

a new growth cycle

Tractebel Energia

SUEZ



Generating energy for **life**.

In a **sustainable** way,
to be the **best** energy company in Brazil.

Professionalism
All work must be carried out using the highest technical standards so that customers are provided with quality service. At Tractebel Energia, professionalism is the demand for competence, skills, integrity, passion for the profession and a job well done and Company commitment.

Sense of Partnership
We perform more efficiently when associated to others in our evolution. For Tractebel Energia sense of partnership is a philosophy and a line of conduct, representing a long-term commitment. It is loyalty and the fulfillment of promises, transparency of actions and trust in all Company collaborators.

Team Work
First and foremost, team work means mutual assistance. It is an exchange of experiences and the sharing of knowledge. It is the capacity to change and adapt to change; to be multicultural and open to others. Team work also means being imaginative and placing collective interests above the individual. It is a management philosophy whereby everyone wins.

Creation of Value
It is our duty to seek the creation of value to enhance the Company's profitability and financial strength, ensuring its autonomy and stability. The creation of greater value is a full-time job, and profitability must be part of our culture.

Respect for the Environment
Tractebel Energia must contribute to improve — in a sustainable way — quality of life through the preservation of the environment. Respect for the environment is at the heart of our strategy and philosophy.

Ethics
Ethics is a value that underscores all of our other principles. Ethics must guide our daily behavior, thus being a means of ensuring the success and continuity of Tractebel Energia's business and of the group to which it belongs. It is a genuine commitment to our customers, shareholders and, above all, to ourselves. The Company's Code of Ethics is a natural expression of these values.

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ISE Índice de Sustentabilidade Empresarial

GC GRI REPORT GRI CHECKED

>> operational, financial, social, and environmental highlights

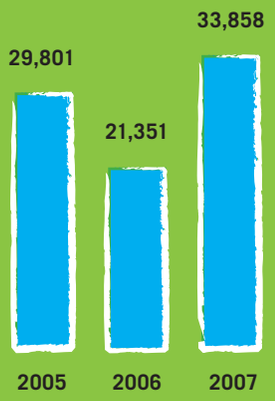
	2005[1]	2006[1]	2007	07/06 (%)
ECONOMIC INDICATORS (R$ MILLION)				
Gross Operating Revenue	2,593	3,061	3,365	12.0
Net Operating Revenue	2,288	2,706	3,043	12.5
EBITDA[2]	1,451	1,595	1,857	16.4
EBITDA Margin	63.4%	59.0%	61.0%	+2.0 p.p.
Service Income – EBIT	1,243	1,387	1,628	17.4
Financial Result	(136)	(156)	(135)	-13.5
Net Income	920	979	1,046	6.8
FINANCIAL INDICATORS (R$ MILLION)				
Total Assets	5,652	5,539	6,598	19.1
Shareholders' Equity	2,686	2,765	2,817	18.9
Investments	44	69	730	958.0
Adjusted Net Debt	1,244	1,025	1,019	-0.6%
ADDED VALUE STATEMENT				
Gross Value Added (R$ million)	1,991	2,159	2,442	13.1
Net Value Added Generated (R$ million)	1,782	1,950	2,213	13.5
Value Added to be Distributed (R$ million)	1,915	2,052	2,307	12.4
DISTRIBUTION OF ADDED VALUE (R$ MILLION)				
Compensation of Work	111	117	132	12.8
Compensation of Third Party Capital	270	228	181	-20.6
Compensation of Government	614	727	946	30.1
Compensation of Shareholder's Equity	920	979	1,046	6.8
SHARES				
Number of Shares (thousand)	652,742	652,742	652,742	0
Net Income per Share (R$)	1.4096	1.5001	1.6019	6.8
Average Share Price – Common Share (R$)	10.09	16.53	20.32	22.9
Dividend Distribution (R$ million)	874	930	993	6.8%
MARKET				
Energy Sales (GWh)	29,823	32,836	32,800	-0.1
Energy Sales (average MW)	3,404	3,748	3,744	-0.1
WORKFORCE				
Number of Employees	893	905	917	1.2

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.

The cover of this report was inspired by the advertising campaign "Let's make a better world". The promotional piece belongs to a number of institutional campaigns that highlight Tractebel Energia's commitment to sustainability.

Energy Production (GWh)



Energy Sales (GWh)

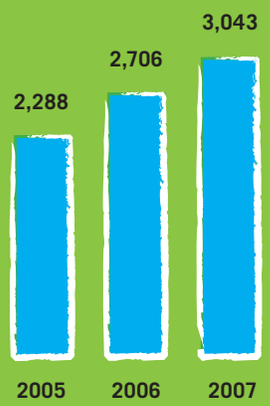


Tractebel Energia's net income was

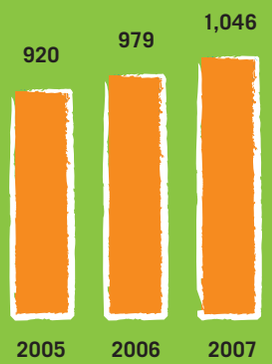
R$ 1,046 million in 2007.

The record-breaking figure is 6.8% higher than in the previous year

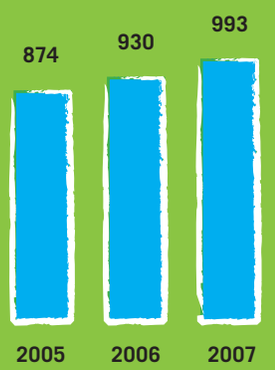
Net Operating Revenue (R$ million)



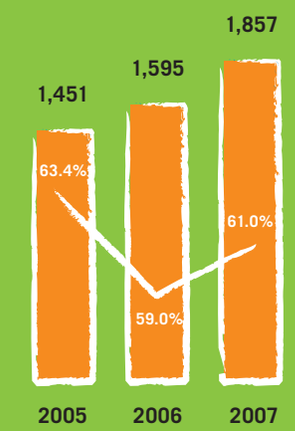
Net Income (R$ million)



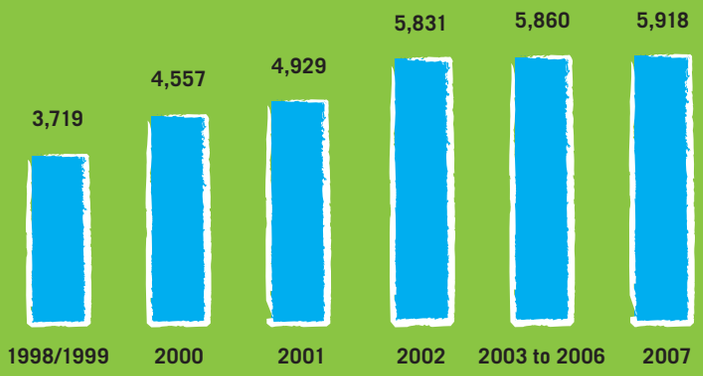
Dividend Distribution (R$ million)



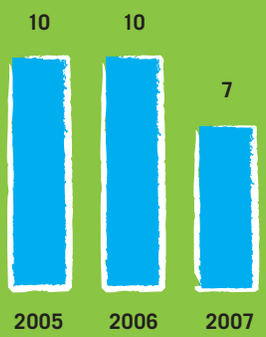
EBITDA and EBITDA Margin (R$ million and %)



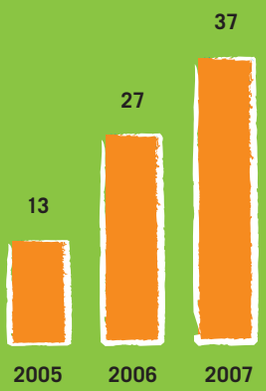
Evolution of Supply Capacity (MW)



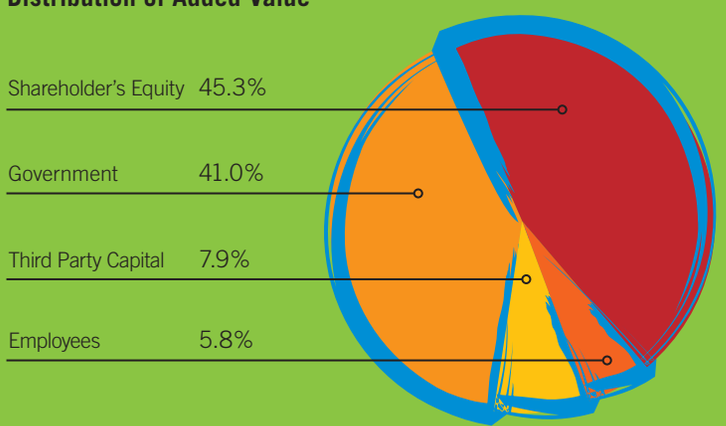
Investments in Social Programs (R$ million)



Investments in Environment (R$ million)



Distribution of Added Value



Report Parameters

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This report presents the result of the operations of Tractebel Energia S.A. in the economic, social, and environmental spheres. This is the first report of the Company prepared based on the guidelines of the Global Reporting Initiative (GRI), a worldwide standard for sustainability reports, whose methodology allows the comparison of the performance of organizations in all of its aspects, thus improving the resulting analyses.

This initiative fulfills the wishes of Tractebel Energia's controlling shareholder, the SUEZ Group, and arises from the understanding that sustainability is a must. It is a means of being accountable to society in a clear and transparent way, allowing for an accurate evaluation of the Company's commitment to sustainable development values.

The GRI indicators are presented at the end of this publication, according to the following dimensions: economic (EC), environmental (EN), social (SO), labor practices (LA), human rights (HR), and product responsibility (PR).

Part of this information has already been monitored by the Company, part of it is being monitored for the first time this year, and part of it will be monitored as soon as the GRI sets forth specific indicators for the energy industry.

This report includes information that places Tractebel Energia at Level C of the GRI Application Level criteria, the minimum among the existing levels: A, B, and C.

The criteria are described below. The "+" symbol indicates that the report was submitted for external analysis.

Standard Disclosures	Report/Application Level	C	C+	B	B+	A	A+
	G3 Profiles Disclosures OUTPUT	Report on: 1.1; 2.1 – 2.10; 3.1 – 3.8, 3.10 – 3.12; 4.1 – 4.4 , 4.14 – 4.15.	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2; 3.9, 3.13; 4.5 – 4.13, 4.16 – 4.17.	Report Externally Assured	Same as required for Level B	Report Externally Assured
	G3 Management Approach Disclosures OUTPUT	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach disclosed for each Indicator Category	
	G3 Performance Indicators & Sector Supplement Performance Indicators OUTPUT	Report on a minimum of 10 Performance Indicators, including at least one from each of: social, economic, and environment.		Report on a minimum of 20 Performance Indicators, at least one from each of: economic, environment, human rights, labor, society, product responsibility.		Respond on each core G3 and Sector Supplement* indicator with due regard to the materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	

* Sector Supplement in final version

With this report, the Company expects to increase the interaction with its stakeholders: employees, customers, suppliers, investors, governmental bodies, and the community — and, as a result, maintain a balance among various existing interests.

Published annually in Portuguese and English, the sustainability report is made available after the publication of the Management Report. The present report refers to the 2007 fiscal year.

Criticisms and suggestions may be forwarded to the addresses at the end of the report or through the attached feedback form. Readers may also use the channels available to employees, customers, suppliers, and the communities within the regions where the Company operates.

BOUNDARY

The data supplied in this report include Tractebel Energia and its subsidiaries: Lages Bioenergética Ltda., Companhia Energética Meridional (CEM), Companhia Energética São Salvador (CESS), and Tractebel Energia Comercializadora Ltda.

It also includes the 70.0% stake of the Company in the Itá Hydroelectric Power Plant and the 19.3% interest in the Machadinho Hydroelectric Power Plant.

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared		✓	Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	Third Party Checked							
	GRI Checked		GRI REPORT GRI CHECKED					

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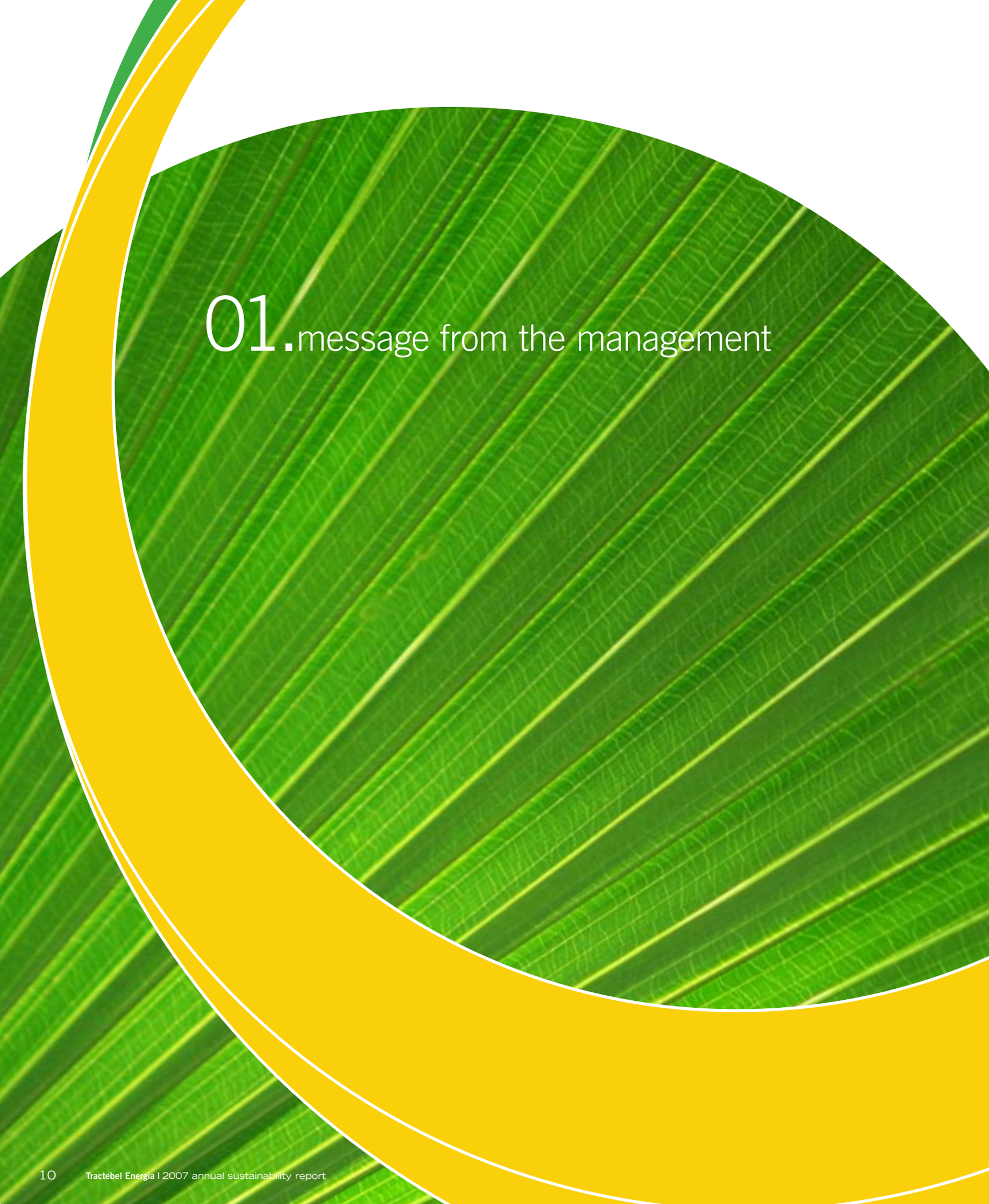
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01. message from the management

2007 marked the beginning of a new growth cycle

The year 2007 was full of achievements for Tractebel Energia. We had a record-breaking year, with the highest sales in our history, the largest production of energy in our plants, and our highest net income to date.

It also marked the beginning of a new growth cycle, with substantial investments in the expansion of the Company's generating units, particularly with respect to three acquisitions: Companhia Energética São Salvador, responsible for the construction of the São Salvador Hydroelectric Power Plant, in the state of Tocantins, with an installed capacity of 243 MW; the Ponte de Pedra Hydroelectric Power Plant — on the border of the states of Mato Grosso and Mato Grosso do Sul — , which is already operational with an installed capacity of 176 MW; and the Seival thermoelectric project, in the state of Rio Grande do Sul, which might achieve an installed capacity of up to 540 MW, using mineral coal and adopting state-of-the-art waste treatment and control technology.

This new growth cycle is stable and sustainable, and is based on the Company's good results, a strong cash flow, and the firm support we have received from our controlling shareholder, the SUEZ Group.

For 2008, prospects remain positive and we believe there are other opportunities ahead, with an attractive environment for new investments. Negotiations for the acquisition of SUEZ's stake in the Estreito Hydroelectric Power Plant are at a very advanced stage. With 1,087 MW of installed capacity, this plant is being built on the Tocantins River and is one of the largest ongoing energy generation projects in Brazil.

We also strive for new energy generation opportunities using other renewable sources, such as biomass. We have gained experience with our Lages Co-generation Plant, whose fuel originates from forestry residues and which has enabled us to generate electricity and heat for drying wood, in addition to negotiating approximately 220,000 tonnes of CO_2 per year as carbon credits on the international market.

Moreover, we developed knowledge for the generation of heat and energy from sugarcane bagasse through a project carried out in partnership with a sugar and ethanol producer. This project was interrupted due to a change in the latter's shareholding control. Other ongoing projects includes the use of wind energy and small hydroelectric plants (PCHs).

We are well placed to grow — and to grow in a sustainable manner. And, in order to strengthen this commitment, we have officially announced our vision ("in a sustainable way, to be the best energy company in Brazil") and our mission ("generating energy for life"). In order to develop and promote these concepts, we have created a Sustainability Committee, comprising representatives from several areas of Tractebel Energia.

We formalized our commitment to sustainability in our vision and mission, and created a Sustainability Committee

These new tools are used alongside the Group's values and are widely disseminated throughout the entire Company. The operational and environmental certification of the energy production units, combined with the publication of a new version of our Code of Ethics, strengthen our position of a company committed to the principles of sustainable development.

Finally, these initiatives have resulted in the publication of this document, our first Annual Sustainability Report in accordance with international standards. Through it, we provide information on the Company's initiatives and their relationship to the sustainability of the business, society, and the environment.

The year 2007 also presented exceptional results in reconciling the legitimate interests of the stakeholders who interact with Tractebel Energia. In addition to creating value for our shareholders, we would like to emphasize the high occupational health and safety standards achieved by the Company's operations, the exceptional results we obtained in the organizational climate survey carried out with our employees, the renewal of our NBR ISO 9001 and NBR ISO 14001 certifications, and the inclusion of Tractebel Energia on Bovespa's Corporate Sustainability Stock Index (ISE) for the third consecutive year.

We seek to expand our market share and strive to satisfy our shareholders, customers, employees, suppliers, and the communities where our operations are located based on the highest ethical standards, with maximum efficiency and commitment and ongoing concern for social and environmental issues. We believe that this is how we will make a difference and stand out as a reliable and long-term partner for all of our stakeholders.

We would like to thank all those who, directly or indirectly, have contributed to our corporate growth based on the goals we have set forth. Nothing would have been possible without their outstanding dedication. Their duties were performed in line with the Group's values: professionalism, team work, sense of partnership, creation of value, respect for the environment, and ethics.



1. Marco Antônio Amaral Sureck
2. Marc Verstraete
3. Manoel Arlindo Zaroni Torres
4. José Carlos Cauduro Minuzzo
5. Miroel Makiolke Wolowski
6. Luciano Flávio Andriani



Manoel Arlindo Zaroni Torres
CEO



Maurício Stolle Bähr
Chairman of the Board of Directors

Lages Co-generation Unit



02. about Tractebel Energia

Tractebel Energia is Brazil's largest private sector electricity generator



THE BUSINESS

Tractebel Energia is an independent power producer and Brazil's largest private sector electricity generator. According to the National Electricity System Operator (ONS)[1], in 2007 the plants operated by the Company accounted for approximately 8% of all electricity generated in the National Interconnected System (SIN), which, in turn, accounts for almost all electricity generated and consumed in Brazil.

Headquartered in Florianópolis, in the state of Santa Catarina, Tractebel Energia maintains one sales office in São Paulo, in the state of São Paulo, and one generating complex, consisting of six hydroelectric and seven thermoelectric power plants.

A publicly-traded company with shares traded on the Novo Mercado segment of the São Paulo Stock Exchange (Bovespa), Tractebel Energia is controlled (68.71%) by SUEZ Energy South America Ltda., part of the French-Belgian SUEZ group, one of the world's largest corporations in the energy, water, and waste treatment industries.

The Company's main customers are electricity distributors and traders, in addition to large industries that purchase electricity directly in the free market: the so-called free customers.

1 Agency that operates, supervises, and controls the generation of electric power in the SIN and manages Brazil's transmission grid. Its main goals are to meet charge requirements, optimize costs, and ensure the system's reliability, also setting forth the conditions of access to the country's high-tension transmission network.

Record-breaking profit: R$1,045.6 million in 2007

Net operating revenue: R$3,043.4 million

Shareholders' equity: R$2,816.9 million

Net debt: R$1,019.1 million

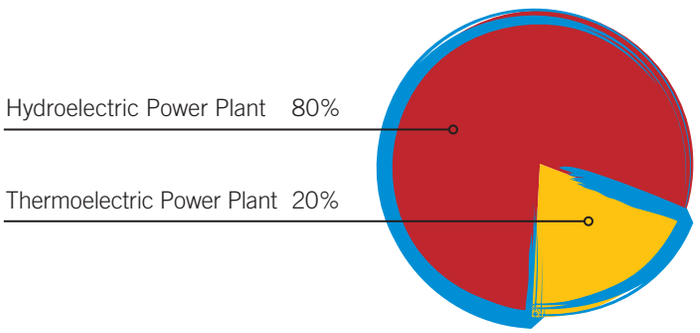
Total assets: R$6,598.1 million

Number of employees: 917

THE PLANTS

The supply capacity of Tractebel Energia's generating complex is 5,918 MW, 4,705 MW of which comes from hydroelectric generation and 1,213 MW of which originates in thermoelectric generation. These amounts largely consist of Tractebel Energia's installed capacity, but include commercial rights acquired from partners in the Itá Hydroelectric Power Plant. They also take into account the 70.0% stake in the Itá Hydroelectric Plant, whose total installed capacity amounts to 1,450 MW, and the 19.3% interest in the Machadinho Hydroelectric Plant, whose total installed capacity totals 1,140 MW.

Tractebel Energia's Supply Capacity



GENERATING COMPLEX

Hydroelectric Power Plants	Tractebel Energia's Installed Capacity (MW)	Total Installed Capacity (MW)
Salto Santiago	1,420	1,420
Itá	1,127*	1,450
Salto Osório	1,078	1,078
Cana Brava	450	450
Machadinho	404	1,140
Passo Fundo	226	226
Total	**4,705**	**5,764**

Thermoelectric Power Plants	Tractebel Energia's Installed Capacity (MW)	Total Installed Capacity (MW)
Complexo Jorge Lacerda**	857	857
William Arjona	190	190
Charqueadas	72	72
Alegrete	66	66
Lages	28	28
Total	**1,213**	**1,213**

* Includes commercial rights acquired from partners.
** Complex made up of three units: A, B and C.

During 2007, Tractebel Energia acquired three generation schemes: two hydroelectric and one thermoelectric project

However, taking into account interests held by other investors, the Company operates an installed capacity of 6,977 MW, 5,764 MW of which come from hydroelectric plants. All plants are certified according to the NBR ISO 9001 (process quality) and NBR ISO 14001 (environmental) quality standards.

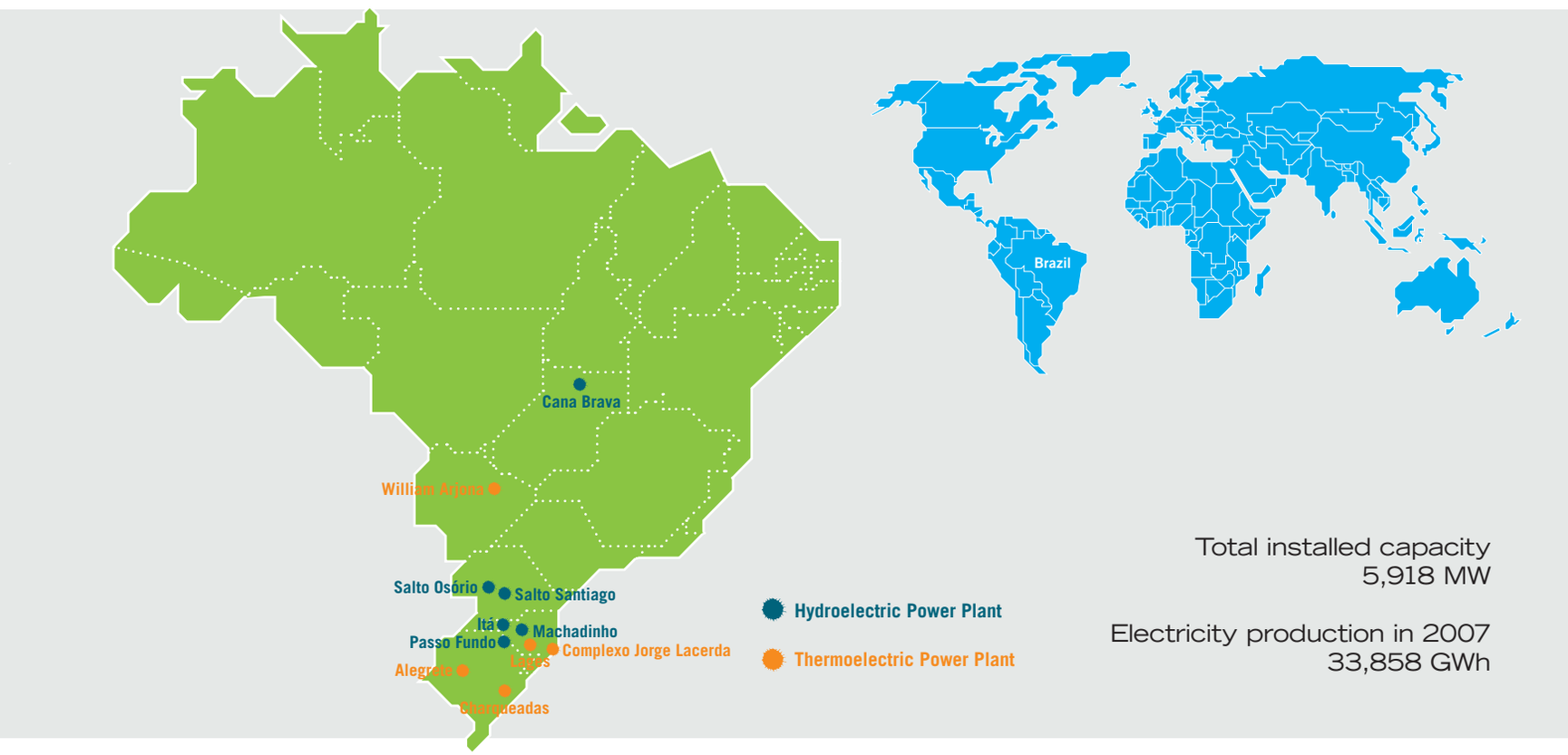
The plants are located in the states of Santa Catarina, Rio Grande do Sul, Paraná, Mato Grosso do Sul, and Goiás.

The Jorge Lacerda Complex (with three thermoelectric plants) and the Charqueadas Thermoelectric Plant generate energy from mineral coal. The William Arjona Thermoelectric Plant uses natural gas or diesel as fuel, while the Alegrete Thermoelectric Plant uses heavy oil and the Lages Co-generation Plant generates steam and energy from biomass. All these plants operate within the scope set forth in technical norms and legal requirements. Their gas emissions are continuously controlled and monitored.

In addition to the current thirteen plants in operation, the Company is building the São Salvador Hydroelectric Power Plant on the Tocantins River (state of Tocantins) with an installed capacity of 243 MW, which is expected to begin operation in 2009. In 2007, Tractebel Energia acquired the control of CESS, the concessionaire responsible for the construction and exploration of the hydroelectric plant.

Also in 2007, the Company acquired two other generation enterprises: the Seival thermoelectric project in the state of Rio Grande do Sul, due to be unveiled in 2012; and the already operational Ponte de Pedra hydroelectric power plant located on the boundary of the states of Mato Grosso and Mato Grosso do Sul. This plant will add an additional 176 MW to the Company's total capacity upon the transaction's approval by the regulatory agencies.

For the 2008 fiscal year, the Company expects to acquire the 40.07% stake owned by SUEZ Group in the consortium responsible for the construction of the Estreito Hydroelectric Power Plant, with an installed capacity of 1,087 MW.



HYDROELECTRIC PLANTS

Cana Brava



Cana Brava was SUEZ's first energy investment in Brazil. Built on the Tocantins River, between the municipalities of Cavalcante, Minaçu, and Colinas do Sul, in the north of the state of Goiás, the plant has three generating units and has a total installed capacity of 450 MW and 274 average MW of assured energy, i.e. the maximum amount of energy that may be traded.

The hydroelectric plant contributes, for example, to the expansion of the local economy through participation in the Regional Development Fund, in partnership with the Inter-American Development Bank (IADB), FURNAS, and CPFL, under the coordination of the Ministry of Mines and Energy (MME). The lake created for the plant has become a regional leisure and tourist attraction.

CEM, a special purpose company (SPC), was created to build and operate the plant. This SPC is currently being incorporated by Tractebel Energia and holds the concession rights to Cana Brava up to 2033.

Itá



Located on the Uruguay River, between the municipalities of Itá (state of Santa Catarina) and Aratiba (state of Rio Grande do Sul), the Itá power plant was the first large hydroelectric plant built by the private sector in Brazil and has since become a benchmark in terms of technological, social, and environmental management. Its concession belongs to the Consórcio Itá, consisting of Tractebel Energia, Companhia Siderúrgica Nacional (CSN), and Cimento Itambé.

The plant has five generating units with a total installed capacity of 1,450 MW, and is operated by Tractebel Energia. The concession is in force until 2030. The share of Tractebel Energia's installed capacity is 1,127 MW and its assured energy is 544 average MW, already taking into account commercial rights acquired from partners of the venture.

Machadinho



Machadinho is located on the Pelotas River, between the municipalities of Piratuba (Santa Catarina) and Maximiliano de Almeida (Rio Grande do Sul). The plant is managed by the Consórcio Machadinho and Tractebel Energia. In 2007, the Company acquired a 2.82% stake in Machadinho Energética S.A. (MAESA), a special purpose company incorporated to build and operate the hydroelectric plant. As a result, it increased its interests in the venture to 19.28%. The concession is in force until 2032.

Machadinho's three generating units ensure an installed capacity of 1,140 MW, of which Tractebel Energia has 147 average MW of assured energy.

Salto Osório



The Salto Osório Hydroelectric Plant is located on the Iguaçu River, between the municipalities of Quedas do Iguaçu and São Jorge d'Oeste, both in the state of Paraná. It has four generating units of 182 MW and two of 175 MW, totaling 1,078 MW of installed capacity and 522 average MW of assured energy. Its concession is in force until 2028.

Salto Santiago



The Salto Santiago Hydroelectric Plant is located on the Iguaçu River, between the municipalities of Saudade do Iguaçu and Rio Bonito do Iguaçu, both in the state of Paraná. Its installed capacity is 1,420 MW, from four 355 MW generating units, and the assured energy amounts to 723 average MW. Its concession is in force until 2028.

Passo Fundo



The Passo Fundo Hydroelectric Plant is located on the Passo Fundo River, in the municipality of Entre Rios do Sul (Rio Grande do Sul). Its installed capacity totals 226 MW, from two 113 MW generating units, and the assured energy amounts to 119 average MW. Its concession is in force until 2028.

NEW HYDROELECTRIC PLANTS

Ponte de Pedra



In December 2007, Tractebel Energia acquired the Ponte de Pedra hydroelectric plant, located on the Correntes River, between the municipalities of Sonora (Mato Grosso do Sul) and Itiquira (Mato Grosso). As soon as it receives the green light of the relevant authorities, its three generating units will add 176 MW to the Company's installed capacity, and 132 average MW in assured energy. Its concession is in force until 2035.

São Salvador



In July 2007, Tractebel Energia acquired control of Companhia Energética São Salvador (CESS), which belonged to SUEZ Energy South America Participações Ltda. (SESA), and now holds 99.99% of the company's capital stock. The concession for the construction and operation of the hydroelectric plant, located on the Tocantins River, is in force until 2037.

The São Salvador hydroelectric plant is currently being built and will have an installed capacity of 243 MW and assured energy amounting to 148 average MW. Construction is currently ahead of schedule, which may allow an opening in 2009.

Estreito



With eight generating units totaling 1,087 MW of installed capacity, Estreito is the largest ongoing hydroelectric project in Brazil. The construction of the plant, which began in February 2007, is being carried out by Consórcio Estreito Energia (CESTE), comprised by SESA (40.1%), Companhia Vale do Rio Doce (30.0%), Alcoa Alumínio (25.5%), and Camargo Corrêa (4.4%). SESA is expected to transfer its stake to Tractebel Energia in the first half of 2008.

Located on the Tocantins River, between the municipalities of Estreito (state of Maranhão) and Palmeiras do Tocantins and Aguiarnópolis (Tocantins), the concession of the plant is in force until 2037.

The construction of the hydroelectric plant, which represents an expected investment by Tractebel Energia of R$1.25 billion, should be completed in 2011. After beginning operation, it will add 435 MW to the Company's installed capacity and 256 average MW to its assured energy.

At the peak of the construction work, it is estimated that approximately 20,000 direct and indirect jobs will be created. CESTE, which gives priority to local workforce, has already initiated technical-professional training initiatives in partnership with the National Industrial Training Service (Senai).

THERMOELECTRIC PLANTS

Jorge Lacerda



As Latin America's largest coal-fired generating complex, the Jorge Lacerda Thermoelectric Complex consists of three plants: Jorge Lacerda A has two 50 MW and two 66 MW generating units; Jorge Lacerda B has two 131 MW units; and Jorge Lacerda C has one 363 MW unit. These have a combined total installed capacity of 857 MW and physical assurance, or tradable energy, of 650 average MW. Located in Capivari de Baixo (Santa Catarina), the complex's authorization to operate is in force until 2028.

The Jorge Lacerda complex contributes to promote the region's coal production and feeds the cement industry, supplying fly ash for the production of pozzolanic cement — an example of sustainable residue use. The operation of its units is essential to ensuring the quality of the supply of electric power to Eastern Santa Catarina, as well as to the supply to Southern Brazil, especially during drought periods.

Charqueadas



Located in Charqueadas (Rio Grande do Sul), this coal thermoelectric plant has a 72 MW installed capacity, from four 18 MW generating units, with a physical assurance of 46 average MW. Its authorization to operate is in force until 2028.

Alegrete



Located in Alegrete (Rio Grande do Sul), this thermoelectric plant has a 66 MW installed capacity, from two 33 MW generating units, with a physical assurance of 21 average MW. Alegrete burns heavy oil and its authorization to operate is in force until 2028.

William Arjona



This thermoelectric plant is located in Campo Grande (Mato Grosso do Sul) and has an installed capacity of 190 MW from three 40 MW and two 35 MW units. The plant played an essential role during the emergency energy supply program brought about by the rationing established in 2001. It was also important to ensuring quality in electric power supply to the state of Mato Grosso do Sul until 2006. It utilizes both natural gas and fuel oil, and its authorization to operate is in force until 2029.

Lages



The Lages Co-generation Unit, located in Lages (Santa Catarina), is a biomass thermoelectric plant that produces electricity and steam by burning wood waste discarded by logging companies from the highlands of the state of Santa Catarina. It has a single generating unit with 28 MW installed capacity and 25 average MW physical assurance. In addition, it offers up to 25 tonnes/hour of steam for local forestry companies.

As Brazil's first thermoelectric plant to obtain registration from the Clean Development Mechanism (CDM) Committee for its use of wood waste in the production of electricity, Lages was granted the right to trade approximately 220,000 carbon credits per year up to 2016.

The thermoelectric plant is managed by Lages Bioenergética Ltda., a subsidiary of Tractebel Energia authorized to operate the unit until 2032.

Seival: a new thermoelectric project



In October 2007, Tractebel Energia acquired the Seival thermoelectric project for R$24 million. The acquisition was made through its subsidiary Delta Energética S.A., which became the holder of the entire capital stock of Seival Participações S.A., an SPC authorized to build and operate the plant.

The coal-fueled thermoelectric plant will be built in Candiota (Rio Grande do Sul) and will add up to 540 MW to the installed capacity of Tractebel Energia as of 2012.

SHAREHOLDING STRUCTURE AND SUBSIDIARY PROFILES

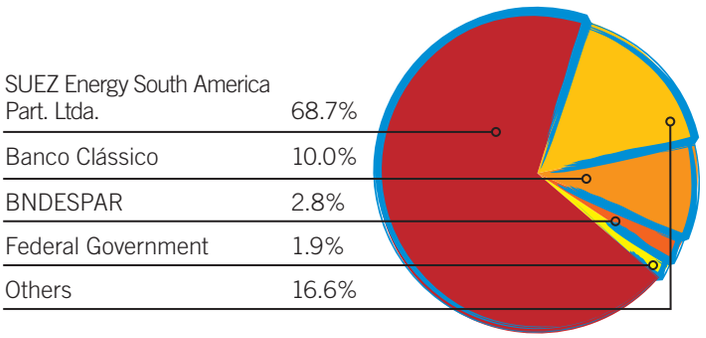
Tractebel Energia is controlled by SUEZ Energy South America Participações Ltda. (SESA), a company that is part of the SUEZ group. At the end of 2007, the Company's total capital stock was R$2,445.8 million, represented by 652,742,192 common shares. SESA holds a controlling stake with 68.71% of the capital stock.

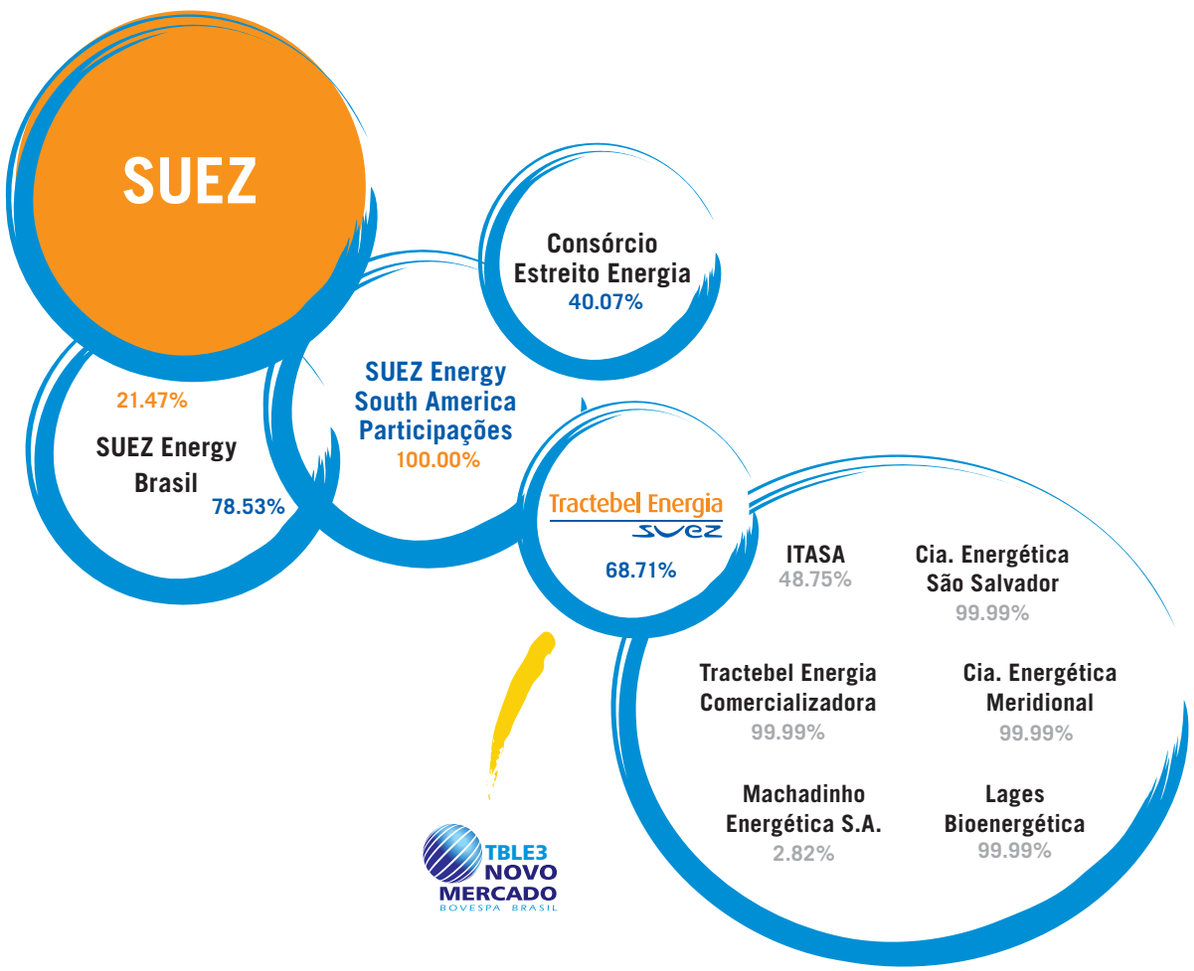
Tractebel Energia, in turn, controls Lages Bioenergética Ltda., which operates the Lages Co-generation Unit; Companhia Energética Meridional (CEM), holder of the Cana Brava Hydroelectric Power Plant concession; and Tractebel Energia Comercializadora Ltda., which is responsible for trading electricity in the free market, including the purchase, sale, import, and export of electricity, as well as the intermediation of any of these operations.

In 2007, the Company acquired control over Companhia Energética São Salvador (CESS), the concessionaire responsible for building and operating the São Salvador Hydroelectric Plant; and a 2.82% stake in Machadinho Energética (MAESA), equivalent to 11.1 average MW, expanding the Company's stake in the Machadinho Hydroelectric Plant to 19.28%.

At the Itá Hydroelectric Plant, the Company's stake is split through the 48.75% interest by Itá Energética S.A. (ITASA) and 39.5% interest by Consórcio Itá, responsible for building the plant. These two holdings account for 70.0% of the Itá Hydroelectric Plant.

Shareholding Structure





ABOUT SUEZ

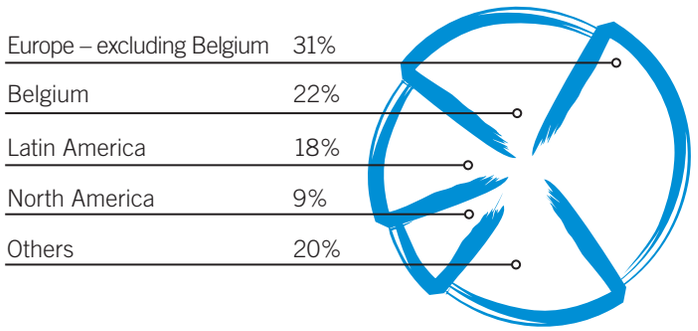
SUEZ is a French-Belgian group dedicated to the development of sustainable and innovative solutions for the energy, water, and waste treatment industries. Its mission is "to deliver the essentials of life". The conglomerate is Europe's largest energy supplier and the second-largest company in the environmental services industry. Its consolidation with Gaz de France (GDF), scheduled for 2008, will create the world's fourth-largest energy company and Europe's fifth-largest electricity producer, with a total installed capacity of approximately 65,000 MW, including the facilities currently under construction.

SUEZ companies meet the needs arising from the expansion of cities and businesses, and their challenge is to overcome the issues related to demographic growth, urbanization, higher standards of living, and environmental protection. Each day, its 150,000 employees seek solutions for these challenges based on performance, innovation, and dialogue.

The Group's companies are present in more than 100 countries. Their technology, global expertise, and knowledge have provided the Group with the know-how to meet the needs of companies, municipalities, and communities worldwide.

Tractebel Energia shares not only the SUEZ values, but also the latter's commitment to providing sustainable solutions and controlling the impacts caused by its activities, as well as the awareness of the role of sustainable development in creating value.

SUEZ Group Installed Capacity and Capacity Under Construction



The SUEZ Group

Revenues: €47.5 billion in 2007

1 billion people served (water and waste treatment)

200 million consumers

500,000 commercial and industrial customers

150,000 employees worldwide

60,000 MW in production capacity

3,000 municipalities served

600 researchers in eight R&D centers

80% of the group's revenues are generated in Europe

Europe's sixth-largest gas operator

Europe's fifth-largest energy producer

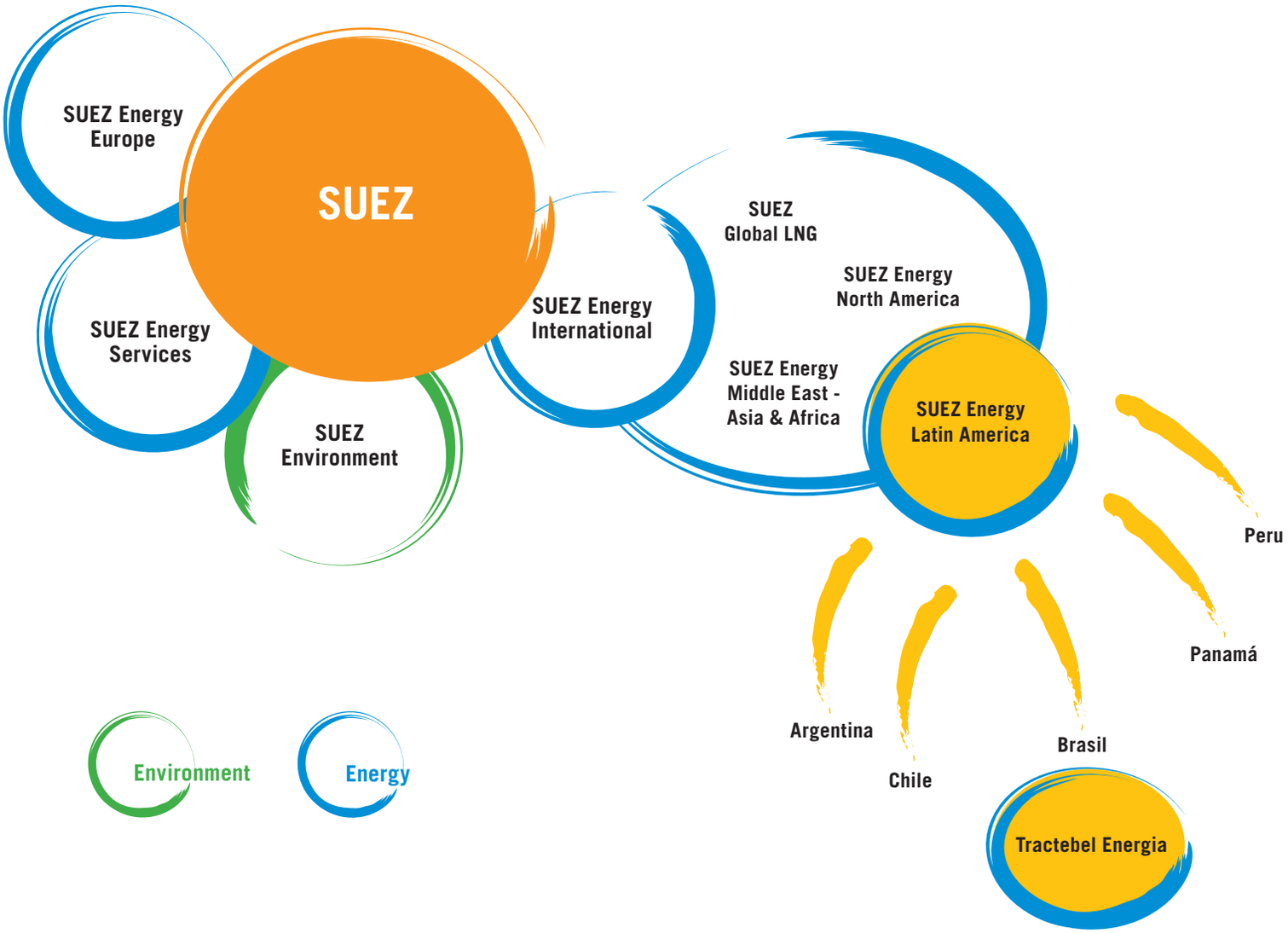
Europe's second-largest company in environmental services

North America's second-biggest importer of liquefied natural gas

Europe's Nº 1 supplier of energy and industrial services

SUEZ

DELIVERING THE ESSENTIALS OF LIFE


SUEZ Energy Europe
SUEZ
SUEZ Energy Services
SUEZ Environment
SUEZ Energy International
SUEZ Global LNG
SUEZ Energy North America
SUEZ Energy Middle East - Asia & Africa
SUEZ Energy Latin America
Peru
Panamá
Argentina
Chile
Brasil
Tractebel Energia
Environment
Energy



Tractebel Energia's strong operating performance and its increasing productivity levels enable it to continually improve its operating margins. Over the past years, it has managed to maintain its uptime rate, excluding scheduled maintenance outages, at a level above 97%

STRATEGIES AND COMPETITIVE ADVANTAGES

STRATEGIES

Tractebel Energia's goal is to remain the leading private company in the generation of electric power in Brazil, seeking to create value in order to increase its profitability and financial strength, thus ensuring its autonomy and the continuity of its business. In order to achieve this goal, it adopts a strategy based on the following principles:

>> Growth with financial discipline

Revenue growth based on two factors: obtaining better future energy prices and expanding its generating facilities, contingent upon the adequate remuneration of investments. The Company has opted for leaving a substantial part of its assured energy uncontracted as of 2011, when industry prospects indicate a potential price increase. In addition, its strong financial position, with a reduced indebtness level, aligned to a strong cash generation, makes its participation in new projects and potential acquisitions a feasible proposition.

>> Maximization of customer portfolio efficiency

Based on its track-record and capacity to establish long-standing relationships with free customers — those who are free to negotiate the acquisition of electricity from any supplier —, Tractebel Energia intends to optimize its contract portfolio focusing on this segment. These initiatives include the loyalty program; the strategy of investing in the provision of services; the adaptation of energy purchases to the production process of each customer; and electric power auditing, which is a continuous commitment toward the highest possible energy efficiency.

>> Operational efficiency

Tractebel Energia's consistently good operational performance and its increasing productivity levels have enabled the Company to improve its operating margins. Over the recent years, it has managed to maintain its uptime rate at a level higher than 97%, excluding scheduled maintenance outages; i.e. those scheduled in the preventive maintenance plans. In 2007, its uptime rate stood at 98.0%, which also allowed it to export approximately 330 average MW to Argentina over four months — an unexpected demand.

COMPETITIVE ADVANTAGES

Growth potential: Tractebel Energia has already announced its plans to accelerate its expansion, with the acquisition of two new plants and of one thermoelectric project in 2007. The Company can rely on its strong financial capacity and the willingness of its controlling shareholder, SUEZ, to continue investing in Brazil.

Adequate contracting profile: the Company's balanced contracting level is a result of the strategy of allocating its energy among distributors — whose long-term agreements provide stability in long-term cash generation — and free customers — whose bilateral negotiations offer flexibility in commercial terms. The Company's energy availability, consisting of its hydroelectric and thermoelectric plants assured energy and purchases for resale, is largely contracted until 2010 at competitive prices. For the long term, the Company carries out a continuous analysis of market scenarios and conditions.

Pioneerism in large-scale supply to free customers: the Company was a pioneer for its focus on the contracting of energy with free customers and the development of loyalty policies for this segment, developing the know-how required for the management of agreements, which offers it higher efficiency in customer management.

Continual evolution of main financial indicators: Tractebel Energia has had record-breaking net income over the past five years as well as consistent average growth in its net revenue and EBITDA.

Experienced management committed to the best corporate governance practices: in addition to being listed on Bovespa's Novo Mercado segment, Tractebel Energia has experienced managers who are capable of devising early solutions to address issues arising from the evolution and constant changes in the regulatory and competitive framework of the energy industry. In addition, the Company's workforce — whose maintenance and turnover take place in a balanced and planned way — is comprised of professionals who are highly skilled in the energy industry and its strategic, managerial, technical, economic, and financial aspects.

High level of dividend distribution: the Company has a history of paying out substantial amounts of dividends and interest on shareholders' equity. Its management adopts a policy of not paying dividends lower than 55% of adjusted net income in semiannual distributions, a higher rate than the 30% set forth in its by-laws. It is important to note that in 2007, for the fifth year in a row, payout stood at 95%.

Controlling shareholder with ample experience in Brazil and in the electric power industry: SUEZ is one of the world's largest groups in the electric power industry, and Tractebel Energia accounts for approximately 10% of SUEZ's installed capacity.

Balance in addressing the various interests: in all of its initiatives, the Company takes into account the legitimate interests of the stakeholders with whom it interacts, seeking to maintain balance among different demands, aimed at creating sustainability conditions in the long term.



Control room at Itá
Hydroelectric Power Plant

03. surrounding environment and results

The Brazilian economy continued to grow during 2007, primarily driven by the increase in the domestic consumption



MACROECONOMIC SCENARIO

The Brazilian economy continued to grow during 2007, primarily driven by the increase in the domestic consumption, which expanded thanks to price stability, higher employment levels, and an expansion in credit availability.

Inflation, as measured by the Amplified Consumer Price Index (IPCA), saw a slight increase over 2007, closing the year at 4.46%, a figure within the range of the government's inflation band target. In 2007, successive rises in food prices were one of the leading causes of the increase in the Index.

Interest rates continued on a falling curve. According to data by Brazil's Central Bank, the Selic rate closed the year at its lowest nominal level — 11.25%; a reduction of two percentage points compared with the preceding year.

In 2007, Brazil's GDP (Gross Domestic Product) resumed its growth pattern. According to data from the Brazilian Institute of Geography and Statistics (IBGE), GDP growth was 5.4%, the highest rate since 2004, despite a reduction in the level of exports, which increased 16.6% in 2007. Imports, in turn, rose 32.0%, which resulted in a lower trade balance, which recorded a surplus totaling US$ 40.028 million, an amount 13.8% lower than the US$ 46.456 million achieved in 2006, according to the Ministry of Development. This result is impressive, especially if taken into account the effect of the appreciation of the real, the Brazilian currency, against the the US dollar. The US dollar-real exchange rate at year-end was R$1.77, representing a 16.9% depreciation of the US currency — twice the depreciation recorded in 2006, when it dropped by 8.1%.

These indicators reflect the major resilience of the Brazilian economy in the face of international turbulences, such as the difficulties currently affecting the United States' domestic mortgage market. Brazilian prices were only slightly affected, while risk rating agencies have maintained the country close to investment grade, contributing to the continued attraction for foreign direct investment.

ELECTRIC POWER INDUSTRY IN BRAZIL

The approval of the Growth Boosting Plan (known by its Brazilian acronym: PAC), in January 2007, has breathed new life into the electric power industry. The plan envisages investments of R$503.9 billion in infrastructure up to 2010, of which R$274.8 billion have been allocated to energy infrastructure (electricity, renewable fuel, oil, and natural gas).

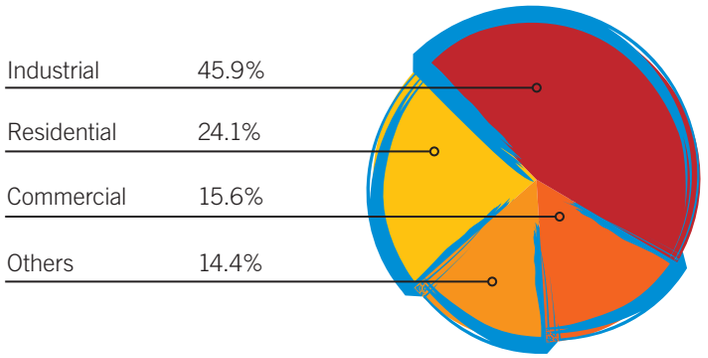
With these goals, the government seeks to promote the productivity of strategic industries, to enable effective technological upgrading, to activate new areas of the economy, and to accelerate the expansion of other areas. To achieve these goals, it offers benefits, such as investment-linked tax cuts and more extensive and improved conditions of financing from the National Economic and Social Development Bank (BNDES).

Currently, the SUEZ Group holds the right to explore two hydroelectric power plants benefited by PAC: São Salvador, already transferred to Tractebel Energia, and Estreito, in a consortium with other investors. In the latter case, the transfer of the stake held by SUEZ to Tractebel Energia is expected to be carried out in the first half of 2008.

The inclusion of expansion and upgrading works for the energy industry in the PAC underscores the importance given by the government to fully meeting the constantly growing needs of electric power demand. In 2007, consumption totaled 376.9 TWh, equivalent to an increase of 5.4% compared to 2006, based on data published by the Energy Research Agency (EPE), the MME arm in charge of carrying out studies and surveys aimed at providing information to assist in electric power industry planning. This growth is a direct result of the good performance of the Brazilian economy.

In 2007, industrial consumption accounted for 45.9% of total demand, versus 24.1% and 15.6% for the residential and commercial segments, respectively. Consumption by other segments totaled 14.4%.

Consumption by Segment



Source: Energy Research Agency

Electric power consumption increased 5.4% in 2007, a result that reflects the good performance of the Brazilian economy



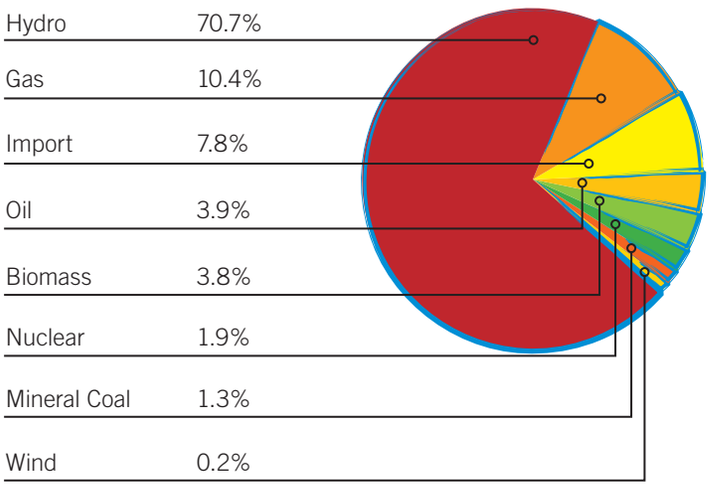
ELECTRIC POWER GENERATION SCENARIO

There are a total of 1,681 generation plants in operation in Brazil, representing approximately 100,000 MW of installed capacity, according to data from the Generation Monitoring Superintendence of the Brazilian Electricity Regulatory Agency (SFG/ANEEL) for February 2008. Also according to SFG/ANEEL, an addition of approximately 14,200 MW to the country's installed capacity is planned for up to 2012. This expansion is the result of the conclusion of 290 projects and of more than 15,600 MW associated to projects with no scheduled startup date.

Hydroelectric plants account for 70.7% of Brazil's current installed capacity. The remainder consists of thermoelectric plants powered by natural gas, diesel, fuel oil, charcoal or mineral coal, wood, biomass (mainly sugar cane bagasse), and nuclear fuel. The chart on this page presents the share of the various sources in Brazil's total installed capacity.

Of Brazil's total installed capacity, 9.4% consists of natural gas-fired thermoelectric plants (in addition to 1.0% that burns process gas). Since the start of natural gas imports from Bolivia, the government has actively promoted the use of that fuel by industries and vehicles. This expansion in natural gas consumption by industries and vehicles has affected concurrent supply to thermoelectric facilities. After studies were carried out and an agreement was subsequently entered into between Petrobras and the Brazilian Electricity Regulatory Agency (ANEEL)[2], there was a 3,500 average MW reduction in Brazil's assured energy. In addition, Argentina limited the supply of natural gas to the Uruguaiana thermoelectric plant, representing a 300 average MW reduction, and Bolivia limited the supply to the Cuiabá Thermoelectric Plant, reducing an additional 200 average MW. All these restrictions represent a 4,000 average MW decrease in assured energy.

Brazil's Installed Capacity by Source



Source: ANEEL



Auctions

In 2007, ANEEL held three new energy auctions, as well as the first-ever auction for alternative energy source projects, in order to supply part of the energy required for consumer market provisions by distribution concessionaires.

In the first Alternative Sources Auction, agreements involving small hydroelectric power plants (PCHs) — facitilies with installed capacities ranging from 1 MW to 30 MW — and biomass thermoelectric plants were negotiated with 30 and 15-year terms, respectively. Overall, 638.3 MW of installed capacity related to 18 schemes were negotiated, adding a total of 186 MW of physical assurance to the SIN: 25% of this total to six PCHs and 75% to 12 plants fueld by biomass from sugar cane bagasse and from poultry-raising units.

For 2008, five auctions are forecasted, two of which will be for new energy with delivery terms of three and five years (A-3 and A-5 auctions); one auction for existing energy with supply projected to start in 2009 (A-1 auction); and two special auctions: one for the Jirau Hydroelectric Power Plant and one for the First Reserve Energy Auction. Jirau, with an expected capacity of 3,300 MW, is part of the Rio Madeira Hydroelectric Complex, whose first plant, Santo Antônio, with 3,150 MW, was auctioned in 2007. The First Reserve Energy Auction, which incidentally will be exclusive for biomass, is expected to take place at the end of April, and amounts to 118 registered schemes, totaling 7,800 MW of expected capacity. Operations contracted through this auction will begin delivering energy in 2009 or 2010.

2 Agency in charge of regulating and monitoring the production, transmission, distribution, and sale of electricity in Brazil.

Diversification of the energy matrix

According to data from the 2007 National Energy Balance Report, prepared by the MME, in 2006 approximately 45% of Brazil's energy matrix (which includes electric power) originated in renewable sources, while the world average was 12.7%, and OECD countries stood at only 6.2%. The specific auction for biomass operations demonstrates the government's interest in diversifying the energy matrix and increasing the share of renewable sources.

Since the regulation of the Program for Incentive of the Alternative Sources of Electric Energy (Proinfa) in 2003, several correlated projects have appeared in the country. The initial goal was to add 3,300 MW of energy from wind, biomass, and PCH sources, at 1,100 MW each. Of this total, only 1,000 MW are currently in operation. The total updated capacity for Proinfa is 3,100 MW, expected for the beginning of 2010.

INDUSTRY FEATURES

Concessions, authorizations, and registrations

In order to build and operate an electric power generation unit, it is necessary to have a concession agreement, an authorization, or a registration, depending on the installed capacity size and the nature of the operation.

For hydroelectric power plants with an installed capacity lower than or equal to 1 MW and for thermoelectric and wind-powered facilities and plants using other alternative sources of energy with an installed capacity lower than or equal to 5 MW, the only requirement is to have a registration of the plant at ANEEL, which can be obtained by sending a request together with a completed technical form.

For hydroelectric power plants with an installed capacity higher than 1 MW and lower or equal to 30 MW, and for thermoelectric and wind-powered facilities and plants using other alternative sources of energy with an installed capacity higher than 5 MW, it is necessary to obtain authorization from ANEEL, which can be granted by sending a request together with a report including a series of legal and technical requirements.

The development of hydroelectric power plants with an installed capacity higher than 30 MW requires a concession agreement. The concession may be of public utility or of use of a public good. The latter is aimed at self-producers and independent producers. The concessions are preceded by a public tender and are granted by the MME. Currently, concessions for new power plants are granted through public bidding and depend on the sale of part of the energy in the Regulated Contracting Environment (ACR).

The registrations have no expiration date. Authorizations and concessions have specific expiration dates, which may usually be extended, but not more than once. New concession agreements, granted through public bidding in the ACR, are valid for 35 years and do not have an extension clause.

Energy Trading

The existing institutional model for the Brazilian electric power industry categorizes energy consumers into two groups: the first are called captive customers and include residential and commercial, as well as low-consumption industrial consumers. This group is included in the Regulated Contracting Environment (ACR) and must purchase electricity directly from the local distributor. The distributors, in turn, must purchase their entire demand through energy auctions, carried out periodically by the MME.

The second group is called free consumers, or customers, and may trade energy in the Free Contracting Environment (ACL). Trading of energy in this environment is based on bilateral sales agreements negotiated directly between energy generation, trading, or importation agents on the one hand, and end consumers on the other.

Agreements entered into between the distributors and generators who won auctions last between three and 30 years, depending on the product traded. The energy of existing plants was initially traded through agreements lasting from three to eight years. Usually, the energy of new plants is traded using 15-year agreements for thermoelectric sources and 30-year agreements for hydroelectric sources.

The First Reserve Energy Auction, expected for 2008, will result in 15-year agreements between each new generation plant and the Energy Trading Board (CCEE), which, in turn, will allocate the costs of this reserve energy to all consumers within the SIN.

OPERATIONAL AND FINANCIAL PERFORMANCE

OPERATIONAL PERFORMANCE

In 2007, Tractebel Energia's gross generation of electric power achieved a record-breaking level, amounting to 33,858 GWh, 58.6% higher than the total obtained in the previous year. This result was due to the increase in the share of hydroelectric plants, which, with the return of the reservoirs to normal levels, accounted for 28,858 GWh; i.e. an 81.6% growth in relation to 2006. Thermoelectric power plants accounted for 14.8% of the total produced by the Company; i.e. 5,000 GWh.

Tractebel Energia's gross generation of electric power achieved a record-breaking level in 2007, amounting to 33,858 GWh, 58.6% higher than the total obtained in the previous year

Generation per Plant (GWh)

Hydroelectric Plants		**Thermoelectric Plants**	
Salto Santiago	6,392	Jorge Lacerda A	947
Salto Osório	4,451	Jorge Lacerda B	1,677
Passo Fundo	1,188	Jorge Lacerda C	1,903
Itá	8,465*	Charqueadas	339
Machadinho	6,012*	Alegrete	0
Cana Brava	2,350	William Arjona	67
		Lages	67
Total	**28,858**	**Total**	**5,000**

* Total generation of the Itá and Machadinho plants, in which Tractebel Energia holds, respectively, a 70.0% and a 19.3% stake.

The total uptime rate stood at 93.0%, when taking into account time spent with scheduled maintenance outages. Net of this time, the total 98.0% rate fulfilled the goal set forth and enabled the Company to meet the year's unpredicted demands, such as the export of 330 average MW to Argentina over a four-months period.

This performance is the result of the commitment of the operation teams and the adequate maintenance plan prepared and executed by the Company.

In compliance with its commitment to reducing its emission of pollutants, Tractebel Energia is introducing new technology in the Charqueadas Thermoelectric Power Plant, which will make it the first coal-fueled plant in Brazil to filter sulphur dioxide from its emissions



Investments in Maintenance and Modernization

In 2007, Tractebel Energia continued to install controls to reduce the emission of pollutants by the Charqueadas Thermoelectric Plant, in accordance with its environmental policy and its obligation with the Federal Justice of Porto Alegre. The installation of equipment — a baghouse to reduce the emission of particles through the chimney, and a desulphurization filter, which blocks sulphur dioxide (SO_2) from emissions — will be completed in April 2009. In 2008, investments will amount to R$30 million. After the installation of the equipment, Charqueadas will be the first coal-based thermoelectric plant in Brazil using this technology, ensuring operational continuity.

Over the year, the power transformers of the Machadinho, Salto Santiago, and Jorge Lacerda C plants were restored and backup transformers for the Cana Brava and São Salvador hydroelectric plants and for the Jorge Lacerda C and B thermoelectric facilities were purchased.

The renovation and upgrading of the generating units of the Jorge Lacerda A plant were concluded, increasing their reliability, improving their thermal performance (by reducing fuel consumption), restoring their generation capacities, and decreasing atmospheric emissions.

Subsequently, in January 2008, the investment cycle in Salto Osório was completed, with the conclusion of the upgrading and restoration of the six generating units of the hydroelectric power plant. The project, amounting to approximately R$60 million, was initiated in September 2004.

Research and Development Program

Part of the budget of Tractebel Energia's Energy Production Division (DP) is aimed at the Annual Research and Development Program. The Company interacts with educational and research institutions in the regions where it operates and fosters the training of young scientists and researchers.

In 2007, 25 new projects were presented and are now awaiting approval by ANEEL. Together with nine other ongoing initiatives, they comprise the framework of the R&D program for the period.

Over the year, the Company invested approximately R$16 million in R&D, including projects aimed at developing new technology and materials for generating electric power and preserving the environment. The main highlights are the following:

>> Survey of the ichthyofauna of the reservoirs of the Itá and Machadinho hydroelectric plants;

>> Limnology and ichthyology of the Salto Osório and Salto Santiago reservoirs;

>> Adequacy in using small-sized wood chips for the generation of energy;

>> Validation of a system to predict sulphur dioxide (SO_2) dispersal conditions for the Jorge Lacerda and Charqueadas thermoelectric plants;

>> Efficiency evaluation program for the environmental corridors in the areas surrounding the Salto Osório and Salto Santiago reservoirs;

>> Development of technology for accelerating the recovery of the permanent preservation area of the Itá reservoir; and

>> Reintroduction of Dyckia distachya, a bromeliad species typical of rapids included in the Official List of Endangered Species of Brazilian Flora (IBAMA Ordinance 037-N, of April 3, 1992), in the areas surrounding the Itá and Machadinho reservoirs.

FINANCIAL PERFORMANCE

Gross Operating Revenue

As from January 2007, revenue from the supply of electricity has been recognized net of ICMS, in the case this sales tax applies to a special regime known as tax replacement on interstate sales operations. Up to December 31, 2006, the tax had been incorporated in the account group "Deductions from operating revenue". In order to facilitate comparative analysis between the periods under review, the values for gross operating revenue and respective deductions relative to fiscal year 2006 were changed respectively from R$3,060.7 million and R$355.2 million to R$3,005.1 million and R$299.6 million.

In 2007, gross operating revenue reached R$3,364.7 million, 12.0% higher than registered in 2006 — R$3,005.1 million. This was due to the increase in average sales price for energy of 12.0%, principally contracted with free consumers, and by the higher price and volume of exports for meeting energy demands from Argentina. In 2007, the quantity of energy sold remained at the same level as 2006, equivalent to approximately 3,740 average MW.

Deductions from Operating Revenue

For fiscal year 2007, deductions were R$321.3 million, 7.2% more than the same period in 2006 — R$299.6 million. The year on year difference was due largely to a combination of growth in sales revenue with a reduction in the ICMS sales tax resulting from changes to the organizational structure of the subsidiary, Tractebel Energia Comercializadora Ltda. as from June 2007. As a result, ICMS charged on electricity supply sales to end consumers in the state of São Paulo, previously recorded as ICMS deducted from revenue, is now collected on a tax replacement basis and deducted directly from end consumer sales revenue.

Net Operating Revenue

In fiscal year 2007, net revenue was R$3,043.4 million, 12.5% higher than the R$2,705.5 million recorded in 2006. The increase reported in the year was largely due to a year on year rise of 12% in the net average price of energy sales from R$80.96/MWh to R$90.65/MWh a result of price and volume increments in energy sales to free consumers as well as exports to Argentina.

For the fifth year in a row, the payout amounted to **95%** of net income

Net Operating Revenue (R$ million)



Average Net Sales Price (R$/MWh)



Sales Volume (average MW)



Costs of Electric Energy and Services

In the fiscal year 2007, costs remained practically unchanged relative to 2006, reporting R$1,069.8 million in 2007 and R$1,081.4 million in 2006. These changes reflect mainly the following elements:

>> **Third-party energy purchases:** a reduction of R$19.7 million due to the smaller quantities of energy bought for resale.

>> **Transactions channeled through the Energy Trading Board (CCEE):** a reduction of R$99.6 million, largely a combination of the following factors: (i) a drop of R$102.3 million, primarily due to lower exposure to the CCEE in view of the optimization of the allocation of hydro resources compared with 2006; (ii) a R$61.4 million increase in revenue resulting from the Energy Reallocation Mechanism (MRE)[3], due to the greater dispatch levels from the hydroelectric power plants by the ONS; and (iii) a R$57.4 million reduction, in sales revenue, due to reduced dispatch from the William Arjona Thermoelectric Power Plant (UTWA) following the upgrading of transmission lines in the Campo Grande region (Mato Grosso do Sul), as of November 2006.

>> **Fuel expenses for electricity generation:** an increase of R$24.9 million basically reflecting a combination of the following factors: (i) a decrease of R$46.9 million, the result of lower demand for gas due to reduced dispatch levels from the UTWA following the upgrading in transmission lines and cuts in gas supplies in the final quarter of 2007; and (ii) an increase of R$72.6 million in the consumption of coal to meet greater demand for energy exports to Argentina in 2007.

>> **Financial compensation for the use of hydrological resources:** growth of R$51.4 million, totaling R$89.8 million in 2007, due to the significant increase in the dispatch of energy from the hydroelectric plants by the ONS as compared with 2006 when Southern Brazil suffered a severe drought. This was partially offset by enhanced MRE revenue, as mentioned above. These resources are allocated to the municipalities where the plants are located (45%), their respective states (45%), and others (10%).

>> **Depreciation and amortization:** a R$21.4 million increase due to the revision of the lifespan of certain hydroelectric plant assets as of January 2007.

3 Mechanism aimed at allocating the hydrological risk among the generators, insofar as each of them has ensured the payment by the amount of their assured and contracted energy, as long as the members of the MRE together are capable of meeting the MRE's assured energy levels.

Selling Expenses

Selling expenses are largely made up of overheads for the use of, and connection to the electricity grid totaling R$216.7 million, 3.1% more than in 2006, due to an increase in charges for the use of the grid through the intermediary of an annual tariff increase as well as payroll expenses.

General and Administrative Expenses

Ignoring a non-recurring expense of R$9.1 million, recognized in 2006, due to the reimbursement of the surcharge previously collected to offset differences in PIS and COFINS taxes, general and administrative expenses in 2007 were 4.7% higher than in 2006, totaling R$130.1 million. These increases were mainly due to annual wage increases and recognition in 2007 of the provision for management bonuses and for the Voluntary Severance Program (PDV) implemented by the Company.

Constitution (Reversal) of Net Operational Provisions

In the 2007 fiscal year, a R$2.2 million provision was set aside. On the other hand in 2006, the net reversal of R$11.5 million was principally the result of the reversal of a civil liability provision of R$22.0 million and the constitution of a provision for payment of post-employment benefits of R$7.9 million.

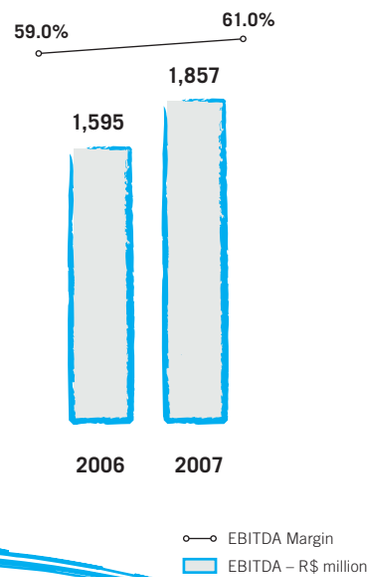
Decisions on Legal Proceedings

In 2007, a legal decision recognized the Company's right to reduce the rate for retention of Occupational Accident Insurance. The refunding of R$3.7 million to the Company was announced, as a result of a final decision not subject to appeal. In 2006, in turn, the Company had recognized rights totaling R$94.5 million, of which R$5.8 million resulted from the undue payment of guarantee insurance on a tender bid for importing energy from Argentina, and R$88.7 million were related to the elimination of the basis of calculation of PIS and COFINS taxes.

EBITDA and EBITDA Margin

Reflecting the aforementioned effects, EBITDA was R$1,857.3 million in 2007, or 16.4% higher than in 2006, when it amounted to R$1,595.0 million. In 2007, the EBITDA margin reached 61.0%, against 59.0% in 2006.

EBITDA and EBITDA Margin (R$ million and %)



Financial Result

Financial Income

In the 2007 fiscal year, financial income decreased by R$7.1 million. This figure reflects the increase in financial investments together with monetary restatements on judicial deposits having been lower than the amounts recognized in 2006 for non-recurring financial income relative to extraordinary interest on debt installment payments on receivables both with respect to sales of energy and to gains in legal proceedings.

Financial Expenses

In 2007, financial expenses decreased by R$28.6 million in relation to 2006 due to a combination of the following effects: (i) an R$11.1 million decrease in interest on loans, financing, and debentures, due to a drop in the TJLP (Long Term Interest Rate), SELIC (basic interest rate), and CDI (Interbank Interest Rate) and the gradual reduction of debt in line with amortizations during the period; (ii) a R$33.5 million growth in revenue from foreign exchange gains on loans and financing, net of the result from the foreign exchange hedge operation, given the higher depreciation of the basket of currencies comprising the debt against the real; and (iii) a year-on-year increase of R$17.5 million in monetary restatement on debt due to the increase in the IGP-M.

Non-Operating Results

The year-on-year variation of R$4.4 million is largely due to the writing down of equipment in light of the modernization of systems at some of the Company's plants and the effects of the sale of 33.34% of the Jacuí Project in 2006.

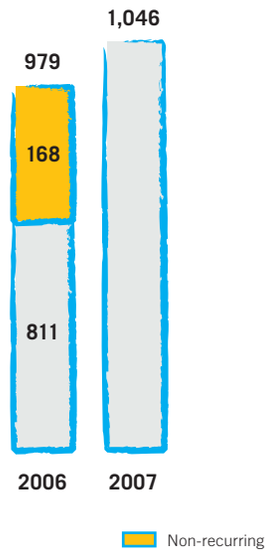
Income Tax and Social Contribution

There was an increase of R$191.9 million in the 2007 fiscal year mainly due to: (i) an R$87.8 million increase in income before tax; (ii) higher income tax and social contribution payments, totaling R$12.6 million, due to lower credit of interest on shareholders' equity in 2007 compared to 2006; and (iii) the recognition of an extraordinary tax gain of R$87.1 million in 2006, due to the effects of the sale of 33.34% of the Jacuí Project. The amount paid in the year totaled R$439.7 million.

Net Income

In the 2007 fiscal year, net income amounted to R$1,045.6 million, a growth of 6.8% over the preceding year's figure (R$979.1 million), equivalent to R$1.60 per share. Excluding non-recurring events in 2006, legal proceedings found in favor of the Company, and the effects arising from the sale of the Jacuí Project, net income for the year in review would have been 28.9% higher than recorded in 2006.

Net Income (R$ million)



Debt

The Company's net debt as at December 31, 2007 (total debt less cash and cash equivalents and the result of swap operations) was R$1,019.1 million, compared to R$1,025.2 million at the end of 2006.

Total consolidated gross debt, mainly in the form of loans, debentures, and financing, totaled R$1,813.2 million on December 31, 2007, a 41.9% increase compared with the position as at December 31, 2006. Of the total debt at the end of the period, 16.5% was denominated in foreign currency.

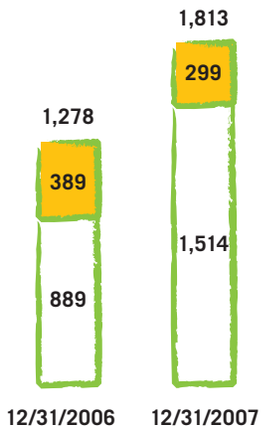
The growth in Company debt reflects the R$350.0 million debenture issue — four times oversubscribed — in the second quarter of 2007. In addition, in 2007 the Company took out a loan from the BNDES and its financial agents for R$570.2 million for the funding of investments in the São Salvador Hydroelectric Power Plant. By December 31, 2007, R$392.7 million had been drawn down.



Change in Net Debt (R$ million)

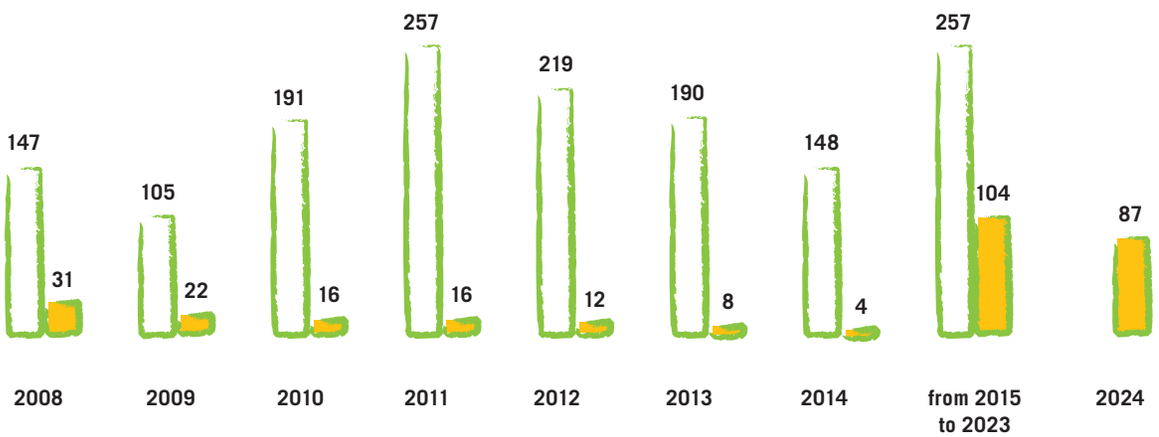


Composition of Total Debt (R$ million)



Foreign Currency
Local Currency

Maturity Term Loans (R$ million)





Capital Expenditures

As of the second quarter 2007, the Company began investing in the construction of the São Salvador Hydroelectric Power Plant with BNDES financing. These investments amounted to R$305.1 million in 2007. In addition, capital expenditures dedicated to plant maintenance and modernization amounted to R$74.3 million, or 7.7% more than in 2006.

Accumulated investments in 2007 reached R$379.4 million, a value significantly greater than the R$69.0 million outlay in 2006, again principally a reflection of investments in the São Salvador Hydroelectric Power Plant.

Investments (R$ million)



CAPITAL MARKETS

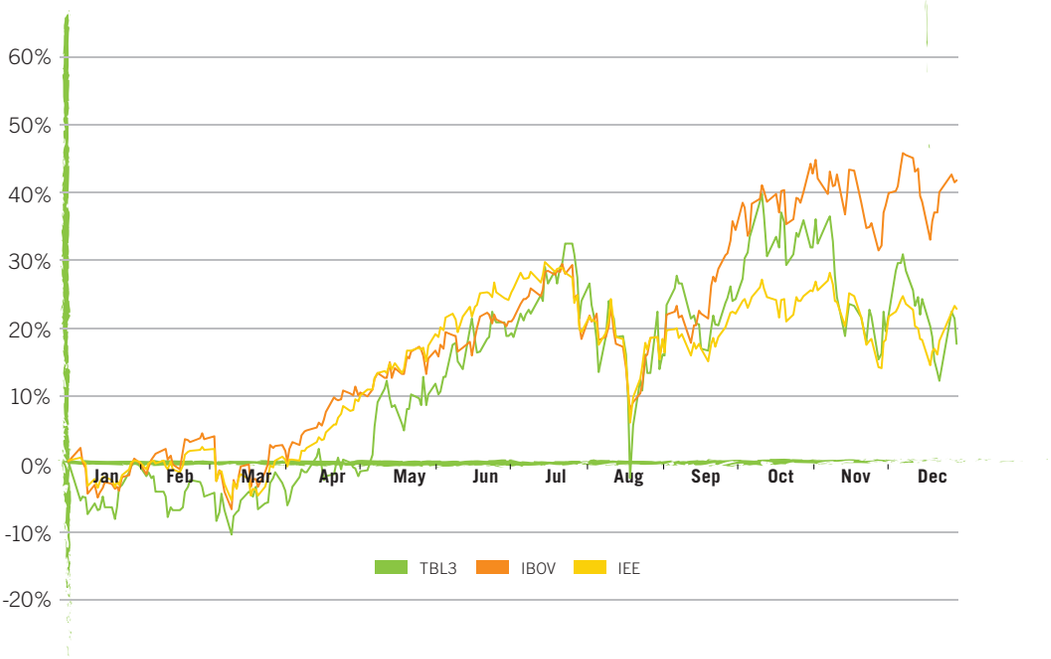
Tractebel Energia shares are listed on Bovespa's Novo Mercado under the ticker symbol TBLE3. The shares are part of the Special Corporate Governance Stock Index (IGC), the Special Tag Along Stock Index (Itag), and, for the third consecutive year, they were selected to be part of the Corporate Sustainability Stock Index (ISE). The Company's Level I ADRs (American Depositary Receipts) are traded on the US over-the-counter market under the ticker symbol TBLEY.

During 2007, Tractebel Energia shares were traded on all the days that Bovespa was open for business, and appreciated 23.1%. In the same period, the São Paulo Stock Exchange Stock Index (Ibovespa) — representing the performance of 57 of the Exchange's most liquid shares — appreciated 43.7%, and Bovespa's Electricity Energy Stock Index (IEE) — comprising Brazilian electricity industry shares — grew 23.7%. At the end of the fiscal year, the shares were priced at R$21.30/share.

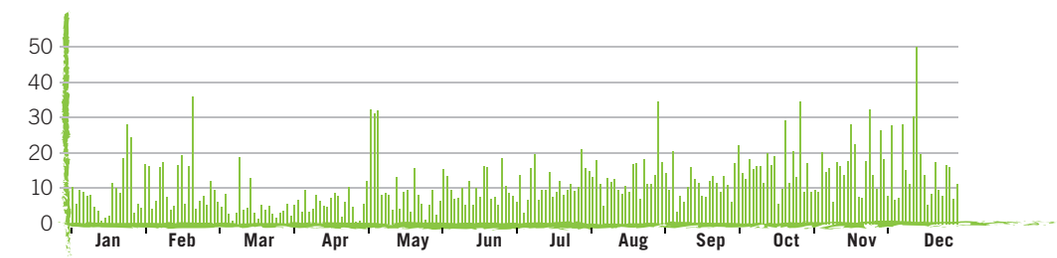
Average daily trading volume was R$15.6 million, or 90.0% above the average of 2006, a substantial result taking into account the maintenance of the free float in the years analyzed. The increase in liquidity may be partially explained by the engagement of a market maker for the period between July 2007 and September 2008.

Tractebel Energia shares were selected, for the third consecutive year, to be part of the Bovespa's Corporate Sustainability Stock Index (ISE)

Appreciation in 2007. Base 100 on 12/31/2006



TBLE3 Daily Trading Volume in 2007 (R$ million)



TBLE3 NOVO MERCADO BOVESPA BRASIL

igc Índice de Ações Governança Corporativa Bovespa - Brasil

itag Índice de Ações com Tag Along Diferenciado

ISE Índice de Sustentabilidade Empresarial

CORPORATE SUSTAINABILITY STOCK INDEX (ISE)

Tractebel Energia shares were selected, for the third consecutive year, to be part of the Bovespa's Corporate Sustainability Stock Index (ISE). The 40 shares of the 32 companies that belong to the new portfolio, which came into force on December 1, 2007 and is valid up to November 30, 2008, were selected among the 62 companies that answered the questionnaire sent to the 137 issuers of the 150 most liquid shares of Bovespa.

Created in 2005, ISE reflects the return of a portfolio consisting of shares of companies that are committed to sustainability practices and that have presented the best performance in terms of economic efficiency, social and environmental responsibility, and corporate governance. ISE's third portfolio totaled R$927 billion in market value — equivalent to 39.6% of Bovespa's total capitalization — and had already become both a benchmark for socially-responsible investment and a facilitator of good practices in the Brazilian business environment.

SHAREHOLDERS' REMUNERATION

The Company's management approved the distribution of R$993.3 million in 2007, with R$817.3 million in the form of dividends and R$176.0 million as interest on shareholders' equity. This represents a payout proposal of 95% of the net income for the fiscal year and the equivalent of R$1.5218031188 per share. Therefore, for the fifth year in a row, the payout amounted to 95% of net income.

Tractebel Energia's dividend policy establishes a minimum mandatory dividend of 30% of net income for the year, adjusted according to the Brazilian Corporate Law. Furthermore, the Company has approved the intention of declaring and paying dividends and/or interest on shareholders' equity amounting to a minimum of 55% of the net income adjusted in accordance with the above legislation. The value of this profit distribution depends on various factors, such as the financial situation of the Company, its future prospects, macroeconomic conditions, and growth strategies. The semi-annual distribution of dividends was also approved.

The ISE reflects the returns of a portfolio comprising shares of companies committed to sustainability practices and has already become a benchmark for socially-responsible investment





ISSUE OF DEBENTURES

On May 21, 2007, the Board of Directors authorized the issue of the First Public Distribution of Debentures Program worth R$1.5 billion and the concomitant second issue under the same program for R$350.0 million, equivalent to 35,000 debentures. Maturity is for seven years for the 1st Series and five years for the 2nd Series as of the issue date with expiry on May 15, 2014 and May 15, 2012, respectively. The debentures for the 1st Series will be restated according to the IPCA with interest paid annually, equivalent to a maximum of 8.70% per annum. The 2nd Series will not be monetarily restated and will bear semi-annual interest corresponding to a maximum of 103.5% of the Interbank Rate.

Funds from the debenture issue were used to acquire the total common and preferred shares from Companhia Energética São Salvador (CESS). Investors were largely investment and private pension funds.

RATINGS

Tractebel Energia is periodically evaluated by two credit rating agencies: Standard & Poor's and Fitch Ratings. The ratings assigned by these agencies show the Company's strength and transparency.

In 2007, Standard & Poor's upgraded the Company's rating from brA+ to brAA stable on the Brazilian National Scale and brAA to the Company's 1st and 2nd issues of debentures on the same scale. Fitch Ratings, in turn, assigned the Company and its 1st and 2nd issues of debentures the National Long-Term AA(bra) stable rating.



ACKNOWLEDGMENTS AND AWARDS

2007 TRANSPARENCY TROPHY (TROFÉU TRANSPARÊNCIA 2007)

Granted by ANEFAC (the National Association of Finance, Administration, and Accounting Executives) in partnership with SERASA (a credit report company) and FIPECAFI (Accounting, Actuarial, and Financial Foundation Institute), the award recognizes companies that disclose their balance sheet and other financial reports in the clearest and most accurate way. Tractebel Energia was awarded in the publicly-traded company category.

BRAZIL-US CHAMBER OF COMMERCE AWARD (PRÊMIO DA CÂMARA DE COMÉRCIO BRASIL-ESTADOS UNIDOS)

Granted to the Jorge Lacerda Thermoelectric Plant in recognition of works on the recovery of degraded areas through the use of mineral coal ash and the management of solid waste, developed by the plant in the municipality of Capivari de Baixo (Santa Catarina).

BRAZIL ENVIRONMENTAL AWARD (PRÊMIO BRASIL DE MEIO AMBIENTE)

Granted to the Machadinho Hydroelectric Power Plant for the Cambona 4 Agroforestry System, which fosters the production of erva-mate (an evergreen tree cultivated for its leaves, good for tea), seeking to recover the plant's natural habitat. The project's goal is to reconcile the preservation of the environment with the economic development of the region where the plant is located.

MARKET FRIENDLY COMPANY

Award granted by US magazine Institutional Investor to both the Company's CEO and the CFO and Investor Relations Director for the adoption of a pro-active and transparent approach in their relationship with capital market professionals.



Tractebel Energia's head office in Florianópolis (state of Santa Catarina)

04. corporate governance

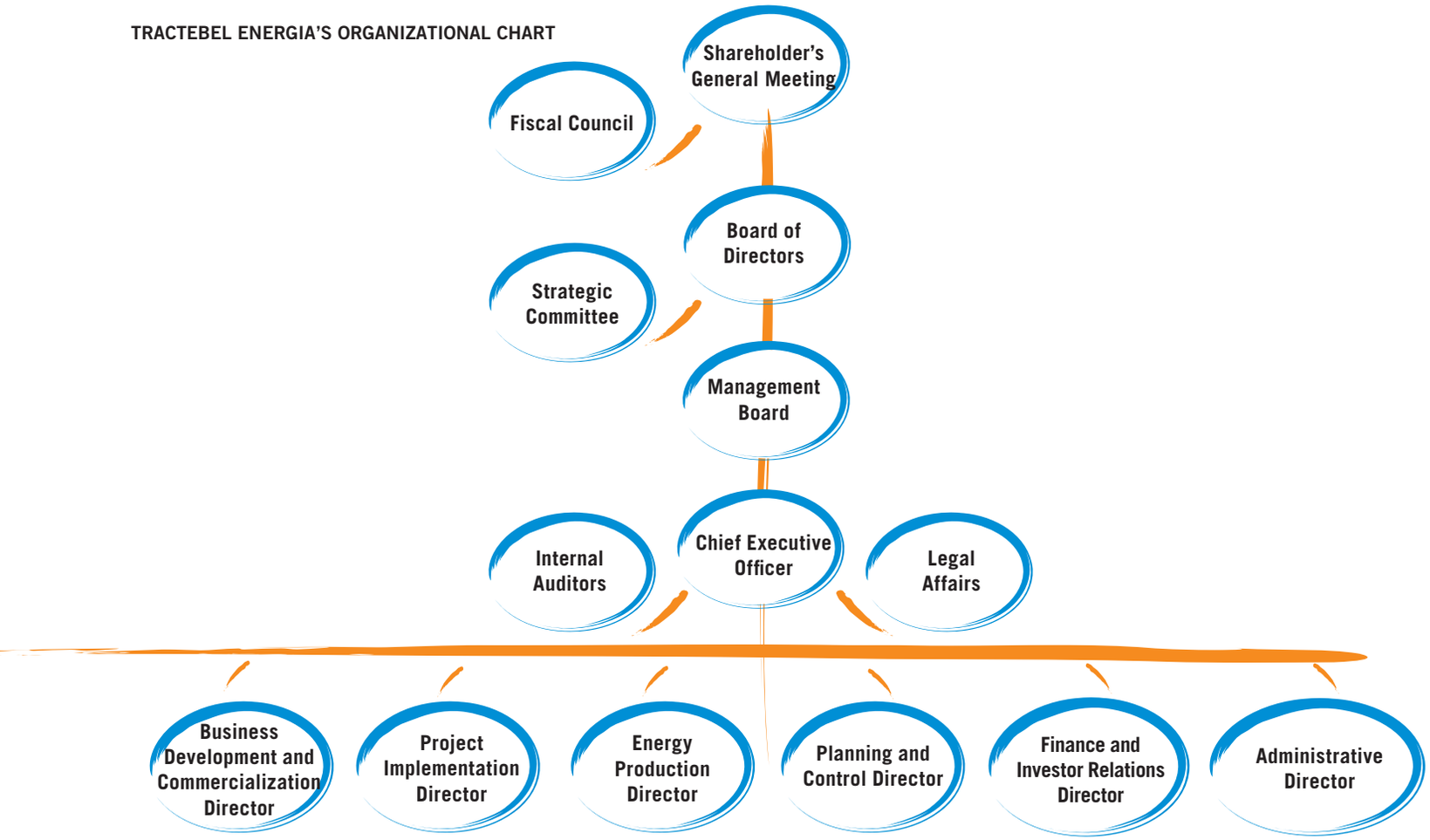
A company listed on Bovespa's Novo Mercado, Tractebel Energia conducts its businesses in a transparent and ethical way



Tractebel Energia conducts its businesses in a transparent and ethical manner. The Company's shares are traded on the Bovespa's Novo Mercado, a segment of the market made up of companies that voluntarily undertake to adopt strict corporate governance practices over and above those required by legislation. It is important to note that Tractebel Energia's governance principles are in compliance with those of its controlling company.

In addition, the Company's internal control structure has been adjusted to the US Sarbanes-Oxley Act (SOX) guidelines for listed companies, designed to ensure the veracity of the content of financial reports and the creation of auditing and security mechanisms. The goal is to prevent the occurrence of fraud and to ensure transparency in the management of the companies. Deloitte Touche Tohmatsu is the independent auditor in charge of ascertaining the Company's compliance with the SOX, as well as for auditing all of its results. The company only provides external auditing services.

TRACTEBEL ENERGIA'S ORGANIZATIONAL CHART



BOARD OF DIRECTORS

Tractebel Energia's Board of Directors is made up of nine sitting members and an equal number of alternates, two of whom are independent and one of whom is a representative of the employees. With the exception of the latter (and his/her alternate), all are elected by the shareholders in a General Meeting for a term of office of two years, re-election being permitted. Minority shareholders are entitled to make recommendations to the body at the Meetings.

The duties of the Board of Directors include setting forth the overall business guidelines of the Company, approving the annual budget, electing and demoting officers, and establishing the latter's responsibilities.

The CEO is a member of the current Board of Directors, but is not the Chairman of the Board. The terms of office of the current directors expire in April 2008.

Sitting Member	Position
Maurício Stolle Bähr	Chairman
Jan Franciscus María Flachet	Vice-Chairman
Manoel Arlindo Zaroni Torres	Director and CEO
Victor-Frank de Paula Rosa Paranhos	Director
Dirk Beeuwsaert	Director
Pierre Michel Philippe Chareyre	Director
Luiz Antônio Barbosa	Independent Director
José Pais Rangel	Independent Director
Antonio Alberto Gouvêa Vieira	Independent Director

Maurício Stolle Bähr

Mr. Bähr is a mechanical engineer graduated at the Universidade Gama Filho (Rio de Janeiro) and holds a degree in Systems Analysis from the Pontifícia Universidade Católica (PUC) in the state of Rio de Janeiro. He holds an MBA from CoppeAd (Universidade Federal do Rio de Janeiro — UFRJ), and a degree in Corporate Finance from the University of Berkeley (USA). He was the CFO of Serra da Mesa Energia S.A. and CFO of Nacional Energética S.A. He is currently the CEO of SUEZ Energy Brasil Ltda., an Officer of SUEZ Energy South America Participações Ltda., the General Representative of SUEZ in Brazil, and Chairman of the Board of the National Electricity System Operator (ONS).

Jan Franciscus María Flachet

Mr. Flachet earned a degree in electromechanic engineering from the Catholic University of Louvain (Belgium), in addition to holding a Master's degree in management from the Instituto de Administração e Gestão da UCL. He participated in the Management Program of CEDEP, in partnership with the INSEAD, in Fontainebleau (France). He was the Head of the Operations Department of Unerg, in Brabant (Belgium). At Electrabel, he held the office of General Manager for the distribution of electric power. He was the General Manager of Litoral Gás, in Argentina, Senior Vice-President of Distribution and Sales Operations at Tractebel EGI, and Executive Vice-President for Business Development in South America. He currently holds the office of CEO at SUEZ Energy South America Participações Ltda.

Manoel Arlindo Zaroni Torres

Mr. Zaroni is an electrical engineer graduated at the Escola Federal de Engenharia de Itajubá (Minas Gerais) with a specialization in General Management from CEDEP/INSEAD, in Fontainebleau (France). From 1973 to 1998, he worked at Furnas, where he was Head of Production (South) and Head of Operation in the FURNAS System, as well as representative at the GCOI and at the Mixed Operation Commission of the Itaipu Power Plant and at the COESE. In 1998, he joined Tractebel Brasil as its Operations Officer. In 1999, he was appointed the Company's CEO. He is a member of the Board of Directors of Itá Energética.

Victor-Frank de Paula Rosa Paranhos

Mr. Paranhos is a mechanical engineer graduated at the Universidade Católica of Petrópolis (Rio de Janeiro) with a degree in economics from the Instituto Metodista Bennett. He is also an actuary from the Sociedade Universitária Augusto Motta (SUAM — Rio de Janeiro). He was the resident engineer at the Sociedade Técnica de Engenharia e Representação (STER). He was also an Officer at Corretora de Títulos e Valores Mobiliários Paulo Williansems. In addition, he was the Head Manager of the Pension Fund of the Bank of Montreal and of Banco Nacional, and the CEO of Nacional Energética S.A. (responsible for building the Serra da Mesa Hydroelectric Power Plant). He held the office of CEO at CEM, the company responsible for the construction of the Cana Brava Hydroelectric Power Plant, up to June 2002. He is currently the CEO of Companhia Energética São Salvador (CESS).

Dirk Beeuwsaert

Mr. Beeuwsaert is a mechanical and electrical engineer graduated at the University of Ghent (Belgium). He participated in the Management Program of CEDEP, in Fontainebleau (France). He was an officer of Tractebel Société Anonyme and of the Strategic Committee of Electrabel Société Anonyme. He was also member of the Board of Directors and the CEO of Tractebel Inc., and a member of the Board of Directors of Tractebel North America. He was an officer of Thai Cogeneration Co., of Nong Khae Cogeneration Co., and of Samutprakarn Cogeneration Co. He is a member of the Board of Directors of the Vlerick Management School Leuven-Ghent, of the Board of Consultants of the University of Ghent, and of the Board of the Faculty of Applied Sciences. He is currently the CEO of SUEZ Energy International.

Pierre Michel Philippe Chareyre

Mr. Chareyre holds a BA from the Institut d´Etudes Politiques de Paris, with a Master's Degree in law from the University of Paris. He began his professional activities at Midland Bank, in France, and later in the United Kingdom. In 1988, he joined the group Société Générale de Belgique. In 1989, he was the CFO of Sogem, Group Union Minière, currently Unicore, and, in 1993, he became its CEO. From 1997 to 2001, he was the CFO of REXEL (a member of the PPR Group), prior to returning to the SUEZ Group as the Senior Financial Vice-President at SUEZ Environment.

Luiz Antônio Barbosa

A power plant maintenance technician, Mr. Barbosa was the head of ASES and the Association of the Employees of the Centrais Elétricas do Sul do Brasil (Eletrosul), and a representative at the Eletrosul Professionals' Association (APROSUL). He is the CFO of the Electricians' Trade Union of Southern Santa Catarina State (SINTRESC).

José Pais Rangel

Mr. Rangel holds a law degree from the Faculdade Cândido Mendes (Rio de Janeiro), with a licentiate in Law and Legislation/Qualification for Teaching from the Faculdade Niteroiense de Formação de Professores. At the Brazilian Central Bank (Bacen), he was a Capital Markets Inspector, Supervisor of Capital Markets Monitoring, Head of the Public Debt Department, Open Market Operations Manager, Project Coordinator, and introducer of the Selic System in the National Financial Market. He was a founding member of the Board of Curators of the Fundação Banco Central de Previdência Privada (CEBTRUS) and coordinator of the privatization program for companies controlled by the Central Bank. He was an advisor to the Special Privatization Commission of the Planning Secreatriat for the President of the Republic and CEO of the Cia. Nacional de Tecidos Nova América. He worked as the liquidator of state-owned companies DIGIBRÁS (Empresa Digital Brasileira S.A.), DIGIDATA (Eletrônica S.A.), and PROEL (Processos Eletrônicos Ltda). He is currently CEO of Banco Clássico S.A.

Antonio Alberto Gouvêa Vieira

Mr. Vieira holds a degree in law from the Pontifícia Universidade Católica (PUC) of Rio de Janeiro, and completed post-graduate studies in business administration at the same university. He is a partner of the law practice of the Escritório de Advocacia Gouvêa Vieira, participated in the Board of Directors of several companies and associations, such as BFB — Banco de Investimento S/A (Crédit Lyonnais), the Association of the European Chambers of Commerce (ACCE), the Union des Assurances de Paris (UAP), Alcatel Telecomunicações S.A., and Acesita S.A. (ARCELOR). He has also participated in the advisory and fiscal boards of several companies. He is a member of the Board of Directors of the French and Brazilian Teaching Society (Lycée Molière) and the Brazilian Institute of Corporate Governance (IBGC).

MANAGEMENT BOARD

The Management Board consists of six members elected by the Board of Directors for a three-year term of office, re-election being permitted. The current officers were elected on May 10, 2007.

The Management Board is responsible for the general guidance and representation of the Company, in addition to fulfilling the tasks set forth by the Board of Directors.

Sitting Member	Position
Manoel Arlindo Zaroni Torres	CEO
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 Diretor and Project Implementation Director
Luciano Flávio Andriani	Administrative Director

Manoel Arlindo Zaroni Torres

Member of the Board of Directors: see résumé on page 49.

Marco Antonio Amaral Sureck

Mr. Sureck completed electrical engineer education at the Universidade Federal do Paraná and also holds a Master's degree in Production Engineering from the Universidade Federal de Santa Catarina (UFSC) and a specialist in the Planning of Expansion and Operation of Electrical Systems from the University of Waterloo (Canada). He worked at Eletrosul from 1982 to 1997, where he managed the Energy Planning Division and the Generation, Transmission, and Telecommunications Planning Department. At Tractebel Energia, he worked from 1998 to 2002 as Manager of the Planning Area of the Operation and Sales of Energy, taking part in negotiations for the General Agreement of the Electric Industry. He is currently Planning and Control Director in charge for Operational Planning, Regulation and Market, Energy Accounting, and Financial Planning and Control.

José Carlos Cauduro Minuzzo

Mr. Minuzzo holds a degree in mechanical engineering at the Pontifícia Universidade Católica do Rio Grande do Sul. He began his professional career at Eletrosul in 1976, carrying out his activities in the area of Thermal Generation at the Jorge Lacerda Thermoelectric Complex until 1992. He then went on to manage the Engineering and Maintenance Division of Thermoelectric Centrals until 1997, and, subsequently, the Department of Thermoelectric Generation until June 1999. He currently holds the position of Operations Officer at the Companhia Energética Meridional and of Lages Bioenergética Ltda., in addition to being Officer of the Managing Committee of the Consórcio Itá and the Consórcio Machadinho. He also acts as an alternate at the Board of Directors of Tractebel Energia, Itá Energética S.A., and the Paraná State Board of Water Resources. Since 1999, he has been the Energy Production Director at Tractebel Energia.

Marc Verstraete

Mr. Verstraete holds a degree in commercial engineering from the Catholic University of Louvain (Belgium). He also holds a master's degree in business administration from the International University of America. He was a Financial Assistant at ING Bank (Belgium) and a Senior Financial Consultant for SUEZ Tractebel Société Anonyme (Belgium). He is currently Tractebel Energia's Finance and Investor Relations Director.

Miroel Makiolke Wolowski

Mr. Wolowski completed studies in electrical engineering at the Universidade Federal de Santa Catarina (UFSC) and business administration at the Escola de Administração de Santa Catarina (ESAG). He holds a post-graduate degree in Public Administration from ESAG. He was a Design Engineer at Ericsson do Brasil and a Production Manager at Intelbrás. At Eletrosul, he worked as an engineer in the area of acquisitions of plants and large equipment, and prepared public biddings for the Jacuí and Corumbá thermoelectric plants. At Gerasul, he worked until December 2000 in the area of Business Development. He is currently Tractebel Energia's Business Development and Commercialization Director and Project Implementation Director, and, in 2007, he was elected Chairman of the São Paulo Association of Energy Co-Generation (COGEN — SP).

Luciano Flávio Andriani

Mr. Andriani studied business administration at the Universidade Federal de Santa Catarina (UFSC), with post-graduate studies in International Development and Cooperation Management from the Universidade Moderna de Lisboa. He began his professional activities at Eletrosul, where he was Manager of Properties, Documentation, Transportation, and Services, and Human Resources Manager. He has been the Administrative Director of Tractebel Energia since September 2000, being responsible for human resources, information technology, supplies, and institutional communications. He coordinates the Ethics, Innovation, and Sustainability Committees.

FISCAL COUNCIL

The Fiscal Council, a non-permanent body established by request of the shareholders, consists of three members and an equal number of alternates, with a one-year term of office, who are responsible for overseeing the managers' activities and for analyzing financial statements. Minority shareholders are entitled to appoint one member, and the term of office of the current members ends in April 2008.

Sitting Member	Position
Newton de Lima Azevedo Júnior	Chairman
Paulo de Resende Salgado	Member
Manoel Eduardo Lima Lopes	Member

Newton de Lima Azevedo Júnior

Mr. Azevedo holds a degree in civil engineering from the Escola Politécnica da Universidade de São Paulo. He held the position of General Manager of the Itaipu Hydroelectric Power Plant at Themag Engenharia. He was CEO of Estudos Técnicos e Projetos Ltda. and an officer at the Brazilian Association of Engineering Consultants (ABCE). He was CEO of Lyonnaise des Eaux do Brasil and of Águas do Amazonas (a private water and wastewater concession in the city of Manaus). He is currently the Vice-President of the Brazilian Association of Infrastructure and Heavy Industries (ABDIB), responsible for environmental sanitation, and partner and CEO of Eco-Enob Soluções Ambientais Ltda.

Paulo de Resende Salgado

Mr. Salgado holds a degree in economics from the Universidade Cândido Mendes (Rio de Janeiro) and a post-graduate degree from the Fundação Getulio Vargas (FGV) in financial studies, MBA/PDG — Management Development and Capital Markets Program FGV-AID-EUA. He was the Resident Vice-President of Citibank, Head of Investment of Banco Econômico de Investimentos S.A., and Underwriting and Privatization Officer at Banco Nacional S.A., where he took part in the privatization project for LIGHT and CSN. He was also an Officer at Nacional Energética S.A. and IVEN S.A, as well as CFO of Nacional Energética S.A. He is currently an Economic Consultant for Agenda Corretora de Câmbio e Valores Mobiliários Ltda.

Manoel Eduardo Lima Lopes

Mr. Lopes holds degrees in accounting sciences and law from the Universidade do Estado do Rio de Janeiro. He was the General Auditor and Superintendent of Control at the Banco do Estado do Rio de Janeiro S.A. (BANERJ) and a consultant and an officer at Banco Clássico S.A. and Control Manager of IRB (Brasil Resseguros S.A.). He is currently an Officer at Banco Clássico S.A.

COMMITTEES

ENERGY COMMITTEE

The Energy Committee establishes the Company's commercialization strategy, including participation in electric power auctions, purchase and sale prices, and limits to the amounts of energy involved in contracts that may be part of the Company's portfolio. In addition, it proposes solutions to mitigate commercialization-related risks indicated by the Risk Management Committee. It is also responsible for the approval of the energy contract model to be negotiated as well as its amendments. The monitoring of the electric power market is also part of its authority.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee identifies and classifies events that result in risks to Tractebel Energia's business, according to their probability and significance, and defines respective control procedures. The Committee is also responsible for promoting awareness about risk treatment at the Company and for establishing goals and guidelines for their management.

FINANCIAL COMMITTEE

The Financial Committee submits to the Management Board policies for financial investments, proposals for advancement of payments, and the advancement or postponement of receivables. When appropriate, it recommends funding and liability restructuring operations. It is in charge of selecting the banks with which the Company has interest in working and of identifying risks of liability/asset mismatches, occasionally suggesting hedge transactions.

TAX PLANNING COMMITTEE

Based on the interpretation of the tax legislation, the Tax Planning Committee decides on which cases or circumstances Tractebel Energia should file administrative or legal challenges. It also presents suggestions that may result in benefits with tax authorities, including in the Company's new projects, through tax-related savings opportunities.

ETHICS COMMITTEE

The Ethics Committee is in charge of disclosing, applying, and updating Tractebel Energia's Code of Ethics. It is responsible for ruling on cases of more serious violations and resolving on doubts regarding its contents.

INNOVATION COMMITTEE

The Innovation Committee promotes the fostering of ideas that add value to Tractebel Energia. It receives and evaluates proposals, making recommendations to the Management Board regarding the allocation of funds for the adoption of selected ideas, as well as initiatives to reward their authors. Through its initiatives, the Committee helps the Company take part in contests promoted by the SUEZ Group aimed at fostering creativity.

SUSTAINABILITY COMMITTEE

The Sustainability Committee contributes to consolidating Tractebel Energia's image as a transparent and sustainable company which seeks to reconcile the interests of its different stakeholders through initiatives that aim to promote environmental, cultural, and social improvements in the areas where it operates. It fosters the concept of sustainable development within the Company and evaluates social and environmental support requests.

STRATEGIC COMMITTEE

Tractebel Energia's Strategic Committee is an advisory body within the management, whose duties include issuing opinions and advising the Board of Directors and the Management Board on matters that are submitted to it. These involve strategic matters for the Company, such as selecting and monitoring the expansion projects of its generating complex and trends in the electric power industry. Usually, Tractebel Energia's officers, as well as external guests, are invited to present matters previously selected for the agenda.

MANAGEMENT REMUNERATION

In 2007, the remuneration of the Company's Officers amounted to R$5.9 million and that of the Directors and members of the Fiscal Council totaled R$2.4 million.

INFORMATION DISCLOSURE POLICY

Tractebel Energia's Information Disclosure Policy adheres to transparency rules as well as requirements by financial market regulators, such as the Central Bank of Brazil, the Brazilian Securities and Exchange Commission (CVM), and Bovespa. The Company discloses material facts in line with CVM Instruction 358/02, which requires corporate data on its business dealings to be made available to investors in a timely manner for making decisions in relation to their investments.

In addition, the disclosure of quarterly results, notices to the market, press releases, and company policies and practices, as well as other institutional information, are all available on the website. The financial statements are published on an annual basis in widely-read newspapers.

Other means of disclosing corporate information are through the external newsletter (Boas Novas), the internal newsletter (Conexão), and electronic bulletins distributed internally and via Intranet with information for employees.

MANAGEMENT POLICIES AND GUIDELINES

The management policies and guidelines are set forth in the Company's By-laws, Organizational Manual, Personnel Manual, Code of Ethics, Environmental Code, Corporate Communications Guidelines, and in six administrative managerial rules:

- >> limits of authority and signatures;
- >> organization and operation of senior management bodies;
- >> purchase;
- >> facility access and safety;
- >> payment; and
- >> travel.



INVESTOR RELATIONS

The Investor Relations department is responsible for the disclosure of information on company performance through group events, such as those held by the Association of Capital Markets Analysts and Professionals (Apimec), as well as conference calls and visits to generating plants under the Company's Inside the Plants program. The area maintains contact with investors and financial market analysts through these events, as well as by means of one-on-one meetings, telephone calls, and the Investor Relations section of Tractebel Energia's website.

RELATIONSHIP WITH THE PRESS AND COMMUNITIES

Tractebel Energia maintains policies and guidelines to direct its internal and external relations, setting forth responsibilities and defining the scope of its activities. The Board of Directors is in charge of coordinating these issues, maximizing synergies and providing guidance regarding issues related to the strengthening of the Company's image.

CODE OF ETHICS AND VALUES

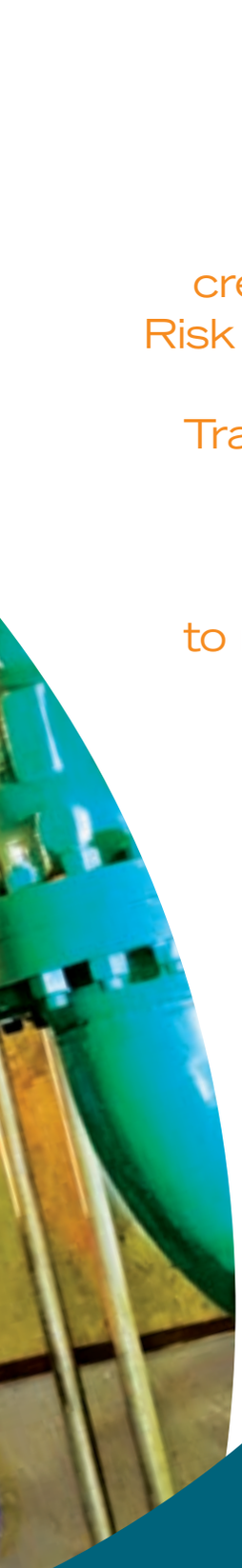
In 2007, the second version of Tractebel Energia's Code of Ethics was approved, replacing the edition that had been in force since 2001. It restates the corporate values, listed on the cover of this report, as well as the rules of conduct required by the Company from its employees and partners. It also clarifies issues related to ethical behavior and defines principles to be upheld in relationships with stakeholders who interact with Tractebel Energia. This document is aligned to SUEZ values and principles and is available on the Company's website (www.tractebelenergia.com.br).



Passo Fundo Hydroelectric
Power Plant

05. risk management

With the creation of the Risk Management Committee, Tractebel Energia now has an internal body fully-dedicated to risk assessment and control



Tractebel Energia created its Risk Management Committee in order to improve efficiency in the process of risk assessment for its businesses. The Committee is responsible for promoting in-house awareness regarding risk treatment as well as defining management goals and guidelines, promoting and suggesting improvements to evaluation procedures, risk classification, and defining control procedures.

The Committee consists of one representative from the departments of financial planning, regulation and markets, energy supply planning, finance, commercializaton, auditing, project implementation, and energy production. The Planning and Control Director is in charge of the overall coordination of the Committee.

Each identified risk is classified according to its probability, significance (or severity), and level of control required. Based on this analysis, a mitigating action plan is developed for each risk. The manager of the department in whose area the risk originates becomes the "owner of the risk" and will be responsible for implementing and monitoring the action plan. It should be noted that, when the risk analysis is carried out, an evaluation of any related opportunities is also performed.



As a result of the analysis, a matrix of corporate risks and opportunities is generated, to be approved by the Management Board and presented to the Board of Directors, and then to the controlling shareholder. This matrix includes:

>> the description of the risks;

>> reference to the “owner of the risk”;

>> mitigation strategies;

>> risk progression;

>> the classification of probability, significance, and control;

>> action plans; and

>> description, causes, benefits, evolution, and evaluation of the opportunities.

The following are the main risks to Tractebel Energia’s businesses:

1) SOCIO-ENVIRONMENTAL RISK OF OPERATING PLANTS

Description: social and environmental liabilities not provided for in the implementation of the plant, compromising the investment return.

The main causes are opportunistic social movements, further-than-originally-agreed compensation demanded for land surrounding the reservoir, changes in the criteria of river minimum outflow, increased restrictions on the water depletion of power plants’ reservoirs, and the imposition of unjustifiable environmental and social obligations.

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2) MARKET RISK

Description: supply and demand of electric power may behave unexpectedly.

The main causes are volatility in the spot price (PLD); the price differences between submarkets, enabling purchase and sale at different prices; the predominance of ideologies supporting state-owned companies; increased government intervention; the apportionment of residual exposures among the Energy Reallocation Mechanism (MRE) generating companies; the rationing of energy consumption; the use of the Risk Aversion Curve in the determination of the PLD; the possibility of unilateral contract cancellation by distribution companies; the attraction of investments to the captive market at the expense of the free market, as a result of the current industry model; the prospect of an increasing PLD over the years to come; and an unbalance between supply and demand due to a lack of investment and fuel (gas).

3) REGULATORY RISK

Description: adverse development in electric industry regulation.

The main causes arise from a lack of regulatory stability; an increase in the complexity of the industry model; changes in industry charges; and a decrease in the plant's assured energy (Decree Nº 2,655/98: 5% at each assessment, limited to 10%).

4) BREACH OF CONTRACT RISK

Description: non-compliance of provisions existing in energy sales contracts.

The main causes are customer financial instability; the loss of free customers served by distribution companies supplied by Tractebel Energia; regulatory changes; legal proceedings against distribution companies; and legal challenges regarding the validity of contracts.

5) RISK IN THE DEVELOPMENT AND IMPLEMENTATION OF NEW PROJECTS

Description: delays to the construction schedule or additional costs in plant implementation or operation.

The main causes are challenges to contractual provisions; the activities of opportunistic social movements; exagerated demands made by environmental bodies; natural disasters; and project deficiencies or quality control failures.

6) FOREIGN EXCHANGE RATE RISK

Description: depreciation of the real in relation to other currencies included in Tractebel Energia's liabilities, as a result of the poor performance of the Brazilian economy; and changes to the international economy.

The main cause is the existence of loans and financings in foreign currency based on a floating exchange rate.

7) ENERGY SUPPLY RISK

Description: lack of physical assurance or assured energy of Tractebel Energia's own plants and of the energy bought for resale.

The main causes are unavailability due to accident or human failure with more serious repercussions than what was taken into account in the calculation of the physical assurance or assured energy; and the unavailability of fuel.

8) NATURAL DISASTER RISK

Description: the occurrence of natural events affecting Tractebel Energia's plants.

The main cause is the occurrence of natural disasters that compromise the electric power generation capacity of the Company's plants.



Image from the advertising campaign “Conscious power generation”

06. intangible assets

Campaigns with themes such as “Conscious power generation” and “Let’s make a better world” highlight the Company’s concern with sustainability-related issues



GERAÇÃO CONSCIENTE
TRACTEBEL ENERGIA

IMAGE

Tractebel Energia has built a strong and respected brand over its almost ten years of existence. Keeping it that way is a great and constant challenge, and for this purpose, the Company maintains a corporate communications unit responsible for the coordination of its institutional image issues, brand strengthening, public relations activities, media relations, and social responsibility issues. The centralized coordination of these issues has resulted in the coherence and unity of the messages.

The Company’s institutional image, since its incorporation in Brazil, has been based on sustainability-related issues. Whenever possible, the brand is associated with the message “Energy for life”, highlighting how much Tractebel Energia is important for society, and motivating and engaging its employees in the attainment of this goal.

In 2007, the Company’s advertising was based on the “Conscious power generation” theme: a generation aware of people, attitudes, and energy, in addition to being committed to a better future.

In the region where the Jorge Lacerda Thermoelectric Complex is located, the Company has introduced an additional campaign, with the theme “Let’s make a better world”. Over the year, advertisements and commercials presented what Tractebel Energia was doing to support the environment and the population, and invited people to do the same.

Tractebel Energia's image with its several stakeholders is consistantly monitored. Employees take part in organizational climate surveys, customers participate in satisfaction surveys, and the community's views are gauged in opinion polls.

The awards and certifications granted to the Company demonstrates its positive image. Troféu Transparência 2007 was awarded thanks to the Company's disclosure of its results in a clear and accurate way. The inclusion of its shares in ISE's portfolio for the third consecutive year evidences the quality of the Company's services and social and environmental responsibility. The renewal of certifications for quality or processes (NBR ISO 9001) and environmental care (NBR ISO 14001), meanwhile, strengthens its positive image as an ethical and responsible company.

TECHNOLOGY

Tractebel Energia continuously invests in technology, particularly in its generating facilities and information technology systems. In 2007, a major highlight was the evolution of Geographic Information System (GIS)-based monitoring, as a result of a study sponsored by the European Space Agency (ESA) and developed under the coordination of Tractebel Engineering, the engineering arm of SUEZ Group, with the support of specialized companies Keyobs, Cap Conseil, and Nadar, and the participation of Tractebel Energia and SUEZ Energy International (SEI). The study developed an invaluable tool for measuring sustainable development parameters through satellite images of hydroelectric power plants. The Cana Brava plant was used as a case study. The system measures four indicators of sustainable development:

>> biodiversity potential;

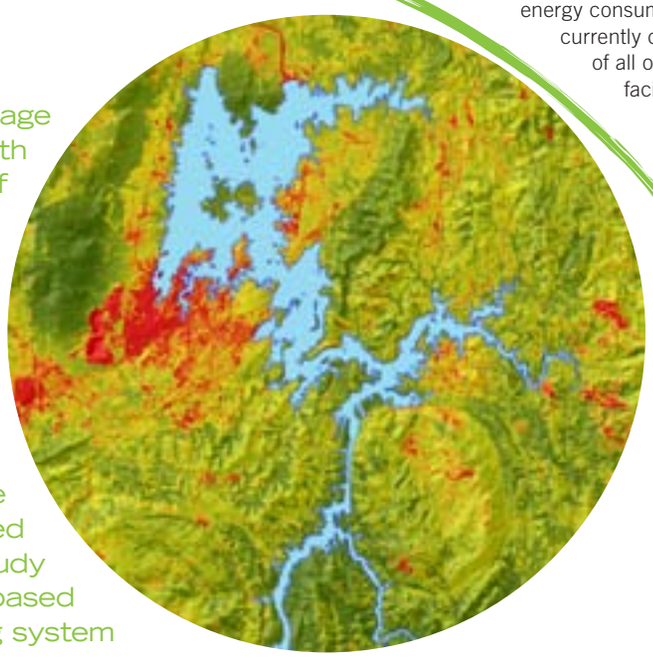
>> erosion;

>> population dynamics; and

>> socio-economic activities and the respective use of the land.

Still in 2007, for the pre-operation, operation in real time, and post-operation of its generating units, the Tractebel Energia systems were configured to form a single database, accessible to all of its users online and through the corporate Intranet network. The systems have a hardware and software infrastructure with a high level of availability (redundant environment and a BCP-Business Continuity Plan) and performance.

Tractebel Energia gives priority to the establishment of partnerships with companies in the regions where it operates. For instance, it is currently developing a system that uses artificial intelligence techniques for diagnosing incidents in the electricity network, in partnership with the Universidade Federal of Santa Catarina and a company headquartered in Florianópolis; and a system that measures energy consumption for the Company's billings, which currently carries out the centralized measurement of all of its meters, based on its plants and the facilities of its industrial customers.



The satellite image shows areas with high degree of biodiversity potential (green) and with lower potential degree (red) in the Cana Brava plant area. The facility was used as a case study in the GIS-based monitoring system

INNOVATION

In 2007, two of the Company's projects were awarded with the Innovative Initiative trophy, granted by SUEZ. The winners were selected among all of the Group's subsidiaries. The winning projects are related to the monitoring of suppliers and to environmental management. The latter is called GeoWeb and uses as its platform the GIS-based tool mentioned in the previous item ("Technology").

In order to develop an innovative spirit among its employees, the Company has created an Innovation Committee aimed at creating a stimulating environment for new ideas; fostering participation; evaluating suggestions and projects presented within the scope of the Innovate! program (Programa Inove!); and recommending a reward for its creators, according to the benefits generated for the Company.

HUMAN CAPITAL

Tractebel Energia is aware that its continuity depends on the quality of its intellectual capital. It currently has a well-prepared team, with in-depth knowledge of the Company's industry. Since its average age is high, in order to maintain its excellence in the future, it is necessary to begin training people now. Based on this goal, Tractebel Energia is implementing a succession program to identify and develop potential alternatives for the replacement of employees in key positions. Attracting, motivating, and retaining talents is a concern that has earned special attention by the Company's management (for further details, please see "Relationship with Stakeholders").





Preservation area at
the Jorge Lacerda
Thermoelectric Complex

07. environmental management

Tractebel Energia's environmental management policy aims at assuring the sustainable use of natural resources



Tractebel Energia has set forth environmental management policies and guidelines for its hydroelectric and thermoelectric power plants, with the purpose of ensuring the sustainable use of natural resources and monitoring and controlling potential environmental impacts. The initiatives developed include surveys, waste management, and recovery of degraded areas.

The Company's environmental management policy is based on the following principles:

>> **Commitment -** For Tractebel Energia, respect for the environment is a key element of its identity and values.

>> **Understanding** - Tractebel Energia prepares studies on the environmental impact of its activities in order to ensure the preservation of natural resources and the control of environmental risks, especially in a preventive way.

>> **Technical Training –** Tractebel Energia carries out research and development programs for continuously improving its methods and processes, complying with the requirements of its customers, society, and changes in environmental legislation.

>> **Sharing** – The Company takes pride in disclosing its environmental goals and results to its employees, customers, shareholders, partners, and environmental agencies, always maintaining open dialogue channels with public opinion.

The abovementioned principles are detailed in the Company's Environmental Code, available on its website.

Social and Environmental Code of Ethics: electric power generation committed to sustainable development

Tractebel Energia maintains a proactive approach in relation to initiatives that promote the sustainable generation of electric power. For instance, it is a member of the Instituto Acende Brasil, an NGO that develops studies and projects aimed at promoting the transparency and sustainability of Brazil's electric power industry. The Company had an active role in the development of the Social and Environmental Code of Ethics, published by the institute in June 2007.

The Code is a set of principles for the construction and operation of plants, respecting social, environmental, and economic aspects, so that environmental conservation walks hand in hand with economic growth, job generation, higher incomes, and social inclusion.

By executing the Social and Environmental Code of Ethics, Tractebel Energia publicly undertook to meet the principles provided for in the document, as follows:

I. Reduction and control of impacts on the environment;

II. Biodiversity and natural resource conservation;

III. Respect for communities;

IV. Education and health as elements of social change; and

V. Transparency and dialogue.

INTEGRATED QUALITY AND ENVIRONMENTAL MANAGEMENT SYSTEM

Aside from complying with the conditions established under the environmental licenses and prevailing legislation, all Tractebel Energia plants are subject to the Integrated Quality and Environmental Management System, certified according to the NBR ISO 9001-2000 and NBR ISO 14001-2004 standards, which include the following overall goals:

>> Playing an effective role in conservation initiatives in the areas surrounding its plants and reservoirs;

>> Paving the way for mitigating the environmental impacts caused by the creation of the reservoirs, fostering improvements in the local quality of life, as well as the promotion of anthropological, physical, and biological studies;

>> Using natural resources in a rational way;

>> Reducing the generation of solid waste, liquid effluents, and atmospheric emissions;

>> Reducing noise emissions; and

>> Enhancing the relationship with the local community.



THERMOELECTRIC POWER PLANTS

At the thermoelectric plants, the Company monitors and evaluates the quality of air and water. The results are sent to the environmental agencies in charge of the licensing and inspection of the plants and to other local bodies and entities, such as the local government.

Emission control is carried out through equipment and procedures, such as:

>> a system for filtering particles through electrostatic precipitators;

>> control of the levels of sulphur in the fuel, aimed at reducing the formation of sulphur dioxide and, consequently, decreasing its release into the atmosphere; and

>> the reuse of waste, such as fly ash by the cement industry.

Water quality is ensured by adopting a system for the treatment of liquid effluents that operates in a closed-circuit model, controlling the release of pollutants in the rivers. Potential pollution caused by leakages is prevented by using containment basins in the areas where fuel is stocked.

Fuel Consumption

Tractebel Energia's thermoelectric plants generate energy from oil derivatives (diesel and fuel oil), mineral coal, and natural gas. The Lages Co-generation Plant, in turn, generates electricity from wood chips (biomass) supplied by logging companies and other local industries. Thermoelectric plants accounted for 14.8% of the total energy generated by the Company in 2007.

Fuel	2005	2006	2007
Mineral coal (tonne)	2,910,434	3,215,121	3,341,888
Fuel oil (m^3)	2,421	2,844	2,748
Diesel (m^3)	2,764	3,280	2,944
Natural gas (m^3)	250,383,624	193,378,463	23,563,014

Water Consumption

The surface water consumed by the thermoelectric plants of the Jorge Lacerda Complex, Charqueadas, Alegrete, and Lages units is mostly used for the refrigeration of the plants and generation of steam. The William Arjona plant is the only Tractebel Energia thermoelectric plant that utilizes ground water for human consumption and the facility cleaning.

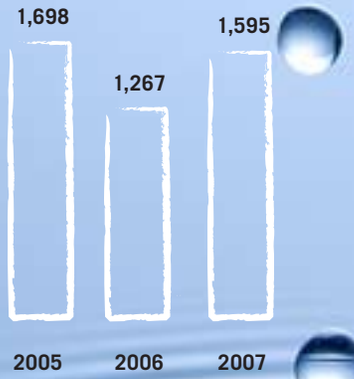
A great part of the water used in the process of extracting ash at Jorge Lacerda and Lages is reused. Each year, 50% of the total capacity of the system requires replacement due to losses caused by evaporation. The average annual volume of water consumed in the ash-extraction process of the Jorge Lacerda C Thermoelectric Plant amounts to 7,091,400 m³.

In order to decrease water consumption in Charqueadas, Tractebel Energia changed the system of ash extraction and closed the water circuit of the system, which resulted in the reduction of 450 m³/h of water (from 500 m³/h to 50 m³/h). At Lages, the Company installed a vacuum filter in order to reduce the humidity of the ash and grime retained at the Effluent Treatment Station, therefore decreasing the waste of water with these residues.

Consumption of Surface Water (m³)



Consumption of Ground Water (m³)



Emission Control

Tractebel Energia invests continually in improving emission controls at its plants, as well as in modern and more efficient equipment. The thermoelectric plants of its generating complex have particle-retention equipment and burn coal with a sulphur concentration of up to 2.3%, i.e. lower than the level naturally found in coal; or oil with up to 2.2% of sulphur — both rates are in compliance with the standards required by legislation, therefore meeting the requirements of the operation licenses of the plants. The measure contributes to the reduction of sulphur dioxide (SO_2) emissions into the atmosphere. The electrostatic precipitators installed in the mineral coal-fired facilities, in turn, allow a reduction of over 98.5% in particle emissions.

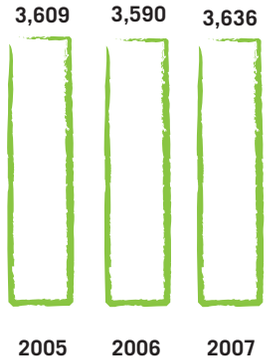
The Company monitors air quality and the emission levels of sulphur dioxide (SO_2), nitrogen oxide (NOx), and particulate matter (PM). The results are sent to environmental agencies, local governments, city councils, and public prosecutor's offices of the towns and cities where the plants are located.

The following graphs show the total emissions of the thermoelectric plants of Jorge Lacerda Complex, Charqueadas, Alegrete, William Arjona, and the Lages Co-Generation Unit.

CO_2 Emission (tonne)



Particulate Matter Emission (tonne)



NOx Emission (tonne)



SOx Emission (tonne)



HYDROELECTRIC POWER PLANTS

The construction of a hydroelectric plant changes the structure and dynamics of the land and aquatic flora and fauna of the region where it is located and requires an analysis of impacts on groundwater level and the erosion effects; a water quality analysis; and studies of venomous animals, insects, water snails, and other potential disease vectors. Therefore, due to its relevance to public interest, its implementation only occurs after extensive studies are carried out. Those studies are submitted to a public hearing and are analyzed by several entities, including environmental agencies, ANEEL, and EPE. Subsequently, the winner of the public bidding carried out by the government for the concession of the hydroelectric operation becomes responsible for the complete environmental management of the area surrounding the reservoir.

At the plants it implements and operates, Tractebel Energia follows all environmental rules and regulations in a responsible way, so as to minimize impacts arising from its activities. The Company monitors the potential impacts of reservoir creation, such as:

>> the proliferation of opportunistic species, such as aquatic macrophytes (plants that grow on the surface of the water as a result of the concentration of organic pollutants);

>> the change in the population of some aquatic fauna and flora, in particular species that require rapids, such as migrating fish and reophyte plants (a plant species limited to the rocky margins of rapid flow streams and rivers); and

>> the dynamics of riparian vegetation, the hydrological system, the physical and chemical characteristics of the water, and the groundwater level.

With a strategy of making the management of the environmental impact of hydroelectric power plant construction a source of scientific research, the Company carries out initiatives, such as:

>> **Flora rescue and conservation –** A team collects seeds and flowers to be studied and recorded, which are subsequently used for producing seedlings.

>> **Fauna monitoring and conservation –** Biologists and veterinarians study and rescue local animals during deforestation and creation of the reservoir.

>> **Control of erosive processes and monitoring of groundwater –** Technicians collect water samples and measure their level at cisterns in properties, in addition to studying rocks and obtaining soil samples for analysis.

>> **Health program –** Scientists study regional types of insects and snails in order to identify potential disease vectors. The program fosters the prevention of accidents with venomous animals and analyses the health status of the municipalities.



CESS registers endangered *Cerrado* animals

During 2007, Companhia Energética São Salvador (CESS) continued to carry out the Fauna Monitoring and Conservation Program, initiated in May 2006.

Researchers record and monitor animals during the deforestation process of the area where the works related to the hydroelectric plant's reservoir take place. The plant is located in the state of Tocantins, on the border with the state of Goiás.

The studies are important for rescuing and preserving the animals that live on the *Cerrado* (a Brazilian inland vegetation), some of which are included in the endangered species list, such as the ocelot (*jaguatirica*), the giant armadillo (*tatu-canastra*), the jaguar (*onça-pintada*), and the hyacinth macaw (*arara-azul-grande*).



At the hydroelectric power plants, in addition to environmental programs for monitoring the quality of water, ichthyofauna, water flora, and wild fauna, the Company monitors climate and seismic conditions, liquid effluent conditions, and the recovery and creation of gallery forests. In addition, it operates a series of measures of a social nature, such as compensation programs, social and technical assistance, population relocation and monitoring, land reorganization, and the restructuring of infrastructure.

Some of the environmental programs are developed in partnership with educational institutions in the regions where the plants are located, such as the Universidade Federal de Santa Catarina, which operates in programs related to the reservoirs of the Uruguay River, and the Universidade do Oeste do Paraná, which is related to programs aimed at the Iguaçu River plants.

Tractebel Energia owns tree nurseries, where it produces seedlings of native species for the reforestation and recovery of areas. In 2007 alone, it promoted the planting of 292,700 seedlings of native species in the areas surrounding its plants, in addition to donating another 86,000 seedlings to local communities.

Many of these activities begin during the construction of the hydroelectric power plants and remain in place during the entire concession period. For example, after the construction of the plants, the Company takes care of the maintenance of water quality and the conservation of the surrounding area. Property and environmental monitoring evaluations are continuously carried out by duly-qualified and trained professionals. Monitoring is also carried out by inspection bodies, such as the Environmental Police, with which the Company has agreements.

Environmental management activities use GIS-based monitoring, as described in “Intangible Assets”, as one of its tools.



Project ensures the preservation of migrating fish species

A good example of the result of the cooperation between the Company and educational and research institutions is the work performed through the Consórcio Itá, the Consórcio Machadinho, and the Freshwater Fish Raising and Biology Laboratory (LAPAD) of the Universidade Federal de Santa Catarina (UFSC), which resulted in the release of native fish into the lake of the Machadinho Hydroelectric Power Plant, in November 2007.

The project's goal is to ensure the preservation of migratory fish species of the Uruguay River basin through captive breeding. The project released 3,000 catfish (dourado) and 3,000 sabalo (grumatão) fry, all with plastic tags to ensure data collection.

Reservoir area of the hydroelectric power plants

Plant	Area
Itá	142 km²
Machadinho	79 km²
Passo Fundo	151 km²
Salto Santiago	208 km²
Salto Osório	55 km²
Cana Brava	139 km²

Local Biodiversity Preservation

>> Salto Osório, Salto Santiago and Cana Brava

The Reforestation Program at the reservoirs of the Salto Osório, Salto Santiago, and Cana Brava Hydroelectric Plants, which covers an area of 4.62 km², sets forth the planting of 578,000 seedlings in the reservoirs of Salto Santiago and Salto Osório up to May 2010, in addition to an annual production of 50,000 seedlings and the planting of another 10,000 in the area surrounding the Cana Brava Plant by January 2009.

The program, prepared with the participation of specialists, was approved by the relevant environmental authorities and has received the support of the communities in the areas surrounding of the reservoirs. In addition to conserving the surrounding areas, these communities contribute by planting the seedlings donated by Tractebel Energia.

>> Itá

O The plant's reservoir, located on the border of the municipalities of Itá (Santa Catarina) and Aratiba (Rio Grande do Sul), includes a contiguous area of 22.56 km² of a Permanent Preservation Area (APP), adjoining Fritz Plaumann State Park (Santa Catarina), with 7.41 km², and Teixeira Soares Municipal Park (Rio Grande do Sul), with 4.61 km².

The parks are environmental compensations of the Itá Plant, together with the Severiano de Almeida Environmental Preservation Municipal Park (RS), with 0.15 km². The APP bordering the Uruguay River includes the preserved green areas of the bordering properties, which amount to 12.74 km². Tractebel Energia offers a team for the environmental and property monitoring of the reservoir and the surrounding area. However, the Environmental Police of the states of Santa Catarina and Rio Grande do Sul are the primary entities responsible for the protection of parks and reserves.

Environmental corridors connect native forests

Tractebel Energia develops studies and projects for the creation and preservation of environmental corridors formed by native species of the local flora, with a view to reconnecting native woods that were isolated due to human occupation. As a result, a path is created allowing animals to circulate and breed in a location with a biodiversity similar to their original habitat. This is possible thanks to a detailed study of the flora and fauna of the region, as well as to the awareness of the local communities.



>> Machadinho

Located between the municipalities of Piratuba (Santa Catarina) and Maximiliano de Almeida (Rio Grande do Sul), its reservoir has 44.05 km² of APP, adjoining the Espigão Alto State Forest Park (Rio Grande do Sul).

The Espigão Alto State Forest Park, with a total area of 13.33 km², is connected to the APP of the Machadinho reservoir and to the remaining areas owned by the Consórcio Machadinho, totaling 38.89 km². The monitoring of the park and the APP is the responsibility of the Environmental Police of the states of Santa Catarina and Rio Grande do Sul, which maintain an operational support agreement with the consortium.

>> Passo Fundo

The reservoir of the Passo Fundo Hydroelectric Power Plant, located in Entre Rios do Sul, in the north of the state of Rio Grande do Sul, has 64 islands, with a total APP of 4.85 km². It borders Rondinha State Park, in Rondinha (Rio Grande do Sul), with an area of 10 km², and the Sagrisa Municipal Reserve, in Pontão (Rio Grande do Sul), with 4 km². The Environmental Police of Rio Grande Sul are responsible for monitoring both the park and the reserve, and they also have a partnership with the Company.

Park preserves an endangered ecosystem of Santa Catarina

In November 2007, Fritz Plaumann State Park was opened as an environmental compensation measure for the construction of the Itá Hydroelectric Power Plant. Situated in Concórdia (SC), the park occupies an area of 7.41 km² and is the first and only decidual seasonal forest conservation unit in Santa Catarina, as well as one of the state's most threatened ecosystems due to agribusiness and logging activities.

The park is open for the public and is managed through a partnership between Fatma (Environmental Foundation of Santa Catarina) and Ecopef (Co-Managing Team of Fritz Plaumann State Park), which also operates environmental educational projects for development. The estimated number of visitors is 2,000 per month.

New project

In 2008, Tractebel Energia will begin the construction of a new park, aimed at promoting the environmental recovery of 0.50 km² of an area near the Jorge Lacerda Plant, located in Capivari de Baixo (Santa Catarina). Developed by the Universidade do Sul de Santa Catarina (Unisul), the Jorge Lacerda Environmental Park will have walking paths, bikeways, a lake, an environmental education center, an amphitheater, a tree nursery, and other leisure options.

CLEAN DEVELOPMENT MECHANISM PROJECT

The Lages Cogeneration Unit is officially registered with the Executive Committee of the United Nations Framework Convention on Climate Change (UNFCCC) as an activity that meets the requirements of the Clean Development Mechanism as established under the Kyoto Protocol. The thermoelectric plant is thus authorized to generate carbon credits for trading by Lages Bioenergética.

The project provides for the generation of approximately 220,000 CERs (Certified Emission Reductions, also known as carbon credits) per year, for a period of ten years, from November 2004 to October 2014. In January 2007, Tractebel Energia signed a contract for the sale of 750,000 tonnes of CERs, a volume that represents 40% of total CERs to be issued, for delivery to the Prototype Carbon Fund (PCF) in annual installments of 88,000 tonnes up to 2013, with the last installment, at 134,000 tonnes, to be transferred in 2014. PCF is the World Bank fund responsible for purchasing carbon credits.

Located in Santa Catarina, the Lages Co-Generation Unit uses wood chips from several logging companies to produce electricity and steam. By using residues that would have otherwise been discharged in nature, the plant contributes to prevent emissions of methane — a gas with a Global Warming Potential (GWP) 21 times higher than the carbon dioxide — resulting from its decay.

The Kyoto Protocol: proposals and prospects

The Kyoto Protocol was discussed and negotiated in 1997, ratified in 1999, and has officially been in force since February 16, 2005. The agreement sets forth that developed countries are required to reduce the amount of their greenhouse gas emissions by at least 5.2% by 2012 in relation to 1990 levels.

According to data from Brazil's Ministry of Foreign Relations, should the Protocol proposals succeed, it is estimated that global temperatures will decrease by 0.02ºC, to 0.28ºC by 2050. The basic initiatives proposed include:

- **Reforming the energy and transportation industries;**
- **Promoting the use of renewable energy sources;**
- **Eliminating financial and market mechanisms not in line with the purposes of the Agreement;**
- **Limiting methane emissions in waste and energy system management; and**
- **Protecting forests and other carbon dioxide sinks.**

In December 2007, ten years after the beginning of negotiation rounds that originated the Kyoto Protocol, the United Nations Framework Convention on Climate Change, held in Bali, initiated a new negotiation process to be concluded in 2009, whose goal is to establish new guidelines to be followed after the end of the deadline set forth by the Kyoto Protocol.

According to the United Nations report, among the themes included on the agenda of the Conference were the fostering of technological transparency and exchange, as well as practical initiatives related to adaptation strategies for countries that are facing the most adverse consequences of climate change. Another issue discussed by the Conference was a future project to fight climate change. Several countries, including Brazil — as a representative of developing nations — presented proposals related to the direction to be followed after 2012.

OTHER ENVIRONMENTAL INDICATORS

Electric Power Consumption

Tractebel Energia's own plants generate the energy consumed in production process. In 2007, 1.8 million GJ were consumed in the operation of its plants, which resulted in the generation of 33,858 GWh (equivalent to 121.9 million GJ) of electric power.

Indirect Energy Consumption

Tractebel Energia adopts measures to reduce the consumption of fossil fuels in its fleet of vehicles, mainly consisting of bi-fuel cars, using ethanol as their primary fuel. The Company also prefers to hold conference calls in order to avoid the unnecessary transportation of its employees, thus contributing to reducing the consumption of fuel and, as a result, decreasing the emission of greenhouse gases (GHG).

Liquid Effluents

The thermoelectric plants have liquid effluent systems that operate based on a closed-circuit model, therefore preventing the release of pollutants into rivers in surrounding areas. In the units where recirculation has not yet been implemented, the release is only made after physical and chemical treatment, such as in the case of bottom ash extraction at the Jorge Lacerda Plant, in which the release is made into the Capivari River after the appropriate treatment of effluents, consisting of sedimentation and neutralization processes.

The initiatives carried out by Tractebel Energia to reduce the release of effluents include the implementation of a recirculation system at Charqueadas, which decreased the volume from 500 m3/h to zero.

The control of effluents in drainage shafts at the Passo Fundo, Machadinho, and Cana Brava Hydroelectric Plants, in turn, is aimed at achieving a reduction in the concentration of oils and grease in the effluents to 50% of the standard allowed by the legislation, which is 20 mg/l.

Waste Disposal

Tractebel Energia continually studies sustainability solutions for managing the waste produced by its thermoelectric and hydroelectric plants, in order to minimize its environmental footprint. The ash produced by mineral coal thermoelectric plants, for instance, is used in the production of cement or in the recovery of degraded soils.

All of the Company's plants select the waste produced so that it is sent to recycling or for appropriate disposal.

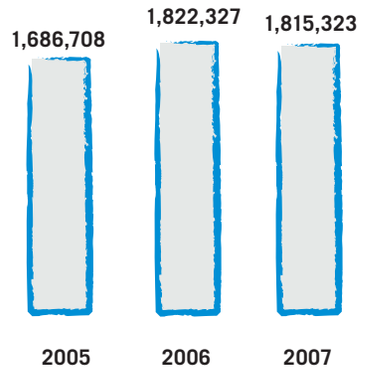
>> Hazardous Waste

The appropriate disposal of hazardous waste has been essential for achieving the complete absence of environmental accidents at Tractebel Energia over the last seven years. The Company has enhanced its reuse methods and has sought new solutions to decrease the impact of these substances on the environment.

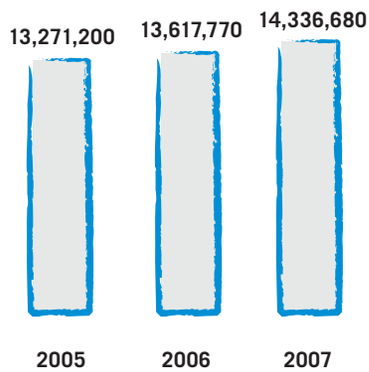
The Salto Osório and Salto Santiago Hydroelectric Plants began to monitor the volume of reusable chemical products containers. In 2007, 790 kg of containers were returned for reuse.

The transportation of hazardous waste complies with environmental licensing regulations and United Nations rules, and safety measures are in place, such as the use of safety labels for chemical products, the use of containment barriers, and the adequate signaling of vehicles. Tractebel Energia only hires companies duly licensed and authorized to handle these types of waste for transportation within Brazil. The Company does not import or export hazardous waste.

Electric Power Consumption (GJ)



Release of Treated Water (m³ per year)*



* Jorge Lacerda Thermoelectric Complex

Hazardous Waste per Disposal Method (tonnes)	2005	2006	2007
Reuse	0	0	0.79
Recycling	2.31	10.92	146.10
Recovery	69.69	120.90	67.77
Incineration	47.94	46.53	27.93
Local warehousing	0	38.27	40.05
Other	100.06	214.94	170.72

>> Non-Hazardous Waste

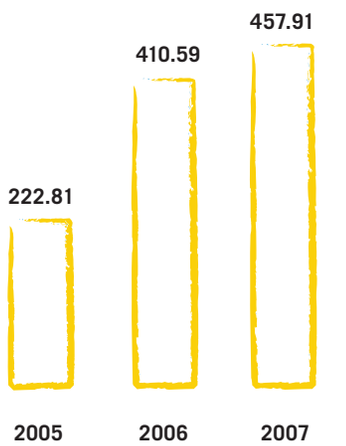
In the combustion process, coal-fueled plants produce two types of ash: fly ash raises, and the bottom ash remains at the bottom of the boiler. The former is sold to the cement industry as a raw material for pozzolanic cement, replacing limestone in its composition. Bottom ash, in turn, such as that generated in the Jorge Lacerda Complex, is used in the recovery of coal waste deposits or in the recovery of degraded soil. Due to its high level of pH, this type of ash works as a neutralizer of soil acidity.

From the ash of Charqueadas, part returns to the mine pit from where the mineral coal used in the thermoelectric plant was mined, and part is used in the recovery of degraded areas.

Another use found for the bottom ash produced in the thermoelectric plants is as a basis for road asphalt paving. For instance, in the current duplication works of the BR 101 highway, bottom ash was used in the stretch near the Jorge Lacerda Complex.

In addition to fly ash, the Company recycles paper, plastic, glass, and metal scrap (ferrous and non-ferrous) from all of its plants. The volume of non-hazardous waste recycled, reused, and recovered is increasing on a yearly basis.

Transported Hazardous Waste (tonne)



Non-hazardous Waste per Disposal Method (tonnes)	2005	2006	2007
Composting	85.12	29.38	17.07
Reuse	562,814.80	629,158.91	675,168.66
Recycling	639,592.50	827,329.48	901,796.26
Recovery	0	0.32	13.21
Incineration	35.14	65.66	130.44
Sanitary landfill	42.08	96.56	110.32
Local warehousing	100.78	142.46	592.00
Other	141.92	198.00	247.33

Investments in Environmental Protection

In 2007, Tractebel Energia invested R$46 million in waste treatment and in materials and equipment for controlling emissions and leakages. This amount includes expenses with third-party liability insurance on any environment-related event as a result of sudden pollution, such as spillages.

Another R$20 million were allocated in environment-related training and education for personnel, in external certification, and in the deployment of cleaner technologies. This amount includes investments made in research and development projects related to issues connected to the environment.

Environmental Goals

In order to continually improve its environmental indicators, Tractebel Energia has set forth specific goals for its plants to be achieved by 2010. They are indicated in the following table:

Hydroelectric Plants	Thermoelectric Plants
Participation in Hydrographic Basin Committees (Itá, Machadinho, Passo Fundo, Salto Santiago, Salto Osório, and Cana Brava)	Waterproofing of the coal yard (Jorge Lacerda)
Reduction of the concentration of oils and grease from effluents drained into the drainage shafts of the plants to 50% of the standard allowed by the legislation (Passo Fundo, Machadinho, and Cana Brava)	Reduction of coal inventory (Jorge Lacerda)
Reduction in the generation of waste by 5% up to 2009, in relation to the average of 2006, 2007, and 2008 (Machadinho and Cana Brava)	Reduction in the consumption of industrial water (Jorge Lacerda)
Reduction by 3% in the consumption of treated water (Cana Brava)	Reduction in the generation of waste
Recovery of gallery forests in plants (Itá, Machadinho, and Cana Brava)	Reduction in noise emissions (Jorge Lacerda and Lages)
Replanting of the islands of the Passo Fundo Plant reservoir	Implantation of a vegetation wall around the biomass yard (Lages)
Promotion of nine permanent locations for environmental education with students and teachers of adjoining municipalities (Passo Fundo)	Reduction by 10% in the yearly specific consumption of hydrochloric acid (HCl) and sodium hydroxide (NaOH) (Lages)
Use of at least 50% recycled paper in the total consumed at the offices of the plants (Passo Fundo, Machadinho, and Itá)	Introduction of the Generating Units Containment System (William Arjona)
	Reduction by 5% in the consumption of industrial water (Charqueadas)
	Introduction of an urban tree planting program in partnership with the local government of Alegrete (Alegrete)



08. relationship with stakeholders

88% of the employees believe Tractebel Energia is one of the best companies to work for



The operation of a company is directly affected by the opinion and activities of its stakeholders. Having open communication channels for receiving their ideas and engaging them in the main decisions are important steps for maintaining transparency and ensuring the sustainability of the business.

This chapter presents Tractebel Energia's stakeholders and details how the Company maintains these relationships.

EMPLOYEES

At Tractebel Energia, valuing employees is an essential requirement for its human resources policy, which is structured to provide sustainability to the business. With this in mind, the Company continually invests in the development of its employees, which underscores attitudes and behavior aligned to the organizational culture.

In 2007, the Company introduced a program for training successors in key positions aimed at ensuring the retention of the knowledge necessary for the development of the Company's activities in the long term. The program involves the hiring of new employees, the identification and development of in-house talents, and the adoption of a voluntary severance program with severance dates scheduled by the Company.

For the years to come, a focus of human resources management will be on enhancing of the recruitment and selection process, ensuring the hiring of people aligned with the Company's values.

PERSONNEL

At year-end 2007, Tractebel Energia had 917 employees according to Brazil's Consolidated Labor Laws (CLT). The Company hired 46 employees and let go 34 employees, of whom 24 were male and ten were female. Twenty of these employees left the Company using the voluntary severance program.

In addition, the Company has an internship program, with approximately 60 vacancies, aimed at preparing students for the labor market.

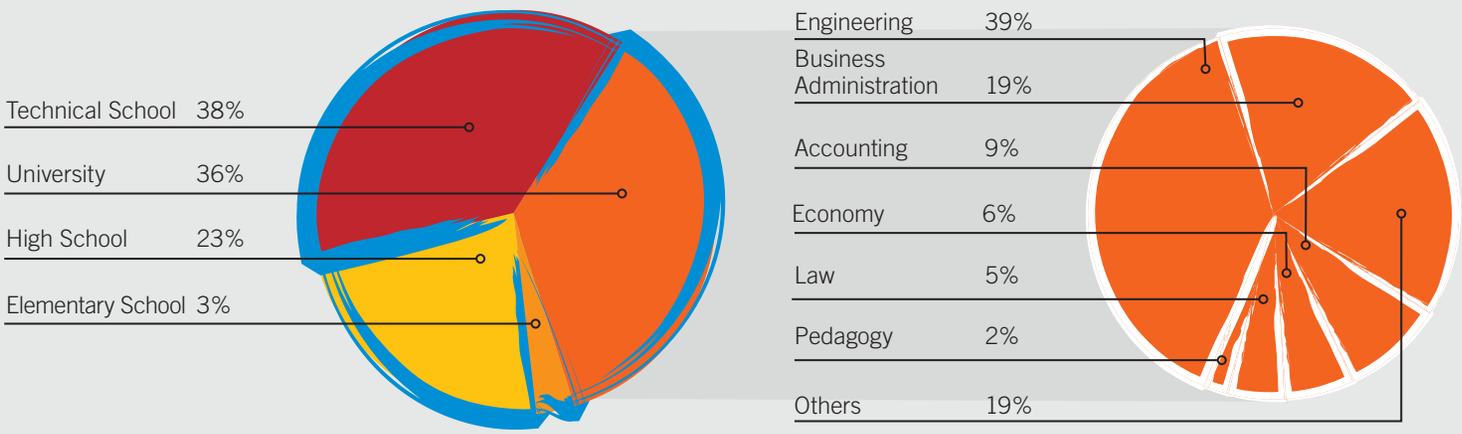
Another 2,023 outsourced employees from specialized companies worked for the Company during 2007.

Number of employees by region

State	2005	2006	2007
Santa Catarina	621	629	626
Rio Grande do Sul	149	151	153
Paraná	93	93	94
São Paulo	5	5	4
Mato Grosso do Sul	9	10	9
Goiás	16	17	31
Total	**893**	**905**	**917**

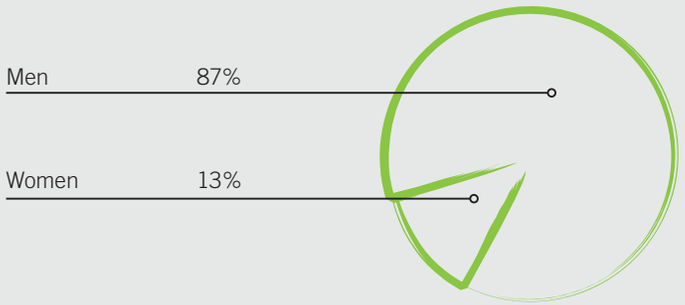
The services offered by Tractebel Energia require specialized labor, which demands a workforce consisting of highly-skilled personnel, with a college degree or technical education.

Education

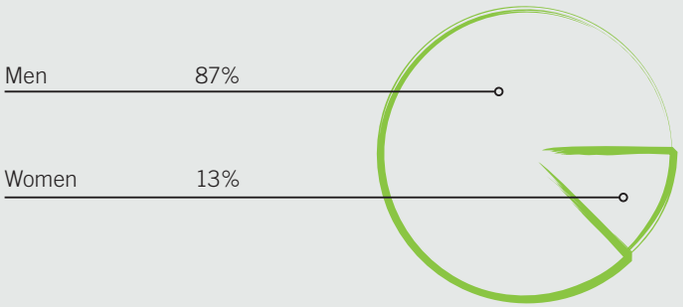


Employees by occupation	2005	2006	2007
Board of Directors	9	9	9
Management Board	6	6	6
Managers	118	117	115
Analysts, Engineers, and Specialists	264	278	285
Operators, maintenance technicians, and administrative workers	511	510	517

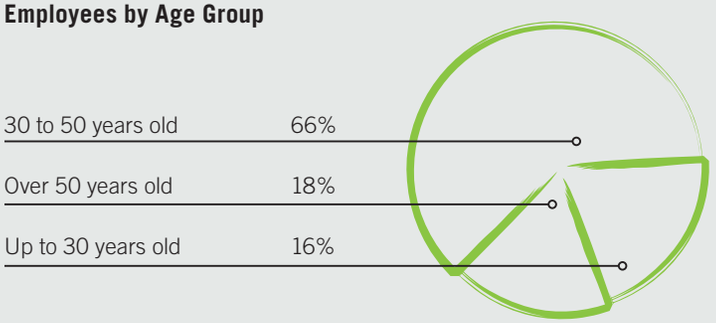
Employees by Gender



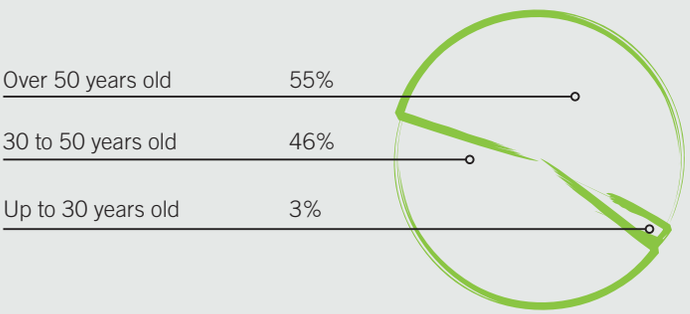
Breakdown by Gender in Boards and Committees



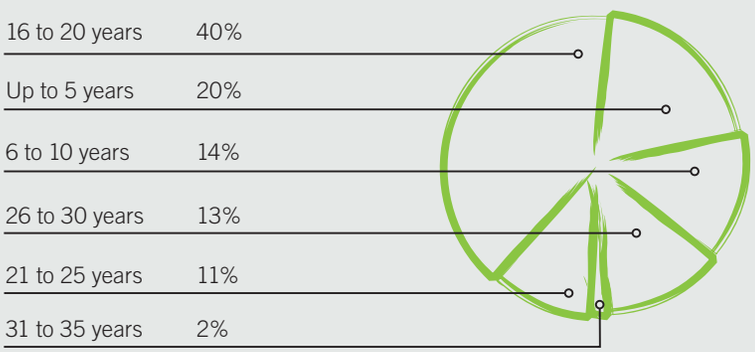
Employees by Age Group



Breakdown by Age Group in Boards and Committees



Breakdown by Time of Service



COMPENSATION POLICY

The Company's compensation policy is aligned with market practices and is monitored on the basis of salary surveys, aimed at ensuring the competitiveness levels necessary to retain its talents. The workforce consists of highly-skilled personnel, and the lowest salary is 2.64 times higher than the minimum wage in force in Brazil.

In addition to fixed compensation, the Company provides variable remuneration, consisting of a profit-sharing scheme, based on the results of the Company and of the employee area, and on the result of individual employee behavioral evaluations. Employees on the management level receive an additional bonus for the achievement of goals.

Both systems adopt a remuneration policy based on the evaluation of individual performance; i.e. how much each person contributes to the achievement of corporate results.

The position evaluation system adopted by the Company is based on the Hay method, which takes into account the integration of factors such as knowledge, problem-solving, responsibilities, and working conditions. Remuneration benchmarks are periodically checked with companies of similar size and also from the same industry through salary surveys carried out by Hay. Tractebel Energia also takes part in similar surveys sponsored by consulting firms and large corporations.



STOCK OPTION PLAN (CONTROLLING COMPANY)

Periodically, the SUEZ Group offers its employees facilities for purchasing its shares through its Spring Program. In 2007, 94% of Tractebel Energia's employees joined the program, a record-breaking level within the Group.

CLIMATE SURVEY

As part of the Organizational Climate Management program, Tractabel has held organizational climate surveys every two years, the idea being to improve the relationship of trust between the Company and its employees.

By conducting these surveys, the Company fosters a shared management with its employees in the search of a healthy working environment. That initiative has a positive impact on its relations with customers, suppliers, shareholders, the government, and the community.

In 2007, the survey, conducted by Hay do Brasil, recorded an 8 percentage points improvement in organizational climate, with 88% of employees considering Tractebel Energia to be one of the best companies to work for.

FRINGE BENEFITS

Tractebel Energia offers employees and their dependents healthcare services covering medical, dental, pharmaceutical, psychological, and speech and hearing treatment.

The Company also provides, among other benefits, group life insurance, disability coverage, maternity and paternity leave, day-care, allowances for lunch, and retirement plans.

A total 94.3% of its employees contribute funds to Fundação PREVIG, which is sponsored by Tractebel Energia. The private pension fund consists, as a general rule, of contributions made by employees and by the Company on equal terms (50%/50%). In 2007, Tractebel Energia transferred R$8.0 million to PREVIG.

Still in 2007, Tractebel Energia resumed sponsoring the pension plan of Eletrosul, known as Fundação Elos, which has 4.3% of the Company's employees as its beneficiaries. Thus, the Company became responsible for pensioners who opted not to migrate to PREVIG at the time of Gerasul's privatization.

OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

Occupational health and safety management is part of the basis for the preventive culture adopted by Tractebel Energia. These processes undergo continuous improvement.

The in-house health management program was developed with the purpose of promoting the enhancement of the health and quality of life of the Company's entire workforce. Employees have Individual Health Programs, which they set forth together with a trained professional, defining health improvement goals based on annual medical check-ups.

Via the Intranet network, employees have access to a system of information with their main health and lifestyle indicators, obtained through medical tests and questionnaires on habits and attitudes that may affect their physical and mental health. This way, each employee may consult these indicators and the evolution of each of them over the past years, allowing them to manage their own health.

In order to assist employees to adopt or maintain a healthy lifestyle, Tractebel Energia develops support programs, such as incentives toward physical activities and exercise, the adoption or maintenance of healthy eating habits, and fighting against chemical dependence.

Tractebel Energia's Occupational Health and Safety Policy, in turn, involves all workers (its own and outsourced employees), its goal being to eliminate occupational accidents. In order to do so, it promotes a preventive approach, inviting all to reflect upon and discuss risky circumstances and behaviors. Workers receive training and lectures on the subject, in addition to participating in activities aimed at identifying and analyzing potential risks involved in specific activities carried out in their work environment.



OCCUPATIONAL HEALTH AND SAFETY INDICATORS

Own employees	2005	2006	2007
Nº of hours of risk exposure	1,725,788	1,754,486	1,614,368
Nº of occupational disabling accidents	1	2	0
Nº of occupational and commuting accidents (disabling and non-disabling)	10	9	3
Nº of days lost – occupational disabling accidents	14	14	0
Frequency rate (FR)[1]	0.58	1.14	0.00
Degree of seriousness (DS)[2]	0.03	0.008	0.00
Fatal accidents	0	0	0
Absenteeism[3]	1,616	1,624	2,488

Outsourced employees	2005	2006	2007
Nº of hours of risk exposure	n.a.	4,610,832	3,222,363
Nº of occupational disabling accidents	n.a.	21	9
Nº of occupational and commuting accidents (disabling and non-disabling)	n.a.	68	54
Nº of days lost – occupational disabling accidents	n.a.	460	358
Frequency rate (FR)[1]	n.a.	3.30	2.8
Degree of seriousness (DS)[2]	n.a.	0.072	0.11
Fatal accidents	1	1	0
Absenteeism[3]	([4])	([4])	([4])

[1]Number of occupational disabling accidents per million man-hours of risk exposure.
[2]Number of days lost as a result of occupational disabling accidents per thousand man-hours of risk exposure.
[3]Number of days absent from work due to ordinary illnesses, unrelated to occupational hazards.
[4]Control is made by third-party companies.

Prevention campaigns, safety training, and the Internal Occupational Accident Prevention Week (SIPAT) — the latter held annually at all production units and at headquarters — are some of the tools used by Tractebel Energia to improve safety conditions in different work environments. In addition, Internal Occupational Accident Prevention Committees (CIPAs) are integrated to those of outsourced companies.

One of the main challenges for 2009 is to obtain the OHSAS 18001 (Occupational Health and Safety Assessment Series) certification, an occupational health and safety management system.

TRAINING AND DEVELOPMENT

Tractebel Energia organizes and offers its employees a series of initiatives for supporting skill development process, as well as the tools required for ensuring the completion of organizational strategies in the mid and long-term.

In 2007, the Company offered an average 80.50 man-hours in training, which represents a 16% increase in comparison to the previous year. Among the main highlights were investments in the occupational health and safety programs, a fundamental issue for the Company.



Two other aspects deemed essential by the Company are ethics and human rights, which are included in the agenda of its training programs. When it disclosed its new Code of Ethics, distributed to all employees in September 2007, Tractebel Energia held, in October of the same year, a series of thematic lectures, which had the attendance of 34% of its employees, representing 470 hours of training.

The training of all security personnel hired by the Company, either directly or indirectly, also stresses human rights issues.

CAREER MANAGEMENT

In order to promote a career self-management culture, the Company provides tools that enable improvements in relationships and processes, through formal evaluation and feedback programs, which involve all employees:

>> Performance Evaluation, carried out annually to evaluate the goals and commitment of employees to the Company's values; and

>> Skill Mapping, held every two years, through a 360º evaluation process, to generate individual development plans (PDIs) based on organizational skills.

In order to ensure the efficacy of these tools, the Company invests in the development of leaders, focusing on senior and intermediary levels of management.

EDUCATIONAL BACKGROUND

Tractebel Energia's employees have access to a scholarship that covers 100% of expenses for elementary and junior high school, 50% for high school, and up to 80% for undergraduate studies, in addition to incentives for graduate and MBA studies.

UNION AND LABOR RELATIONS

The Company maintains routine negotiations with labor unions and all professional associations representing its employees.

Each year, collective bargaining agreements are entered into, in compliance with the guidelines of the International Labor Organization (ILO), including all employees. They involve issues such as salary raises, pension plans, benefits, health and safety, protective equipment, training, and education.

Tractebel Energia's policy for social impacts arising from the construction of hydroelectric plants provides for measures aimed at indemnifying and relocating the population affected by the creation of reservoirs

COMMUNITY

The community is as relevant to the Company as its employees, shareholders, and other stakeholders. The Administrative Director is in charge of coordinating Tractebel Energia's relationship with various communities, maintaining unity in the Company's messages. Social programs are developed in Florianópolis (Santa Catarina), where its headquarters are situated, but also in all places where its plants are located. Educational programs, especially for children and teenagers from low-income families, are developed in the regions where its thermoelectric and hydroelectric power plants are located. And because the latter include the creation of reservoirs, they require population relocation programs, warranting a high level of attention by the Company.

RELATIONSHIP WITH THE PRESS

The basis of Tractebel Energia's relationship with the press is transparency coupled with ethics, with a view to bringing the news to the public in a correct way. The Company's spokesperson is its CEO, who may delegate that task to the other officers on a case-by-case basis.

Press release services are provided by a third-party company and are supervised by the area of Communications Support, under the Administrative Director.

RELATIONSHIP WITH COMMUNITIES IN THE IMPLEMENTATION OF PROJECTS

The construction of hydroelectric power plants generates benefits, such as jobs, additional tax revenues, improvements in local infrastructure and new economic opportunities. It also has an impact on the environment and the community. Always upholding the cultural identity and characteristics of each region, Tractebel Energia's policy for the social impacts arising from the construction of hydroelectric plants provides for measures aimed at indemnifying and relocating the population living and/or working in the areas affected by the creation of reservoirs.

Prior to beginning the construction of a hydroelectric plant, the Company carries out an assessment of the local population and analyzes the economic activities of the area, in addition to preparing a study on its history and recovering its archeological heritage, in order to provide it with adequate preservation.



After preparing the social and economic assessment of the area, the Company offers options both to the families who live there, regardless of land ownership.

The options offered to landowners depend on the criteria set forth, which may include: indemnification of vacant land and productive and non-productive improvements; rural or urban relocation; or the concession of a letter of credit. Families who do not own property but live in the area may opt for a collective relocation, self-relocation through a letter of credit, or relocation to remaining areas. Their productive and non-productive improvements are also indemnified. In both cases, the families become the legal owners of the land or property to where they are relocated. The new settlements include a house and access to basic sanitation and electricity. Tractebel Energia's policy also provides for economic assistance for the first productive cycle, as well as technical support for three years.

During 2007, Tractebel Energia, through the Companhia Energética São Salvador (CESS), continued to carry out the program for relocating the population impacted by the construction of the São Salvador Hydroelectric Plant.

A multidisciplinary technical group, including agronomic engineers, sociologists, and social assistants, carried out a comprehensive study of the families living in the affected areas. This social and economic assessment identified 211 families: 99 were landowners and 112 did not own property.

The non-owner families, with effective ties and economic dependence on the land, began to receive benefits from CESS: a letter of credit for self-relocation or collective rural relocation. Subsequently, during the environmental licensing process and the beginning of construction works, other families moved into areas affected by the future reservoir and, taking into account these circumstances, CESS, in compliance with the agreement entered into between associations of the affected people, the Brazilian Institute of Environment and Natural Renewable Resources (IBAMA), and public prosecutor's offices, decided to extend the same benefit to these families.

CESS creates new homeowners

In 2007, CESS granted the first letters of credit for families who opted for self-relocation. These were non-owner families, who worked on farms and who became the owners of their lands and means of production.

The letter of credit is one of the schemes of the relocation plan, which also includes collective rural relocation formed by a group of related families.

Each letter of credit is worth R$70,000. The property is inspected by CESS in order to verify whether it meets the needs of the family and whether the price is in accordance with market practices. If the price of the chosen property is lower than the letter of credit, the difference may be used in improvements for the acquired property.



Since the acquisition of the installation license in 2005, CESS has carried out an ample and systematic disclosure of its initiatives, always aimed at being transparent and respecting the freedom of choice of the families affected in relation to the options offered for relocation.

Disclosure is made through personal visits; radio programs; thematic folders; a free-toll hotline; and bimonthly newsletters with information on the changes in the region and the reason for the construction of the hydroelectric power plant.

Matters of collective interest are discussed in an open and transparent way, in negotiation forums coordinated by IBAMA. In 2007, eight meetings were held with the presence of representatives from the community, the Federal Public Prosecutor's Offices, the Public Prosecutor's Offices of the states of Tocantins and Goiás, the IBAMA, mayors, and town councilors.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY INITIATIVES

Tractebel Energia supports several social, cultural, and environmental programs that benefit the communities in the areas surrounding its plants, giving priority to addressing the needs of children and teenagers from low-income families and the preservation of the environment.

In 2007, the Company created its Sustainability Committee, coordinated by the Administrative Director. The committee is in charge of, among other things, the consolidation of Tractebel Energia's image as a transparent and sustainable company through initiatives that seek the environmental and social improvement of the areas surrounding its plant sites. Currently, Tractebel Energia has three programs in place dealing with social, environmental, and cultural issues:

>> The **Tractebel Energia Social Responsibility Program** focuses on improving the quality of life of children in low-income communities located in the region where the Company operates. In 2007, more than R$2.2 million were invested in this program. This support includes the following: Junior Achievement Program (Florianópolis, Santa Catarina), aimed at developing the entrepreneur spirit among students from the elementary and junior high school levels; and the organization of the Southern Brazilian Conference of Guardianship and Municipal Councils for the Rights of the Child and the Adolescent.

>> The **Tractebel Energia Environmental Improvement Program** focuses on environmental education, the restoration of degraded areas, and reforestation in locations where Tractebel Energia maintains operations. In 2007, the highlight was the planting of more than 290,000 native trees in areas pertaining to the Company or adjacent to its operations; and

>> The **Tractebel Energia Cultural Development Program**, which concentrates on the cultural development of the communities where the Company is located. More than R$1.6 million were invested in 2007. An example of this support is the Orchestra School Project (Florianópolis, Santa Catarina), with musical classes for more than 80 children and teenagers from low-income families, in partnership with the Fundação de Cultura Franklin Cascaes charity.



CUSTOMERS

Operating as a generator and commercializaton company, Tractebel Energia is capable of offering the best options for supplying energy to its customer base (distributors, trading companies, and industries), which provides it with a market advantage. By maintaining a close relationship with its customers, it is easier for the Company to detect their needs and, as a result, develop customized products and services.

The relationship program with industrial customers includes invitations for events of interest to the customers, such as technical seminars and visits to generation plants, so that they may obtain a better understanding of Tractebel Energia's operations. In addition, independent consultants periodically carry out satisfaction surveys through which it is possible to detect issues that may be improved and the need for developing new products and services. The most recent survey was prepared in February 2008.

In addition to the satisfaction survey, customer opinion is collected through a post-sales team, which was set up in 2007. As a result, the Company's customers had access to customer service managers ready to immediately address any potential issues.

In the same year, the Company also began to offer an exclusive channel for customers on its website. The purpose of this channel is to enhance communication and publicize updated information on the contracted supply and the energy market, in addition to making it possible for customers to monitor the quality of the energy consumed and their monthly bills. All information relating to customers are kept in a secure environment, where data remain under absolute secrecy.

In 2007, the Company set up a post-sales team, whose purpose is to seek immediate solutions for issues of a commercial nature

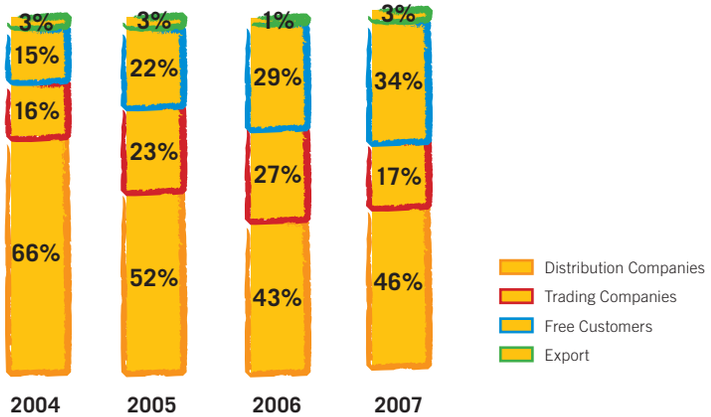
CUSTOMER BASE

Tractebel Energia's main customers are electricity distributors, free consumers, and electricity traders, located in Brazil's South and Southeast regions.

Tractebel Energia's main industrial customers include companies in the following industries: pulp and paper, fertilizer, industrial gases, petrochemicals, automotive, and food.

In 2007, the number of free customers in the portfolio increased over 2006, reaching 27.6% of gross operating revenue and 33.9% of volume sales, representing a year-on-year-increase of 4.5 percentage points and 4.6 percentage points, respectively, when compared to 2006.

Breakdown of Customers by Physical Sales



SUPPLIERS

Tractebel Energia maintains sustainable partnerships with its suppliers, who are evaluated based on the following criteria: quality, timeliness, and reliability of the products and services offered.

In order to ensure transparency in the acquisition process, the Company employs an electronic purchasing system, a quotation and a reverse auction tool, by means of which suppliers send their quotes via Internet, and all procedure developments remain registered. This enables the purchaser to carry out a rapid evaluation and a fair selection of the best offer, reducing the lead time of purchases by up to 30%.

In 2007, the Company introduced a new supplier training and performance evaluation method, focusing on their commitment and engagement with new standards of social, health, safety, and environmental responsibility. The procedure is in line with Tractebel Energia's Code of Ethics and Environmental Code.

To ensure this practice, both the Company's Code of Ethics and agreements have specific provisions that forbid the use of child labor and forced labor by any supplier or service provider.

It is also important to highlight the active participation of Tractebel Energia in the economic and social environment of the communities where it operates, through social responsibility initiatives and the use of products and services from local suppliers, fostering the trade and development of the local workforce. In 2007, of the total budget with purchases, 12.9% were allocated for the payment of local suppliers.

The new supplier training and performance evaluation method focuses on commitments to high healthcare and safety standards, as well as social and environmental engagement

Coal suppliers must obtain NBR ISO 14001 certification

In order to ensure that environmental responsibility trickles down its value chain, Tractebel Energia began to require its coal suppliers to have NBR ISO 14001 certification. As a result, they will have to adjust themselves in order to keep their agreements with the Company. All ten coal suppliers of the Coal Extraction Industry Union of the State of Santa Catarina (Siecesc) have already complied with the environmental legislation, one of the requirements of the Conduct Adjustment Agreement (CAA) entered into with the Public Prosecutor's Office.

Following the guidelines of the CAA, treatment systems for coal residual effluents have been introduced, reclaiming metals such as iron, aluminum, manganese, and zinc from the water in order to neutralize the acidity of the waters released into the rivers of Brazil's South region, thereby controlling its impact on the environment.

Since 2006, when their supply agreements with Tractebel Energia were renewed, coal suppliers from the region have maintained a rhythm of production and revenue generation that provides them with the conditions for investing in environmental improvement.

Tractebel Energia plays an active role on the committees of hydrographic basins in its concession areas

GOVERNMENT

The National Water Agency (ANA) is the governmental agency responsible for implementing the National Policy of Hydraulic Resources and for the creation of hydraulic resource management bodies, committees of hydrographic basins, and water agencies. Committees can only be created by the federal government and depend on the approval of the National Board of Hydric Resources (CNRH).

Tractebel Energia participates in the committees of hydrographic basins in its concession areas: Baixo Jacuí (Charqueadas – Rio Grande do Sul); Ibicuí River (Alegrete – Rio Grande do Sul); Passo Fundo River (Passo Fundo – Rio Grande do Sul); Apuaê and Inhandava Rivers (Machadinho – Rio Grande do Sul); Do Peixe River (Santa Catarina) and Jacutinga River (Itá – Rio Grande do Sul); Tubarão River and the Lagunar Complex (Jorge Lacerda – Santa Catarina). Its goals include the participation in other committees related to areas of the Itá, Machadinho, Passo Fundo, Salto Santiago, Salto Osório, and Cana Brava power plants. In these committees, participants discuss issues such as the rational use of hydraulic resources and the importance of basic sanitation.

The Company also participates in other committees and boards related to state and municipal levels, such as the Hydraulic Resources Board of the State of Paraná.

Because of its experienced team specialized in the electric power industry, the Company is often invited to participate in discussion forums and in the development of regulatory frameworks.

INVESTORS

Contact with the investors is done directly through the Investor Relations Department, and even through the Investor Relations page on Tractebel Energia's website, where the Company discloses information related to its performance. Interaction also takes place through quarterly conference calls, meetings with investors and investment advisors — such as those promoted by the Association of Capital Markets Analysts and Investment Professionals (Apimec), as well as visits to the Company's plants.

Other information that may assist in the decision-making process of investors is disclosed whenever needed, through material facts or announcements to the market, published on the website and in electronic newsletters. Each year, the Company presents its financial statements for the year in newspapers of a nation-wide reach and in annual reports that, as of this year, include an Annual Sustainability Report.

Tractebel Energia maintains several communication channels for its investors

09. consolidated social report

Tractebel Energia Consolidated	2007			2006		
1. BASIS OF CALCULATION	**R$ thousand**			**R$ thousand**		
1.1 – Net Revenue	3,043,427			2,705,532		
1.2 – Operating Result	1,486,800			1,223,992		
1.3 – Gross Payroll	88,062			93,931		
2. INTERNAL SOCIAL INDICATORS	**R$ thousand**	**% on Gross Payroll**	**% on Net Revenue**	**R$ thousand**	**% on Gross Payroll**	**% on Net Revenue**
2.1 – Food	6,605	7.50	0.22	6,015	6.40	0.22
2.2 – Mandatory Payroll Taxes	27,910	31.69	0.92	25,653	27.31	0.95
2.3 – Private Pension Plan	11,367	12.91	0.37	16,441	17.50	0.61
2.4 - Private Pension Plan – Conversion of Special Retirement into Retirement for Time of Service	1,075	1.22	0.04	3,435	3.66	0.13
2.5 – Healthcare	9,405	10.68	0.31	8,332	8.87	0.31
2.6 – Education	4,905	5.57	0.16	3,934	4.19	0.15
2.7 – Profit Sharing Scheme	13,038	14.81	0.43	11,938	12.71	0.44
2.8 – Other Benefits	2,908	3.30	0.10	2,550	2.71	0.09
TOTAL (2.1 to 2.8)	**77,213**	**87.68**	**2.55**	**78,298**	**83.35**	**2.90**
3. EXTERNAL SOCIAL INDICATORS	**R$ thousand**	**% On Operating Result**	**% on Net Revenue**	**R$ thousand**	**% On Operating Result**	**% on Net Revenue**
3.1 – Taxes (excluding mandatory payroll taxes)	777,659	52.30	25.55	591,180	48.30	21.85
3.2 – Contribution to Society / Investments in Citizenship	7,415	0.50	0.24	9,503	0.78	0.35
TOTAL (3.1 to 3.2)	**785,074**	**52.80**	**25.79**	**600,683**	**49.08**	**22.20**
4. ENVIRONMENTAL INDICATORS	**R$ thousand**	**% On Operating Result**	**% on Net Revenue**	**R$ thousand**	**% On Operating Result**	**% on Net Revenue**
4.1 – Related to the Company's Operations	11,421	0.77	0.38	8,900	0.73	0.33
4.2 – Related to Ongoing Projects	25,773	1.73	0.85	17,955	1.47	0.66
TOTAL (4.1)	**37,194**	**2.50**	**1.23**	**26,855**	**2.20**	**0.99**
5. WORKFORCE INDICATORS	**Number**			**Number**		
5.1 – Number of Employees at Year-End	917			906		

10. cross-referenced index – GRI

GRI Indicators	Page	Comment
Profile		
1. Stragegy and Analysis		
1.1 Statement from the most senior decision-maker of the organization	10 to 13	
2. Organizational Profile		
2.1 Name of the organization	6	
2.2 Primary brands, products, and/or services	14 to 17	
2.3 Operational structure of the organization	16 to 23	
2.4 Location of organization's headquarters	15	
2.5 Number of countries where the organization operates		Tractebel Energia's operations are located in Brazil
2.6 Nature of ownership and legal form	23	
2.7 Markets served	17 to 22, 88	
2.8 Scale of the reporting organization	15 and 23	
2.9 Significant changes during the reporting period	16 to 23	
2.10 Awards received in the reporting period	45	
Report Parameters		
3. Report Profile		
3.1 Reporting period	7	
3.2 Date of most recent previous report (if any)		The 2006 annual report did not follow GRI guidelines
3.3 Reporting cycle	7	
3.4 Contact point for questions regarding the report or its contents	98 and 99	
3.5 Process for defining report content	6 and 7	
3.6 Boundary of the report	7	
3.7 State any specific limitations on the scope or boundary of the report	7	
3.8 Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities	7	
3.10 Explanation of the effect of any re-statements of information provided in earlier reports		The 2006 annual report did not follow GRI guidelines
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report		The 2006 annual report did not follow GRI guidelines

GRI Indicators	Page	Comment
GRI Content Index		
3.12 Table identifying the location of the Standard Disclosures in the report	93 to 97	
Governance, Commitments, and Engagement		
4. Governance		
4.1 Governance Structure	46 to 52	
4.2 Indicate whether the Chair of the highest governance body is also an executive officer	48	That is not the current situation at Tractebel Energia
4.3 For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	48	
4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	48	
4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	cover and 53	
Stakeholder Engagement		
4.14 List of stakeholder groups engaged by the organization	76 to 91	
4.15 Basis for identification and selection of stakeholders with whom to engage	76 to 91	
Performance Indicators		
Economic		
Aspect: Economic Performance		
EC1 Direct economic value generated and distributed	cover	
EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change	35, 54 to 57, 72	Partially reported
EC3 Coverage of the organization's defined benefit plan obligations	80	
Aspect: Market Presence		
EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	80	
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	89	
Environmental		
Aspect: Materials		
EN1 Materials used by weight or volume	65	
Aspect: Energy		
EN3 Direct energy consumption by primary energy source	73	
EN7 Initiatives to reduce indirect energy consumption and reductions achieved	73	Partially reported

GRI Indicators	Page	Comment
Aspect: Water		
EN8 Total water withdrawal by source	66	
EN10 Percentage and total volume of water recycled and reused	66	Partially reported
Aspect: Biodiversity		
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	70 and 71	
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	65 to 70	
EN13 Habitats protected or restored	70 and 71	
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity	62 to 75	
Aspect: Emissions, Effluents, and Waste		
EN16 Total direct and indirect greenhouse gas emissions by weight	67	
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved	65 and 67, 72	
EN20 NOx, SOx, and other significant air emissions by type and weight	67	
EN21 Total water discharge by quality and destination	73	Partially reported
EN22 Total weight of waste by type and disposal method	73 and 74	
EN23 Total number and volume of significant spills		There is no record of significant spills during the period covered by the report
Aspect: Overall		
EN30 Total environmental protection expenditures and investments by type	75	
Labor Practices and Decent Work		
Aspect: Employment		
LA1 Total workforce by employment type, employment contract, and region	77 and 78	
LA2 Total number and rate of employee turnover by age group, gender, and region	77	Partially reported
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	80	
Aspect: Labor/Management Relations		
LA4 Percentage of employees covered by collective bargaining agreements	83	
Aspect: Occupational Health and Safety		
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	82	

GRI Indicators	Page	Comment
Aspect: Training and Education		
LA10 Average hours of training per year per employee by employee category	82	Partially reported
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	82 and 83	Partially reported
LA12 Percentage of employees receiving regular performance and career development reviews	83	
Aspect: Diversity and Equal Opportunity		
LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	79	
Human Rights		
Aspect: Investment and Procurement Practices		
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	83	Partially reported
Aspect: Non-Discrimination		
HR4 Total number of incidents of discrimination and actions taken		There is no record of incidents of discrimination during the period covered by the report
Aspect: Child Labor		
HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	89	
Aspect: Forced and Compulsory Labor		
HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	89	
Aspect: Security Practices		
HR8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	83	

GRI Indicators	Page	Comment
Society		
Aspect: Community		
SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	84 to 86	
Product Responsibility		
Aspect: Product and Service Labeling		
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	88	
Aspect: Customer Privacy		
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		There is no record of complaints during the period covered by the report

11. corporate information

SHAREHOLDER SERVICES
Banco Itaú S.A.
Unified Assistance Department
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 Mellon

INDEPENDENT AUDITORS
Deloitte Touche Tohmatsu

LEGAL PUBLICATIONS
Diário Oficial de Santa Catarina
Diário Catarinense
Valor Econômico

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 Machado
Investor Relations Analyst
ana.sylvestre@tractebelenergia.com.br

Phone: +55 48 3221-7221

COMPANY 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

RELATIONSHIP WITH THE PRESS AND THE COMMUNITIES
Luciano Flávio Andriani
Administrative Director
luciano@tractebelenergia.com.br

Luciane Rodrigues Pinheiro Pedro
Communications Assistant
luciane@tractebelenergia.com.br

Patrícia Franco Bahry
Communications Assistant
patriciafb@tractebelenergia.com.br

Phone: +55 48 3221-7076

ETHICS COMMITTEE
Corporate e-mail: comitedeetica@tractebelenergia.com.br

Administrative Director (Coordinator): +55 48 3221-7060
Manager of the Legal Counsel Department: +55 48 3221-7042
Manager of the Human Resources Department: +55 48 3221-7029
Manager of the In-House Auditing Department: +55 48 3221-7314

SUEZ Group Ethics Office
16, rue la Ville l'Evêque
75383 Paris 08 – France
ethic@suez.com
Tel.: + 33 1 4006-6400
Fax: + 33 1 4006-2969

Tractebel Energia

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02. statements of income *p.104*

03. statements of changes in shareholders' equity *p.105*

04. statements of changes in financial position *p.106*

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06. statements of value added *p.108*

07. notes *p.109*

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11. financial statements 2007

Balance Sheets

as of December 31, 2007 and 2006

(in thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
ASSETS		**2007**	**2006**	**2007**	**2006**
CURRENT ASSETS					
Cash and cash equivalents		6,694	7,454	25,170	23,593
Temporary cash investments	4	565,061	186,352	768,921	233,247
Funds linked to payment of obligations		-	21,643	-	21,643
Consumers, concessionaires and permittees	5	323,171	314,663	349,906	358,002
Dividends receivable from subsidiaries		91,006	103,021	-	-
Recoverable taxes	6	8,285	23,623	11,169	26,707
Inventories		49,289	22,719	50,068	23,623
Collaterals and restricted deposits		18,375	51,511	19,785	53,947
Deferred tax assets	7	12,091	19,683	12,160	21,351
Other		26,906	20,666	27,172	29,939
TOTAL CURRENT ASSETS		**1,100,878**	**771,335**	**1,264,351**	**792,052**
NONCURRENT ASSETS					
Long-term assets					
Concessionaires and permittees	5	4,548	16,063	4,548	16,063
Recoverable taxes	6	21,208	10,342	24,183	13,124
Collaterals and restricted deposits		-	-	32,330	29,422
Escrow deposits	19	126,357	111,204	150,679	131,331
Sale of assets and rights	9	81,315	68,565	81,315	68,565
Deferred tax assets	7	201,371	187,282	204,015	188,489
Other		2,476	2,216	2,476	2,216
		437,275	**395,672**	**499,546**	**449,210**
Permanent assets					
Investments	10	1,156,481	843,659	113,407	36,873
Property, plant and equipment	11	2,725,218	2,836,435	4,612,826	4,148,898
Intangible assets	12	2,185	1,256	75,492	77,310
Deferred charges		-	-	32,468	34,766
		3,883,884	**3,681,350**	**4,834,193**	**4,297,847**
TOTAL NONCURRENT ASSETS		**4,321,159**	**4,077,022**	**5,333,739**	**4,747,057**
TOTAL ASSETS		**5,422,037**	**4,848,357**	**6,598,090**	**5,539,109**

The accompanying notes are an integral part of these financial statements.

Balance Sheets

as of December 31, 2007 and 2006

(in thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
LIABILITIES AND SHAREHOLDERS' EQUITY		**2007**	**2006**	**2007**	**2006**
CURRENT LIABILITIES					
Trade accounts payable	14	229,708	235,924	273,911	239,319
Dividends and interest on capital	24	532,997	478,043	532,997	478,043
Loans and financing	15	71,255	256,152	121,024	306,079
Debentures	16	32,138	15,004	56,560	37,834
Taxes payable	17	271,724	33,747	341,396	45,870
Special obligations		32,713	28,542	33,073	28,650
Research and development	18	38,820	31,364	46,574	35,135
Reserve for contingencies	19	10,134	11,000	10,336	11,206
Post-employment benefits	21	18,450	20,369	18,450	20,369
Other		37,793	40,107	45,475	44,307
TOTAL CURRENT LIABILITIES		**1,275,732**	**1,150,252**	**1,479,796**	**1,246,812**
NONCURRENT LIABILITIES					
Long-Term liabilities					
Loans and financing	15	345,302	344,197	970,731	610,251
Debentures	16	560,302	200,000	664,919	323,344
Taxes payable	17	9,259	5,383	12,203	5,383
Reserve for contingencies	19	63,229	53,041	68,040	56,289
Concession fees payable	20	-	-	234,188	201,546
Post-employment benefits	21	310,333	293,725	310,333	293,725
Deferred tax liabilities	22	36,535	36,535	36,535	36,535
Other		4,492	653	4,492	653
TOTAL NONCURRENT LIABILITIES		**1,329,452**	**933,534**	**2,301,441**	**1,527,726**
SHAREHOLDERS' EQUITY					
Capital	23	2,445,766	2,445,766	2,445,766	2,445,766
Capital reserves	23	91,695	91,695	91,695	91,695
Profit reserves	23	279,392	227,110	279,392	227,110
TOTAL SHAREHOLDERS' EQUITY		**2,816,853**	**2,764,571**	**2,816,853**	**2,764,571**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,422,037**	**4,848,357**	**6,598,090**	**5,539,109**

The accompanying notes are an integral part of these financial statements.

Statements of Income

for the years ended December 31, 2007 and 2006

(in thousands of Brazilian reais - R$)

	Note	Company		Consolidated	
		2007	2006 (Reclassified)	2007	2006 (Reclassified)
GROSS OPERATING REVENUE					
Electricity sales to final consumers		343,794	324,491	929,246	693,848
Electricity sales to distributors		2,543,455	2,276,942	2,421,532	2,291,922
Other revenues		19,719	17,756	13,938	19,338
		2,906,968	**2,619,189**	**3,364,716**	**3,005,108**
DEDUCTIONS					
PIS and COFINS (taxes on revenue)		(149,365)	(133,584)	(199,336)	(178,010)
ICMS (state VAT)		(61,103)	(52,598)	(95,260)	(92,887)
ISS (service tax)		(377)	(361)	(377)	(361)
Research and development		(22,563)	(24,661)	(26,316)	(28,318)
		(233,408)	**(211,204)**	**(321,289)**	**(299,576)**
NET OPERATING REVENUE		**2,673,560**	**2,407,985**	**3,043,427**	**2,705,532**
COST OF ELECTRICITY AND SERVICES					
Electricity purchased for resale		(394,651)	(391,995)	(267,652)	(287,404)
Transactions within CCEE		(177,412)	(270,281)	(181,709)	(281,313)
Electricity production cost	25	(526,372)	(432,819)	(609,629)	(502,421)
Cost of services	25	(10,830)	(10,254)	(10,830)	(10,254)
		(1,109,265)	**(1,105,349)**	**(1,069,820)**	**(1,081,392)**
GROSS PROFIT		**1,564,295**	**1,302,636**	**1,973,607**	**1,624,140**
OPERATING EXPENSES					
Selling expenses	25	(179,038)	(169,719)	(216,757)	(210,149)
General and administrative expenses	25	(113,716)	(111,933)	(130,121)	(133,300)
(Recognition) reversal of operating provisions, net	26	(258)	11,895	(2,229)	11,453
Income from favorable court decisions	27	3,700	93,350	3,700	94,502
		(289,312)	**(176,407)**	**(345,407)**	**(237,494)**
Service income		**1,274,983**	**1,126,229**	**1,628,200**	**1,386,646**
Investments in subsidiaries					
Equity in subsidiaries	10	185,838	120,284	-	300
Amortization of goodwill	10	(6,747)	(6,746)	(6,747)	(6,746)
		179,091	**113,538**	**(6,747)**	**(6,446)**
Financial income (expenses)					
Financial income	28	82,025	92,761	100,602	107,666
Financial expenses	28	(144,527)	(169,323)	(235,255)	(263,874)
		(62,502)	**(76,562)**	**(134,653)**	**(156,208)**
INCOME FROM OPERATIONS		**1,391,572**	**1,163,205**	**1,486,800**	**1,223,992**
NONOPERATING INCOME (EXPENSES)		**(1,507)**	**2,776**	**(1,462)**	**2,985**
INCOME BEFORE TAXES		**1,390,065**	**1,165,981**	**1,485,338**	**1,226,977**
Income tax	8	(251,664)	(111,663)	(321,552)	(156,297)
Social contribution tax	8	(92,774)	(75,172)	(118,159)	(91,534)
NET INCOME		**1,045,627**	**979,146**	**1,045,627**	**979,146**
EARNINGS PER SHARE – R$		**1.60**	**1.50**	**-**	**-**

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Shareholders' Equity (Company)

for the years ended December 31, 2007 and 2006

(in thousands of Brazilian reais - R$)

	CAPITAL	CAPITAL RESERVES	PROFIT RESERVES	RETAINED EARNINGS	TOTAL
BALANCES AS OF DECEMBER 31, 2005	**2,445,766**	**91,695**	**148,500**	**-**	**2,685,961**
Prior year adjustments	-	-	-	29,653	**29,653**
Net income	-	-	-	979,146	**979,146**
Management's proposal for allocation of net income:					
- legal reserve	-	-	48,957	(48,957)	**-**
- profit retention reserve	-	-	29,653	(29,653)	**-**
- dividends/interest on capital R$1.4250471146 per common share	-	-	-	(930,189)	**(930,189)**
BALANCES AS OF DECEMBER 31, 2006	**2,445,766**	**91,695**	**227,110**	**-**	**2,764,571**
Net income	-	-	-	1,045,627	**1,045,627**
Management's proposal for allocation of net income:					
- legal reserve	-	-	52,282	(52,282)	**-**
- dividends/ interest on capital R$1.5218031188 per common share	-	-	-	(993,345)	**(993,345)**
BALANCES AS OF DECEMBER 31, 2007	**2,445,766**	**91,695**	**279,392**	**-**	**2,816,853**

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Financial Position

for the years ended December 31, 2007 and 2006

(in thousands of Brazilian reais - R$)

	Company		Consolidated	
	2007	2006	2007	2006
SOURCES OF FUNDS				
From operations				
Net income	1,045,627	979,146	1,045,627	979,146
Items not affecting working capital:				
Depreciation and amortization	176,521	159,004	229,119	208,364
Interest on noncurrent items	25,350	35,533	42,876	54,062
Monetary variation on noncurrent items	(28,808)	(23,564)	(16,551)	(15,175)
Equity in subsidiaries	(185,838)	(120,284)	-	(300)
Amortization of goodwill	6,747	6,746	6,747	6,746
Recognition (reversal) of noncurrent operating provisions, net	8,120	(5,479)	10,364	(5,544)
Deferred income and social contribution taxes	(6,497)	45,736	(6,334)	49,469
Other	3,813	(2,477)	5,482	(2,056)
	1,045,035	**1,074,361**	**1,317,330**	**1,274,712**
From third parties				
Financing and debentures - long-term	353,423	-	746,073	-
Dividends from subsidiaries	219,943	159,021	-	-
Transfer from long-term to current assets	22,335	28,981	24,729	30,489
Loans and post-employment benefits transferred to noncurrent liabilities	101,289	55,982	101,289	55,982
Write-off of provision for scheduled maintenance	-	16,025	-	16,055
Other	130	803	1,466	803
	697,120	**260,812**	**873,557**	**103,329**
TOTAL SOURCES	**1,742,155**	**1,335,173**	**2,190,887**	**1,378,041**
USES OF FUNDS				
Increase in long-term assets	19,062	79,113	22,414	91,018
Transfer from current to long-term assets	7,592	53,159	7,592	53,159
Investments	351,771	2,025	81,378	-
Additions to property, plant and equipment	67,586	64,347	672,419	69,040
Increase in intangible assets and deferred charges	1,428	299	7,626	303
Proposed dividends and interest on capital	993,345	930,189	993,345	930,189
Loans, financing and debentures transferred to current liabilities	70,478	248,935	138,289	315,727
Post-employment benefits transferred to current liabilities	17,557	10,654	17,557	10,654
Other liabilities transferred from noncurrent to current	9,273	10,405	10,952	11,855
TOTAL USES	**1,538,092**	**1,399,126**	**1,951,572**	**1,481,945**
INCREASE (DECREASE) IN WORKING CAPITAL	**204,063**	**(63,953)**	**239,315**	**(103,904)**
REPRESENTED BY				
Current assets				
At end of period	1,100,878	771,335	1,264,351	792,052
At beginning of period	771,335	784,949	792,052	836,532
	329,543	**(13,614)**	**472,299**	**(44,480)**
Current liabilities				
At end of period	1,275,732	1,150,252	1,479,796	1,246,812
At beginning of period:	1,150,252	1,099,913	1,246,812	1,187,388
	125,480	**50,339**	**232,984**	**59,424**
INCREASE (DECREASE) IN WORKING CAPITAL	**204,063**	**(63,953)**	**239,315**	**(103,904)**

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

for the years ended December 31, 2007 and 2006 (supplemental information)

(in thousands of Brazilian reais - R$)

	Company		Consolidated	
	2007	2006	2007	2006
Cash flows from operating activities				
Net income	1,045,627	979,146	1,045,627	979,146
Items not requiring outlay of cash:				
Depreciation and amortization	176,521	159,004	229,119	208,364
Equity in subsidiaries	(185,838)	(120,284)	-	-
Amortization of goodwill	6,747	6,746	6,747	6,746
Monetary and exchange variations, net	(33,137)	(12,711)	(16,320)	(1,938)
Net interest	38,270	41,214	54,981	57,397
Recognition (reversal) of operating provisions, net	4,781	(11,202)	6,758	(11,006)
Funds invested in research and development	-	31,364	-	35,076
Deferred income and social contribution taxes	(6,497)	45,736	(6,334)	49,469
Other	236	6,592	(1,465)	6,669
	1,046,710	**1,125,605**	**1,319,113**	**1,329,923**
Decrease (increase) in assets				
Funds linked to payment of obligations	21,643	(21,643)	21,643	(21,643)
Consumers and concessionaires	3,007	14,155	19,612	(11,371)
Recoverable taxes	5,795	(12,948)	5,861	(10,412)
Inventories	(26,570)	(204)	(26,445)	(111)
Collaterals and restricted deposits and escrow deposits	32,849	(62,714)	33,061	(76,303)
Sale of assets and rights	(551)	3,703	9,333	3,273
Prepaid expenses	(2,230)	7,424	(2,243)	7,700
Other	(2,688)	4,080	(2,975)	3,568
	31,255	**(68,147)**	**57,847**	**(105,299)**
Increase (decrease) in liabilities				
Trade accounts payable	(6,216)	87,529	36,400	107,938
Loans, financing and debentures	14,373	(898)	14,352	2,731
Taxes	243,718	(12,214)	303,993	(11,157)
Special obligations	6,288	3,738	6,295	3,732
Reserve for contingencies	(5,615)	(11,852)	(6,806)	(11,983)
Post-employment benefits	(29,334)	(30,374)	(29,334)	(30,374)
Research and development	7,456	-	11,399	-
Other	3,318	2,767	3,548	1,001
	233,988	**38,696**	**339,847**	**61,888**
Net cash provided by operating activities	**1,311,953**	**1,096,154**	**1,716,807**	**1,286,51**
Cash flows from investing activities				
Additions to property, plant and equipment	(67,586)	(64,347)	(372,199)	(69,040)
Increase in intangible assets and deferred charges	(1,428)	(299)	(5,346)	(303)
Increase in investments, net of cash of acquired subsidiary	(351,771)	(2,025)	(327,001)	-
Dividends received from subsidiaries	231,958	134,860	-	-
Net cash (used in) provided by investing activities	**(188,827)**	**68,189**	**(704,546)**	**(69,343)**
Cash flows from financing activities				
Financing and debentures	353,423	-	693,363	-
Repayment of loans, financing and debentures	(132,268)	(177,169)	(202,041)	(243,541)
Settlement of swap transactions	(26,077)	(59,096)	(26,077)	(87,034)
Payment of dividends and interest on capital	(940,255)	(938,891)	(940,255)	(938,891)
Net cash used in financing activities	**(745,177)**	**(1,175,156)**	**(475,010)**	**(1,269,466)**
Total effects on cash and cash equivalents	**377,949**	**(10,813)**	**537,251**	**(52,297)**
Cash and cash equivalents				
Balance at beginning of year	193,806	204,619	256,840	309,137
Balance at end of year	571,755	193,806	794,091	256,840
	377,949	**(10,813)**	**537,251**	**(52,297)**
Payments made during the year				
Interest on loans, financing and debentures	73,191	90,410	114,892	137,682
Income and social contribution taxes	102,500	92,093	154,470	150,147
Transactions not involving cash				
Offset income and social contribution taxes	16,974	65,555	21,638	67,188
Proposed dividends and interest on capital received	545,279	492,189	545,279	492,189
Proposed dividends receivable from subsidiaries	91,006	103,021	-	-
Prior year adjustments	-	29,653	-	29,953

The accompanying notes are an integral part of these financial statements.

Statements of Value Added

for the years ended December 31, 2007 and 2006 (supplemental information)

(in thousands of Brazilian reais - R$)

	Company		Consolidated	
	2007	2006	2007	2006
VALUE ADDED GENERATED				
Revenues from sales and services	2,906,968	2,619,189	3,364,716	3,005,108
Income from favorable court decisions	3,700	93,350	3,700	94,502
Nonoperating income (expenses)	(1,507)	2,776	(1,462)	2,985
	2,909,161	**2,715,315**	**3,366,954**	**3,102,595**
(-) Inputs				
Materials	(21,271)	(22,220)	(23,299)	(23,897)
Outside services	(75,045)	(67,727)	(87,539)	(78,240)
Fuel for electricity production	(118,684)	(95,575)	(126,960)	(102,070)
Electricity purchased for resale	(394,651)	(391,995)	(267,652)	(287,404)
Transactions within CCEE	(177,412)	(270,281)	(181,709)	(281,313)
Electric network usage charges	(169,161)	(162,625)	(205,762)	(202,545)
Insurance	(6,798)	(6,097)	(7,924)	(7,561)
Other	(21,460)	(3,966)	(23,715)	(9,734)
	(984,482)	**(1,020,486)**	**(924,560)**	**(992,764)**
GROSS VALUE ADDED	**1,924,679**	**1,694,829**	**2,442,394**	**2,109,831**
Depreciation and amortization	(176,521)	(159,004)	(229,119)	(208,364)
VALUE ADDED GENERATED, NET	**1,748,158**	**1,535,825**	**2,213,275**	**1,901,467**
VALUE ADDED RECEIVED IN TRANSFER				
Financial income	82,025	92,761	100,602	107,666
Equity in subsidiaries	179,091	113,538	(6,747)	(6,446)
VALUE ADDED FOR DISTRIBUTION	**2,009,274**	**1,742,124**	**2,307,130**	**2,002,687**

DISTRIBUTION OF VALUE ADDED

	Company				Consolidated			
	2007	%	2006	%	2007	%	2006	%
Compensation:								
Labor								
Payroll and related charges	94,073	4.7	81,782	4.7	95,777	4.2	83,432	4.2
Benefits	23,802	1.2	21,622	1.2	24,101	1.0	21,885	1.1
Profit sharing	13,001	0.6	11,901	0.7	13,038	0.6	11,938	0.6
	130,876	**6.5**	**115,305**	**6.6**	**132,916**	**5.8**	**117,255**	**5.9**
Debt								
Financial charges and monetary/ exchange variations	119,134	5.9	152,838	8.8	167,084	7.2	216,720	10.8
Other financial expenses	6,028	0.3	3,646	0.2	6,764	0.3	5,391	0.3
Rentals	7,334	0.4	5,524	0.3	7,907	0.4	6,491	0.3
	132,496	**6.6**	**162,008**	**9.3**	**181,755**	**7.9**	**228,602**	**11.4**
Government								
Taxes	252,985	12.6	220,171	12.7	345,438	15.0	309,285	15.4
Industry charges	102,852	5.1	78,659	4.5	127,381	5.5	95,588	4.8
ANEEL concession fees	-	-	-	-	34,302	1.5	24,980	1.2
Income and social contribution taxes	344,438	17.2	186,835	10.7	439,711	19.0	247,831	12.4
	700,275	**34.9**	**485,665**	**27.9**	**946,832**	**41.0**	**677,684**	**33.8**
Capital								
Legal reserve	52,282	2.6	48,957	2.8	52,282	2.3	48,957	2.4
Dividends and interest on capital	993,345	49.4	930,189	53.4	993,345	43.0	930,189	46.5
	1,045,627	**52.0**	**979,146**	**56.2**	**1,045,627**	**45.3**	**979,146**	**48.9**
	2,009,274	**100.0**	**1,742,124**	**100.0**	**2,307,130**	**100.0**	**2,002,687**	**100.0**

The accompanying notes are an integral part of these financial statements.

Notes

for the years ended December 31, 2007 and 2006

1 – OPERATIONS

Tractebel Energia S.A (the "Company") is an independent utility concessionaire with its registered head office in the city of Florianopolis, State of Santa Catarina, engaged in the generation and sale of electricity, regulated by the ANEEL (National Agency of Electric Energy), which is linked to the Ministry of Mines and Energy.

The Company's controlling interest is held by Suez Energy South America Participações Ltda., a company incorporated in Brazil and controlled by Suez-Tractebel Sociètè Anonyme, with headquarters in Brussels, Belgium, which belongs to the Suez Group based in France.

In March 2007, the Company acquired for R$28,793 a 2.82% interest in Machadinho Energética S.A. – MAESA, a Special Purpose Entity that operates, by means of a consortium, the Machadinho hydroelectric plant.

The Company's installed capacity, including the indirect ownership of the Itá, Cana Brava, Machadinho hydroelectric plants and the Lages cogeneration unit, is 5,881 MW, 79.37% of which is derived from hydroelectric plants and 20.63% from thermoelectric plants, including the following generation plants in operation: Salto Osório hydroelectric plant (State of Paraná), Salto Santiago hydroelectric plant (State of Paraná), Passo Fundo hydroelectric plant (State of Rio Grande do Sul), Itá hydroelectric plant (States of Rio Grande do Sul and Santa Catarina), Machadinho hydroelectric plant (States of Santa Catarina and Rio Grande do Sul), Cana Brava hydroelectric plant (State of Goiás), Charqueadas thermoelectric plant (State of Rio Grande do Sul), Alegrete thermoelectric plant (State of Rio Grande do Sul), William Arjona thermoelectric plant (State of Mato Grosso do Sul), Jorge Lacerda thermoelectric complex (State of Santa Catarina), and Lages cogeneration unit (State of Santa Catarina).

The Company's electricity supply capacity, including the long-term purchase agreement entered into with the subsidiary Itá Energética S.A. - ITASA, is 5,918 MW.

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

The Company is the parent company of Companhia Energética Meridional – CEM, with 99.99% of its shares, which holds the concession of Cana Brava hydroelectric plant located on the Tocantins River, State of Goiás. The Company also shares with Companhia Siderúrgica Nacional – CSN the control of Itá Energética S.A. – ITASA, in which it holds 48.75% of the voting capital. ITASA is a Special Purpose Entity established to build and operate, by means of a consortium, the Itá hydroelectric plant 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 shares of Lages Bioenergética Ltda., which has the permit to operate the Lages cogeneration unit, in the Municipality of Lages, State of Santa Catarina, and Tractebel Energia Comercializadora Ltda., a company that sells electricity in the free trading market.

In June 2007, the Company acquired from its parent Suez Energy South America Participações Ltda. the control of Companhia Energética São Salvador - CESS, equivalent to 99.99% of this company's shares, for R$304,000. CESS is a Special Purpose Entity established to build and operate the São Salvador hydroelectric plant.

The Company also acquired, in November 2007, through its wholly-owned subsidiary Delta Energética, the control of Seival Participações S.A., equivalent to 100% of this company's common shares, for R$23,813. Seival Participações S.A. holds 99.99% of the shares of Usina Termelétrica Seival Ltda., established as a Special Purpose Entity to build and operate a thermal, coal-fired steam generation unit.

The main characteristics of the subsidiaries and their businesses are described in note 10-b.

On December 13, 2007, Tractebel Energia announced to its shareholders and the market in general that its wholly-owned subsidiary Energia América do Sul Ltda. acquired the controlling interest in Ponte de Pedra Energética S.A. for R$592,000, to be paid provided that the predetermined terms and conditions set forth by the share purchase and sale agreement entered into on the same date are met, i.e., prior authorization by ANEEL and approval by the BNDES. Ponte de Pedra Energética S.A. holds the concession of the Ponte de Pedra hydroelectric plant, with installed capacity of 176.1 MW and guaranteed energy of average 131.6 MW, located on the Correntes River, State of Mato Grosso, in operation since September 2005. This acquisition by Energia América do Sul Ltda. represents a material investment for Tractebel Energia and is in line with article 256 of Law No. 6404/76, the reason why it will be submitted to the Shareholders' Meeting for ratification. The acquisition of the Ponte de Pedra plant is another step forward for Tractebel Energia, as part of its growth strategy in the Brazilian electricity industry.

2 – PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in conformity with Brazilian accounting practices and are presented in thousands of Brazilian reais - R$, unless otherwise stated. In order to improve the information disclosed to the market, the statements of cash flows and value added are presented as supplemental information.

Starting in January 2007, revenue from electricity sales is stated net of ICMS paid by tax substitution on interstate sales. Until December 31, 2006, ICMS was included in the caption "Deductions". In order to facilitate the comparative analysis between the periods presented, gross operating revenue and deductions for 2006 went from R$2,638,577 and R$230,592 to R$2,619,189 and R$211,204, Company, and R$3,060,737 and R$ 355,205 to R$ 3,005,108 and R$ 299,576, Consolidated.

3 – SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a) Cash investments - stated at cost, plus income earned through the balance sheet date. When carrying amounts exceed fair values they are adjusted by recognizing a provision.

b) Allowance for doubtful accounts - recorded in an amount considered sufficient by Management to cover probable losses on the realization of receivables from consumers, concessionaires and permittees and other receivables, based on an individual analysis of the existing receivables.

c) Deferred income and social contribution taxes (deferred tax assets) - calculated at the rates of 25% and 9%, respectively, in effect at the balance sheet dates, and recognized based on temporary differences. Segregation into current and noncurrent is made according to the expected realization of the underlying amounts.

d) Inventories - stated at weighted average cost of acquisition, which does not exceed market value.

e) Indexed assets - adjusted to the balance sheet date.

f) Investments – investments in subsidiaries and jointly-owned subsidiary are accounted for under the equity method and other investments are stated at cost, which does not exceed market value.

g) Property, plant and equipment - stated at acquisition or construction cost, less depreciation, calculated under the straight-line method, based on annual rates established by ANEEL, based on the balances recorded in the respective Registration Units (UC) that compose the projects. Average annual depreciation rates determined by the Company and its subsidiaries are stated in note 11-a.

Interest and other financial charges and inflation effects on funds borrowed from third parties to finance property, plant and equipment in progress are calculated as cost of the related asset. Until December 31, 1998, interest on capital linked to construction in progress was capitalized, in compliance with electric industry specific legislation.

h) Loans, financing and debentures - adjusted at exchange rates or contractual indexes (see notes 15 and 16) through the balance sheet date.

i) Other obligations - stated at known or estimated amounts, plus, when applicable, charges and monetary variations incurred.

j) Reserve for contingencies - recognized based on the assessment and quantification of the risks related to tax, civil, and labor lawsuits whose likelihood of loss is considered probable. These reserves are stated net of the related escrow deposits and are adjusted at the indices and rates established by tax authorities and the lawyers' fees related to such reserves are also recognized.

k) Post-employment benefits - recorded based on actuarial valuation by the Projected Unit Credit Method, plus the actuarially projected amounts, and adjusted on a monthly basis according to contractual indexes for contracted obligations (see note 21).

l) Results of operations - income and expenses are recorded on the accrual basis.

m) Recognition of inflation effects - reflects only the effects of monetary variations on assets and liabilities indexed due to legal or contractual provisions. In conformity with Law No. 9249, of December 26, 1995, the monetary adjustment system was discontinued beginning January 1996. Accordingly, the amounts of permanent assets and shareholders' equity are monetarily adjusted only through December 31, 1995.

n) Use of estimates - the preparation of financial statements in conformity with Brazilian accounting practices requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The main estimates for the financial statements refer to the allowance for doubtful accounts, reserve for contingencies and post-employment benefits, and the presentation of the payment profile and the realization of the related deferred tax assets.

o) Discount to present value - noncurrent assets and liabilities contracted at future prices are discounted to present value, at the discount rate of 10% p.a., usually prevailing in the electricity industry.

p) Consolidated financial statements

Intercompany balances and transactions and investments in investees are eliminated in consolidation.

The components of assets and liabilities, revenues and expenses of the jointly-owned subsidiary ITASA were consolidated in proportion to the Company's interest in this investee's capital (see note 10-b).

Since the interest of the Company in the other subsidiaries is 99.99%, no minority interest was disclosed in the consolidated financial statements.

4 – TEMPORARY CASH INVESTMENTS

	Company		Consolidated	
	2007	2006	2007	2006
Citibank - Exclusive Investment Fund				
Repurchase agreement with federal government and private sector securities [1]				
National Treasury notes (NTN) - B	424,512	-	535,435	-
Debentures	30,092	-	37,955	-
National Treasury bills (LTN)	241	153,637	303	153,637
	454,845	153,637	573,693	153,637
Bank certificates of deposit (CDB)	20,473	32,715	25,823	32,715
National Treasury bills (LTN)	40,410	-	50,969	-
Treasury bills (LFT)	49,333	-	62,224	-
	565,061	186,352	712,709	186,352
Instituições Financial institutions [2]				
Bank certificates of deposit (CDB)	-	-	31,657	16,518
National Treasury notes (NTN) - D	-	-	3,634	4,508
Repurchase agreements with federal government and private sector securities [1]				
Debentures	-	-	20,921	22,165
Treasury bills (LFT)	-	-	-	3,704
	-	-	56,212	46,895
	565,061	186,352	768,921	233,247
Banco Santos				
Bank certificates of deposit (CDB)	1,777	1,777	2,603	2,603
(-) Provision for losses	(1,777)	(1,777)	(2,603)	(2,603)
	565,061	**186,352**	**768,921**	**233,247**

The Company structured its temporary cash investments to concentrate its funds in an exclusive, balanced investment fund, the shares of which can be redeemed at any time without impairing its yield.

Exclusive funds do not entail significant financial obligations, which are limited to the asset management, investment transaction and audit fees, in addition to immaterial general and administrative expenses.

As of December 31, 2007, the fund's portfolio records interest futures transactions (DI Futuro BMF), intended to convert fixed interest into CDI-indexed interest. Gains or losses on these transactions are netted against the gains or losses on said securities' portfolio. The consolidated balance of these transactions as of December 31, 2007 is R$38,678.

These transactions have the following maturities and features:

	Amount	Maturity	Hedged portfolio	Maturity
DI Futuro	14,988	1/2/2008	LTN	1/1/2009
DI Futuro	23,690	7/1/2008	LTN	1/1/2008
	38,678			

The provision for losses on temporary cash investments was recognized to cover possible losses on investments in CDB that the Company and the subsidiary CEM have in Banco Santos, whose bankruptcy was declared in 2005.

[1] Sale of securities with repurchase commitments assumed by the seller, concurrent with the resale commitment assumed by the buyer. These transactions have immediate liquidity, yield fixed interest and are backed by federal government and private securities.

[2] Banco do Brasil, Banco Safra, Banco Santander, Banco Votorantim, Banco Itaú, ABN Amro Real, UNIBANCO, HSBC and National Treasury.

5 – CONSUMERS, CONCESSIONAIRES AND PERMITTEES

	Company				
	2007				2006
		Past-due			
	Current	Up to 90 days	Over 90 days	Total	Total
Current assets					
Concessionaires	192,569	-	-	192,569	181,914
Sellers	82,232	-	-	82,232	75,307
Free consumers	26,561	1,816	6	28,383	29,324
Exports	-	-	740	740	740
Transactions within CCEE/MAE					
- Current	6,185	127	-	6,312	-
- Installments	11,350	-	-	11,350	19,537
- Extraordinary tariff adjustment	1,373	212	-	1,585	7,841
- Agents with lawsuits or in default	109,873	-	11,947	121,820	121,820
	128,781	339	11,947	141,067	149,198
	430,143	**2,155**	**12,693**	**444,991**	**436,483**
(-) Allowance for doubtful accounts	(109,873)	-	(11,947)	(121,820)	(121,820)
	320,270	**2,155**	**746**	**323,171**	**314,663**
Noncurrent assets					
Transactions within CCEE/MAE					
- Installments	3,658	-	-	3,658	13,820
- Extraordinary tariff adjustment	890	-	-	890	2,243
	4,548	**-**	**-**	**4,548**	**16,063**

	Consolidated				
	2007				2006
		Past-due			
	Current	Up to 90 days	Over 90 days	Total	Total
Current assets					
Concessionaires	195,483	-	-	195,483	184,662
Sellers	42,999	-	-	42,999	75,136
Free consumers	84,203	4,143	6	88,352	67,838
Exports	-	-	740	740	740
Transactions within CCEE/MAE					
- Current	7,392	137	-	7,529	380
- Installments	11,350	-	-	11,350	19,537
- Extraordinary tariff adjustment	1,373	212	-	1,585	7,841
- Agents with lawsuits or in default	110,498	-	13,944	124,442	124,442
	130,613	349	13,944	144,906	152,200
	453,298	**4,492**	**14,690**	**472,480**	**480,576**
(-) Allowance for doubtful accounts	(110,498)	-	(12,076)	(122,574)	(122,574)
	342,800	**4,492**	**2,614**	**349,906**	**358,002**
Noncurrent assets					
Transactions within CCEE/MAE					
- Installments	3,658	-	-	3,658	13,820
- Extraordinary tariff adjustment	890	-	-	890	2,243
	4,548	**-**	**-**	**4,548**	**16,063**

Amounts past-due for more than 90 days for transactions within MAE (Wholesale Energy Market (current CCEE [Electric Power Trade Chamber]) 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 collection, the Company maintains an allowance for doubtful accounts, regardless of the actions applicable to the case.

The allowance for doubtful accounts related to outstanding amounts was recognized due to the uncertainties as to the realization of receivables arising from transactions made within MAE in the period September 2000-September 2002, whose debtor agents filed lawsuits because they disagreed with the interpretation adopted by MAE in connection with the Overall Agreement for the Electric Energy Sector.

6 – RECOVERABLE TAXES

	Company		Consolidated	
	2007	2006	2007	2006
Current				
ICMS (state VAT)	42,764	44,375	44,894	45,857
Income tax	-	9,021	681	10,369
Social contribution tax	-	2,945	-	3,199
COFINS (tax on revenue)	2,256	1,139	2,316	1,139
PIS (tax on revenue)	490	249	503	249
INSS (social security contribution)	2,913	7,245	2,913	7,245
	48,423	**64,974**	**51,307**	**68,058**
(-) Allowance for losses on ICMS credits	(40,138)	(41,351)	(40,138)	(41,351)
	8,285	**23,623**	**11,169**	**26,707**
Noncurrent				
ICMS	3,934	3,110	6,897	5,880
COFINS	8,762	5,943	8,772	5,953
PIS	1,902	1,289	1,904	1,291
INSS	6,610	-	6,610	-
	21,208	**10,342**	**24,183**	**13,124**

The provision for losses on ICMS credits is related to the tax levied on the purchase of natural gas for production of electricity in the William Arjona thermoelectric plant, in the State of Mato Grosso do Sul, and was recognized due to the difficulties to offset all such credits, since ICMS on the sale of electricity in that State was deferred.

7 – DEFERRED TAX ASSETS

	Company				
	2007				2006
Type of credit	**Tax basis**	**Income tax**	**Social contribution tax**	**Total**	**Total**
Interest on property, plant and equipment in progress	146,550	36,637	-	36,637	34,167
Post-employment benefits	190,812	47,703	17,173	64,876	57,120
Allowance for doubtful accounts	121,820	30,455	10,964	41,419	41,419
Reserve for contingencies	106,505	26,626	9,586	36,212	33,565
Provision for losses on ICMS credits	40,138	10,035	3,612	13,647	14,060
Accelerated depreciation of W. Arjona thermoelectric plant	25,190	6,298	2,267	8,565	9,701
Employee profit sharing and management bonuses	5,091	1,273	458	1,731	5,731
Discount to present value of receivables	20,181	5,045	1,816	6,861	8,598
Provision for losses on temporary cash investments	1,777	444	160	604	604
PIS and COFINS with suspended payment	4,787	1,197	431	1,628	-
Other	3,770	942	340	1,282	2,000
		166,655	**46,807**	**213,462**	**206,965**
Classification of deferred tax assets:					
Current		9,860	2,231	12,091	19,683
Noncurrent		156,795	44,576	201,371	187,282
		166,655	**46,807**	**213,462**	**206,965**

	Consolidated				
	2007				2006
Type of credit	**Tax basis**	**Income tax**	**Social contribution tax**	**Total**	**Total**
Interest on property, plant and equipment in progress	146,550	36,637	-	36,637	34,167
Post-employment benefits	190,812	47,703	17,173	64,876	57,120
Allowance for doubtful accounts	122,574	30,643	11,032	41,675	41,675
Reserve for contingencies	110,257	27,564	9,924	37,488	34,305
Provision for losses on ICMS credits	40,138	10,035	3,612	13,647	14,060
Accelerated depreciation of W. Arjona thermoelectric plant	25,190	6,298	2,267	8,565	9,701
Employee profit sharing and management bonuses	5,091	1,273	458	1,731	5,731
Discount to present value of receivables	20,181	5,045	1,816	6,861	8,598
Provision for losses on temporary cash investments	2,603	651	234	885	885
PIS and COFINS with suspended payment	6,416	1,604	578	2,182	-
Other	4,787	1,197	431	1,628	3,598
		168,650	**47,525**	**216,175**	**209,840**
Classification of deferred tax assets:					
Current		9,911	2,249	12,160	21,351
Noncurrent		158,739	45,276	204,015	188,489
		168,650	**47,525**	**216,175**	**209,840**

Deferred tax assets deriving from temporary differences will be realized upon the payment of the provisions recognized or, where applicable, upon realization of accrued losses.

Technical feasibility studies, examined by the Supervisory Board and approved by the Company's management, indicate that the deferred tax assets will be fully recovered by future taxable income.

The estimated realization of deferred tax assets through the generation of future taxable income is as follows:

Recorded deferred tax assets	**Company**	**Consolidated**
2008	12,091	12,160
2009	13,789	14,235
2010	12,663	12,746
2011	20,614	21,328
2012	39,037	39,482
2013 to 2015	89,886	90,808
2016 and 2017	25,382	25,416
	213,462	**216,175**

Unrecorded deferred tax assets	**Company**	**Consolidated**
2018	3,664	3,664
2019	3,492	3,492
2020	734	734
2021	734	734
2022	734	734
2023 to 2025	2,202	2,202
2026 to 2028	2,202	2,202
2029 and thereafter	1,686	1,686
	15,448	**15,448**
	228,910	**231,623**

The unrecorded deferred tax assets refer to Interest on property, plant and equipment in progress and its realization is made proportionally to the depreciation of the underlying assets, which currently exceeds 10 years, resulting in unrecorded deferred tax assets, in compliance with CVM Instruction No. 371/02, of June 27, 2002.

8 – TAX RECONCILIATION

	Company			
	2007		2006	
	Income tax	Social contribution tax	Income tax	Social contribution tax
Income before taxes	**1,390,065**	**1,390,065**	**1,165,981**	**1,165,981**
Permanent differences				
Additions				
Amortization of goodwill	6,747	-	6,746	-
Management bonuses and 13th salary	3,178	-	1,784	-
Donations	2,242	2,242	2,235	2,235
Other nondeductible expenses	354	354	314	314
Deductions				
Equity in subsidiaries	(185,838)	(185,838)	(120,284)	(120,284)
Interest on capital	(176,000)	(176,000)	(213,000)	(213,000)
Write-off of provision for loss on Jacuí thermoelectric plant	-	-	(303,131)	-
Interest on property, plant and equipment in progress				
Jacuí thermoelectric plant	-	-	(71,263)	-
Other assets	(14,636)	-	(13,630)	-
Tax basis	**1,026,112**	**1,030,823**	**455,752**	**835,246**
Tax rates	25%	9%	25%	9%
Income and social contribution taxes	**(256,528)**	**(92,774)**	**(113,938)**	**(75,172)**
Addition to deferred income tax on interest on property, plant and equipment in progress	2,471	-	-	-
Tax incentives	2,369	-	2,181	-
Other	24	-	94	-
Income and social contribution taxes - statement of income	**(251,664)**	**(92,774)**	**(111,663)**	**(75,172)**
Breakdown of taxes in the statement of income:				
Current	(257,095)	(93,840)	(98,489)	(42,610)
Deferred	5,431	1,066	(13,174)	(32,562)
	(251,664)	**(92,774)**	**(111,663)**	**(75,172)**

	Consolidated			
	2007		2006	
	Income tax	Social contribution tax	Income tax	Social contribution tax
Income before taxes	**1.485.338**	**1.485.338**	**1.226.977**	**1.226.977**
Permanent differences				
Additions				
Amortization of goodwill	6.747	-	6.746	-
Management bonuses and 13th salary	3.509	-	1.999	-
Donations	2.490	2.490	5.726	5.726
Losses on swap transactions	-	-	8.243	8.243
Other nondeductible expenses	272	272	345	345
Deductions				
Interest on capital	(176.000)	(176.000)	(213.000)	(213.000)
Write-off of provision for loss on Jacuí thermoelectric plant	-	-	(303.131)	-
Interest on property, plant and equipment in progress				
Jacuí thermoelectric plant	-	-	(71.263)	-
Other assets	(14.636)	-	(13.630)	-
Adjustment in subsidiary taxed based on deemed income	(5,508)	(3,995)	(12,801)	(10,951)
Other	-	-	(300)	(300)
Tax basis	**1,302,212**	**1,308,105**	**635,911**	**1,017,040**
Tax rates	25%	9%	25%	9%
Income and social contribution taxes	**(325,553)**	**(117,729)**	**(158,978)**	**(91,534)**
Prior year income and social contribution taxes	(1,195)	(430)	-	-
Addition to deferred income tax on interest on property, plant and equipment in progress	2,471	-	-	-
Tax incentives	2,617	-	2,503	-
Other	108	-	178	-
Income and social contribution taxes - statement of income	**(321,552)**	**(118,159)**	**(156,297)**	**(91,534)**
Breakdown of taxes in the statement of income:				
Current	(326,894)	(119,151)	(140,376)	(57,986)
Deferred	5,342	992	(15,921)	(33,548)
	(321,552)	**(118,159)**	**(156,297)**	**(91,534)**

9 – SALE OF ASSETS AND RIGHTS

This account records receivables from Elétrica Jacuí S.A. – ELEJA for the sale of the Jacuí thermoelectric project. ELEJA is a special purpose entity controlled by an owner of exploration rights of coal mines in the Jacuí project's region, which, pursuant to the agreement, assumed the responsibility for completing the project.

As a guarantee for the fulfillment of the contractual obligations, including the payment of the purchase price, ELEJA pledged to Tractebel Energia liens on the rights, goods and machinery and mortgage on the properties and related accessories sold under the agreement entered into by the parties.

According to terms of the agreement, the sale amounts are adjusted based on the IGP-DI (general price index – domestic supply) and will be received in 36 installments beginning with the commencement of operations of the Jacuí thermoelectric plant or four years after the sale date.

As contractual amounts are at future prices, the Company discounted the price to present value based on the discount rate of 10% p.a. The nominal amounts and the amounts discounted to present value (Company and Consolidated) are as follows.

	2007	2006
Sales price	101,496	93,855
(-) Discount to present value	(20,181)	(25,290)
	81,315	**68,565**

10 – INVESTMENTS

a) Breakdown

	Company		Consolidated	
	2007	2006	2007	2006
Investments in subsidiaries:				
Accounted for under the equity method				
Equity in subsidiaries	1,062,602	806,786	-	-
Goodwill	63,067	34,757	82,595	34,757
Accounted for at acquisition cost	28,796	3	28,796	3
Assets and rights for future use	1,895	1,742	1,895	1,742
Other investments	121	371	121	371
	1,156,481	843,659	113,407	36,873

b) Investments in subsidiaries

b.1) Accounted for under the equity method

			2007		2006	
Subsidiaries	Thousand shares	Ownership interest (%)	Net income (loss)	Shareholders' equity	Net income (loss)	Shareholders' equity
Itá Energética S.A. – ITASA	253,607	48,75	29,617	583,424	28,380	567,580
Companhia Energética Meridional - CEM	344,528	99,99	99,436	443,744	88,217	480,558
Companhia Energética São Salvador - CESS	268,943	99,99	-	268,943	-	-
Lages Bioenergética Ltda.	30,530	99,99	7,929	40,345	15,929	32,416
Tractebel Energia Comercializadora Ltda.	4,200	99,99	64,066	4,200	2,031	17,113
Delta Energética S.A.	20,960	99,99	(31)	20,898	(28)	3
Lagoa Formosa Bioenergética Ltda.	50	99,99	-	50	-	-

Changes in investments

Equity in subsidiaries

Subsidiaries	Balance as of 12/31/2006	Business incorporation / acquisition	Capital increase	Equity in subsidiaries	Dividends	Balance as of 12/31/2007
ITASA	276,695	-	-	14,438	(6,714)	284,419
CEM	480,558	-	-	99,436	(136,250)	443,744
CESS	-	268,943	-	-	-	268,943
Lages Bioenergética	32,416	-	-	7,929	-	40,345
Tractebel Energia Comercializadora	17,113	-	-	64,066	(76,979)	4,200
Delta Energética	4	-	20,925	(31)	-	20,898
Lagoa Formosa	-	50	-	-	-	50
Other	-	3	-	-	-	3
	806,786	**268,996**	**20,925**	**185,838**	**(219,943)**	**1,062,602**

Goodwill

Subsidiaries	Balance as of 12/31/2006	Business acquisition	Amortization	Balance as of 12/31/2007
ITASA	8,010	-	(2,289)	5,721
CEM	26,747	-	(4,458)	22,289
CESS	-	35,057	-	35,057
Company	**34,757**	**35,057**	**(6,747)**	**63,067**
Delta Energética				
Seival Participações	-	19,528	-	19,528
Consolidated	**34,757**	**54,585**	**(6,747)**	**82,595**

Information on subsidiaries

Itá Energética S.A. – ITASA (jointly-owned subsidiary)
ITASA is 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 is engaged in operating the Itá hydroelectric power plant, by means of a consortium, upon a concession granted by the Federal Government through ANEEL for a 35 year period starting on December 28, 1995. The plant is located on the Uruguay River, on the border of the States of Santa Catarina and Rio Grande do Sul, and has an installed capacity of 1,450 MW and an average 720 MW of guaranteed energy. Under the Consortium Agreement, ITASA is entitled to 60.5% of average 668 MW.

The goodwill on the investment acquisition is based on expected future earnings and is being amortized over 10 years. Goodwill was calculated based on cash flows calculated by a specialized financial institution, according to assumptions applicable to the subsidiary's environment, projected for the 35-year concession period.

The main assets, liabilities, income and expenses of the jointly-owned subsidiary are stated below and have been consolidated in proportion to the Company's interest in the subsidiary:

ASSETS	2007	2006
Current assets	69,220	74,786
Noncurrent assets		
Long-term assets	4,177	3,743
Permanent assets	976,714	1,022,962
	980,891	1,026,705
TOTAL ASSETS	**1,050,111**	**1,101,491**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	115,277	109,534
Noncurrent liabilities		
Long-term liabilities	351,410	424,377
Shareholders' equity	583,424	567,580
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,050,111**	**1,101,491**
STATEMENT OF INCOME		
Gross operating revenue	220,442	219,049
Deductions	(22,314)	(22,280)
Net sales revenue	**198,128**	**196,769**
ELECTRICITY PRODUCTION COST	**(58,934)**	**(45,447)**
GROSS PROFIT	**139,194**	**151,322**
OPERATING EXPENSES		
Selling expenses	(24,296)	(29,926)
General and administrative expenses	(20,236)	(19,526)
	(44,532)	**(49,452)**
Service income	**94,662**	**101,870**
Financial expenses, net	**(50,006)**	**(59,434)**
INCOME FROM OPERATIONS	**44,656**	**42,436**
NONOPERATING INCOME	**93**	**432**
INCOME BEFORE TAXES	**44,749**	**42,868**
Income and social contribution taxes	(15,132)	(14,488)
NET INCOME	**29,617**	**28,380**

Companhia Energética Meridional – CEM (subsidiary)
CEM holds the concession for Cana Brava hydroelectric plant, located on the Tocantins River, in the north of the State of Goiás, with an installed capacity of 450 MW and average 273.4 MW of guaranteed energy. The concession to build and operate the business venture is effective for a 35-year period, starting on August 27, 1998.

The goodwill on the controlling interest acquisition is based on expected future earnings and is being amortized over 10 years. Goodwill was calculated based on cash flows calculated by a specialized financial institution, according to assumptions applicable to the subsidiary's environment, projected for the 35-year concession period.

Companhia Energética São Salvador – CESS (subsidiary)
In 2007, the Company acquired all shares of CESS, held by its parent SUEZ Energy South America Participações Ltda.

CESS holds the concession of the São Salvador hydroelectric plant, with an installed capacity of 243.2 MW and average 148.5 MW of guaranteed energy. In October 2006, CESS sold in the Third New Power Auction, for a 30-year period, starting in January 2011, average 148 MW to electricity distributors that operate in the ACR (Regulated Contracting Environment).

The Company paid R$304,000 in cash, which could be increased by R$18,000, if the start date of the payments for Use of Public Asset (UBP) coincides with the start of electricity supply, originally scheduled for 2011 under the Electric Power Purchase Contracts.

Goodwill paid on the acquisition of controlling interest was R$35,057 and, if the condition above becomes effective, a further R$18,000 is due. Goodwill is based on expected future earnings and will be amortized beginning with the commencement of operations, scheduled for 2009. Goodwill was calculated based on cash flows calculated by a specialized financial institution, according to assumptions applicable to the subsidiary's environment, projected for the 35-year concession period.

CESS will pay the Federal Government, through ANEEL, for the concession of the São Salvador hydroelectric plant, the original amount of R$555,000, in monthly installments proportional to the adjusted annual amount. Under the Second Amendment to the Concession Agreement, dated July 18, 2007, payments will begin upon startup of the First Generating Unit of the São Salvador hydroelectric plant or the beginning of the delivery of the energy under the Regulated Environment Electric Power Purchase Contracts, whichever occurs first, through the end of the concession in April 2037.

Also under said Amendment, this amount was adjusted annually based on the IGP-M variation through the Amendment date, July 18, 2007, and from this date on, based on the IPCA variation.

The adjusted contractual amounts are as follows:

	2007	2006
Annual amount	33,009	30,164
Monthly installments (1/12)	2,751	2,514
Total nominal value	935,264	904,909
Total present value	286,317	278,000

Total present value was calculated based on a 10% p.a. discount rate, usually used by the Brazilian electricity industry, considering the payments in the period from January 1, 2009 to April 23, 2037.

Lages Bioenergética Ltda. (subsidiary)
Lages holds the permit to operate the Lages thermoelectric generation unit, located in the municipality of Lages, State of Santa Catarina. It has a steam turbo generator of 28 MW, using wood waste as fuel. The permit to build and operate the project is effective for 30 years, starting on October 30, 2002.

In 2006 the cogeneration plant was registered with the Executive Committee of the United Nations Clean Development Mechanism (CDM) for using wood waste to trade carbon credits.

Tractebel Energia Comercializadora Ltda. (subsidiary)
This company is engaged in the sale of electric energy in the free trading market, including the purchase, sale, import, and export of electricity, as well as intermediation of any of these operations and entering into business transactions arising from these activities.

Delta Energética S.A. (subsidiary)
In 2007, this subsidiary acquired all the shares of Seival Participações S.A., a special purpose holding company that owns 99.99% of the capital of Usina Termelétrica Seival Ltda., headquartered in the city of Porto Alegre, State of Rio Grande do Sul.

The acquisition of Seival Participações adds benefits to the development of the project for exporting electricity to Uruguay starting in 2012, since this company holds the rights (including ANEEL's permit, previous license and property purchase option) to build and operate a coal-fired thermoelectric plant in Candiota, State of Rio Grande do Sul, with installed power of up to 540 MW.

The acquisition price was R$23,813, of which R$20,813 was paid until December 31, 2007, and the remaining balance of R$3,000 will be settled as contractual terms and conditions are met.

Goodwill on the controlling interest acquisition was R$19,528, determined based on an economic and financial analysis of the benefits that the project acquisition will provide to the Company, and will be amortized from the start of operations.

Lagoa Formosa Bioenergética Ltda. (subsidiary)
Lagoa Formosa Bioenergética Ltda. is a special purpose entity, wholly-owned subsidiary of Tractebel Energia, which was established to build the São João Cogeneration Plant, a sugarcane biomass-fired plant in a consortium with the company Dedini Açúcar e Álcool Ltda. from the Dedini Agro Group.

In September 2007, Dedini was acquired by the Spanish group Abengoa, which decided to discontinue the consortium. However, Tractebel Energia is entitled to be indemnified for the breach of the agreement entered into by the parties. The project had sold an average 23 MW, starting in 2010, in the First Auction of Alternative Power Sources conducted by ANEEL in June 2007, and the commitment to build and deliver lies with Dedini.

b.2) Accounted for at acquisition cost

Machadinho Energética S.A. – MAESA
In March 2007, the Company acquired for R$28,793, 2.82% interest in Machadinho Energética S.A. – MAESA. MAESA is a special purpose entity engaged in operating, by means of a consortium, the Machadinho hydroelectric plant. The Machadinho Consortium is composed of MAESA and Tractebel Energia, which hold 83.06% and 16.94%, respectively. As a result of this acquisition, Tractebel Energia increased its total share in the concession and the consortium by 2.34%, to 19.28%.

11 – PROPERTY, PLANT AND EQUIPMENT

a) Breakdown

	Company				
	2007				2006
	Average depreciation rates	Adjusted cost	Accumulated depreciation/ amortization	Net	Net
In service					
Hydroelectric generation					
Salto Santiago plant	2.5	640,926	(505,695)	135,231	150,495
Salto Osório plant	2.7	311,678	(236,477)	75,201	70,754
Passo Fundo plant	2.4	119,752	(91,566)	28,186	30,353
Machadinho plant (consortium)	3.2	180,071	(25,735)	154,336	159,065
Itá plant (consortium)	3.6	1,233,790	(221,061)	1,012,729	1,060,782
		2,486,217	**(1,080,534)**	**1,405,683**	**1,471,449**
Thermoelectric generation					
Jorge Lacerda Complex	4.4	2,485,256	(1,353,746)	1,131,510	1,188,778
Charqueadas plant	6.2	58,808	(50,504)	8,304	7,338
Alegrete plant	3.6	8,289	(7,310)	979	851
William Arjona plant	4.3	174,657	(75,314)	99,343	105,220
		2,727,010	**(1,486,874)**	**1,240,136**	**1,302,187**
General and other equipment	10.0	**46,028**	**(21,176)**	**24,852**	**17,403**
		5,259,255	**(2,588,584)**	**2,670,671**	**2,791,039**
Property, plant and equipment in progress					
Hydroelectric generation		20,452	-	20,452	17,088
Thermoelectric generation		41,375	-	41,375	31,778
General and other equipment		2,200	-	2,200	6,024
		64,027	**-**	**64,027**	**54,890**
Total property, plant and equipment		**5,323,282**	**(2,588,584)**	**2,734,698**	**2,845,929**
Special obligations		**(9,480)**	**-**	**(9,480)**	**(9,494)**
		5,313,802	**(2,588,584)**	**2,725,218**	**2,836,435**

	Consolidated				
		2007			2006
	Average depreciation rates	Adjusted cost	Accumulated depreciation/ amortization	Net	Net
In service					
Hydroelectric generation					
Salto Santiago plant	2.5	640,926	(505,695)	135,231	150,495
Salto Osório plant	2.7	311,678	(236,477)	75,201	70,754
Passo Fundo plant	2.4	119,752	(91,566)	28,186	30,353
Machadinho plant (consortium)	3.2	180,071	(25,735)	154,336	159,065
Itá plant (consortium)	3.6	1,776,708	(315,999)	1,460,709	1,521,266
Cana Brava plant	3.0	874,550	(119,016)	755,534	780,930
		3,903,685	**(1,294,488)**	**2,609,197**	**2,712,863**
Thermoelectric generation					
Jorge Lacerda Complex	4.4	2,485,256	(1,353,746)	1,131,510	1,188,778
Charqueadas plant	6.2	58,808	(50,504)	8,304	7,338
Alegrete plant	3.6	8,289	(7,310)	979	851
William Arjona plant	4.3	174,657	(75,314)	99,343	105,220
Lages cogeneration unit	4.3	74,148	(11,535)	62,613	65,238
		2,801,158	**(1,498,409)**	**1,302,749**	**1,367,425**
General and other equipment	10.0	**46,194**	**(21,278)**	**24,916**	**17,492**
		6,751,037	**(2,814,175)**	**3,936,862**	**4,097,780**
Property, plant and equipment in progress					
Hydroelectric generation					
São Salvador plant		615,577	-	615,577	-
Other plants (construction works)		24,861	-	24,861	22,499
Thermoelectric generation		42,918	-	42,918	32,214
General and other equipment		2,213	-	2,213	6,024
		685,569	**-**	**685,569**	**60,737**
Total property, plant and equipment		**7,436,606**	**(2,814,175)**	**4,622,431**	**4,158,517**
Special obligations		**(9,605)**	**-**	**(9,605)**	**(9,619)**
		7,427,001	**(2,814,175)**	**4,612,826**	**4,148,898**

b) Changes in property, plant and equipment

	Company			Consolidated		
	In service	In progress	Total	In service	In progress	Total
Balance at 12/31/2005	**2,919,922**	**63,947**	**2,983,869**	**4,255,437**	**74,031**	**4,329,468**
Additions	-	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)
Balance at 12/31/2006	**2,791,039**	**54,890**	**2,845,929**	**4,097,780**	**60,737**	**4,158,517**
Additions						
São Salvador hydroelectric plant	-	-	-	-	615,577	615,577
Other plants	-	67,586	67,586	-	71,401	71,401
Transfers	58,196	(58,196)	-	59,000	(59,000)	-
Depreciation	(176,066)	-	(176,066)	(217,420)	-	(217,420)
Write-offs	(2,498)	(253)	(2,751)	(2,498)	(3,146)	(5,644)
	2,670,671	**64,027**	**2,734,698**	**3,936,862**	**685,569**	**4,622,431**
Special obligations	(9,480)	-	(9,480)	(9,605)	-	(9,605)
Balance at 12/31/2007	**2,661,191**	**64,027**	**2,725,218**	**3,927,257**	**685,569**	**4,612,826**

c) Special obligations

Refer to obligations linked to the electric power utility service and represent amounts invested in the projects under concession, with Federal Government funds and donations not contingent to any return for the benefit of the donor. Such obligations will be settled at the end of the related concessions, established by the Concession Grantor.

d) Regulatory Body concessions and permits

The Company and its subsidiaries hold the following electricity concessions and permits:

	Holder of concession or permit	Installed capacity MW	Date of concession/ permit	Expiration
I – Concessions				
Salto Santiago hydroelectric plant	Company	1,420	09/28/1998	09/28/2028
Salto Osório hydroelectric plant	Company	1,078	09/28/1998	09/28/2028
Passo Fundo hydroelectric plant	Company	226	09/28/1998	09/28/2028
Machadinho hydroelectric plant	Company	1,140	07/15/1997	07/15/2032
Itá hydroelectric plant	Company/ITASA	1,450	12/28/1995	10/16/2030
Cana Brava hydroelectric plant	CEM	450	08/27/1998	08/27/2033
São Salvador hydroelectric plant	CESS	241	04/23/2002	04/23/2037
II – Permits				
Jorge Lacerda Complex	Company	857	09/25/1998	09/28/2028
Charqueadas thermoelectric plant	Company	72	09/25/1998	09/28/2028
Alegrete thermoelectric plant	Company	66	09/25/1998	09/28/2028
William Arjona thermoelectric plant	Company	190	06/02/2000	04/28/2029
Lages thermoelectric plant	Lages Bioenergética	28	10/30/2002	10/30/2032

The concession of the Itá hydroelectric plant is shared with the jointly-owned subsidiary Itá Energética S.A. – ITASA (see note 10-b.1) and the concession of the Machadinho hydroelectric plant is shared with other concessionaires that compose the Machadinho Consortium (see note 10-b.2)

e) Restricted assets

In accordance with articles 63 and 64 of Decree No. 41,019 of February 26, 1957, assets and installations used in the generation, transmission, distribution and sale of electric power are linked to these services and cannot be retired, sold or pledged as mortgage guarantees without the prior and express authorization of the regulatory agency. ANEEL Resolution No. 20/99 regulates the electric power utility concession assets, requiring prior authorization for not restricting assets not tied to the concession, when intended for sale, and determining that the proceeds from the sale be deposited in a restricted bank account, and invested in the concession.

f) Federal Government assets used by the Company

The Company holds and operates the Alegrete thermoelectric plant, consisting of two generation units with total capacity of 66 MW and a residential village with 15 houses, located in the Municipality of Alegrete, State of Rio Grande do Sul, owned by the Federal Government and granted under special use regime.

12 – INTANGIBLE ASSETS

	Consolidated					
	2007				2006	
	Average amortization rates	Adjusted cost	Accumulated amortization	Net	Net	Company
Cana Brava HE plant operation rights	3.2	88,664	(15,488)	73,176	76,022	CEM
Software license	20.0	10,195	(7,879)	2,316	1,288	Consolidated
		98,859	**(23,367)**	**75,492**	**77,310**	

13 – UNITS 4 AND 5 OF WILLIAM ARJONA THERMOELECTRIC PLANT

Generation units 4 and 5 of the William Arjona thermoelectric plant, with a total power of 70 MW, use natural gas to generate electricity and have been built for the specific purpose of meeting the needs of the CBEE (Brazilian Emergency Electric Energy Trader), governed by the Electric Energy Supply Agreement executed on January 10, 2002, effective until December 31, 2004.

The Company's management was studying the possibility of discontinuing such generation units at the end of the agreement with the CBEE. In line with this possibility, the Company amortized the equity value of such assets over the period they were used, reaching a residual amount consistent with the estimated sale price.

On October 26, 2004, the Management of the Company communicated to the Advisory Department of the Ministry of Mines and Energy that after the termination of the agreement with the CBEE, these generation units would be maintained and remain available for centralized operation, according to the standards and procedures of the ONS (National Electric System Operator), beginning January 1, 2005, under the same conditions as units 1, 2 and 3.

Accordingly, the depreciation of these units was not discontinued. Concurrently with depreciation, the Company is reversing the accelerated amortization recognized over the agreement period with the CBEE.

The residual amount of generation units 4 and 5, as of December 31, 2007 and 2006, is R$33,134.

14 – TRADE ACCOUNTS PAYABLE

	Company		Consolidated	
	2007	2006	2007	2006
Electricity purchased	79,012	77,257	70,428	70,244
Transactions within CCEE	17,631	75,921	19,536	75,922
Electric network usage charges	49,747	44,379	54,167	48,880
Fossil fuels/biomass	40,195	6,252	39,148	6,334
Material and services	43,123	32,115	90,632	37,939
	229,708	**235,924**	**273,911**	**239,319**

15 – LOANS AND FINANCING

a) Breakdown

	Company					
	2007			2006		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Foreign currency						
National Treasury, net of deposited guarantees	20,545	160,504	181,049	24,799	223,460	248,259
BNP Paribas (Floating Rate Note)	-	104,343	104,343	112,810	-	112,810
Deutsche Bank	3,403	3,403	6,806	4,107	8,215	12,322
ABN AMRO Bank	2,498	-	2,498	6,029	3,015	9,044
Charges	4,501	-	4,501	5,966	-	5,966
	30,947	**268,250**	**299,197**	**153,711**	**234,690**	**388,401**
Local currency						
ELETROBRÁS	34,005	66,464	100,469	87,437	93,402	180,839
BNDES	1,790	-	1,790	9,769	1,987	11,756
Banco do Brasil	3,529	10,588	14,117	3,529	14,118	17,647
Charges	984	-	984	1,706	-	1,706
	40,308	**77,052**	**117,360**	**102,441**	**109,507**	**211,948**
	71,255	**345,302**	**416,557**	**256,152**	**344,197**	**600,349**

	Consolidated					
	2007			2006		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Foreign currency						
National Treasury, net of deposited guarantees	20,545	160,504	181,049	24,799	223,460	248,259
BNP Paribas (Floating Rate Note)	-	104,343	104,343	112,810	-	112,810
Deutsche Bank	3,403	3,403	6,806	4,107	8,215	12,322
ABN AMRO Bank	2,498	-	2,498	6,029	3,015	9,044
Charges	4,501	-	4,501	5,966	-	5,966
	30,947	**268,250**	**299,197**	**153,711**	**234,690**	**388,401**
Local currency						
ELETROBRÁS	34,005	66,464	100,469	87,437	93,402	180,839
BNDES	28,793	255,545	284,338	36,674	150,498	187,172
Financing agents - BNDES	14,990	338,409	353,399	14,935	85,879	100,814
Banco do Brasil	3,529	10,588	14,117	3,529	14,118	17,647
BRDE	6,810	24,969	31,779	6,785	31,664	38,449
Charges	1,950	6,506	8,456	3,008	-	3,008
	90,077	**702,481**	**792,558**	**152,368**	**375,561**	**527,929**
	121,024	**970,731**	**1,091,755**	**306,079**	**610,251**	**916,330**

b) Changes in loans and financing

	Company			Consolidated		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Balance at 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	68,583	-	68,583	100,758	5,727	106,485
Exchange variations	(4,133)	(21,005)	(25,138)	(4,133)	(21,005)	(25,138)
Interest on deposited guarantees	-	7,250	7,250	-	7,250	7,250
Amortization	(246,430)	-	(246,430)	(326,748)	-	(326,748)
Balance at 12/31/2006	**256,152**	**344,197**	**600,349**	**306,079**	**610,251**	**916,330**
Additions	-	-	-	-	392,651	392,651
Transfers	61,311	(61,311)	-	110,139	(110,139)	-
Rescheduling	(101,289)	101,289	-	(101,289)	101,289	-
Charges	54,075	-	54,075	82,687	15,552	98,239
Exchange variations	(21,067)	(33,465)	(54,532)	(21,067)	(33,465)	(54,532)
Interest on deposited guarantees	-	(5,408)	(5,408)	-	(5,408)	(5,408)
Amortization	(177,927)	-	(177,927)	(255,525)	-	(255,525)
Balance at 12/31/2007	**71,255**	**345,302**	**416,557**	**121,024**	**970,731**	**1,091,755**

c) Breakdown by foreign currency and local indices

	Company					
	2007			2006		
	Currency thousand	R$	%	Currency thousand	R$	%
Foreign currency						
US dollar – USD	109,411	193,800	46.52	128,392	274,502	45.73
Euro – EUR	40,404	105,397	25.31	40,386	113,899	18.97
		299,197	**71.83**		**388,401**	**64.70**
Local currency						
IVRRJR (UFIR-based)		101,272	24.31		182,286	30.36
Not indexed		16,088	3.86		29,662	4.94
		117,360	**28.17**		**211,948**	**35.30**
		416,557	**100.00**		**600,349**	**100.00**

	Consolidated					
	2007			2006		
	Currency thousand	R$	%	Currency thousand	R$	%
Foreign currency						
US dollar – USD	109,411	193,800	17.75	128,392	274,502	29.96
Euro – EUR	40,404	105,397	9.66	40,386	113,899	12.43
		299,197	**27.41**		**388,401**	**42.39**
Local currency						
IVRRJR (UFIR-based)		101,272	9.28		182,286	19.89
TJLP		675,198	61.84		315,981	34.48
Not indexed		16,088	1.47		29,662	3.24
		792,558	**72.59**		**527,929**	**57.61**
		1,091,755	**100.00**		**916,330**	**100.00**

d) Changes in foreign currencies and indices

	(%)	
Currency– index	**2007**	**2006**
US dollar – USD	(17.15)	(8.66)
Euro – EUR	(7.50)	1.85
TJLP (long-term interest rate)	6.37	7.87
SELIC (Central bank overnight rate)	11.88	15.08

e) Contractual terms and conditions

		Payment terms		
	Charges	**Maturity**	**Charges**	**Principal**
Foreign currency				
Tractebel Energia				
National Treasury	Libor + 1.075% p.a.	Apr 2024	Semiannual, in Apr and Oct	Semiannual, in Apr and Oct
BNP Paribas (Floating Rate Note)	Euribor + 2.75% p.a. [a]	Nov 2015	Annual in Nov	Lump sum in Nov 2015
Deutsche Bank	Libor + 0.55% + income tax on interest (10%)	Oct 2009	Semiannual, in Apr and Oct	Semiannual, in Apr and Oct
ABN AMRO Bank	Libor + 2.5% p.a.	Mar 2008	Semiannual, in Mar and Sep	Semiannual, in Mar and Sep
Local currency				
Tractebel Energia				
Eletrobrás	12% p.a.	Apr 2011	Monthly, until maturity	Monthly, until maturity
BNDES	Selic + 1% p.a.	Feb 2008	Monthly, until maturity	Monthly, until maturity
Banco do Brasil	9.35% p.a.	Dec 2011	Monthly, until maturity	Monthly, until maturity
CEM				
BNDES	TJLP + 4% p.a. [b]	Apr 2013	Monthly, until maturity	Monthly, until maturity
ITASA				
BNDES	TJLP + 4% p.a. [b]	Sep 2013	Monthly, until maturity	Monthly, until maturity
Financing agents - BNDES [d]	TJLP + 3.85% p.a. [b]	Sep 2013	Monthly, until maturity	Monthly, until maturity
LAGES				
BRDE	TJLP + 2.25% p.a. [b]	Aug 2012	Monthly, until maturity	Monthly, until maturity
CESS				
BNDES	TJLP + 2.7% p.a. [b]	Oct 2023	Monthly, until maturity[c]	Monthly, until maturity[c]
Financing agents - BNDES [d]	TJLP + 3.25% p.a. [b]	Oct 2023	Monthly, until maturity[c]	Monthly, until maturity[c]

[a] Rescheduling of maturity, postponed from November 2007 to November 2015 and spread to 2.75% p.a. from 7% p.a.

[b] The amount corresponding to the TJLP (long-term interest rate) that exceeds 6% p.a. will be capitalized and included in principal.

[c] Interest will be capitalized on a quarterly basis until October 2009, in January, April, July and October and included in principal. After the grace period, interest and principal will be paid on a monthly basis until October 2023.

[d] UNIBANCO, BRADESCO, Banco Itaú, Banco Santander and Banco Votorantim

f) Loans and financing - noncurrent liabilities

	Company			Consolidated		
	Foreign currency	Local currency	Total	Foreign currency	Local currency	Total
2009	21,725	30,974	52,699	21,725	84,624	106,349
2010	16,098	31,753	47,851	16,098	109,641	125,739
2011	16,098	14,325	30,423	16,098	92,213	108,311
2012	11,913	-	11,913	11,913	75,617	87,530
2013	7,728	-	7,728	7,728	54,368	62,096
2014	3,736	-	3,736	3,736	29,086	32,822
2015	104,343	-	104,343	104,343	29,086	133,429
From 2016 to 2022 (annual installments of R$29,086)	-	-	-	-	203,602	203,602
2023	-	-	-	-	24,244	24,244
2024	86,609	-	86,609	86,609	-	86,609
	268,250	**77,052**	**345,302**	**268,250**	**702,481**	**970,731**

g) Guarantees

g.1) Tractebel Energia S.A.

Loans and financing in foreign currency
National Treasury: (a) Assignment and transfer to the Federal Government of the receivables, up to the limit sufficient to cover the payment of the installments and other charges at each maturity date; (b) pledged deposit amounting R$62,642, as of December 31, 2007, stated as an offsetting account of the underlying financing.

ABN AMRO Bank: Promissory note, with maturity at sight, corresponding to the amount of the financing.

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

Loans and financing in local currency
ELETROBRÁS: (a) Powers of attorney 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, linked to the contractual terms.

BNDES: Assignment and transfer to the Bank of the amount equivalent to 1.33% of the monthly revenue of the Company, through deposits in the collection account and restricted account.

Banco do Brasil: (a) Assignment and credit transfer of receivables amounting R$ 8,726, represented by sales of electricity or other funds with the same purpose; (b) Pledged promissory note in the amount corresponding to the financing.

g.2) Itá Energética S.A. - ITASA

BNDES and Financing Agents: (a) Pledge of Concession-Related Rights to operate Itá hydroelectric plant; (b) Pledge of Receivables resulting from the Electricity Purchase and Sale Agreements entered into with its shareholders; (c) reserve account in an amount equivalent to three months of the BNDES debt, substituted by bank guarantee, and three months of the Itá plant's contractual operation and maintenance expenses. In addition to these guarantees, the shareholders pledged all the shares of ITASA to the BNDES and the Financing Agents.

g.3) Companhia Energética Meridional - CEM

BNDES: Credit Facility Agreement and Debenture Subscription and Payment Agreement: (a) Assignment of all revenue and other amounts received from the generation and sale of electricity from the Cana Brava hydroelectric plant; (b) Assignment of the right to receive all and any amounts collectible and payable from the Concession Grantor, under the Concession Agreement, including, but not limited to, all compensation for termination of the Concession; (c) obligation to maintain a Reserve Account with a deposit equivalent to six months of debt service.

g.4) Lages Bioenergética Ltda.: (a) Assignment of receivables from the Electricity Purchase and Sale Agreement entered into with CELESC, intermediated by Tractebel; (b) assignment of the Compensation Rights arising from the Steam and Biomass Purchase and Sale Agreements entered into with the companies Sofia Industrial e Exportadora Ltda. and Battistella Indústria e Comércio Ltda.; (c) assignment of Permit-Related Rights granted by ANEEL to establish as Independent Producer of electricity; (d) obligation to maintain a reserve account with a deposit equivalent to, on the average, four months of debt service.

g.5) Companhia Energética São Salvador - CESS

BNDES and BNDES onlendings – financing agents: (a) Pledge of Rights Related to the Concession for the operation of the São Salvador hydroelectric plant; (b) Centralized Receivables Account to receive CESS receivables, and (c) obligation to maintain a reserve account with a deposit equivalent to three months of debt service, plus an amount equivalent to three months of payment of the Project Operation and Maintenance Agreement.

16 – DEBENTURES

a) Breakdown

	2007			2006		
	Current	**Noncurrent**	**Total**	**Current**	**Noncurrent**	**Total**
Tractebel Energia S.A.						
1st Issue - 1st Series	6,483	142,539	149,022	4,939	140,000	144,939
1st Issue - 2nd Series	-	60,000	60,000	-	60,000	60,000
2nd Issue – Single Series	404	357,763	358,167	-	-	-
Charges	25,251	-	25,251	10,065	-	10,065
Total Company	**32,138**	**560,302**	**592,440**	**15,004**	**200,000**	**215,004**
CEM (Single Series)	**10,807**	**63,667**	**74,474**	**9,789**	**74,204**	**83,993**
ITASA (1st and 2nd Series)	**10,185**	**40,950**	**51,135**	**8,190**	**49,140**	**57,330**
Charges	3,430	-	3,430	4,851	-	4,851
Total Consolidated	**56,560**	**664,919**	**721,479**	**37,834**	**323,344**	**361,178**

b) Changes in debentures

	Company			Consolidated		
	Current	**Noncurrent**	**Total**	**Current**	**Noncurrent**	**Total**
Balance at 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	20,928	-	20,928	35,990	1,426	37,416
Monetary variations	-	6,590	6,590	2,359	6,590	8,949
Amortization	(21,148)	-	(21,148)	(54,473)	-	(54,473)
Balance at 12/31/2006	**15,004**	**200,000**	**215,004**	**37,834**	**323,344**	**361,178**
Additions	-	353,423	353,423	-	353,423	353,423
Transfers	9,167	(9,167)	-	28,150	(28,150)	-
Charges	33,487	-	33,487	46,930	256	47,186
Monetary variations	2,012	16,046	18,058	6,057	16,046	22,103
Amortization	(27,532)	-	(27,532)	(62,411)	-	(62,411)
Balance at 12/31/2007	**32,138**	**560,302**	**592,440**	**56,560**	**664,919**	**721,479**

On June 19, 2007, the Brazilian Securities Commission (CVM) authorized Tractebel Energia's First Public Debenture Distribution Program, through which the Company is allowed to publicly offer simple debentures, not convertible into Company shares. The Debenture offerings to be made by the Company as part of the Distribution Program are limited to R$1,500,000 during the Distribution Program period, until June 19, 2009.

On May 15, 2007, the Company made its second issue, the first as part of said Distribution Program, consisting of 35,000 simple, single series debentures without guarantee or preference, with par value of R$10,000.00, totaling R$350,000 at issue date. The agreed term and conditions are shown in item "c" below.

The public offering was fully settled on June 21, 2007, and the proceeds, including interest and monetary adjustment, was R$353,423. Proceeds were used in the acquisition of Companhia Energética São Salvador - CESS.

c) Contractual terms and conditions

	Number outstanding	Yield	Payment terms: Interest/monetary adjustment	Payment terms: Principal	Guarantee
Tractebel Energia					
1st series	14,000	IGPM + 9.29% p.a.	Annually on May 2	Lump sum on May 2, 2011	No guarantee
2nd series	6,000	103.9% of the CDI	Semiannually on May 2 and November 2	Lump sum on May 2, 2010	No guarantee
2nd issue Single series	35,000	IPCA + 7% p.a.	Annually on May 15	3 installments on May 15, 2012, May 15, 2013 and May 15, 2014	No guarantee
CEM					
Single series	7,773	TJLP + 4% p.a. (*)	Semiannually on April 1 and October 1, until April 1, 2013	Semiannual, ranging from 4.7027% on April 1, 2008 to 7.5737% on April 1, 2013	Receivables from electricity generation and sales
ITASA					
1st Series and 2nd Series	8,400	IGPM + 9.4% p.a.	Annually on December 1 (1st series) and June 1 (2nd series)	7 equal installments, on December 1 (1st series) and June 1 (2nd series) of each year, until December 1, 2013 (1st series) and June 1, 2013 (2nd series)	Pledge of receivables from electricity sales to its shareholders

(*) The amount corresponding to the TJLP (long-term interest rate) that exceeds 6% p.a. will be capitalized and included in principal.

d) Changes in indices

	(%)	
Currency– index	**2007**	**2006**
TJLP	6.37	7.87
IGP-M	7.75	3.83
CDI	11.82	15.03
IPCA (May-December)	2.33	-

e) Maturities of debentures stated in noncurrent liabilities

	Company	Consolidated
2009	-	20,078
2010	60,000	81,267
2011	142,540	165,114
2012	119,254	143,267
2013	119,254	135,939
2014	119,254	119,254
	560,302	**664,919**

17 – TAXES PAYABLE

	Company		Consolidated	
	2007	**2006**	**2007**	**2006**
Current				
Income tax	187,970	14,521	225,766	16,662
Social contribution tax	55,944	-	66,788	856
ICMS	11,376	6,535	30,002	13,666
PIS and COFINS	10,153	7,620	12,164	9,432
INSS	3,705	2,190	3,746	2,199
Other	2,576	2,881	2,930	3,055
	271,724	**33,747**	**341,396**	**45,870**
Noncurrent				
INSS	4,472	5,383	4,472	5,383
PIS and COFINS with suspended payment	4,787	-	6,416	-
ICMS	-	-	1,315	-
	9,259	**5,383**	**12,203**	**5,383**
	280,983	**39,130**	**353,599**	**51,253**

In 2007, the Company paid income and social contribution taxes on estimated taxable income, in accordance with prevailing legislation, differently from the previous year, when the calculation of taxable income proved to be more appropriate.

18 – RESEARCH AND DEVELOPMENT

Tractebel Energia, as an electricity generation company authorized to carry out independent production, must invest annually at least 1% of its revenue in research and development in the electricity industry.

These funds are allocated as follows: (i) 40% to the FNDCT (National Scientific and Technological Development Fund); (ii) 40% to research and development projects, pursuant to the regulations of ANEEL (National Electric Power Agency); and (iii) 20% to the Ministry of Mines and Energy, to fund energy system expansion planning studies and research, as well as the inventory and feasibility studies on the use of potential hydroelectric plants.

19 – RESERVES FOR CONTINGENCIES

The Company is a party to administrative and judicial proceedings involving tax, civil and labor matters, in which, according to the Company's legal counsel, the likelihood of loss is considered probable. All these proceedings are accrued in amounts considered sufficient to cover related contingencies, as follows:

a) Breakdown

	Company					
	2007			2006		
	Gross reserve	Escrow deposit	Net reserve	Gross reserve	Escrow deposit	Net reserve
Tax						
Social contribution tax	13,508	(3,489)	10,019	12,077	(3,119)	8,958
INSS	26,421	(11,609)	14,812	23,620	(10,503)	13,117
	39,929	**(15,098)**	**24,831**	**35,697**	**(13,622)**	**22,075**
Civil						
Agreements with suppliers	17,235	-	17,235	15,970	-	15,970
Occupational diseases and accidents	22,625	(491)	22,134	20,662	-	20,662
Sundry lawsuits	6,698	(20)	6,678	2,405	-	2,405
	46,558	**(511)**	**46,047**	**39,037**	**-**	**39,037**
Labor	**20,018**	**(17,533)**	**2,485**	**23,990**	**(21,061)**	**2,929**
	106,505	**(33,142)**	**73,363**	**98,724**	**(34,683)**	**64,041**
Classification in balance sheet						
Current			10,134			11,000
Noncurrent			63,229			53,041
			73,363			**64,041**

	Consolidated					
	2007			2006		
	Gross reserve	Escrow deposit	Net reserve	Gross reserve	Escrow deposit	Net reserve
Tax						
Social contribution tax	13,508	(3,489)	10,019	12,077	(3,119)	8,958
INSS	26,421	(11,609)	14,812	23,620	(10,503)	13,117
	39,929	**(15,098)**	**24,831**	**35,697**	**(13,622)**	**22,075**
Civil						
Agreements with suppliers	17,235	-	17,235	15,970	-	15,970
Occupational diseases and accidents	22,625	(491)	22,134	20,662	-	20,662
Sundry lawsuits	12,834	(1,143)	11,691	5,859	-	5,859
	52,694	**(1,634)**	**51,060**	**42,491**	**-**	**42,491**
Labor	**20,018**	**(17,533)**	**2,485**	**23,990**	**(21,061)**	**2,929**
	112,641	**(34,265)**	**78,376**	**102,178**	**(34,683)**	**67,495**
Classification in balance sheet						
Current			10,336			11,206
Noncurrent			68,040			56,289
			78,376			**67,495**

Tax Contingencies

Social contribution tax
Refers to the tax assessment notice issued by the Federal Revenue Service as the Company offset tax loss carryforwards for the year 1989 and 1990 against social contribution tax payable in the 1996 and 1997 income tax returns. According to the summary of said tax assessment notice, the offset of social contribution tax loss carryforwards is permitted by law only beginning January 1, 1992. The Company understands that the provisions of regulatory instructions that prohibited the offset of prior years' social contribution tax loss carryforwards has no legal basis, since there is no restriction to the offset in the Law. As regards the tax assessment notice for the year 1996, the decision at the administrative level was unfavorable to the Company, which will file a lawsuit to challenge the tax collection.

INSS (National Institute of Social Security)
The Company received a tax debt assessment notice for the nonpayment of the additional contribution for SAT (Occupational Accident Insurance) in April 1999-March 2004, due to the lack of evidence of the risk factor related to the work environment. The Company argues that there is no basis in the legislation referred to in the notice for the mentioned period, and that the additional contribution is payable if the employee is entitled to a special retirement benefit, which is not the case in said period. The Social Security Board of Appeals decided, based on the defense arguments filed by the Company, to convert the sentence into an inspection. The amount accrued as of December 31, 2007 is R$16,146.

The Company also received a notification from the INSS because of the alleged nonpayment of social security charges on compensation paid to employees. The subject matter of the notification was challenged by the Company, which argued that the amounts paid under collective labor agreements were paid as indemnities. The lower court decision was favorable to the Company, and declared the tax assessment notice null and void and the INSS was sentenced to refunding the deposits converted into revenue. The INSS filed an appeal against this decision with the 4th Region Federal Court. The amount accrued as of December 31, 2007 is R$7,406.

Civil contingencies

Agreements with suppliers
Refer mainly to an indemnity lawsuit filed by Companhia de Interconexão Energética - CIEN, claiming the recognition of the right to receive the difference related to the exchange adjustment provided for in the electricity sale agreement, and the termination of such agreement due to alleged breach of a clause by Tractebel Energia. The lawsuit was suspended on April 23, 2007 at the request of CIEN, after the Company filed its defense arguments. The amount accrued as of December 31, 2007 is R$13,490.

Occupational diseases and accidents
Refer to lawsuits filed by former employees, mainly related to repetitive strain injuries and possible damages to hearing capacity.

Sundry lawsuits
Arise mainly from expropriations and indemnity lawsuits filed by individuals and legal entities whose properties were flooded by the plants' reservoirs.

Labor contingencies
Refer to ongoing labor lawsuits filed by former employees, unions and employees of outsourced companies mainly related to claims of recognition of employment relationships and reinstatement. Other labor lawsuits are related to claims of hazardous duty premium, overtime, salary equalization, commute hours, and FGTS (severance pay fund).

b) Change

	Company			
	Tax	**Civil**	**Labor**	**Gross reserve**
Balance at 12/31/2006	**35,697**	**39,037**	**23,990**	**98,724**
Additions	-	5,337	1,521	6,858
Adjustments	4,232	3,680	1,742	9,654
Payments	-	(355)	(6,801)	(7,156)
Reversals	-	(1,141)	(434)	(1,575)
Balance at 12/31/2007	**39,929**	**46,558**	**20,018**	**106,505**

	Consolidated			
	Tax	**Civil**	**Labor**	**Gross reserve**
Balance at 12/31/2006	**35,697**	**42,491**	**23,990**	**102,178**
Additions	-	7,857	1,521	9,378
Adjustments	4,232	4,118	1,742	10,092
Payments	-	(362)	(6,801)	(7,163)
Reversals	-	(1,410)	(434)	(1,844)
Balance at 12/31/2007	**39,929**	**52,694**	**20,018**	**112,641**

c) Contingencies of possible or remote risk

The Company is also a party to other lawsuits that, in the opinion of the legal counsel, based on their experience in similar cases, do not represent a probable risk and, therefore, have not been accrued but only disclosed in the financial statements. The amounts involved are detailed below:

	Company					
	2007					2006
	Possible risk	**Remote risk**	**Total gross**	**Escrow deposit**	**Total net**	**Total net**
Tax	234,675	24,677	259,352	(118,343)	141,009	23,492
Civil	8,721	3,082	11,803	(2,514)	9,289	13,204
Labor	11,643	11,839	23,482	(5,500)	17,982	17,027
	255,039	**39,598**	**294,637**	**(126,357)**	**168,280**	**53,723**

	Consolidated					
	2007					2006
	Possible risk	**Remote risk**	**Total gross**	**Escrow deposit**	**Total net**	**Total net**
Tax	272,692	26,460	299,152	(142,462)	156,690	23,492
Civil	30,685	13,009	43,694	(2,717)	40,977	47,526
Labor	11,643	11,839	23,482	(5,500)	17,982	17,027
	315,020	**51,308**	**366,328**	**(150,679)**	**215,649**	**88,045**

The Company has escrow deposits linked to reserves for possible and remote risks that are mostly used to guarantee sentence execution or appeals. These amounts are monetarily adjusted and stated in noncurrent assets.

Tax contingencies

The main subjects of tax contingencies with possible risk are as follows:

PIS and COFINS
In July 2005, the Company filed for an Injunction against the Federal Revenue Service Director in Florianópolis, since it understands that Federal Revenue Service Regulatory Instruction No. 468/2004 overrun the jurisdiction of the Legislative Power by giving a new concept to the term "predetermined price", provided for by article 10 of Law No. 10833/03. 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 Decree Law No. 1598/1977, meaning said Regulatory Instruction is illegal.

As a result, the Company paid PIS and COFINS on revenue from agreements entered into before October 31, 2003 for periods longer than one year and at a predetermined price, based on the cumulative taxation system provided for by the previous law for the period November 2004-May 2005 in the amount of R$38,653. In the period June 2005-October 2006, the Company deposited the amounts it understands not to be due in an escrow deposit, amounting to R$121,319.

Due to the estimated favorable outcome at the 4th Region Federal Court, the Company suspended the deposits in December 2006. On April 11, 2007, the 4th Region Federal Court concluded the judgment of said injunction and unanimously recognized the illegality and unconstitutionality of Regulatory Instructions No. 468 and 658, both as regards the monetary adjustment clause and the economic and financial balance clauses in the agreements of Tractebel Energia and CEM.

On July 6, 2007, the Company received a tax delinquency notice for not having paid or reported in a Declaration of Federal Tax Debits and Credits (DCTF) the PIS and COFINS amounts related to November and December 2006. According to the Federal Revenue Service Office in Florianópolis, the nonpayment or deposit of the amounts, even if challenged in courts, is not supported by the law. On August 7, 2007, the Company challenged the tax delinquency notice, arguing that the amounts are not payable, based on the same grounds of the injunction granted in July 2005. The tax delinquency notice amount is included in possible risk tax contingencies.

According to the Company's legal counsel, the risk of an unfavorable outcome in the lawsuit is lower that the likelihood of a favorable outcome, and thus the Company is not accruing the unpaid amount since June 2005. The adjusted contingency as of December 31, 2007 is R$176,532, Company, and R$214,465, consolidated (R$77,465 and R$93,146, net of the aforementioned escrow deposits).

Income and social contribution taxes
The main tax assessment notices assessed as possible risks are as follows:

- Assessment notices issued by the Federal Revenue Service Office, because the Company offset credits against income and social contribution taxes payable by means of voluntary reporting, through a PER/DCOMP (Electronic Refund or Reimbursement Request and Offset Declaration), not subject to fines. Accordingly, the Federal Revenue Service partially approved the offset requests and the Company filed noncompliance notices, which are awaiting judgment. The Company argues that tax authorities cannot impose a penalty against a company that held tax credits and voluntarily reported its debts. The adjusted amount of the tax assessment as of December 31, 2007 is R$32,917, Company and consolidated;

- Assessment notices issued by the Federal Revenue Service Office, because the Company offset 1997 and 1998 social contribution tax loss carryforwards, arising from the merger of Centrais Geradoras do Sul do Brasil S.A. - GERASUL into Eletrobrás Geração S.A. – ELETROGER (currently Tractebel Energia S.A.), on a date subsequent to the amendment to the Law, in June 2001, that forbade the offset of tax loss carryforwards arising from mergers against social contribution tax payable. The Company argues that the merger was conducted before the prohibition to the utilization of tax loss carryforwards and that it is entitled to utilize them since these social contribution tax loss carryforwards were included in its equity upon the merger. As of December 31, 2007, the adjusted amount is R$17,644.

INSS
The main notices classified as possible risks are as follows:

- Infraction notice related to the social security contribution collection notices on indemnities. The Company was partially considered not guilty at the administrative level and filed a lawsuit, in which it obtained a favorable decision at the lower court. Currently, the Company is awaiting judgment of the INSS appeal. As of December 31, 2007, the adjusted amount is R$2,841.

- Tax assessment notices related to alleged joint liability of and transfer of liability from Centrais Elétricas do Sul do Brasil S.A. - ELETROSUL to Tractebel Energia related to the levy of social security charges on labor services provided by outsourced companies, until the spin-off of ELETROSUL, and resulting establishment of Centrais Geradoras do Sul do Brasil S.A. – GERASUL (currently Tractebel Energia). As of December 31, 2007, the adjusted amount is R$3,639.

Civil contingencies
Possible risk civil lawsuits refer basically to expropriations and indemnity lawsuits filed by individuals and legal entities that allege that their properties were flooded by the plants' reservoirs.

Labor contingencies
Possible risk labor contingencies refer mainly to lawsuits filed by former employees claiming recognition of employment relationship and additional pension benefits.

d) Contingent assets

Pursuant to guidance set out in an ANEEL Resolution, the consumption of fossil fuel acquired with CCC/CDE (fuel usage quota) funds, which until November 2005 was recognized as operating revenue under the caption "Fuel subsidies - CCC/CDE", started to be accounted for as an offsetting account of electricity production cost, under the caption "Fuel for electricity production".

The Company understands that due to the change in this accounting practice, PIS and COFINS paid as a result of the previously adopted accounting principle should be recovered. Accordingly, the Company is analyzing the most appropriate way to recover these taxes. The unrecorded contingent assets, adjusted to December 31, 2007, amount to R$58,179.

20 – CONCESSION FEES PAYABLE

The subsidiary Companhia Energética Meridional – CEM will pay to the Federal Government the amounts shown below for the concession granted to operate the Cana Brava hydroelectric plant, in monthly installments equivalent to 1/12th of the corresponding annual fees, adjusted based on the annual variation of the IGP-M. The historical and adjusted amounts as of December 31, 2007 are as follows:

	Historical amount		Adjusted amount	
Year	Annual	Total	Annual	Total
01.01.2008 - 07.30.2023	680	10,597	1,639	25,544
08.01.2023 - 07.30.2033	61,280	612,800	147,717	1,477,172
		623,397		**1,502,716**

In order to accurately reflect, in shareholders' equity, the concession fee and the related obligation to the Federal Government, CEM recorded the amount in intangible assets as a contra entry to current and long-term liabilities.

Considering that contractual amounts are stated at future prices, CEM discounted them to present value based on a discount rate of 10% p.a., as provided in the bid notice for the concession. Until startup of the Cana Brava plant, the adjustment of liabilities based on the discount rate and variation of IGP-M was capitalized in intangible assets and, thereafter, recognized directly in the statement of income.

a) Change

	Consolidated		
	Current	Noncurrent	Total
Balance at 12/31/2005	**1,530**	**178,130**	**179,660**
Transfers	1,564	(1,564)	-
Charges	-	18,039	18,039
Monetary variations	-	6,941	6,941
Amortization	(1,535)	-	(1,535)
Balance at 12/31/2006	**1,559**	**201,546**	**203,105**
Transfers	1,660	(1,660)	-
Charges	-	20,187	20,187
Monetary variations	-	14,115	14,115
Amortization	(1,580)	-	(1,580)
Balance at 12/31/2007	**1,639**	**234,188**	**235,827**

b) Maturities of concession fees payable stated in noncurrent liabilities

2009	1,639
2010	1,639
2011	1,639
2012	1,639
2013	1,639
From 2014 to 2033	225,993
	234,188

21 – POST-EMPLOYMENT BENEFITS

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

a) Pension plan

The Company, through PREVIG – Sociedade de Previdência Complementar, provides pension plans for its employees. PREVIG is a nonprofit closed pension entity governed by private law, sponsored by the Company, as Founder, and by other Suez Group companies.

The benefit plans managed by PREVIG are Defined Benefit and Defined Contribution plans. The Defined Benefit Plan is closed to new participants.

a.1) Defined Benefit Plan

The Defined Benefit plan has a capitalization system for pensions, survivors' pensions, and other benefits. The benefits granted are as follows:

- Supplementation of length of service retirement benefits;
- Supplementation of disability retirement benefits;
- Supplementation of age retirement benefits;
- Supplementation of special retirement and veteran retirement benefits;
- Supplementation of survivors' pensions;
- Supplementation of inmate pension; and
- Funeral allowance.

The initial pension is basically the difference between the arithmetic mean of the employee's last 36 actual contribution salaries to the Plan, adjusted on a monthly basis by the same indices adopted by the Social Security, and the hypothetical amount of the Social Security retirement benefit, determined by applying rules in effect before the enactment of Law 9876 of November 26, 1999. After being granted, the supplemental pension benefit is adjusted annually based on the variation of the INPC (national consumer price index), published by the IBGE.

The Benefit Plan is funded by the contributions of participants and the sponsor. The Company's contribution corresponds to twice the contribution of its employees.

Before the establishment of PREVIG, the Defined Benefit Plan was managed by Fundação Eletrosul de Previdência e Assistência Social – ELOS, sponsored by Tractebel and ELETROSUL, without joint and several liability between the sponsors. In October 2002, the Secretariat for Pension Plans approved the termination of the Adhesion Agreement with ELOS and the complete transfer of the benefits plan management to PREVIG. Despite the termination of the Agreement, due to injunctions granted to labor unions and the ELETROSUL Retirees Associations, the participants who started receiving benefits until December 23, 1997, the date of spin-off of ELETROSUL, as well as the participants who opted for Deferred Proportional Benefit until that date, remained in the Benefits Plan managed by ELOS, under the responsibility of the Company, which pays 57% of the administrative expenses of ELOS (the remaining 43% is funded by the Benefits Plan of ELETROSUL). Benefits plan expenses are limited to 15% of the related pension fund income of ELOS tied to the participants and the Company's liability in 2007 was R$1,558.

On May 15, 2007, the Company entered into agreements with ELOS, ELETROSUL, PREVIG and the ELETROSUL Retirees Associations to reinstate the adhesion to ELOS and thus permit the participants to opt for remaining with ELOS or being transferred to PREVIG. The Company is the Plan sponsor in both options. The deadline for making the option was November 30, 2007 and 29 participants opted for the transfer to PREVIG. This transfer is scheduled for January 2008.

The Company is also responsible for 100% of the amount of the administrative expenses of PREVIG linked to this Benefits Plan, limited to 15% of the total amount of the related pension fund income. In 2007 these expenses amounted to R$966.

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

Economic assumptions (nominal)	**2007**	**2006**
Discount rate (p.a.)	10.25%	10.75%
Expected rate of return on plan assets (p.a.)	10.50%	11.00%
Future salary growth rate		
- Active participants (p.a.)	5.00%	7.00%
- Self-sponsored (p.a.)	5.00%	5.00%
Increase in social security retirement benefits (p.a.)	5.00%	5.00%
Increase in benefits of the Plan sponsored by the Company (p.a.)	5.00%	5.00%
Inflation	5.00%	5.00%
Capacity factor		
- Salaries	100%	100%
- Benefits	100%	100%

Demographic assumptions	2007	2006
Mortality table (asset)	AT 2000 (per gender)	AT 2000 (per gender)
Disabled mortality table	RP 2000 Disabled	RP 2000 Disabled
Disability table	Watson Wyatt 1985 Disability Class 1	Watson Wyatt 1985 Disability Class 1
Turnover table	T-1 Service Table	T-1 Service Table
Retirement age	First date all grace periods are completed	First date all grace periods are completed
% of active participants married on the retirement date	90	90
Age difference between participant and spouse	Wives are 4 years younger than their husbands	Wives are 4 years younger than their husbands

Other assumptions	2007	2006
Participants entitled to conversion of special retirement into retirement for 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 is as follows:

	Company and consolidated					
	2007			2006		
	Pension plan	Confidentiality bonus	Total	Pension plan	Confidentiality bonus	Total
Present value of totally or partially funded actuarial obligations	1,249,541	-	1,249,541	1,179,927	-	1,179,927
Fair value of plan assets	(796,910)	-	(796,910)	(736,567)	-	(736,567)
Present value of fully unfunded actuarial obligations	-	1,632	1,632	-	1,628	1,628
Subtotal	452,631	1,632	454,263	443,360	1,628	444,988
Net value of actuarial losses not recorded in balance sheets	(124,867)	(613)	(125,480)	(130,187)	(707)	(130,894)
Liabilities recorded in balance sheets	**327,764**	**1,019**	**328,783**	**313,173**	**921**	**314,094**
Classification in balance sheet						
Current			18,450			20,369
Noncurrent			310,333			293,725
			328,783			**314,094**

The amount of actuarial losses exceeding 10% of the present value of actuarial obligations will be annually amortized on the straight-line basis, over approximately 6.75 years, which corresponds to the average time of future contributions estimated for the employees participating in the plan.

Part of the actuarial liabilities recognized in the balance sheet is covered by obligations contracted/recognized through a debt acknowledgement agreement and an agreement entered into by the Company and the pension plan entities. The breakdown of liabilities recognized in the financial statements is as follows:

	Company and Consolidated			
	2007			2006
	Current	Noncurrent	Total	Total
Contracted/recognized obligations				
Agreement of acknowledgement of past debts	15,709	122,189	137,898	144,945
Coverage of costs relating to conversion of special retirement into retirement for length of service (SB-40) and extraordinary contributions	2,216	2,548	4,764	9,709
Actuarial liabilities not subject to contract	525	185,596	186,121	159,440
Total actuarial liability	**18,450**	**310,333**	**328,783**	**314,094**

Contracted debts are adjusted based on the INPC disclosed by the IBGE and bear interest of 6% p.a. The amounts stated in noncurrent liabilities are as follows:

	ELOS	PREVIG	Total
2009	14,339	1,815	16,154
2010	15,222	1,923	17,145
2011	14,419	1,907	16,326
2012	11,581	1,946	13,527
2013	12,294	2,062	14,356
2014 and thereafter	28,911	15,770	44,681
	96,766	**25,423**	**122,189**

Changes in actuarial liability are summarized below:

	Pension plan	Confidentiality bonus	Total
Liabilities as of December 31, 2005	**285,721**	**1,054**	**286,775**
Expenses in 2006	58,158	199	58,357
Contributions	(30,706)	-	(30,706)
Benefits paid	-	(332)	(332)
Liabilities as of December 31, 2006	**313,173**	**921**	**314,094**
Expenses in 2007	45,445	262	45,707
Contributions	(30,854)	-	(30,854)
Benefits paid	-	(164)	(164)
Liabilities as of December 31, 2007	**327,764**	**1,019**	**328,783**

The amounts to be recognized in the 2008 statement of income related to the Defined Benefit Plan and the Confidentiality bonus are as follows:

	Pension plan	Confidentiality bonus	Total
Cost of current service	485	53	538
Cost of interest	123,667	137	123,804
Expected return on plan assets	(80,463)	-	(80,463)
Amortization of actuarial losses	1,620	40	1,660
Employees' contributions	(189)	-	(189)
	45,120	**230**	**45,350**

a.2) Defined contribution plan

In addition to 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 approval was communicated by the Secretariat for Pension Plans.

In the Defined Contribution plan, in which 94% of the Company's employees participate (889 participants), plan funding consists of basic contributions by the participants and the sponsor. The Company's basic contribution is equal to the basic contribution of its employees. The Company's contribution in 2007 was R$3,584.

In addition, as an incentive to migrate to the plan, the Company undertook a special contribution of R$4,256 in 2007, deposited in PREVIG's account to participants with at least 10 years of participation in the previous plan, calculated to increase the mathematical reserves of the participants and thus annul a possible impact on the participants for opting for the migration.

The Company was liable for funding 100% of the administrative expenses of the Defined Contribution Plan until December 31, 2006. In 2007, the sponsor was liable for 75% of the administrative expenses and the participants for 25%. The Company's contribution in 2007 was R$997.

Starting 2008, administrative expenses will be shared by the sponsor and the participants, taking into consideration the formation of a financial reserve for the participants. The portion corresponding to the reserve balance on participants' migration date from the Defined Benefit Plan to the Defined Contribution Plan will be fully assumed by the sponsor. 75% of the portion corresponding to the reserve recognized from then on will be funded by the sponsor and 25% by the participants.

b) Confidentiality bonus

Consists of the payment of a bonus to managers when their employment relationship is terminated.

22 – DEFERRED TAX LIABILITIES

Income and social contribution taxes recorded under this caption, Company and consolidated, amount to R$36,535 in long-term liabilities, calculated on the provision for sale of electricity 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 that disagree with the interpretation adopted by MAE in the application of certain accounting rules, as provided for by an ANEEL Resolution, in the event of a favorable outcome for these agents, both the revenue and the corresponding asset will no longer exist, and therefore it is being treated as a provision and deemed as temporary difference for tax purposes.

23 – SHAREHOLDERS' EQUITY

a) Authorized capital

The Company is authorized to increase its capital up to the limit of R$5,000,000, regardless of any amendment to its bylaws. Under the New Market Listing Regulations, the Company cannot issue preferred shares or founder shares. The Company does not hold 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, 2007, the Company's fully subscribed and paid-up capital is R$2,445,766, represented by 652,742,192 registered common shares without par value. The book value per share as of December 31, 2007 is R$ 4.32 (R$ 4.24 as of December 31, 2006).

The Company's capital structure is as follows:

	% of capital	
Shareholders	**2007**	**2006**
Suez Energy South America Participações Ltda.	68.71	68.71
Banco Clássico S.A.	10.00	10.00
BNDES Participações S.A. – BNDESPAR	2.80	2.80
Federal government	1.90	1.90
Other	16.59	16.59
	100.00	**100.00**

c) Breakdown of reserves

	2007	**2006**
Capital reserve		
Interest on assets and rights – own capital	**91,695**	**91,695**
Profit reserves		
Legal reserve	249,496	197,214
Profit retention reserve	29,896	29,896
	279,392	**227,110**

24 – DIVIDENDS

In 2007, the Company's Board of Directors approved the payment of interest on capital in the following amounts:

- R$88,000, corresponding to R$0.1348158600 per share, approved on May 10, 2007 and paid on October 25, 2007.

- R$88,000, corresponding to R$0.1348158600 per share, approved on December 5, 2007, which will be paid on a date subsequently set by the Executive Board and communicated through a Notice to Shareholders.

The above-mentioned amounts, net of withholding income tax, are being attributed to 2007 dividends.

Interest on capital was recorded under financial expenses and reversed from this caption and is not shown in the statement of income for the year, since it has no effect on operating income but only on the income and social contribution taxes.

On August 14, 2007, the Company's Board of Directors approved the payment of interim dividends based on the financial statements as of June 30, 2007, amounting to R$360,066, corresponding to R$0.5516214256 per share, which were paid on October 25, 2007.

Mandatory minimum dividends correspond to 30% of the net income, adjusted pursuant to the Company's bylaws.

	2007	2006
a) Mandatory minimum dividends		
Net income	1,045,627	979,146
Recognition of legal reserve (5%)	(52,282)	(48,957)
Calculation basis	993,345	930,189
Mandatory minimum dividends (30%)	**298,004**	**279,057**
b) Proposed dividends/interest on capital		
Interest on capital, net of withholding income tax	151,301	182,649
Interim dividends	360,066	324,000
Proposed additional dividends	457,279	393,189
Subtotal	968,646	899,838
Withholding income tax on interest on capital	24,699	30,351
Total	**993,345**	**930,189**
Dividends/interest on capital before withholding income tax, per common share **(at R$1.00)**:	1,5218031188	1,4250471146

Proposed additional dividends, amounting to R$457,279, corresponding to R$0.7005499732 per share and will be paid after approval by the Annual Shareholders' Meeting that approves the financial statements.

The allocation of net income was disclosed in the financial statements under the assumption it will be approved by the Annual Shareholders' Meeting.

25 – OPERATING EXPENSES DETAILED BY TYPE

	Company					
	2007					2006
	Costs		Expenses			
	Production and sale	Services provided	Selling	General and administrative	Total	Total
Personnel	89,037	7,915	6,549	37,909	141,410	126,889
Management	-	-	-	10,878	10,878	8,474
Materials	19,640	240	44	1,347	21,271	22,220
Outside services	42,176	2,037	863	29,969	75,045	67,727
Fuel for electricity production	118,684	-	-	-	118,684	95,575
Compensation for use of water resources	71,127	-	-	-	71,127	26,830
Electric network usage charges	-	-	169,161	-	169,161	162,625
Depreciation and amortization	174,910	-	2	1,609	176,521	159,004
Insurance	6,020	494	-	284	6,798	6,097
Labor indemnities and third-party indemnities	-	-	-	5,315	5,315	7,351
Industry dues	-	-	1,988	208	2,196	2,330
Inspection fee	-	-	-	6,782	6,782	8,011
Contributions and donations	222	54	16	6,889	7,181	5,319
Other	4,556	90	415	12,526	17,587	26,273
	526,372	**10,830**	**179,038**	**113,716**	**829,956**	**724,725**

	Consolidated					
	2007					2006
	Costs		Expenses			
	Production and sale	Services provided	Selling	General and administrative	Total	Total
Personnel	89,370	7,915	6,549	38,485	142,319	127,686
Management	-	-	-	12,356	12,356	9,944
Materials	21,589	240	50	1,421	23,300	23,897
Outside services	50,384	2,037	1,134	33,984	87,539	78,240
Fuel for electricity production	126,960	-	-	-	126,960	102,070
Compensation for use of water resources	89,756	-	-	-	89,756	38,326
Electric network usage charges	-	-	205,762	-	205,762	202,545
Depreciation and amortization	219,117	-	2	10,000	229,119	208,364
Insurance	7,146	494	-	284	7,924	7,561
Labor indemnities and third-party indemnities	-	-	-	5,315	5,315	7,355
Industry dues	-	-	2,701	307	3,008	2,803
Inspection fee	-	-	-	8,117	8,117	9,419
Contributions and donations	295	54	16	7,420	7,785	9,714
Other	5,012	90	543	12,432	18,077	28,200
	609,629	**10,830**	**216,757**	**130,121**	**967,337**	**856,124**

26 – (RECOGNITION) REVERSAL OF OPERATING PROVISIONS, NET

	Company		Consolidated	
	2007	2006	2007	2006
Post-employment benefits	818	(7,881)	818	(7,881)
Civil contingencies	(4,644)	23,520	(6,746)	23,078
Tax contingencies	1,213	(1,600)	1,213	(1,600)
Labor contingencies	1,653	(1,442)	1,653	(1,442)
Other	702	(702)	833	(702)
	(258)	**11,895**	**(2,229)**	**11,453**

27 – INCOME FROM FAVORABLE COURT DECISIONS

In 2007, the Company recognized the gain of R$3,700 arising from a final and unappealable decision on the lawsuit claiming the decrease in the SAT (occupational accident insurance) withholding rate.

The Company and its subsidiary CEM won lawsuits in the amount of R$87,535 and R$1,152, respectively, due to a final and unappealable decision favorable to the exclusion from the PIS and COFINS tax basis. Also in 2006, Tractebel Energia won a lawsuit in the amount of R$5,815, referring to the court settlement reached on a declaratory action for the undue payment of the guarantee insurance in an international bidding process for the importation of power from Argentina.

28 – FINANCIAL INCOME (EXPENSES)

	Company		Consolidated	
	2007	2006	2007	2006
Financial income				
Income from temporary cash investments	44,591	42,771	60,358	55,487
Interest on receivables	10,943	24,910	11,175	24,774
Monetary variation on escrow deposits	14,421	12,489	16,621	14,364
Monetary variation on receivables and other	5,756	2,726	5,756	2,738
Other	6,314	9,865	6,692	10,303
	82,025	**92,761**	**100,602**	**107,666**
Financial expenses				
Debt charges	82,539	96,970	124,841	151,360
Charges on ANEEL concession	-	-	20,187	18,039
Charges on actuarial liabilities	44,206	49,480	44,206	49,480
Charges on operating provisions, net	3,775	1,973	3,854	1,974
Charges on taxes	2,856	332	4,906	364
Monetary variation on financing and debentures	18,058	6,590	22,103	8,949
Monetary variation on ANEEL concession	-	-	14,115	6,941
Monetary variation – other	3,665	4,671	3,966	4,703
Exchange variation on loans and financing	(54,532)	(25,138)	(54,532)	(25,138)
Losses on foreign exchange swap transactions	21,551	17,441	21,551	25,684
CPMF (tax on banking transactions)	14,483	11,786	19,947	15,565
Other	7,926	5,218	10,111	5,953
	144,527	**169,323**	**235,255**	**263,874**
	62,502	**76,562**	**134,653**	**156,208**

29 – FINANCIAL INSTRUMENTS

a) Risk management

a.1) Market risk

The Company uses financial instruments to hedge its assets and liabilities, minimizing exposure to market risks, especially in connection with interest rate, price indices and currency fluctuations. The Company did not enter in any derivative contracts to hedge these risks; however, they are monitored by the Financial Management Committee, which periodically assesses the Company's exposure and proposes operating strategies, control systems, position limits and credit limits with other partners in the market.

In November 2007, the Company settled its last swap operation in the over-the-counter market, where the exchange variation on loans and financing was swapped for the CDI variation.

Losses on these transactions are stated as financial expenses under the caption "Losses on foreign exchange swap transactions".

a.2) Credit risk

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

In transactions with industrial customers, also known as Free Consumers, in order to minimize the credit risk related to those business partners, the Company, through its credit area, carries out a credit analysis and establishes, together with the Credit Committee, the credit limits and collaterals to be required from the other parties.

In financial market transactions, 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 ratings disclosed 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) Fair value

In transactions involving financial instruments, only in loans, financing and debentures significant differences between fair values and carrying amounts were found, mainly due to the fact that such financial instruments have quite extended repayment terms and significantly low costs as compared to the rates currently in force for similar agreements. To measure fair values, the Company's management used discounted future cash flows at rates deemed adequate for similar transactions or international market rates, when available.

	Company			
	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans/financing and charges in foreign currency	299,197	322,316	388,401	363,812
Loans/financing and charges in local currency	117,360	116,564	211,948	215,188
Debentures	592,440	483,202	215,004	195,865
	1,008,997	**922,082**	**815,353**	**774,865**

	Consolidated			
	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans/financing and charges in foreign currency	299,197	322,316	388,401	363,812
Loans/financing and charges in local currency	792,558	721,916	527,929	456,127
Debentures	721,479	601,958	361,178	332,301
	1,813,234	**1,646,190**	**1,277,508**	**1,152,240**

30 – RELATED-PARTY TRANSACTIONS

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

Itá Energética S. A. – ITASA
Electricity Purchase and Sale Agreement to regulate the purchase, by the Company, of average 167 MW of power owned by ITASA at the Itá hydroelectric plant, governed by the applicable legislation and market rules, in effect until October 16, 2030 and annually adjusted based on the IGP-M variation.

Electricity Purchase and Sale Agreement to regulate the purchase, by the Company, of average 61 MW of power owned by ITASA at the Itá hydroelectric plant, governed by the applicable legislation and market rules, in effect until October 16, 2030 and annually adjusted based on the variation of the US dollar and US inflation.

Service Agreement for Operation and Maintenance of the Itá hydroelectric plant, through the consortium Itá, in effect until October 16, 2030, the amounts of which are adjusted annually based on the IGP-M variation.

Companhia Energética Meridional – CEM
Electricity Purchase and Sale Agreement, effective until 2015, for purchase of electric power produced by the Cana Brava hydroelectric plant. The agreement establishes the purchase, by the Company, of an annual volume of 2,395,903 MWh. The agreement price is adjusted annually based on the IGP-M variation.

Agreement effective for an indefinite period, for the purpose of providing operating management services, since CEM does not have its own staff. The agreement price is adjusted annually based on the IGP-M variation.

Operation and Maintenance Agreement of Cana Brava hydroelectric plant, effective until the end of the plant concession, with amounts adjusted annually based on the IGP-M variation, under which the Company undertakes to operate and perform maintenance of the project.

Lages Bioenergética Ltda.
Electricity Purchase and Sale Agreement to regulate the purchase by the subsidiary of a monthly average of up to 26 MW of power owned by the Company, effective until March 31, 2017.

Agreement effective for an indefinite period, for the purpose of providing operating management services, since Lages does not have its own staff. The agreement price is adjusted annually based on the IGP-M variation.

Operation and Maintenance Agreement of the Lages Cogeneration power plant effective until March 31, 2012, under which the Company undertakes to operate and perform the maintenance of the facilities. The agreement price 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 period for the provision of management, planning, and economic, accounting, tax, legal and financial control services. The agreement price is adjusted annually based on the IGP-M variation.

Companhia Energética São Salvador – CESS
Agreement valid for an indefinite period for the provision of management, planning, and economic, accounting, tax, legal and financial control services. The agreement price is adjusted annually based on the IGP-M variation.

Suez-Tractebel S.A. (indirect parent company)
On April 17, 2007, the Company entered into an agreement with Suez-Tractebel S.A., its indirect parent company, headquartered in Brussels, Belgium, for the provision by this company of consulting services on specific subjects. The agreement was unanimously approved by the minority shareholders of the Company during the Extraordinary Shareholders' Meeting held on April 17, 2007, where the controlling shareholder waived its voting rights. The agreement period is 36 months, and its renewal is contingent upon the approval of the minority shareholders every twelve-month period at a Shareholders' Meeting called for this purpose. The fees effective during the agreement period are limited to an annual, noncumulative amount of 1,500,000 EUROS, and the services performed and the related fees are to be reported to the Company's Supervisory Board, which includes a member elected by the minority shareholders.

The amounts recorded in balance sheet and income statement accounts are as follows:

	2007							2006
	SESA[a]	CEM	ITASA	LAGES	TBLC [b]	CESS[c]	Total	Total
Assets								
Intercompany receivables	12	338	1,715	800	53,124	62	**56,051**	**17,732**
Dividends receivable from subsidiaries	-	61,363	3,429	4,929	21,285	-	**91,006**	**103,021**
Liabilities								
Intercompany payables	-	33,372	9,945	8	6,387	-	**49,712**	**42,068**
Dividends and interest on capital	365,602	-	-	-	-	-	**365,602**	**327,989**

	2007								2006
	SUEZ[d]	DELTA	CEM	ITASA	LAGES	TBLC [b]	CESS[c]	Total	Total
Income and expenses									
Operating revenue									
Electricity sales	-	-	-	-	5,801	323,593	-	**329,394**	**142,121**
Services									
Management	-	-	681	-	107	26	389	**1,203**	**759**
Operation and maintenance	-	-	1,790	10,167	1,484	-	-	**13,441**	**12,995**
Electricity costs									
Electricity purchase	-	-	277,017	116,136	-	-	-	**393,153**	**382,798**
Other	-	-	-	-	31	-	-	**31**	**18**
Operating expenses									
General and administrative	2,540	-	-	-	-	-	-	**2,540**	**-**
Financial									
Financial income	-	-	-	-	-	-		**-**	**213**
Equity in subsidiaries	-	(31)	94,978	12,149	7,929	64,066	-	**179,091**	**113,538**

(a) Suez Energy South America Participações
(b) Tractebel Energia Comercializadora
(c) Companhia Energética São Salvador
(d) Suez-Tractebel S.A.

31 – GUARANTEES TO THIRD PARTIES

Itá Energética S.A. - ITASA

The Company and other shareholders of ITASA are intermediating parties to the agreements entered into by this investee, the BNDES and other financing agents, linked to the construction of the Itá hydroelectric plant. The intermediating parties have pledged as collateral the total amount of shares issued by ITASA and held by them, until the final settlement of all obligations undertaken under these agreements. As of December 31, 2007, the debt is R$209,041 (R$243,059 as of December 31, 2006).

Companhia Energética Meridional - CEM

Tractebel Energia intermediated the Subscription and Payment Agreement of Debentures Nonconvertible into Shares and the Credit Facility Agreement, entered into by CEM and the BNDES. As an intermediating party, the Company has undertaken the following obligations under the agreements:

- ensure early payment solely in the following cases: a) termination of the concession for reason imputable to CEM, to the intermediating parties or their subsidiaries, affiliates or parent companies; and b) agreement entered into with the Concession Grantor by CEM, the intermediating parties or any of their subsidiaries, affiliates or parent companies, for the purpose of terminating the concession;

- assign to the BNDES any amounts of the indemnity received due to the termination of the concession of the Cana Brava hydroelectric plant by the Concession Grantor.

In addition to the obligations above, Tractebel Energia has pledged to the BNDES, as collateral, all its shares, representing the capital of CEM, until the final settlement of all obligations undertaken under the agreements above. As of December 31, 2007, the debt is R$156,109 (R$180,511 as of December 31, 2006).

Lages Bioenergética Ltda.
The Company is the intermediating guarantor of the Fixed Credit Facility Agreement entered into by Lages Bioenergética with Banco Regional de Desenvolvimento do Extremo Sul – BRDE, and pledged as collateral, its shares of the subsidiary, until the final settlement of all obligations undertaken under the agreement. As of December 31, 2007, the debt is R$31,877 (R$38,585 as of December 31, 2006).

Companhia Energética São Salvador – CESS
The Company is an intermediating party to the agreements entered into by this investee and the BNDES and other financing agents, linked to the construction of the São Salvador hydroelectric plant. The intermediating party pledged as collateral the total amount of shares issued by CESS it holds, until the final settlement of all obligations undertaken under these agreements. As of December 31, 2007, the debt is R$407,210.

32 – INSURANCE

The Company has a comprehensive operating risk insurance policy with a declared amount for property damages of US$3,570,974,000, equivalent to R$6,325,266 as of December 31, 2007, and with a declared amount for loss of profits of US$42,458,000, equivalent to R$75,206 as of December 31, 2007. The maximum combined material damage and loss of profits claim limit is US$250,000,000, corresponding to R$442,825 as of December 31, 2007, per event.

The policy and amounts above refer to properties owned by the Company. The Cana Brava hydroelectric plant, whose concession belongs to the subsidiary Companhia Energética Meridional - CEM, is included in the insurance policy of Tractebel Energia with a declared amount for material damages of US$278,569,000 equivalent to R$493,429 as of December 31, 2007.

In addition to such coverage, the Company has civil liability insurance policies with coverage of US$50,000,000, equivalent to R$88,565 as of December 31, 2007. Such policies include the Itá hydroelectric plant, built and operated by means of a consortium with the jointly-owned subsidiary ITASA.

The subsidiary Lages Bioenergética Ltda. has Operating Risk insurance with coverage of US$25,000,000 equivalent to R$44,283 as of December 31, 2007, and civil liability insurance with coverage of US$50,000,000, equivalent to R$88,565 as of December 31, 2007.

Companhia Energética São Salvador – CESS, subsidiary of Tractebel Energia since May 1, 2007, has an engineering risk policy with twelve-month comprehensive maintenance coverage, and maximum claim limit of R$701,880. CESS also has two civil liability polices with R$22,200 coverage each.

In addition to these strategic insurance policies, the Company has insurance to cover national and international transportation risks, civil liability of the directors and management, extended to its subsidiaries, as well as group life insurance for its officers and employees.

33 – LONG-TERM AGREEMENTS

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

a) Connection agreement

The Company entered into a Connection Agreement with ELETROSUL Centrais Elétricas S.A., effective until the first of concession termination date of Tractebel Energia's generation units or the liquidation of the transmission company.

b) Transmission and distribution network usage agreement

The Company entered into agreements with the ONS (Electric System National Operator), electricity carriers and Empresa Energética do Mato Grosso do Sul S.A. - ENERSUL, effective until the first of the termination of the concessions or permits granted to Tractebel Energia's generation units or the liquidation of carriers and distributors.

c) Electricity purchase and sale of bilateral agreements

According to guaranteed energy and purchase and sale agreements, the Company's energy balance sheet shows that current capacity is almost fully sold for 2008 and a significant portion is contracted for 2009 and 2010.

d) Purchase of electricity from Argentina

The Company entered into an agreement with CIEN – Companhia de Interconexão Energética, for a 20-year period 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, ANEEL conducted an inspection to check the physical power delivery guarantee conditions at the Uruguaiana thermoelectric plant and at the Garabi Interconnections (CIEN), where it verified the non-availability of actual electricity generation and transmission at the contracted volumes. As a result, the Ministry of Mining and Energy issued an Administrative Rule, defining new physical guarantee volumes for the respective generation and interconnection facilities.

On April 1, 2005, an ANEEL Regulatory Instruction was published establishing the criteria to be used by the ONS (Electric System National Operator) and the CCEE (Electric Power Trade Chamber) to determine the power generation and physical guarantee availability limits at the Uruguaiana thermoelectric plant and for the Garabi interconnections. Based on these regulations, the physical guarantee volume originally attributed to CIEN to meet the 300 MW agreement was reduced to approximately 72 MW. Due to the way the agreement is registered with the CCEE, that reduction would subject the Company to the penalties provided for by industry legislation, for lack of physical guarantee, and exposure to the spot market of the CCEE, which led the Company to enter into an agreement for the purchase of the corresponding electricity from another agent. As a result, the Company understands that a contract breach by CIEN was characterized and that the fines and indemnities provided for by the agreement should be paid to the Company. 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 the Company as fine and indemnities (which CIEN has not paid in relation to any issued invoices in relation to that agreement, since the reduction of the physical assurance), the Company has not been paying said invoices since March 2005 since they consider them incorrect.

ANEEL, through Regulatory Resolution No. 224, of June 20, 2006, reduced to zero the amounts of physical guarantee of electricity generated from CIEN imports, due to CIEN's impossibility to supply electricity. This reduction will be maintained until CIEN proves the existence of available electricity.

e) Purchase of natural gas

The Company entered into a gas purchase agreement with Companhia de Gás do Mato Grosso do Sul - MSGÁS, effective for five years, starting 2001, the startup of the William Arjona thermoelectric plant, located in Campo Grande, State of Mato Grosso do Sul, renewable for an additional five years.

With the expiration of the contract period, on May 22, 2006, the Company showed its interest to renew the agreement, however, MSGás communicated that the renewal would depend on the adjustment of the product price, as determined by Petrobrás, the seller of the gas to MSGás.

In view of Petrobras' threat to cut gas supply to the plant, the Company filed for an injunction against MSGás and Petrobras, with request for temporary restraining order, which was granted to assure the gas supply according to the terms of the agreement.

The Company also filed a lawsuit to ensure the renewal of the agreement, which is awaiting judgment by Mato Grosso do Sul courts.

In a recent appeal filed with the Superior Court of Justice, Petrobras was granted the stay of the lawsuit, authorizing it, in November 2007, to suspend gas supply to the plant.

As a result, the Company has bought power in the CCEE to supply the Arjona guaranteed volume. As an alternative, the Company is assessing the feasibility of operating with diesel oil as fuel, since the plant has this flexibility.

34 – AMENDMENT TO BRAZILIAN CORPORATE LAW – LAW 6404/1976

On December 28, 2007, Law No. 11638 was enacted, altering, revoking and adding new provisions to the Brazilian Corporate Law, especially with respect to chapter XV, Fiscal Year and Financial Statements. Law No. 11638/07 was designed primarily to update accounting practices as contemplated in Brazilian corporate law, so as to enable the convergence of Brazilian accounting practices with accounting standards generally accepted in the international capital markets, and contemplates broad changes to accounting practices generally accepted in Brazil, as they related to statutory accounting practices and procedures. The Law also allows the Brazilian Securities Commission (CVM) to issue new accounting standards and procedures, applicable to public companies in Brazil, in conformity with such international accounting standards. Certain of these changes shall be applied as of the beginning of the Company's fiscal year while others are subject to regulation by regulatory agencies.

The main changes are summarized as follows:

- Replacement of the statement of changes in financial position by the statement of cash flows.

- A new requirement for the presentation of a statement of value added.

- Possibility of maintaining separate accounting records for purposes of complying with tax legislation and reflecting necessary adjustments in order to prepare the financial statements in conformity with Brazilian Corporate Law.

- Creation of new account groups: intangible assets, in Permanent assets and valuation adjustments to shareholders' equity, in order to record certain fair value adjustments, mainly for financial instruments; foreign exchange rate variations on foreign investments accounted for under the equity method of accounting; and certain fair value adjustments related to assets and liabilities as a result of a merger between unrelated parties that results in the transfer of control.

- Standardization of new criteria for the classification and measurement of investment in financial instruments, including derivatives;

- Requirement that certain long-term assets and liabilities be recorded at present value, and, if material, for certain other short-term assets and liabilities.

- Changes in the parameters for accounting for affiliates under the equity method;

- Introduction of the large company concept;

The Company already presents the statements of cash flows and value added as supplemental information and the segregation of intangible assets in permanent assets.

As these changes have only been introduced recently, and some of them are still subject to regulation by regulatory agencies, Management has not yet been able to assess all the effects that such changes might have on its financial statements and results of operations for the following years.

35 – SUBSEQUENT EVENT

Tractebel Energia S.A. and its wholly-owned subsidiary Companhia Energética Meridional – CEM, communicated through a Significant Event Notice issued on January 24, 2008, that their Boards of Directors will submit to their shareholders, during an Extraordinary Shareholders' Meeting to be called, the merger into Tractebel Energia of its wholly-owned subsidiary CEM, through the assignment of CEM's shareholders' equity at book value.

The merger is intended to streamline the group's corporate structure, through a corporate and equity restructuring mainly involving the merger of CEM into Tractebel Energia, which not only would reduce the current organizational structure, reducing costs, increasing shareholders' value, streamlining and optimizing investments, but would facilitate the unification, standardization and enhancement of general business management of the companies, and allow the elimination of negotiation costs from maintaining two companies.

The Share and Company Merger Agreement was entered into by the parties and the merger proposal has been previously approved by the Boards of Directors of the companies and the holders of CEM's 1st issue debentures.

Additionally, ANEEL approved, through an Authorization Resolution, the transfer of the generation concession of the Cana Brava Hydroelectric Plant to Tractebel Energia, due to said merger.

BOARD OF DIRECTORS

Maurício Stolle Bähr
Chairman

Jan Franciscus María Flachet
Vice- Chairman

Manoel Arlindo Zaroni Torres
Board Member

Victor-Frank de Paula Rosa Paranhos
Board Member

Dirk Beeuwsaert
Board Member

Pierre Michel Philippe Chareyre
Board Member

Luiz Antônio Barbosa
Board Member

José Pais Rangel
Board Member

Antonio Alberto Gouvêa Vieira
Board Member

EXECUTIVE BOARD

Manoel Arlindo Zaroni Torres
Chief Executive Officer

Marc Verstraete
Finance and Investor Relations Officer

Miroel Makiolke Wolowski
Business Development and Sales Officer and Project Implementation Officer

José Carlos Cauduro Minuzzo
Energy Production Officer

Marco Antonio Amaral Sureck
Planning and Control Officer

Luciano Flávio Andriani
Administrative Officer

ACCOUNTING DEPARTMENT

Marcelo Cardoso Malta
Manager of the Accounting Department
Accountant – CRC RJ 072 259/O-5 S-SC

Independent Auditors' Report

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

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Tractebel Energia S.A. and subsidiaries as of December 31, 2007, and the related statements of income, changes in shareholders' equity (Company), and changes in financial position for the year 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 audit was 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 and its subsidiaries, (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 in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Tractebel Energia S.A. and subsidiaries as of December 31, 2007, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial positions for the year then ended in conformity with Brazilian accounting practices.

4. Our audit was conducted for the purpose of forming an opinion on the basic financial statements referred to in paragraph 1, taken as a whole. The accompanying individual and consolidated statements of cash flows and value added for the year ended December 31, 2007 are presented for purposes of additional analysis and are not a required part of the basic financial statements in conformity with Brazilian accounting practices. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements for the year ended December 31, 2007, taken as a whole.

5. The basic financial statements and the individual and consolidated statements of cash flows and value added for the year ended December 31, 2006, presented for comparative purposes, were audited by other independent auditors, whose report thereon, dated February 5, 2007, was unqualified.

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

Rio de Janeiro, February 1, 2008

DELOITTE TOUCHE TOHMATSU
Auditores Independentes
CRC 2SP 011.609/O-8 "F" SC

Roberto Paulo Kenedi
Engagement Partner
CRC 1RJ 081.401/O-5 (S) SC

Report of the Supervisory Board

The members of the Supervisory Board of Tractebel Energia S.A., Newton de Lima Azevedo Junior, Paulo de Resende Salgado and Manoel Eduardo Lima Lopes, undersigned, after examining the Management Annual Report, including the Financial Statements and the Management Report for the year 2007, and based on the independent auditors' opinion issued by Deloitte Touche Tohmatsu on February 1, 2008, state that the Management Annual Report is an adequate representation, in all material aspects, of the equity and financial position of Tractebel Energia S.A. as at December 31, 2007, and is suitable to be submitted to the General Meeting of Shareholders of the Company.

Rio de Janeiro, March 7, 2008.

Newton de Lima Azevedo Junior
Supervisory Board Chairman

Paulo de Resende Salgado
Supervisory Board Member

Manoel Eduardo Lima Lopes
Supervisory Board Member

CREDITS

GENERAL COORDINATION
Tractebel Energia S.A.

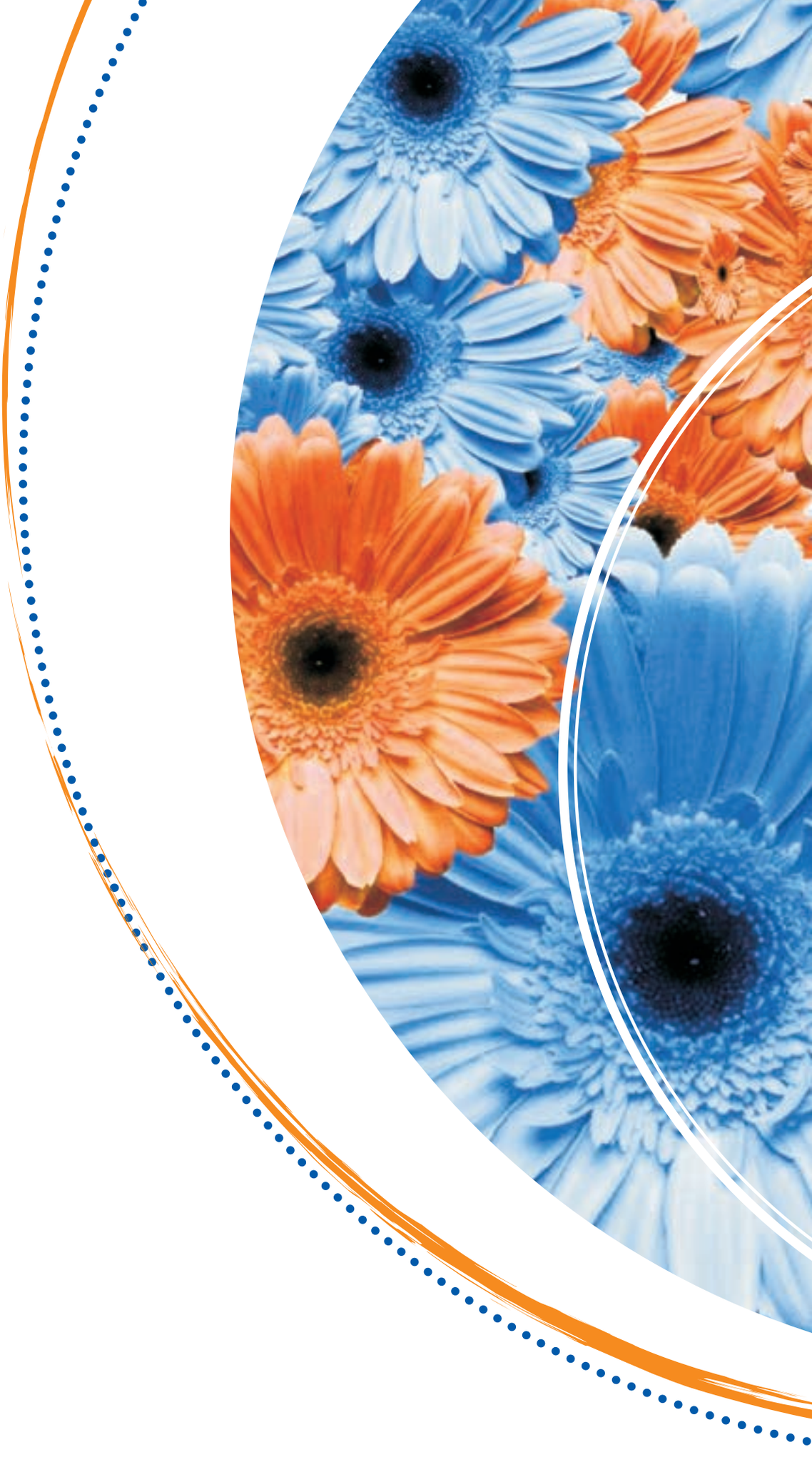
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Communications Support
Investor Relations Department
Mario Benevides

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Tractebel Energia

SUEZ

Rua Antônio Dib Mussi, 366
CEP 88015-110 | Florianópolis | SC | Brazil
Phone.: +55 48 3221-7000
Fax.: +55 48 3221-7001