International Conference Call
Tractebel Energia
1st Quarter 2008 Earnings Release
May 15th, 2008

Mr. Antonio Previtali: Good morning or good afternoon ladies and gentlemen. Sorry for the technical problems that we are suffering. I would like to welcome you to Tractebel Energia's conference call to discuss first quarter 2008 results. I would like to mention that a slide presentation has also been made available on the company's website at www.tractebelenergia.com.br under Investors section. Our earnings release can also be found in the website.

Before proceeding, let me mention that actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today in Florianópolis this morning is Marc Verstraete, Finance and Investor Relations Director. First, Marc will comment on the company's first quarter results, afterwards we will be available for a Q&A session. It is now my pleasure to turn the call over to him. Marc, you may now begin.

Mr. Marc Verstraete: Good morning to all of you. Thank you for joining us in this conference call. The idea here is that I will give some information about the energy balance in ongoing projects, but the real focus of the conference call will be the results of the first quarter 2008.

With respect to our energy balance, which you can find on page 10 of our presentation, roughly speaking it has not changed a lot since the last energy balance we showed you. Here we have the position of the end of March. We continue with no energy available for sale in 2008 and 2009, almost everything is sold in 2010 - as you can see in the "saldo", the difference between resources and sales - and a lot of energy is available for sale as of 2011 and further on. The only change is really the average sales price and the average purchase price, which increased mainly due to inflation, as opposed to the latest balance we were showing.

In terms of growth projects, we can flip to page 12 where we have the description of a newly acquired power plant, Ponte de Pedra. The transaction is done, payment was done in the end of April. The plant now belongs to Tractebel Energia and will start contributing to results as of this month of May. So here is the acquisition process. Besides this acquisition, we have two plants under construction. The first one, on page 13, is São Salvador - everything is running smooth and the plant should enter into operation in the beginning of 2009, as scheduled. On page 14, you have the hydro plant of Estreito, which construction started last year, and it should enter into operation partially in 2010 and fully in

2011. Construction is also ongoing under schedule. The project, which still belongs to SUEZ, our controlling shareholder, should be transferred to Tractebel Energia by the end of the second quarter 2008.

Besides these, we have a coal-fired thermal plant, as you can see on page 15, currently are under development. The development suffered a small delay mainly due to the change of the Minister of Mines and Energy in Brazil. The main obstacle remaining to start construction of this plant is a bilateral agreement between Uruguay and Brazil. On one hand, to obtain approval to be able to export energy to Uruguay, and on the other hand, from the part of the Uruguayans - they want a kind of commitment, a guarantee that in case of rationing that they will be affected in the same matter as the Brazilian agency would be affected. The total cost is US$ 850 million for this plant.

Now we can go to the results of the first quarter of this year, whereby I would like to start on page 18 of the presentation with the revenues. Net revenues increased 40%, it is a R$ 275 million increase. The R$ 275 million increase is composed of two elements: the first one, R$ 75 million, is related to the price increase of our contracts, both inflation in new contracts signed replacing old contracts which were at lower prices; and then R$ 200 million comes from revenues from the CCEE, the chamber of energy.

There, these R$ 200 million I would like to break into three main origins: the first one is the allocation of hydro energy. As you know, at the beginning of each year we can allocate our hydro resources month per month in a different way and we always try to do this based on what our estimation of the year for the spot price is. So we over allocated in January and February, which resulted in the fact that Tractebel Energia became a net seller in these months and at very high spot prices. This resulted in an increase in revenue of R$ 127 million.

The second origin is the fact that the government decided to dispatch all thermal plants in the country, and two of them, William Arjona and Alegrete – our diesel-fired power plants. Due to the fact that these were dispatched, we were reimbursed for the cost of the production, the difference between the cost of production and the spot price. This generated a revenue of R$ 63 million.

And the third element is R$ 10 million, which comes from secondary energy. Secondary energy is when the system as a whole produces more hydro energy than the assured energy of the system. This excess production is sold and distributed amongst all the agents of the system.

So, this is it for the revenue part.

Let’s look at the costs. I would like to focus on two points here. First of all, the costs related to energy were R$ 200 million last year and they increased by R$

105 million, reaching R$ 305 million this year. This increase (R$ 105 million) is composed of the following: first of all, as you know, we always buy energy in order to resell it. Some of these purchases are short-term purchases related to the spot price. Due to the fact that the spot price was very high, especially in January and February, we had an increase of R$ 65 million for this energy purchased this year. The second part is that we had to fire William Arjona and Alegrete with diesel, which resulted in revenue but also in cost, the cost of fuel, which was around R$ 50 million in this case. A third point here is due to the fact that we produced more with hydro plants than the previous trimester. We also had a higher expense of royalties, R$ 10 million increase. The fourth item is the costs we have at the CCEE. This was a cost of R$ 32 million in the first trimester. So summing all these will give you the R$ 105 million increase.

The second important item with respect to the costs is a non-recurring event. We were able to recuperate PIS and Cofins taxes. What is the story here? The story is the following: when we purchase coal, it is subsidized, or reimbursed. The purchase of the coal is booked as a cost. The subsidy, or the reimbursement, used to be booked as revenue - so we ended up paying PIS and Cofins taxes on this revenue, which does not make a lot of sense to us. So we went to Aneel, the regulator, and asked them to review the accounting classification of this item. They agreed with us and it should be booked as a recuperation of costs instead as over revenues - which has been done since November 2005. However, before November 2005, when ... because if the regulator is saying it is wrong, then it was also wrong in the past. So, before November 2005 all these PIS Cofins taxes paid from this revenue we now recuperated them and it resulted in a non-recurring revenue of R$ 76 million and the net impact on the net income is R$ 50 million.

The EBITDA increased 53% and reached R$ 691 million for this trimester as opposed to R$ 451 in the previous trimester. If you would exclude the R$ 76 million I have just commented, the increase would be lower.

Nevertheless, as you can see on the following page, page 19, the Company was able to reach an EBTIDA margin of around 73% as opposed to 67% in the first quarter of last year and 61% for the whole year of 2007. The net income also increased and reached R$ 392 million. It is a 62% increase compared to the R$ 242 million in the same period last year. If you would exclude this non-recurring tax event, the net income would be R$ 342 million compared to R$ 242 in the same period last year.

So, this is in a nutshell some brief comments on our results. Of course you have the full detailed explanation in the press release that is also available on our website and I would be pleased now to answer any questions that you still might have about the results or the company in general. Thank you!

Q&A Session

Operator: Thank you. Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue press star, then 2.

I would like to mention that today's conference call is being held exclusively for financial analysts and investors. We kindly ask reporters who may be participating in this conference call to please direct any and all questions to the company's press relations department. Please restrict your questions to two at a time.

The first question comes from Marcos Sequeira of Deutsche Bank.

Mr. Marcos Sequeira: Hello, good morning everyone. I just have a few questions on Ponte de Pedra. I would like to know what the impact on the goodwill will be on a quarterly basis. Is it going to be amortized over a 10 year period?

And also on debt levels, I noticed there has been a slight decrease in debt levels in the quarter, but I know that you guys are issuing more debt. So, what kind of levels are you guys expecting for the second quarter? And also again on Ponte de Pedra if there is going to be any meaningful impact on the cost side and when - and if there is – by when do you guys expect to reduce operating costs for the plant? Thank you.

Mr. Verstraete: First of all with respect to the debt level, Marcos, what is currently going on is that the debt level will increase slightly for the Company. Currently we have R$ 400 million commercial paper transaction. We should obtain the funds later next week – R$ 400 million, new debt that will come on the balance sheet - and on top of this we have Ponte de Pedra that has a debt of R$ 275 million and that will also come on the consolidated balance sheet.

We also have São Salvador. All the equity that we needed to inject in the project has been injected to finish the construction. You can see that the Capex for 2008 is R$ 230 million, almost everything BNDES financing, so it's also new debt. And then we have Estreito, which we will purchase normally later next month, which also SUEZ has already invested upfront R$ 170 million of equity and so in 2008 the funds for the main Capex will come from the BNDES financing - so this will also end up in our consolidated balance sheet.

I should, though, make an exercise to give you an exact figure of the debt projection at the end of the year. I can do this if you are interested, but the point is that it will increase.

For Ponte de Pedra two questions... First of all, the goodwill: the quarterly impact I will have to come back to you with this information. I'm sorry about that, but I do not have it here with me.

With respect to the reduction of the expenses: the reduction of the expenses starts right now and it will take one year to be fully implemented. Of course, today Ponte de Pedra has a contract with Skanska, which is still operating the plant. So, we will take over this contract and of course get some costs, because Skanska was also the owner of the plant. So we will not be able to slash on costs there and this will take us, let's say, one year to be fully at the Tractebel Energia cost expected level, if I can call it like that.

Mr. Sequeira: Thank you! And one more question on the recent investment grade: do you guys see any immediate benefit from the investment grade? Or despite the fact that most of the financing is BNDES that should not translate into a lower cost of capital going forward, or at least in the medium-term?

Mr. Verstraete: Immediately if we look at our projects that are financed at the BNDES, there I do not see an immediate impact. The only exception is the Seival Project, which will come with financing either from IC or IDB. We are still negotiating with them. So, eventually for this project there could be a positive impact.

And then maybe for the corporate borrowings of Tractebel Energia in the medium-term, although we are doing a local currency financing, but here also the investment-grade could be helpful, but I would say in the short-term there is no immediate significant impact.

Mr. Sequeira: Ok. Thank you very much!

Operator: Again, if you would like to ask a question please press star (*) then one (1) on your touch-tone phone. Again, that is star (*) then one (1); you will hear a tone to confirm and you will enter the list.

Ok. Our next question comes from Sérgio Tamashiro.

Mr. Sérgio Tamashiro: Good morning, everyone! My question is regarding the timeframe for the transference of Estreito hydro plant from SUEZ to Tractebel and if that would include an additional price (inaudible 21.53) Capex of R$ 385 million but I believe that it does not include the cost of the transfer; it is just for the Capex. Am I right?

Mr. Verstraete: Hello, Tamashiro! The line was very bad, so I will see if I understood the question. So your question is in our Capex what is shown for Estreito, does it include or not the bonus that we will pay for the transfer?

Mr. Tamashiro: Yes.

Mr. Verstraete: No, it is not included in this figure here. You are right: the only reason why it is not included here is because it is still unknown. We are negotiating now with the bank, to be hired as an investment bank to do the appraisal of the project and then see where we will end up in terms of transfer bonus payment.

Mr. Tamashiro: Do you have the timeframe for this decision and if we could take the example of São Salvador at least the cost would be quite similar?

Mr. Verstraete: In terms of timeframe, the idea - I hope to be able to realize it - is to do it until the end of June. This is the target we have. If you can copy exactly São Salvador, I would say we should wait a little bit to see the utmost study here; it is a much bigger project, it has other variables, so I would not like to give an answer in one direction and end up with something else.

Mr. Tamashiro: Ok. My second question is regarding this allocation of energy for the following quarters. In the first quarter you sold energy for the spot market and of course that in months you will have to purchase; and if you have any short-term contract in order to avoid a substantial increase in the spot price, if you already signed some short-term contracts and just in order to hedge this potential increase in price? Or if you are totally unhedged and you will be totally vulnerable your cost in spot price?

Mr. Verstraete: No, the way it works is that the system allows us to - I do not know the exact English word - seasonalize the hydro resources we have in order to hedge ourselves against a potential spot price increase. So this is a decision we always take at the beginning of the year.

We know that due to the fact that we have thermal plants that we are exposed, we have to buy what they call substitution energy and if we would not do any seasonalization we would have to buy a certain amount of substitution energy each month. Due to our seasonalization we can in certain months become a net seller at CCEE and in other months we will obviously be net buyers. We can play with this but it is limited, so as you can see here in January and February we were net sellers - this means, and there is no way to escape that, that in other months we will be net buyers.

And as we stated before, our global strategy is that we expect high spot prices in January and February, and then spot prices to decrease for the remaining of the first semester and then increase again in the second semester. So we designed our strategy also based on this expectation, which for the time being turned out perfectly, because who would ascertain at the beginning of the year that in May the spot price would be at R$ 20?

Mr. Tamashiro: Maybe my question was not clear and we know you are a net seller of electricity in the spot market in January and February, therefore you might be a net buyer in the spot market in some months between March and the end of the year; so in order to avoid the price increase in the spot market, do you hedge or sign some short-time contracts in order to avoid the spot price increase?

Mr. Previtali: Hi, Tamashiro! It is Previtali.

Mr. Tamashiro: Hi!

Mr. Previtali: Let me make some comments on your question. First of all, Tractebel's position for the full year is a very comfortable one as you can see from our energy balance. We are not short, we are just above our needs. So the real imbalance regards the seasonable aspects of this allocation.

So, as you said, as we decided to over-allocate in January and February, as a consequence we should be under-allocating for the remaining months of the first half and if you have already bought energy in order to avoid negative exposure to the spot market … we have not done that and the reason is a very simple one: since we are expecting low spot prices from March to May /June there is going to be a little spike in these prices - and there is a short-term market available in order to allow Tractebel to offset its negative position and also the short-term market keeps a very close relationship to the spot prices – which, I reaffirm, tend to be low - there is no real need for the company to hedge itself in such market.

So the strategy is doing very well, because even during the time that we are under allocated - especially from March to May - spot prices have performed at very low levels. So there is no need for us to hedge that.

Mr. Tamashiro: Ok. Thank you!

Mr. Previtali: You are welcome. If I may add something to your question, there should be an event that could work as hedge for Tractebel in the coming months, which is the possible export to Argentina. As you may know, whenever we export, - chances are that we are going to export from thermal resources; I do not think the idea of transferring hydro resources to Argentina may succeed, there is going to be a lot of discussion on that, but we do not think that is going to happen

- the energy to be exported would be from a thermal source and as a consequence Tractebel would be offsetting at least partially its negative exposure to the spot market.

Operator: Again, if you would like to ask a question at this time, please press star (*) then one (1) on your touch-tone phone.

Our next question is from Stewart Ragar of Bear Stearns.

Mr. Stewart Ragar: Hi! I know you probably cannot comment too much for competitive reasons, but with this Jirau auction coming up and the low-price that we saw at Santo Antonio and even the very low opening price comparing to other new energy auctions, can you sort of give us some comfort that even the 91 or below that it would still be a reasonable return?

Mr. Verstraete: Stewart, hi! This is Marc. About Jirau two comments: the first comment just to make clear is that in this case SUEZ is part of the consortium for the time being and not Tractebel Energia, so SUEZ will be the entity that will bid, develop the project and then eventually transfer the project to Tractebel Energia if, at the time, we think that the rates of return are satisfactory and above WAAC. So this is a first comment.

Second comment that I can make – and I cannot give you a lot of information, as you said yourself for competitive reasons, because the auction is still in three days - SUEZ worldwide and historically has been known as being a prudent player or investor and we will not act below WAAC level or below a required rate of return that the project would demand.

Mr. Ragar: Ok, thanks.

Operator: Again, at this time if you would like to ask a question please press star, then 1. This concludes today's question and answer session. Mr. Marc, at this time you may proceed with your closing statements.

Mr. Verstraete: Well… thanks to all of you for your attention and interest. We were very pleased with our results, which was excellent for the first trimester. I also want to warn you: please, do not multiply by 4 to guess the yearly results and besides that I also comment that myself, Antonio and our investor relations team are available for any additional question that you might have. Please do not hesitate to call or send e-mails. Thanks a lot, bye.

Operator: That does conclude our Tractebel's first quarter results conference for today. Thank you very much for your participation, you may now disconnect.