International Conference Call
Tractebel Energia
Second Quarter 2007 Earnings Release
August 15, 2007 – 12:00 p.m. (Brasília time)

Operator: Ladies and gentlemen, thank you for standing by. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star key followed by zero. As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. Antonio Previtali, Investor Relations Manager of Tractebel Energia. Please go ahead.

Antonio Previtali: Good morning or good afternoon depending where you are ladies and gentlemen and welcome to Tractebel Energia's conference call to discuss second quarter 2007 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 Investor 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 Mr. Marc Verstraete, Finance and Investor Relations Director. First, Marc will comment on the company's second quarter results. Afterwards, we will be available for a question and answer session. It is now my pleasure to turn the call over to him. Marc, you may now begin.

Marc Verstraete: Good morning to all of you. Thank you for attending this call. I will split my presentation in three parts. First of all I will briefly discuss on our new energy balance. Second part I will discuss somewhat on the growth of the company and the third part we will discuss the results of the second quarter 2007.

So if you take our presentation on page 8, you have the scenario of the supply demand, you have the energy market outlook. On the left-hand side of the slide you can see that until 2011 the supply should still be higher than the demand. The situation will shift as in 2011 if no new power plant come on line. In the same graph you can see the increasing price strength. These are the prices of the new and old or existing energy obtained at the auctions organized by the government.

So you can clearly see that the trend is increasing and we will face higher prices in the future.
On the right hand side of the same page you have the situation of Tractebel Energia in terms of uncontracted energy. So you can see that until 2009 the company is almost fully contracted. We have 2008 - 2010 we have 5% of our portfolio uncontracted, then in 2010 we have 9% and this increases to 24% as of 2011 of uncontracted energy of our portfolio, meaning energy we will be able to sell at higher prices in the future.

On the following page you have our energy balance. This is the situation as of the end of June. We have some modifications if you compare the energy balance with the energy balance that we were showing previously.
So, first of all on the first line the own resources, the assured energy attached to our existing power plant. You see that in 2008 this amount decreases. This is because Aneel will reduce the assured energy, the physical energy from some thermoplants. In 2009 it increases again, due to two new power plants that will come on line, São Salvador and São João. Thereafter I will, I will briefly comment on these plants. They come partially on stream in 2009 and fully in 2010. We will have 3,125 average MW of own resources.
On the second plan we have the purchases for resale, roughly 500 average MW this year and dropping somewhat the year thereafter.
The structural resources are sold through government auctions, auctions of existing energy and of new energy. The existing energy 8-year contract, new energy 30-year or 15-year, where also the auction price and the adjusted price for ampliation as over the end of June. And besides the sales through the government auctions we have the bilateral sales, sales through industrial price or also old contracts to distribution companies. Today we cannot sell bilaterally anymore to distribution companies, but in the past we could. And the difference between both gives us the balance of uncontracted energy, which we also saw in the previous slide.
At the bottom of the graph we also have the average sales price for 2007-2009 and the average purchase price for the energy purchased to resale.

Two comments on the, two additional comments on the energy balance: the first of all as I said São Salvador and São João will start operations in the first quarter of 2009, and the second one is that we, we released the energy from CIEN. In our previous energy balance, the 300 megawatts that we, the contract that we had with CIEN, the energy coming from Argentina, what is coming back on line in 2009. Now taking into account the situation in Argentina, we are not so optimistic anymore about this coming back in 2009 so we decided to delete it from this energy balance for the time being.

The second part, let us discuss a little bit about the growth in the several projects that we are building or developing. On page 11, we have the São Salvador hydroplant, it is now fully owned by Tractebel Energia, construction started in the third quarter of last year and it is going fine, the plant should come to start

operations in the first quart of 2009. Remember that the energy is sold through the government auction on the year of 2011 so we have almost two years of additional energy to be sold in the short time in this case.

The second project that is under construction is a much smaller project, it is a 70 MW installed capacity thermoplant, which will burn sugar cane bagasse. We sold the…well, we set up a partnership with the Dedini Sugar and Alcohol Group, whereby we will build the thermoplant, they will deliver the fuel, the sugar cane bagasse, and the water, they will use the energy in their industrial process and the excess energy, being 23 average MW has been sold at the first alternative energy source auction at the price of R$ 141,00 per MW, recently. The plant will start construction in September and it should be ready in April 2009.

The third project we have is Estreito. Estreito is still owned by our shareholder. It is a large hydro plant, 1,087 MW. Suez owns 40%, and the idea is to sell the energy in the next new energy auction in minus 5, which is scheduled somewhere around September of this year, hopefully.

And the last project we have under development is a big thermoplant in the south of the country, in the border with Uruguay, which will burn coal. The plant is located next to the coal mine. It will be a 340 MW plant and the idea is to try to sell this energy to Uruguay who needs energy today - they are burning lot of diesel oil - and so it could be an interesting alternative for them, taking into account that the gas delivered from Argentina is becoming more complicated for them. The total investment cost of this project would be around US$ 850 million.

Let us now go to the third part of the presentation, which is the results of the second quarter of 2007. On page 16, we are showing the net revenues and the Ebitda for the first semester of 2007, so you can se a 8.6 increase compared to last year for the net revenues and a 2.7 Ebitda increase for the first semester of 2007 compared to the same period last year. Ebitda suffered somewhat in this quarter and I will enter into more details briefly.

On page 17, you can see the Ebitda margin. The Ebitda margin was 60% compared to 63% in the previous semester. And the net income, the net income last year was positively impacted by the sale of the Jacuí thermoplant, which was a non-recurring item. This year, on the other hand, it has been positively impacted by increase on equity, that we declared, so if you exclude the both items you have a 6% increase of the net income of this year compared to the first semester of last year.

If we enter now into the quarterly figures, on page 18, we have some information here comparing the second quarter 06 with this one and also the first quarter to 07. First of all, you can see that the energy sold remained pretty much stable. On the other hand, the average price of the energy increased R$ 98 this quarter compared to R$ 90 in the previous quarter, and this led to a net operating

revenue increase of 10%. In second quarter 07 compared to second quarter 06 the net operating revenue reached R$ 731 million.

The Ebitda on the other hand decreased, both compared to the second quarter of 06 and the first quarter of this year. The low Ebitda has been impacted by a couple of elements which I would like to detail here. The first one, the other third party energy purchased. They reached 70 million this quarter compared to 60 million in the second quarter of 06. Here we have two effects, first of all we bought more energy for trading and also sometimes the energy that we buy for this trading purposes is short-term related, the price is limited to the spot price and the spot price in the second part of this first year increased compared to the second part of last year. So this resulted in an increased expense of this third-party purchase.

The second point are the transactions after CCEE. They reached 91 million this quarter compared to 38 million the second quarter of 06, so a 53 million increase. Here we have two elements. The first element is linked to the gas-fired thermoplant Arjona, which in 2006 was dispatched by the regulator for electrical reasons, meaning that despite the fact it was an expensive plant, it was dispatched because the city where it is located, Campo Grande, needed this energy and it was one of the only sources of energy they had. In 2007 this is not the case anymore due to transmission lines that were built and so the city, the region does not need anymore the electricity generated by Arjona.

So in 2006, what happened, on the one hand the regulator dispatched the plant meaning that we had the cost of buying natural gas which was the fuel expense and we also had the cost to earn the plant and this cost to earn the plant was reimbursed Tractebel Energia through the CCEE. It generated revenue over R$ 20 million, so the 53 million increase comes, is explained, in part by Arjona 20 million, which is not existing anymore in 2007, and also the POV price, the spot price. What's happened here? The thermal plant, the dispatch of the thermal plant in the second part of 07 was lower than the dispatch of the thermal plant in the second part of 06, meaning that we were more exposed, and we had to buy more energy on the spot market. So this increased volume coupled with the higher spot price resulted in higher expense.

The third point, the fuel expenses. They reached 30 million this quarter compared to 40 million in the second quarter of 06. Here we have mainly the effect of, as I already explained, the fact that Arjona was not at dispatch anymore so we did not need to buy natural gas anymore.

And then the fourth point, the royalties. These are lead to the higher dispatch of the hydroplants, the dispatch of the hydroplants increased 132% compared to the same period of last year. Remember that last year the south of Brazil was experiencing a drought, not anymore this year so the hydroplants were dispatched much more, resulting in us paying royalties but, on the other hand, we

cannot forget that we have another effect neutralizing this increase royalties expense which is the ERM, Energy Relocation Mechanism revenues, which are included in the CCEE transactions.

After the Ebitda we can go to the net income. The net income was positively impacted by lower financial expenses, 47 million expenses compared to 73 million in the same period last year as a result of lower debt, lower interest expenses and also as a result of an appreciation of the Real compared to the basket of the currencies of our foreign currency debt.

And also on top of these lower financial expenses we have the lower income tax. Income tax reached 24% before taxes, compared to 34% last year and the 24% here was a result of the interest on equity that we declared, that was accounted for in the second quarter of this year, resulting in a net income reaching 230 million compared to 189 million in the second quarter of 06.

Continuing the presentation on the following page, page 19, you have an overview of the debt. Total debt increased, increased wide because in the second quarter we issued a R$ 350 million bond to buy São Salvador from our shareholder. As a result, the leverage increased slightly, net debt over Ebitda which was 0.8 now reached 0.9 and as a result also the percentage of the foreign currency debt was reduced to 20%. The net debt reached 1.2 billion.

On the following page, page 20, we have some information on the Capex. So here we can clearly see that in 2007 Tractebel Energia is back in investment mode. We have São Salvador for 304 million, we have the existing power plants for 96 million and we have São João for 10 million. And next year hopefully we will be able to invest in Estreito, also for important amounts. This is only showing, of course, our equity in this project.

And then on the last page, page 21, the good news, the dividends. Yesterday the board approved a 95% payout resulting in a R$ 0.69 per share, which is 3.7% dividend yield for the first half of 2007 or annualized yield of slightly above 7%.

So this was the presentation, I would like to open now the Q&A section.

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 the pound key (#).

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.

Our first question comes from Mr. Sergio Tamashiro with Banco Itaú.

Mr. Sergio Tamashiro: Hi, good morning everyone. Instead of two, I will make three questions but very quick ones. And the first one is regarding the São João thermoplant. I would just like to understand how it works – it is new the biomass thermoplant for us.
Before, I would like to understand how is the operational side; if you received for the entire year R$ 141 per MWh and you just operate for, let us say, six months and during these six months and you are required to dispatch this thermoplant, regardless the hydrological condition. Let us suppose that the hydrological condition is very favorable and the oil net does not require the thermoplant to dispatch. But you are required to buy the bagasse from the sugar cane producers, therefore I would like to understand.
The second question is an update on the Rio Madeira project, if you will participate or not or, again, under the Suez arm, instead of the Tractebel.
And the third is just on the Capex, you mentioned that the mentioned Capex is just for the equity stake and if you could give the total Capex including the financings by them. Thank you.

Mr. Marc Verstraete: Ok. With respect to the first question, São João thermoplant, so, how does it work? The plant, so we have a consortium, a partnership with Dedini, whereby we will build the plant, they will give the fuel, the sugar cane bagasse, they will give the water and also the land. Basically. The energy produced with the bagasse is delivered to them for their industrial process. Also, other detail, they are operating the plant and also doing the overhaul of the plant. Then, with the sugar cane bagasse energy is produced, they use this energy in their industrial process to produce sugar or alcohol. That energy is being sold by us, the 23 MW average, trough the auction.
What happens also, is that the plant is only operating six months a year because of the harvest season lasts six, maybe seven months a year. The rest of the year the plant does not operate, so the 23 MW here is the average over the year and the six months period it is higher than that. If they can produce more energy with this plant than the one they will use and already sold, this will be shared between both partners. And so there is more bagasse, if we can produce more, we will share between the partners. It is the way the partnership works.

With respect to your second question, Rio Madeira, as we said the group will look at the project. I think yesterday some additional information was received from Aneel, from the ministry. It is a project that the group will look at, we will only be interested in one of the two power plants because having the two power plants in the same region, in the same river, that would be too much of an exposure. Now you ask me where will it be located? The Suez Tractebel Energia feel very early

to discuss that. I also think that it is a project that we will not be able to do fully on our own so a partnership there will be necessary with other players being required to spend on, being analyzed for the time being.

In respect to the third question the total Capex. I don't have the exact figure here with me but, basically **...** is that for these projects both São Salvador and Estreito, the equity portion is around 35% and the rest is financing from BNDES. So doing this rule of thumb you will have the total Capex. Soon I will be sending the correct for you.

Mr. Sergio Tamashiro: Ok**.** Yes, I will do this math. Just in terms of 2008 for São Salvador, I don't see any portion for the equity stake. Is that correct that you will have no Capex for São Salvador or all Capex will be financed by that?

Mr. Marc Verstraete: Yes, what happens for São Salvador is, the total investment is R$ 866 million. The equity is R$ 304 million and that has been already fully disbursed, and now for the remaining investments we will count on the BNDES financing. Over 2008 there will be no equity Capex.

Mr. Sergio Tamashiro: All right, thank you.

Operator: Our next question comes from Mr. Luiz Monteiro with Credit Suisse.

Mr. Luiz Monteiro: Good afternoon, everyone. I have two questions. In your view what would be a reasonable energy price to remunerate the investments in Rio Madeira project and, the other one, what could be the impact of the increase in exports to Argentina on Ebitda in the second half of this year and at what price are you selling this energy for Argentina? Thanks.

Mr. Marc Verstraete: Well, the first question, the price for Rio Madeira, I don't have an idea yet. We don't know the full cost for this project. It would be somewhere between R$ 10 to R$ 12 billion. I don't have the math here yet to see at what price we would be interested to build this plant. I think we need some more information and studies before we can answer your question.
With respect to the second question, export to Argentina impact on Ebitda for the full year, we expect it to be ... as you can see, in the month of June the revenues generated by the export to Argentina and Uruguay were 35 million and the fuel purchase, 25, so we have ... then we have to deduct some operational expenses so, likely below 10 million Ebitda impact. We will have two additional months, July and August, so you can … trigger will be around R$ 30 million for the fully year Ebitda impact.

Mr. Luiz Monteiro: OK, thank you very much.

Operator: Our next question comes from Mr. Eduardo Haiama with UBS Pactual.

Eduardo Haiama: Hi, good morning everyone. My first question, just regarding the latest auctions which we have a lot of fuel oil, thermoplants bidding auctions, I wonder if you could just provide a general view on what you expect for the next auction that should be probably scheduled by, I don't know, September, October and if you believe like the fuel oil should going to be competitive or you believe like the Federal government will somehow provide more competitiveness for gas-fired thermoplants or maybe coal thermoplants. That would be my first question.
And the second question is also related to this thermoplant contract, if you believe like if the Federal continue to buy from thermoplants instead of hydro, if you believe like we should expect a much higher spot price in the medium term than what would it be the normal case if they acquire more hydro ... thermoplants. These would be my two questions, thank you.

Mr. Marc Verstraete: With respect to your first question for the next auction, well, in the previous auction which was A-3; the next auction will be A-5, so hopefully we will see some hydroplants, specially Estreito entering in. I also think that the fact that no hydroplants participated in the previous auction, was maybe a signal the capital was too low and so we could see a higher caps for the next auction. Now in respect to competitiveness of fuel oil, if this will increase or not, I don't have a specific view on that.
Your second question was not totally clear to me. Part of the question was …

Mr. Eduardo Haiama: Ok, basically like since they are acquiring more thermoplants, I mean, my view is that we should expect a much higher spot price into the future if it continues with this policy of buying thermo instead of hydro. I just like to have your thoughts regarding this scenario or if you believe like they are going to be able to change the scenario buying more hydro in the future?

Operator: Excuse me, Tractebel's conference call has been interrupted for technical reasons. Please hold on and we will soon resume the conference call. Thank you. Again, thank you. The conference has been interrupted for technical reasons. Please hold on and we will soon resume the conference call.

Mr. ANTONIO PREVITALI: Hi, is everyone in there?

Mr. Eduardo Haiama: Hello?

Mr. ANTONIO PREVITALI: Hi, is everyone in there?

Operator: Pardon me sir, one moment, please.

Mr. Marc Verstraete : Ok, thanks ... Haiama?

Mr. Eduardo Haiama: Yes.

Mr. Marc Verstraete: Ok, so we had a technical problem here, sorry for that. Let us go back to your second question. Haiama, if I…

Operator: Just a second that I am going to connect you, ok?

Mr. Eduardo Haiama: Ok.

Mr. Marc Verstraete: Hello?

Mr. Eduardo Haiama: Hello. So, my question is basically if you could just provide what is your view, I mean, how the government is going to… what they could do maybe in the future to change the auctions to contract more hydropower plants, because today with the scenario of acquiring more thermoplants, my understanding is that we should expect much higher spot in the future. And I just like to know if you believe we might see some change in future auctions to give more competitiveness to the other thermoplants and what is your view regarding, then, a long term spot price?

Mr. ANTONIO PREVITALI: We do agree with you, I mean, in the fact that the government is injecting more energy coming from thermal sources in the system is going to impact upwards the spot prices, although this impact is of course lower than if we had no expansion at all. So, we do agree, there is ... seems to be a clear trend that spot prices are going to grow up unless, of course, you have more hydroplants coming to play and we are anxiously waiting new opportunities on the hydro side, but unfortunately these opportunities are not coming up for the time being, but you are right in your thoughts.

Mr. Eduardo Haiama: Ok thank you.

Operator: Thank you ladies and gentlemen. Again, if you would like to ask 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 the pound key (#). Again, if you would like to ask a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now.

This concludes today's question and answer session. Mr. Marc, at this time you may proceed with your closing statements.

Mr. Marc Verstraete: Well, I would like to thank all of you for your attention reminding you that we are, again, at your disposal here - Antonio, Steve and myself - for additional questions and also for the one of you who are in Brazil tomorrow morning we will be in São Paulo at the Apimec meeting and tomorrow afternoon in Rio. Our CEO will be there as well, so if you are able to join it would

be a nice opportunity to share some thoughts with him on the company or even the market as a whole. Thank you very much, bye.

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