTE Charqueadas	4.4	56,641	(49,303)	7,338	6,572	Holding Company
UTE Alegrete	4.1	8,114	(7,263)	851	861	Holding Company
UTE William Arjona	4.3	174,487	(69,267)	105,220	107,496	Holding Company
Lages Cogeneration unit	4.3	73,467	(8,229)	65,238	62,972	Lages
		2,763,781	**(1,396,356)**	**1,367,425**	**1,449,361**	
General equipment and others	10.0	**36,932**	**(19,440)**	**17,492**	**15,731**	Consolidated
		6,703,311	**(2,605,531)**	**4,097,780**	**4,255,437**	
Property, plant and equipment under construction						
Hydroelectric generation		22,499	-	22,499	21,191	Holding Company/ITASA/ CEM
Thermoelectric generation		32,214	-	32,214	47,501	Holding Company/Lages
General equipment and others		6,024	-	6,024	5,339	Holding Company
		60,737	**-**	**60,737**	**74,031**	
Total property, plant and equipment		**6,764,048**	**(2,605,531)**	**4,158,517**	**4,329,468**	
Special obligations		**(9,619)**	**-**	**(9,619)**	**(56,689)**	Holding Company/Lages
		6,754,429	**(2,605,531)**	**4,148,898**	**4,272,779**	

b) Changes to property, plant and equipment

	Holding Company			Consolidated		
	In operation	Under construction	Total	In operation	Under construction	Total
Balance on 12.31.2004	**3,052,582**	**80,211**	**3,132,793**	**4,412,892**	**96,537**	**4,509,429**
Acquisitions	-	36,803	36,803	-	43,198	43,198
Transfers	26,808	(26,808)	-	39,447	(39,447)	-
Depreciation	(157,745)	-	(157,745)	(195,171)	-	(195,171)
Write-offs	(1,723)	(26,259)	(27,982)	(1,731)	(26,257)	(27,988)
Balance on 12.31.2005	**2,919,922**	**63,947**	**2,983,869**	**4,255,437**	**74,031**	**4,329,468**
Acquisitions	-	64,347	64,347	-	69,040	69,040
Transfers	46,660	(46,660)	-	55,590	(55,590)	-
Depreciation	(159,442)	-	(159,442)	(196,727)	-	(196,727)
Write-offs	(16,101)	(26,744)	(42,845)	(16,520)	(26,744)	(43,264)
	2,791,039	**54,890**	**2,845,929**	**4,097,780**	**60,737**	**4,158,517**
Special obligations	(9,494)	-	(9,494)	(9,619)	-	(9,619)
Balance on 12.31.2006	**2,781,545**	**54,890**	**2,836,435**	**4,088,161**	**60,737**	**4,148,898**

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	
	2006	2005	2006	2005
Donations and subventions meant for investments	867	47,937	992	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
	9,494	**56,564**	**9,619**	**56,689**

In 2006, due to the sale of Jacuí project, the special obligations related to Jacuí were written-off.

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	10.16.2030
UHE Machadinho	Holding Company	1,140	07.15.1997	07.15.2032
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 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 10-d).

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

On March 3, 2006 the Company sold its remaining interest of 33.34% on Jacuí project for R$ 31,362. The associated amounts written-off of assets by the Company are the following:

Gross cost	401,138
Remuneration of Construction work in Progress – RIC	(71,263)
Sub-total	329,875
Reversal of provision	(303,131)
Total	**26,744**

f) Restricted assets

Pursuant to Articles 63 and 64 of Decree n° 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 linked 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.

12 – INTANGIBLE ASSETS

	Consolidated					
	2006				2005	
	Average depreciation rates	Adjusted cost	Accumulated depreciation/ amortization	Net amount	Net amount	Company
Right to exploit UHE Cana Brava	3.2	88,664	(12,642)	76,022	78,868	CEM
Software	20.0	8,394	(7,106)	1,288	1,821	Consolidated
		97,058	**(19,748)**	**77,310**	**80,689**	

13 – 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 1, 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 compatible with the estimated disposal value.

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 1, 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 reversing the accelerated amortization recognized along the agreement term with CBEE.

As of December 31, 2006 the residual value of generation units 4 and 5 was R$ 33,134.

14 – SUPPLIERS

	Holding Company		Consolidated	
	2006	2005	2006	2005
Electric energy purchased from third parties	77,257	41,941	70,244	13,129
Transactions within CCEE	75,921	896	75,922	946
Charges for the use of the power grid	44,379	33,254	48,880	37,122
Fossil fuels / biomass	6,252	19,187	6,334	19,367
Material and services	32,115	17,661	37,939	23,782
	235,924	**112,939**	**239,319**	**94,346**

15 – LOANS AND FINANCING

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

a) Composition

	Holding Company					
	2006			2005		
	Principal amount and charges			Principal amount and charges		
	Current	Non-current	Total	Current	Non-current	Total
Foreign Currencies						
National Treasury Office	24,799	223,460	248,259	83,419	263,997	347,416
BNP Paribas (Floating Rate Note)	112,810	-	112,810	-	110,762	110,762
Deutsche Bank	4,107	8,215	12,322	4,497	13,491	17,988
ABN AMRO Bank	6,029	3,015	9,044	6,601	9,901	16,502
Charges	5,966	-	5,966	6,054	-	6,054
	153,711	**234,690**	**388,401**	**100,571**	**398,151**	**498,722**
Domestic Currency						
ELETROBRÁS	87,437	93,402	180,839	79,149	174,443	253,592
BNDES	9,769	1,987	11,756	8,488	11,707	20,195
Banco do Brasil	3,529	14,118	17,647	3,530	17,648	21,178
Charges	1,706	-	1,706	2,397	-	2,397
	102,441	**109,507**	**211,948**	**93,564**	**203,798**	**297,362**
	256,152	**344,197**	**600,349**	**194,135**	**601,949**	**796,084**

	Consolidated					
	2006			2005		
	Principal amount and charges			Principal amount and charges		
	Current	Non-current	Total	Current	Non-current	Total
Foreign Currencies						
National Treasury Office	24,799	223,460	248,259	83,419	263,997	347,416
BNP Paribas *(Floating Rate Note)*	112,810	-	112,810	-	110,762	110,762
Deutsche Bank	4,107	8,215	12,322	4,497	13,491	17,988
ABN AMRO Bank	6,029	3,015	9,044	6,601	9,901	16,502
Charges	5,966	-	5,966	6,054	-	6,054
	153,711	**234,690**	**388,401**	**100,571**	**398,151**	**498,722**
Domestic Currency						
ELETROBRÁS	87,437	93,402	180,839	79,149	174,443	253,592
BNDES	36,674	150,498	187,172	34,920	184,040	218,960
Financing agents - BNDES	14,935	85,879	100,814	14,673	99,043	113,716
Banco do Brasil	3,529	14,118	17,647	3,530	17,648	21,178
BRDE	6,785	31,664	38,449	6,627	37,813	44,440
Charges	3,008	-	3,008	3,873	-	3,873
	152,368	**375,561**	**527,929**	**142,772**	**512,987**	**655,759**
	306,079	**610,251**	**916,330**	**243,343**	**911,138**	**1,154,481**

b)Changes to loans and financing

	Holding Company			Consolidated		
	Current	Non-current	Total	Current	Non-current	Total
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 and currency exchange variations	(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**
Transfers	243,997	(243,997)	-	292,859	(292,859)	-
Charges generated	68,583	-	68,583	100,758	2,238	102,996
Monetary and currency exchange variations	(4,133)	(21,005)	(25,138)	(4,133)	(17,516)	(21,649)
Interest on escrow	-	7,250	7,250	-	7,250	7,250
Amortization	(246,430)	-	(246,430)	(326,748)	-	(326,748)
Balance on 12.31.2006	**256,152**	**344,197**	**600,349**	**306,079**	**610,251**	**916,330**

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

	Holding Company					
	2006			2005		
	Currency thousand	Reais	%	Currency thousand	Reais	%
Foreign Currency						
US dollar – USD	128,392	274,502	45.73	142,985	334,686	42.04
Euro – EUR	40,386	113,899	18.97	50,446	139,687	17.55
Pound Sterling – GBP	-	-	-	6,054	24,349	3.06
		388,401	**64.70**		**498,722**	**62.65**
Domestic Currency						
IVRRJR (based on UFIR)		182,286	30.36		255,622	32.11
Not indexed		29,662	4.94		41,740	5.24
		211,948	**35.30**		**297,362**	**37.35**
		600,349	**100.00**		**796,084**	**100.00**

	Consolidated					
	2006			2005		
	Currency thousand	Reais	%	Currency thousand	Reais	%
Foreign Currency						
US dollar – USD	128,392	274,502	29.96	142,985	334,686	28.99
Euro – EUR	40,386	113,899	12.43	50,446	139,687	12.10
Pound Sterling – GBP	-	-	-	6,054	24,349	2.11
		388,401	**42.39**		**498,722**	**43.20**
Domestic Currency						
IVRRJR (based on UFIR)		182,286	19.89		255,622	22.14
URTJLP		315,981	34.48		358,397	31.04
Not indexed		29,662	3.24		41,740	3.62
		527,929	**57.61**		**655,759**	**56.80**
		916,330	**100.00**		**1,154,481**	**100.00**

d) Variation of foreign currencies and indexes:

Currency – index	% 2006	2005
US dollar – USD	(8.66)	(11.82)
Pound Sterling – GBP	4.06	(21.53)
Euro – EUR	1.85	(23.50)
TJLP	7.87	9.75

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

	Holding Company			Consolidated		
	In foreign currency	In domestic currency	Total	In foreign currency	In domestic currency	Total
2008	31,921	30,360	62,281	31,921	78,990	110,911
2009	26,222	30,974	57,196	26,222	79,604	105,826
2010	19,430	33,848	53,278	19,430	82,478	101,908
2011	19,430	14,325	33,755	19,430	62,955	82,385
2012	14,379	-	14,379	14,379	46,368	60,747
From 2013 to 2024	123,308	-	123,308	123,308	25,166	148,474
	234,690	**109,507**	**344,197**	**234,690**	**375,561**	**610,251**

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

Holding Company

Domestic market
Fixed rates from 9.29% to 12.00% p.a. (In 2005 – 9.29% to 12.00% p.a.)
Floating rates: 6.85% p.a. to 17.94% p.a. (In 2005 – 9.75% to 19.65% p.a.)

International market
Fixed rates from 6.00% to 8.49% p.a. (In 2005 – 6.00% to 8.49% p.a.)
Floating rates from 4.64% to 10.85% p.a. (In 2005 – 2.67% to 9.30% p.a.)

Consolidated

Domestic market
Fixed rates from 9.29% to 12.00% p.a. (In 2005, from 9.29% to 12.00% p.a.)
Floating rates from 6.85% to 17.94% p.a. (In 2005 – 9.75% to 19.65% p.a.)

International market
Fixed rates from 6.00% to 8.49% p.a. (In 2005 – 6.00% to 8.49% p.a.)
Floating rates from 4.64% to 10.85% p.a. (In 2005 – 2.67% to 9.30% p.a.)

g) Guarantees

g.1) Tractebel Energia S.A.

Loans and financing in foreign exchange

General office of National Treasury - STN: (a) Cession and transfer to the Union of the receivables, until the required limit to cover the payment of the installments and other payable charges at each expiration date; (b) pledge deposit amounting R$ 70,681, on December 31, 2006, presented as an adjustment to the corresponding financing.

ABN AMRO BANK: Promissory note, with expiration on demand, corresponding to the amount of the financing.

There are no guarantees granted for the other loans and financing in foreign currency.

Loans and financings in local currency

ELETROBRÁS: (a) Powers granted to the creditor, in case of default, to transfer to its own name, the necessary amounts for the payment of the debt, from the bank account of the Company used to collect receivables; (b) promissory notes in the amount of the financing, being linked to the contractual terms.

BNDES: Cession and transfer to the Bank of the amount equivalent to 1.33% of the monthly revenue of the Company, to be done through deposits in the collected account and linked account.

Banco do Brasil: (a) Cession and credit transfer amounting R$ 8,726, annually, represented by sales of electric energy or other resources with the same purpose; (b) promissory note in the value corresponding to the financing.

g.2) Itá Energética S.A. - ITASA

BNDES and Financial Agents: (a) Pledge of Concession Emerging Rights to exploit UHE Itá; (b) Pledge of Credit Rights resulting from the Agreements of Purchase and sale of electric energy entered into with its investors; (c) reserve account amounting the equivalent to three months of the due debt of BNDES (substituted by bank guarantee) and three months of the UHE Itá's contractual expenses of operation and maintenance. Besides these guarantees, the partners escrowed the totality of the shares of ITASA to BNDES and Financial Agents.

g.3) Companhia Energética Meridional - CEM

BNDES: Financing Contract for Credit facility and Subscription Contract and Payment of Debentures: (a) Cession of all income and other amounts received in respect of the generation and commercialization of energy from the UHE Cana Brava; (b) Cession of the right to receiving all and any values that come to be demandable and payable to the grantor, under the terms of the Concession, including, all the compensations from the extinction of the

Concession; (c) obligation to maintain a Reserve Account with a deposited amount equivalent to six months of the due amounts.

g.4) Lages Bioenergética Ltda.

BRDE: (a) Cession of the Creditors rights to the Purchase and sale contract relating to electric energy transactions with CELESC, with Tractebel's guarantee; (b) cession of the Compensation Rights arising from the Sale and Purchase Contracts of steam and Biomass celebrated with the companies Sofia Industrial e Exportadora Ltda. and Battistella Ind. e Com. Ltda.; (c) cession of Emerging Rights of the Authorization granted by ANEEL to establish as an Independent Producer of electric energy; (d) obligation to maintain a reserve account with a deposited amount equivalent to, on the average, four months of the amounts due.

16 – DEBENTURES

a) Composition

	2006					2005
	Current			Non-current	Total	Total
	Charges	Principal	Total			
Tractebel Energia S.A.						
1st Series	8,843	4,939	13,782	140,000	153,782	146,892
2nd Series	1,222	-	1,222	60,000	61,222	61,742
Total Holding Company	**10,065**	**4,939**	**15,004**	**200,000**	**215,004**	**208,634**
CEM (Single Series)	**2,026**	**9,789**	**11,815**	**74,204**	**86,019**	**93,437**
ITASA (1st and 2nd Series)	**2,825**	**8,190**	**11,015**	**49,140**	**60,155**	**67,215**
Total Consolidated	**14,916**	**22,918**	**37,834**	**323,344**	**361,178**	**369,286**

b) Change to Debentures

	Holding Company			Consolidated		
	Current	Non- Current	Total	Current	Non- Current	Total
Balance on 12.31.2004	**-**	-	-	**23,360**	**153,620**	**176,980**
Incoming funds	-	200,000	200,000	-	200,000	200,000
Transfers	-	-	-	16,807	(16,807)	-
Charges generated	17,073	-	17,073	33,701	3,035	36,736
Monetary variations	-	(1,652)	(1,652)	1,010	(1,652)	(642)
Amortizations	(6,787)	-	(6,787)	(43,788)	-	(43,788)
Balance on 12.31.2005	**10,286**	**198,348**	**208,634**	**31,090**	**338,196**	**369,286**
Transfers	4,938	(4,938)	-	22,868	(22,868)	-
Charges generated	20,928	-	20,928	35,990	1,426	37,416
Monetary variations	-	6,590	6,590	2,359	6,590	8,949
Amortizations	(21,148)	-	(21,148)	(54,473)	-	(54,473)
Balance on 12.31.2006	**15,004**	**200,000**	**215,004**	**37,834**	**323,344**	**361,178**

c) Contract Conditions

	Debenture quantity	Remuneration	Payment Conditions		Guarantee
			Interests/monetary restatements	Principal	
Tractebel					
1st Series	14,000	IGPM + 9.29% per year	Annually on 05.02	Lump sum on 05.02.11	No guarantee
2nd Series	6,000	103.9% of CDI	Half-early on 05.02 and 11.02	Lump sum on 05.02.10	No guarantee
CEM					
(Single Series)	7,773	TJLP + 4% per year **(*)**	Half-yearly on 04.01 and 10.01, until 04.01.2013	Half-yearly, varying from 4.2752% on 04.01.07, and 7.5737% on 04.01.13	Receivables arising from the generation and commercialization of electric energy.
ITASA					
1st Series e 2nd Series	8,400	IGPM + 9.4% per year	Annually on 12.01 (1st series) and 06.01 (2nd series)	7 equal installments, on 12.01 (1st series) and 06.01 (2nd series) of each year, until 12.01.13 (1st series), and 06.01.13 (2nd series)	Pledge of the Creditors Rights of the electric energy sale contracts with the shareholders.

(*) The amount corresponding to the portion of TJLP that exceeds 6% per year will be capitalized, incorporating such amount in the face value of the debentures.

d) Variation of the indexes

	%	
Currency – index	**2006**	**2005**
TJLP	7.87	9.75
IGP-M	3.83	1.21
CDI	15.03	19.00

e) Maturities of long-term debentures:

	Holding Company	Consolidated
2008	-	18,958
2009	-	20,035
2010	60,000	81,219
2011	140,000	162,522
2012	-	22,522
2013	-	18,088
	200,000	**323,344**

17 – ESTIMATED OBLIGATIONS

	Holding Company			
	2006			2005
	Current	Long-term	Total	Total
Provision for labor related payables	10,515	-	10,515	9,772
Provision for extensive maintenance	-	-	-	46,193
Provision for profit-sharing and management bonus	16,858	-	16,858	15,000
Others	1,169	653	1,822	662
	28,542	**653**	**29,195**	**71,627**

Provision for labor related payables refers to estimated vacation pay, vacation bonus and corresponding social charges.

As from 2006, the Company changed the criteria of recognition of the provision for expenses related to extensive maintenance of the generating park, based on the Technical Interpretation n° 01/2006, of the Institute of the Independent Auditors of Brazil - IBRACON, and adjusted the balance of 12.31.2005, also adjusting retained earnings. (See Note 22-d)

Consolidated

The consolidated balance sheet includes, as of 2006, the amount of R$ 108, referring to labor provisions recognized in the financial statements of ITASA and, as of 2005, the amount of R$ 485 concerning a provision for scheduled maintenance of the Hydroelectric Power Plant Cana Brava and Lages Bionergética.

18 – PROVISION FOR CONTIGENCIES

There are tax and civil 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:

a) Composition

	Holding Company			
	2006			2005
	Provision	Judicial Deposits	Provision, net	Provision, net
Labor Contingencies				
Employment relationship and rehiring	17,876	16,351	1,525	4,840
Risk premium	700	590	110	593
Overtime	787	565	222	166
Salary parity and job classification	819	190	629	579
Overtime while in commuter transportation	831	797	34	590
Others	2,977	2,568	409	700
	23,990	**21,061**	**2,929**	**7,468**
Civil Lawsuit Contingencies				
Suppliers	15,970	-	15,970	63,097
Occupational illness and accidents	20,662	-	20,662	20,317
Affected by UHE Itá	875	-	875	1,679
Actual damages and loss of profits	755	-	755	100
Others	775	-	775	752
	39,037	**-**	**39,037**	**85,945**
Tax Contingencies				
Social Contribution	12,077	3,119	8,958	13,446
INSS (Social security)	23,620	10,503	13,117	11,861
	35,697	**13,622**	**22,075**	**25,307**
	98,724	**34,683**	**64,041**	**118,720**
Classification of provision for contingencies in the balance sheet				
Current			11,000	41,595
Long-term			53,041	77,125
			64,041	**118,720**

	Consolidated			
	2006			2005
	Provision	Judicial Deposits	Provision, net	Provision, net
Labor Contingencies				
Employment relationship and rehiring	17,876	16,351	1,525	4,840
Risk premium	700	590	110	593
Overtime	787	565	222	166
Salary parity and job classification	819	190	629	579
Overtime while in commuter transportation	831	797	34	590
Others	2,977	2,568	409	700
	23,990	**21,061**	**2,929**	**7,468**
Civil Lawsuit Contingencies				
Suppliers	15,970	-	15,970	64,334
Occupational illness and accidents	20,662	-	20,662	20,317
Affected by UHE Itá	2,489	-	2,489	3,028
Actual damages and loss of profits	755	-	755	100
Others	2,615	-	2,615	1,674
	42,491	**-**	**42,491**	**89,453**
Tax Contingencies				
Social Contribution	12,077	3,119	8,958	13,446
INSS (Social security)	23,620	10,503	13,117	11,861
	35,697	**13,622**	**22,075**	**25,307**
	102,178	**34,683**	**67,495**	**122,228**
Classification of provision for contingencies in the balance sheet				
Current			11,206	42,326
Long-term			56,289	79,902
			67,495	**122,228**

The summary of the tax contingencies whose risk was evaluated as probable is as follows:

Social contribution - Refers to the tax assessment originated by the compensation, in the calculation of the Social Contribution on the net profit - CSLL for the periods 1996 and 1997, of CSLL negative basis constituted before 1992.

Social security (INSS) - Corresponds to current notifications of differences in the payments of Working Additional Accident Insurance on the contributions for special retirement and social contribution on indemnifications.

b) Changes

	Holding Company			
	Labor	Civil	Tax	Gross Provision
Balance on 12.31.2005	**22,037**	**86,487**	**35,677**	**144,201**
Additions	2,645	1,661	-	4,306
Indexation adjustments	2,462	4,623	5,025	12,110
Payments	(2,638)	(10)	-	(2,648)
Write-backs	(516)	(27,129)	(5,005)	(32,650)
Transfers to suppliers	-	(26,595)	-	(26,595)
Balance on 12.31.2006	**23,990**	**39,037**	**35,697**	**98,724**

	Consolidated			
	Labor	Civil	Tax	Gross Provision
Balance on 12.31.2005	**22,037**	**89,995**	**35,677**	**147,709**
Additions	2,645	2,486	-	5,131
Indexation adjustments	2,462	4,877	5,025	12,364
Payments	(2,638)	(276)	-	(2,914)
Write-backs	(516)	(27,996)	(5,005)	(33,517)
Transfers to suppliers	-	(26,595)	-	(26,595)
Balance on 12.31.2006	**23,990**	**42,491**	**35,697**	**102,178**

c) Contingencies of possible or remote risks

The Company is a party 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:

	Holding Company					
	2006					2005
	Possible risk	Remote risk	Gross Total	Judicial Deposits	Net Total	Net Total
Labor contingencies	10,186	10,928	21,114	4,087	17,027	14,069
Civil contingencies	9,624	3,580	13,204	-	13,204	27,755
Tax-related	115,542	15,067	130,609	107,117	23,492	2,640
	135,352	**29,575**	**164,927**	**111,204**	**53,723**	**44,464**

	Consolidated					
	2006					2005
	Possible risk	Remote risk	Gross Total	Judicial Deposits	Net Total	Net Total
Labor contingencies	10,186	10,928	21,114	4,087	17,027	14,069
Civil contingencies	34,162	13,364	47,526	-	47,526	57,383
Tax-related	135,669	15,067	150,736	127,244	23,492	3,717
	180,017	**39,359**	**219,376**	**131,331**	**88,045**	**75,169**

The Company has term deposits linked to provisions of possible and remote risks that, in their majority, are made to guarantee the continuation of the process. These values are presented in non-current assets.

In July 2005, the Company filed an Injunction against the Internal Revenue Service in Florianópolis, since management understands that Regulatory Instruction SRF 468/2004 exceeded 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, which 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 not to be due in an account linked to the 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, and, as such, the Company has not set up a provision for the unpaid amount as from June 2005. The total amount of the contingencies, on 12.31.2006, presented as possible is R$ 112,479 (R$ 32,207 on 12.31.2005).

d) Contingencies receivable

In agreement with the orientation contained in ANEEL ruling, the registration of the consumption of acquired fossil fuel with resources of CCC/CDE that, until November of 2005, had been recorded in operational income, in the account "Fuel Subsidy CCC/CDE", is currently accounted for in the account which includes the cost of electric power production, in the account "Fuel for electric power production".

The Company understands that, due to the alteration of the referred accounting practice, PIS/COFINS collected regarding the accounting procedure previously adopted should be recovered. Therefore, it is analyzing the most appropriate form to obtain this recovery. The amount of the updated receivable contingency as of 12.31.2006 is R$ 66,000.

19 – 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 CanaBrava, 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. The historical and updated values, as of 12.31.2006, are as follows:

	Historic		Updated	
Ano	**Annual**	**Total**	**Annual**	**Total**
From 01.01.2007 to 07.30.2023	680	12,920	1,559	25,849
From 08.30.2023 to 07.30.2033	61,280	612,800	140,470	1,404,701
		625,720		**1,430,550**

In order to adequately reflect the granting of remunerated concession and corresponding obligation to the Federal Government, CEM recorded the 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 for 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 results.

a) Changes

	Consolidated		
	Current	Non-current	Total
Balance on 12.31.2004	**1,472**	**160,417**	**161,889**
Transfers	1,536	(1,536)	-
Charges generated	-	15,960	15,960
Monetary variations	-	3,289	3,289
Amortizations	(1,478)	-	(1,478)
Balance on 12.31.2005	**1,530**	**178,130**	**179,660**
Transfers	1,564	(1,564)	-
Charges generated	-	18,039	18,039
Monetary variations	-	6,941	6,941
Amortizations	(1,535)	-	(1,535)
Balance on 12.31.2006	**1,559**	**201,546**	**203,105**

b) Schedule of maturities for the long-term payable concession amounts:

2008	1,559
2009	1,559
2010	1,559
2011	1,559
2012	1,559
From 2013 to 2033	193,751
	201,546

20 – POST-EMPLOYMENT BENEFITS

Post-employment benefits maintained by the Company are as follows:

a) Pension Plan

The Company, through PREVIG – Sociedade de Previdência Complementar, provides Complementary Pension Plans for 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 Defined Benefit and Defined Contribution. The Defined Benefit Plan is closed to new members.

a.1) 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 9,876 of 11.26.1999 became effective. After being granted, the benefit complement is adjusted annually based on the IBGE 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.

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 Previdência Complementar (Supplementary Benefit Secretariat - SPC) approved the termination of the Agreement with ELOS and the complete 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 before 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 2006 amounted to R$ 1,402 (R$ 1,777 in 2005).

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

The Company is responsible, also, to 100% of the amount of the administrative expenses of PREVIG, limited in 15% of the total amount of the respective income. The value corresponding to these expenses in 2006 amounted to R$ 2,121 (R$ 2,110 in 2005).

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

Economic Hypotheses (nominal)

	2006	2005
Discount rate (p.a.)	10.75%	11.25%
Expected rate of return on assets (p.a.)	11.00%	11.50%
Future salary growth		
- Active participant (p.a.)	7.00%	7.50%
- Self-sponsored participant (p.a.)	5.00%	5.50%
Growth in social security benefits (p.a.)	5.00%	5.50%
Growth in benefits of the Plan sponsored by the Company (p.a.)	5.00%	5.50%
Inflation	5.00%	5.50%
Capacity factor		
- Salaries	100%	100%
- Benefits	100%	100%

Demographic Hypotheses

	2006	2005
Mortality Table (assets)	AT 2000 (per sex)	GAM 1983, age adjustment of -1
Disabled Mortality Table	RP 2000 (per sex)	IAPB 57
Probability of Disability	Watson Wyatt 1985 Disability Class 1 (per sex)	TASA27
Turnover Table	*T-1 Service Table*	*T-1 Experience*
Age of Retirement	First date when all grace periods are complete	First date when all grace periods are complete
% of active participants married on the date of retirement	90	90
Age difference between the participant and spouse	Wives are 4 years younger than their husbands	Wives are 4 years younger than their husbands

Other Hypotheses

	2006	2005
Participants entitled to conversion of special retirement into retirement based on length of service (SB-40), who will opt for the conversion	100%	100%
Conversion factor of SB-40	140%	140%

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

	2006			2005		
	Retirement Plan	Confidentiality Bonus	Total	Retirement Plan	Confidentiality Bonus	Total
Present value of actuarial obligations totally or partially secured	1,179,927	-	1,179,927	1,145,672	-	1,145,672
Fair value of assets	(736,567)	-	(736,567)	(689,903)	-	(689,903)
Present value of actuarial obligations totally unsecured	-	1,628	1,628	-	1,359	1,359
Subtotal	443,360	1,628	444,988	455,769	1,359	457,128
Net value of actuarial losses not recognized in the balance sheet	(130,187)	(707)	(130,894)	(170,048)	(305)	(170,353)
Liabilities recognized in the balance sheet	**313,173**	**921**	**314,094**	**285,721**	**1,054**	**286,775**

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 8.25 years, which corresponds to the average time of future contributions estimated for the employees who take part in 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:

	2006			2005
	Current	Non-current	Total	Total
Agreed to/recognized obligations				
Agreement of acknowledgement of past debts	14,155	130,790	144,945	90,043
Coverage of costs relating to conversion of special retirement into retirement by length of service (SB-40) and extraordinary contributions.	5,495	4,214	9,709	24,999
Actuarial liabilities not subject to contract	719	158,721	159,440	171,733
Total actuarial liabilities	**20,369**	**293,725**	**314,094**	**286,775**

The composition of the acknowledgment of debt contracts of past debts are as follows:

	Year	Amortization	Charges	2006	2005
ELOS					
Additional contributions	1993	monthly, to 12.2014	INPC + 6% p.a.	74,389	79,371
Installment of debts	1993	monthly, to 11.2011	INPC + 6% p.a.	9,609	8,700
Administrative expenses	2001	monthly, to 03.2006	INPC + 10% p.a.	-	1,972
Past supplementary contributions	2006	monthly, to 04.2011	INPC + 6% p.a.	11,338	-
Cover for mathematical reserves	2006	monthly, to 12.2023	INPC + 6% p.a.	22,226	-
				117,562	**90,043**
PREVIG					
Cover for mathematical reserves – Defined Benefit Plan migration					
Granted benefits	2006	monthly, to 04.2022	INPC + 6% p.a.	14,669	-
Benefits to grant	2006	monthly, to 04.2014	INPC + 6% p.a.	4,651	-
Cover for mathematical reserves	2006	monthly, to 12.2023	INPC + 6% p.a.	7,318	-
Past supplementary contributions	2006	monthly, to 04.2011	INPC + 6% p.a.	745	-
				27,383	**-**
				144,945	**90,043**

Entries made to actuarial liabilities are summarized below:

	Retirement Plan	Confidentiality Bonus	Total
Liability 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)
Liability on 12.31.2005	**285,721**	**1,054**	**286,775**
Expenses of 2006	58,158	199	58,357
Actual contributions by the Company in 2006	(30,706)	-	(30,706)
Benefits paid by the Company in 2006	-	(332)	(332)
Liability on 12.31.2006	**313,173**	**921**	**314,094**

The amounts to be recognized in the 2007 results as Defined Benefits Plan and Confidentiality Bonus are the following:

	Retirement Plan	Confidentiality Bonus	Total
Cost of current service	338	65	403
Cost of interest	122,470	149	122,619
Earnings expected from the plan's assets	(78,413)	-	(78,413)
Amortization of actuarial losses	1,284	48	1,332
Contribution of employees	(234)	-	(234)
Total	**45,445**	**262**	**45,707**

a.2) Defined Contribution Plan

Besides the above-mentioned benefit plan, PREVIG started managing another plan, a Defined Contribution plan, closing the initial plan to new participants on October 5, 2004, the date when the new plan was approved and communicated to the 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 by the participants and by 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 2006 was R$ 3,149 (R$ 2,236 in 2005).

In addition, as an incentive to migrate to the plan, the Company undertook a special contribution corresponding to R$ 4,108 in 2006 (R$ 1,760 in 2005), paid to the participants with at least 10 (ten) years of participation in the previous plan, calculated with the objective of increasing the mathematic accruals for the participant, with the purpose of neutralizing a possible impact on the participant for 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 these expenses in 2006 was R$ 340 (R$ 241 in 2005).

b) Confidentiality Bonus

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

21 – DEFERRED TAX

Recorded under this classification are income tax and social contribution tax, in the Holding Company and in the Consolidated, in the amount of R$ 36,535 in long-term liabilities (R$ 36,532 in 2005), calculated based on the provision for sale of electric energy within MAE, in the amount of R$ 107,456, 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 Rule, 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.

22 – 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) Subscribed and paid-up capital

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, 2006, 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 per share as of December 31, 2006 was R$ 4.24 (R$ 4.11 per thousand shares as of 12.31.2005).

The Company's ownership structure is as follows:

	% of Capital	
Shareholders	**2006**	**2005**
Suez Energy South America Participações Ltda.	68.71	68.73
Banco Clássico S.A.	10.00	10.00
BNDES Participações S.A. – BNDESPAR	2.80	2.80
Federal Union	1.90	1.90
Others	16.59	16.57
	100.00	**100.00**

c) Composition of reserves

	2006	2005
Capital reserve		
Compensation of assets and rights created with equity capital	**91,695**	**91,695**
Profit Reserves		
Statutory reserve	197,214	148,257
Retained earnings reserve	29,896	243
	227,110	**148,500**

The Management of the Company, based on the capital budget to be submitted to the Ordinary Stockholders' General Meeting, propose the constitution of profits reserves amounting to R$ 29,653, without prejudicing the distribution of dividends.

d) Retained earnings – Prior periods adjustments

The Company, starting from 01.01.2006, modified the accounting practice of recording for major maintenance of the generating park, in accordance with the Technical Interpretation of the Brazilian Institute of Accountants - IBRACON, which seeks to the convergence with the International Accounting Standards.

The accounting practice that had been adopted by the Company and which was the standard in Brazil, up to 12.31.2005, was the constitution of a provision for expenses for major maintenance on the property, plant and equipment, on a monthly basis, to reflect the total of the expenses and the expenses that would be incurred in the planned maintenance period.

In accordance with the new accounting criteria, the main components of the property, plant and equipment that need replacement at regular intervals should be treated as individual assets, separate from the related items, and depreciated based on the useful lives of these separate assets. The expenditures incurred in the replacement or renewal of the components are recorded in property as acquisition of separate assets and the substituted assets are written-off from property, plant and equipment.

The effects of the change in accounting practice, in the amount of R$ 29,653, net of income tax and social contribution, were recognized directly in "retained earnings". The effects arising from the adjustment in each account of the Balance Sheet as of 12.31.2005 and in the Income Statement of the period then ended are as follows:

	Consolidated		
	Published	Adjustments	Adjusted
ASSETS			
CURRENT ASSETS			
Deferred tax asset	82,344	(8,271)	74,073
NON-CURRENT ASSETS			
Deferred tax asset	192,309	(7,077)	185,232
Permanent assets			
Investments	43,619	(300)	43,319
Property, plant and equipment and Intangibles	4,353,468	(1,263)	4,352,205
LIABILITIES			
CURRENT LIABILITIES			
Estimated obligations	49,243	(24,325)	24,918
NON-CURRENT LIABILITIES			
Estimated obligations	22,869	(22,239)	630
SHAREHOLDERS' EQUITY			
Retained earnings	-	29,653	29,653
INCOME STATEMENT			
Depreciation	(208,108)	(140)	(208,248)
Constitution of operating provisions, net	(49,691)	15,855	(33,836)
Deferred Income tax and Social contribution	(7,078)	(5,288)	(12,366)

23 – PROPOSED DIVIDENDS

During 2006, the Company's Board of Directors approved the credit of interest on shareholders' equity with the following values

- R$ 114,000, corresponding to R$ 0.174648 per share, approved on 08.11.2006 and paid on 10.25.2006.
- R$ 99,000, corresponding to R$ 0.151668 per share, approved on 12.06.2006, and will be paid in accordance with the decision of the Executive Board and communicated via an Advice to Shareholders.

The above-mentioned amounts, net of withholding tax, are being treated as 2006 dividends.

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 August 11, 2006, the Company's Administrative Council, using the authority attributed to it by the By-laws, approved the distribution of interim dividends based on the financial statements as of June 30, 2006, amounting to R$ 324,000, corresponding to R$ 0.496367 per share, which was paid on October 25, 2006.

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

	2006	2005
a) Determination of minimum mandatory dividends		
Net income for the year	979,146	920,096
Transfer to statutory reserve (5%)	(48,957)	(46,005)
Calculation basis	930,189	874,091
Minimum mandatory dividends (30%)	**279,057**	**262,227**
b) Proposed dividends / interest on shareholder's equity		
Interest of shareholders' equity, net of withholding tax (IRRF)	182,649	232,132
Interim dividends	324,000	141,000
Balance of proposed dividends	393,189	461,391
Subtotal	899,838	834,523
Withholding tax on interest on shareholder's equity	30,351	39,568
Total	**930,189**	**874,091**
Dividends / interest on shareholders' equity before withholding tax, per share **(in R$ 1.00)**:	1,425048	1,339106

The balance of proposed dividends, in the amounting of R$ 393,189, corresponding to R$ 0.602365 per share, will be paid after the resolution of the Annual Shareholders Meeting that approves the Financial Statements.

24 – OPERATING EXPENSES DETAILED BY TYPE

	Holding Company					
	2006					2005
	Costs		Expenses			
	Production and sales	Services rendered	Selling expenses	General and administrative expenses	Total	Total
Personnel	82,006	7,139	3,103	34,641	126,889	120,720
Managers	-	-	-	8,474	8,474	7,299
Material	20,401	265	109	1,445	22,220	20,851
Third party services	40,756	2,247	791	23,933	67,727	65,701
Fuel to produce energy	95,575	-	-	-	95,575	101,570
Financial compensation for use of water resources	26,830	-	-	-	26,830	52,604
Charges for the use of the electric system	-	-	162,625	-	162,625	116,395
Use of public assets – UBP	2,209	-	-	-	2,209	3,671
Depreciation and amortization	157,617	-	-	1,387	159,004	158,608
Insurance	5,384	448	-	265	6,097	7,224
Labor indemnities and third-parties'	-	19	2,920	4,412	7,351	4,226
Industry contributions	-	-	-	2,330	2,330	4,002
Inspection fee	-	-	-	8,011	8,011	7,812
Contributions and donations	415	48	-	4,856	5,319	4,430
Tariff recovery	-	-	-	9,072	9,072	-
Others	1,626	88	171	13,107	14,992	10,292
	432,819	**10,254**	**169,719**	**111,933**	**724,725**	**685,405**

	Consolidated					
	2006					2005
	Costs		Expenses			
	Production and sales	Services rendered	Selling expenses	General and administrative expenses	Total	Total
Personnel	82,318	7,139	3,103	35,126	127,686	121,458
Managers	-	-	-	9,944	9,944	9,009
Material	21,932	265	111	1,589	23,897	22,853
Third party services	48,333	2,247	1,145	26,515	78,240	75,330
Fuel to produce energy	102,070	-	-	-	102,070	104,694
Financial compensation for use of water resources	38,326	-	-	-	38,326	67,311
Charges for the use of the electric system	-	-	202,545	-	202,545	162,431
Use of public assets – UBP	2,209	-	-	-	2,209	3,671
Depreciation and amortization	197,743	-	-	10,621	208,364	208,108
Insurance	6,848	448	-	265	7,561	9,239
Labor indemnities and third-parties'	-	19	2,920	4,416	7,355	4,318
Industry contributions	-	-	-	2,803	2,803	4,168
Inspection fee	-	-	-	9,419	9,419	9,156
Contributions and donations	461	48	-	9,205	9,714	4,885
Tariff recovery	-	-	-	9,072	9,072	-
Others	2,181	88	325	14,325	16,919	25,677
	502,421	**10,254**	**210,149**	**133,300**	**856,124**	**832,308**

25 – OPERATING PROVISIONS, NET

	Holding Company		Consolidated	
	2006	2005	2006	2005
Post-employment benefits	(7,881)	(27,832)	(7,881)	(27,832)
Civil contingencies	23,520	(3,350)	23,078	(2,556)
Tax contingencies	(1,600)	(6,774)	(1,600)	(6,774)
Labor contingencies	(1,442)	1,859	(1,442)	1,859
Extensive maintenance	-	(15,619)	-	(15,855)
Others	(702)	1,467	(702)	1,467
	11,895	**(50,249)**	**11,453**	**(49,691)**

The provision for post-employment benefits, in 2005, was influenced by the actuarial effects on the benefit plans change.

In 2006, the Company reversed a provision for civil contingencies in the amount of R$ 22,005, relative to charges linked to the electric energy activity, because the possibility of loss became improbable.

Since 2006, as a result of changes in the accounting practices (see Note 22-d), the provision for extensive maintenance has not being registered in the income statements.

26 – INCOME FROM LAWSUITS

A court decision favorable to the Company and its subsidiary, Companhia Energética Meridional – CEM, regarding the basis for the calculation of PIS and COFINS, extended by the Law n° 9,718/98, was obtained in September 2006. The decision granted the Companies the right to the recovery of the excess paid based on that Law, amounting to R$ 87,535 and R$ 1,152, respectively, which were offset, in 2006, with taxes and contributions due to the Federal Revenue Department.

27 – FINANCIAL RESULTS

	Holding Company		Consolidated	
	2006	2005	2006	2005
Financial income				
Income from marketable securities	42,771	68,238	55,487	88,901
Interest on tax credits	24,910	26,309	24,774	26,324
Monetary variation - judicial deposits	12,489	5,176	14,364	5,473
Monetary variation - receivables	932	13,044	936	13,073
Monetary variation - others	1,794	814	1,802	814
Exchange variation	696	745	712	1,403
Others	9,169	3,037	9,591	3,098
	92,761	**117,363**	**107,666**	**139,086**
Financial expenses				
Debt charges	96,970	90,589	147,871	161,567
Charges related to the ANEEL concession	-	-	18,039	15,960
Charges on actuarial liabilities	49,480	44,558	49,480	44,558
Charges on operating provisions, net	1,973	6,227	1,974	6,318
Charges on taxes and social contribution	332	7,386	364	7,390
Monetary variation – financing and debentures	6,590	(1,652)	12,438	6,924
Monetary variation – ANEEL concession	-	-	6,941	3,289
Monetary variation – others	4,671	2,512	4,703	2,592
Exchange variation – loans and financing	(25,138)	(113,336)	(25,138)	(137,493)
Exchange variation – marketable securities	906	2,392	(196)	2,901
Losses on interest rate and currency swap operations	17,441	104,537	25,684	130,253
CPMF	11,786	13,778	15,565	17,610
Other	4,312	11,820	6,149	12,887
	169,323	**168,811**	**263,874**	**274,756**
Financial result	**(76,562)**	**(51,448)**	**(156,208)**	**(135,670)**

28 – 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.

In October 2006, the Company settled its last interest rate swap operation in the international market, in which the Company's net liabilities balance was at an average fixed rate of 5.27% p.a. and its net assets balance was in Libor six months USD.

The Company implemented a policy of higher protection to its liabilities in foreign currency, through swap operations at the over-the-counter market, where the variation of CDI replaces the exchange rate variation on loans and financing. The maturity of the swap transactions is simultaneous to the due dates of the flow of obligations of liabilities in foreign currency. 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	
	2006	2005	2006	2005
Current liabilities				
Operations with derivatives	4,526	46,181	4,526	65,876

	Holding Company		Consolidated	
	2006	2005	2006	2005
Financial expenses				
Losses with exchange rate swap/interest	17,441	104,537	25,684	130,253

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

	Holding Company		Consolidated	
	2006	2005	2006	2005
Loans and financing in foreign currency	388,401	498,722	388,401	498,722
Hedging				
Principal and incurred interest	(153,711)	(80,822)	(153,711)	(131,147)
Interest to be incurred	(28,096)	(15,209)	(28,096)	(15,209)
Marketable securities in foreign currency	-	(19,749)	(4,508)	(36,790)
Net exposure	**206,594**	**382,942**	**202,086**	**315,576**

a.2) Credit Risk

In long-term bilateral agreements entered into with distributors, the Company seeks to minimize its credit risk with the use of a collateral mechanism involving receivables from its clients.

In transactions with industrial clients, also known as Free Consumers, in order to minimize the credit risk in relation to those commercial partners, the Company, through its credit area, carries out a credit analysis and defines, together with the Credit Committee, the 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 4, 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 in respect of 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			
	2006		2005	
	Book Value	Market Value	Book Value	Market Value
Loans and charges in foreign currency	388,401	363,812	498,722	495,438
Loans and charges in domestic currency	211,948	215,188	297,362	283,941
	600,349	**579,000**	**796,084**	**779,379**

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

29 – 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, 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 with the purpose of regulating the purchase by Tractebel of 61 MW average of energy owned by ITASA at the Itá hydroelectric plant, regulated by the applicable law and market rules, in effect until October 16, 2030 and annually restated based on the variation of the dollar rate, plus American inflation.

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

Companhia Energética Meridional – CEM

Agreement valid for an 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 IGP-M.

Agreement of Purchase and Sale of Electric Energy, 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 amount of 2,395,903 MWh. The agreement value is adjusted annually based on the index IGP-M.

Operation and Maintenance Agreement of UHE Cana Brava 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 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 with the purpose of regulating the purchase by the Company of a monthly average of 26 MW of energy owned by the Company, in effect until March 31, 2017.

Operation and Maintenance Agreement of the Co-generation power plant Cana Brava 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 valid for an indefinite term, which purpose is 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, on an annual basis) according to the variation of the index IGP-M.

	Holding Company						
	2006						2005
	SESA (*)	CEM	ITASA	LAGES	TBLC (**)	Total	Total
ASSETS							
Accounts receivable	657	201	1,356	638	14,880	**17,732**	**17,834**
Receivable dividends from subsidiaries	-	83,806	3,286	15,929	-	**103,021**	**78,860**
LIABILITIES							
Suppliers	-	31,569	10,499	-	-	**42,068**	**40,410**
Dividends and interest on shareholder's equity	327,989	-	-	-	-	**327,989**	**340,307**
INCOME							
Operating revenue							
Energy supply	-	-	-	5,808	136,313	**142,121**	**64,330**
Services rendered							
Management	-	656	-	103	-	**759**	**1,108**
Operation and maintenance	-	1,747	9,812	1,436	-	**12,995**	**12,672**
Cost of electric energy and services							
Purchase of energy	-	268,024	114,774	-	-	**382,798**	**370,566**
Others	-	-	-	18	-	**18**	**10**
Financial							
Revenue	-	-	-	-	213	**213**	**14**

(*) Suez Energy South America Participações Ltda.
(**) Tractebel Energia Comercializadora Ltda.

30 – 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, 2006, the debt presented in the consolidated financial statements of the Company was R$ 243,059 (R$273,526 as of December 31, 2005).

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 a credit facility, entered into by and between CEM and BNDES. 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 any 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, 2006, the debt amounted to R$ 180,511 (R$ 200,926 as of December 31, 2005).

Lages Bioenergética Ltda.

The Company is the intervening guarantor in the Agreement of Fixed Credit Facility entered into by Lages Bioenergética with Banco Regional de Desenvolvimento do Extremo Sul – BRDE, 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, 2006, the debt amounted to R$ 38,585 (R$ 44,597 as of December 31, 2005).

31 – INSURANCE

The Company has a comprehensive operating risk insurance policy with a declared value for property damage of US$ 3,545,974, equivalent to R$ 7,581,292 on December 31, 2006, and with a declared value for loss of profits of US$ 106,275, equivalent to R$ 227,216 on December 31, 2006. The maximum combined limit for indemnity of material damage and loss of profits is US$ 150,000, corresponding to R$ 320,700 on December 31, 2006, per event.

The policy and values above refer to properties owned by the Company; 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$ 278,569 corresponding to R$ 595,581 on December 31, 2006 and loss of profits of US$ 9,642 equivalent to R$ 20,615 on December 31, 2006.

In addition to such coverage, the Company has liability insurance policies with coverage of US$ 50,000, corresponding to R$ 106,900 on December 31, 2006. 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 corresponding to R$ 53,450 on December 31, 2006, and liability insurance with coverage of US$ 50,000, equivalent to R$ 106,900 on December 31, 2006.

Besides these strategic insurance policies, 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 for its directors and employees.

32 – LONG-TERM AGREEMENTS

The Company has long-term commitments, the principal of which are as follows:

a) Connection Agreement

The Company entered into agreements with the Electric System National Operator – ONS, with electric 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, whichever comes first.

b) Agreement for the Use of Transmission and Distribution System

The Company entered into a Connection Agreement with Empresa Transmissora de Energia Elétrica do Sul do Brasil S.A. – ELETROSUL, in effect until the concession termination date of the generation units of Tractebel Energia or the liquidation of the transmitter, whichever comes first.

c) Bilateral Agreements for Purchase and Sale of Electric Power

According to assured energy and sale contracts data, almost all of Company's current energy capacity is sold until 2008 and a significant proportion is sold for 2009 and 2010.

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 the 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 by the inspection agents a non-availability of generation and transmission of electric power at the contracted amounts. As a result of this 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 exposure to the short-term market of CCEE, which 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 (which 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 since they are considered them incorrect.

The ANEEL, through Normative Resolution n° 224, of June 20, 2006 reduced to zero the amounts of physical guarantee of electric energy generated from the import of CIEN, due to its impossibility to generate electric energy supply. This reduction will be maintained until CIEN proves the existence of the required amount of energy. The Company has until June 30, 2007, or until a new understanding is published, to reestablish the required supply capabilities.

e) Purchase of Gas

The Company signed gas acquisition contract with the Companhia de Gás do Mato Grosso do Sul - MSGÁS, valid for five years starting from 2001, the beginning of the gas commercial operation of the UTE William Arjona, located in Campo Grande - MS, renewable for an additional five years.

With the expiration of the contract period, on May 22, 2006, the Company was interested in renewing the agreement, however, MSGás communicated that the renewal would depend on the readjustment in the price of the product, according to the seller (Petrobras) of the gas to MSGás.

Even though the parties still have not confirmed the renewal of the contract, the gas supply is maintained due to a preliminary injunction grant to Tractebel, as a result of an action in the District of Campo Grande - MS.

Considering the current operational position of the UTE William Arjona, the costs of the gas acquisition, even with the price increase, would be integrally recovered through the System of the Charges Service - ESS, therefore, it would not have a relevant impact on the Company's results.

33 – 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

Dirk Beeuwsaert
Director

Luiz Antônio Barbosa
Director

Antonio Alberto Gouvêa Vieira
Director

Victor-Frank de Paula Rosa Paranhos
Director

Pierre Michel Philippe Chareyre
Director

José Pais Rangel
Director

ACCOUNTING DEPARTMENT

Marcelo Cardoso Malta
Accountant – CRC RJ 072259/O-5 S-SC

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 Officer

Marc Verstraete
Financial and Investor Relations Officer

José Carlos Cauduro Minuzzo
Energy Production Officer

Luciano Flávio Andriani
Administrative Officer

Independent Auditors' Opinion

To the Shareholders and Management of
Tractebel Energia S.A.
Florianópolis - SC

1. We have audited the individual (holding company) and consolidated balance sheets of Tractebel Energia S.A. as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity (holding company) and changes in the financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tractebel Energia S.A. as of December 31, 2006 and 2005, and the results of its operations, the changes in shareholders' equity, and the changes in its financial position for the years then ended in conformity with Brazilian accounting practices.

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, 2006 and 2005 are presented for purposes of additional analysis and are not a required 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, in relation to the financial statements taken as a whole.

5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Florianópolis, February 5, 2007.

Paulo Ricardo Pinto Alaniz
Accounting partner
CRC RS – 042.460/0-3 "S" SC
BDO Trevisan Auditores Independentes
CRC 2SP013439/0-5 "S" SC

Claudio Henrique Damasceno Reis
Accounting Partner
CRC SC-024494/0-1
BDO Trevisan Auditores Independentes
CRC 2SP013439/0-5 "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 2006 and the proposed appropriation of income, including retained earnings, and based on the independent auditors' opinion issued by BDO Trevisan Auditores Independentes on 02.05.2006, 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, 2006, and are suitable to be submitted to the General Meeting of Shareholders of the Company.

The undersigned members of the Audit Committee of Tractebel Energia S.A. after examining the Management Report for the year 2006 state that the Management Report is suitable to be submitted to the General Meeting of Shareholders of the Company.

Florianópolis, March 16, 2007.

Newton de Lima Azevedo Junior
Chairman

Carla Carvalho de Carvalho
Council Secretary

Manoel Eduardo Lima Lopes
Council Member

Tractebel Energia

SUEZ

Rua Antônio Dib Mussi, 366
CEP 88 015-110 | Florianópolis | SC
Brazil
Tel.: +55 48 3221-7000
Fax.: +55 48 3221-7001

www.tractebelenergia.com.br