International Conference Call
Tractebel Energia
2nd Quarter 2008 Earnings Results
August 15th, 2008 – 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 to participate 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, sir.

Mr. Antonio Previtali: Good afternoon ladies and gentlemen and welcome to Tractebel Energia's conference call to discuss second 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 Florianopolis this afternoon 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.

Mr. Marc Verstraete: Good afternoon or good morning to everybody! Thank you for joining us to this call. I intend to separate my presentation in three parts: briefly touching on the energy balance; then make some comments on the new projects; and then discuss the second quarter results.

So if you take our presentation on page 10, you have the energy balance for the Company. The total assets we have and the assured energy, both from our own assets as well as bought from other gencos, and how and to whom and at which price we sold this energy.

We update the balance every quarter. This is the newly updated balance. The main change compared to the previous balance is the fact that we sold approximately 80 MW average as of 2011, 2011 towards 2013. In other words, Tractebel continues with its strategy of maintaining an important part of its energy unsold - approximately 20% of its energy unsold as of 2011 - hoping to sell this in the future at higher prices. So this was the quick comment I wanted to make on the energy balance.

The second part, where I think we have more changes, is with respect to new projects. So, first of all, we have on page 12 of our presentation the hydro plant Ponte de Pedra. End of 2007 we made public to the market that we would buy this plant; we obtained approval from

BNDES, from ANEEL, from CADE and finally now in April the purchase really took place and the plant started contributing to the results of the Company. So this has been done.

Besides this hydro plant, we have two small hydro plants on page 13, both for a total installed capacity of around 50 MW. These two small hydro plants are located very close to the Ponte de Pedra plant, the previous one that we acquired. I am mentioning this because it is important in terms of maintenance and operations that we will have people from the big plant also taking care of these small plants, which are operated remotely.

Here we are still obtaining approval from ANEEL, from Eletrobrás – because the energy is sold through the Proinfra system - and also from the financial institutions. As soon as these approvals are obtained, we will proceed with the formal acquisition. We intend to do this still this year.

Then we have two other projects which are not shown here - the first one because we won it yesterday. Yesterday there was an auction for biomass where we participated with our partner, Açucar Guarani - also a listed company - and we were successful. So, we will build a 33 MW thermal plant which will fire the sugar cane bagasse and the output, which is around 20 MW average – because it only has harvest seven to eight months per year - has been sold through the auction organized yesterday at the price of R$ 158.11/MWh.

It is an interesting project. It is also the first of its kind in Tractebel. Last year we were successful in developing a similar project with Dedini, but, unfortunately, Dedini was sold to Abengoa, a Spanish group, and they decided not to proceed with the partnership. We intend to repeat this partnership in the future for other investments. The total Capex for yesterday´s project is R$ 120 million.

And then, another project which is not shown here is the recent purchase by SUEZ from a U.S. company called Econergy. It is a U.S. company listed in London's Stock Exchange. It has some assets in Brazil, Bolivia, Central America, United States; so this is the reason why SUEZ acquired it. SUEZ will sell the three Brazilian assets - two wind farms and one small hydro plant - to Tractebel Energia later this year.

Besides these we have our projects under construction. We have São Salvador which is going as scheduled and the plant should enter operation, as you can see on page 14, in the beginning of 2009.

The second plant under construction is Estreito. Estreito construction is also going as scheduled. It is still owned by SUEZ and the intention is to transfer it in the coming months (September, October) to Tractebel Energia.

Besides this we are still developing, on page 16, a coal-fired thermal plant in the south of Brazil. It is a 340 MW plant. Development is still ongoing: discussions with the Uruguayan Government, Brazilian Government, etc. So, hopefully by the end of the year we will have positive news on this project.

And then, on page 17, you can see the target we established to ourselves in 2008: to reach 100 MW of energy from alternative sources. I think we will achieve this target. This is it for the new projects.

Now I will go to the third part of the presentation, which is the second quarter results, on page 19. On page 19, you can see that the net turnover reached R$ 773 million; it is a 5.6% increase. The turnover increased despite the fact that we had less energy available for sale. The reason is twofold: (i) ANEEL, with its "*Portaria*" 303, decreased the assured energy of some thermal plants – approximately 180 MW; and (ii) we lost the energy from the contract we had from CIEN. Thus, despite of this low volume of energy sold and thanks to higher prices we were able to, nevertheless, increase the turnover.

The EBITDA increased 13.7%, reached R$ 441 million. The most important driver for this high increase in EBITDA was the following fact: if you look at the generation of electricity in the second quarter, we generated 40% less in hydro generation than the same quarter last year, but the thermal production was 40% higher.

What happened here is that ONS decided to dispatch massively thermal plants in order to preserve the level of the reservoirs. By doing so, these plants were even dispatched out of the merit order. This means the following: just imagine that the spot price was R$ 70/MWh. Under normal circumstances, for instance, Jorge Lacerda - the coal-fired plant we have – would not be dispatched. And since I sold the energy we would have to buy the energy at R$ 70/MWh.

Since ONS decided to dispatch the plant we do not buy at R$ 70/MWh and we produce,; but the coal is fully subsidized, so production cost is close to zero, and this made a big difference in the second quarter result. We saved approximately R$ 80 million by doing so.

The same impact on the EBITDA you can also find on the following page on the EBITDA margin. The EBITDA margin reached 57% as opposed to 53% in the same period last year.

The net profit dropped almost 5% compared to the same period last year. Here I have to make a remark: last year we decided to declare interest on equity in the second quarter. This has not been done this year yet. The reason why is that we are paying this year the profits on the estimated results, which is the same as "*lucro presumido*" system in Brazil.

It means that we are paying low taxes throughout the year and at the end of the year we take the real results, the real taxes, and we have to pay the difference. It means that during the year we do not need interest on equity to decrease the tax payments. We only need this at the end of the year. So, we have this small distortion to compare both results, because if we would exclude the effect of interest on equity, the net income would increase approximately 10%.

On the following page, page 21, we have the financial drivers. Basically what I already explained, so we have lower volume of energy sold, but much higher prices - R$ 102/MWh as opposed to R$ 87/MWh in the same period last year - which resulted in higher turnover.

The EBITDA, as I already commented, of course we cannot compare with the EBITDA of the first quarter, which was exceptionally strong, due to the seasonalization of the energy, the strategy we adopted. We were a net seller in the first quarter at extremely high spot prices. In the second quarter, we have been a net buyer of energy on the spot market.

On the next page, a small comment on the situation of the debt. The total debt increased. There is no surprise taking into account all the new projects that came on board. Today, the total debt reaches R$ 2.5 billion, net debt of approximately R$ 2 billion, and the leverage is 1.2 - the leverage expressed here as total debt/EBITDA. So, it is still small and very reasonable level.

Of course this will increase in the future with all the new projects that are being handled, as we can see on page 24, where we have an overview of the Capex of the Company for the following years. In 2008 we have an estimation here of R$ 1.5 billion Capex. Here we do not have yet the project we won yesterday, the biomass project, and we do not have yet the three plants we will buy from Econergy.

The low leverage, despite the high Capex, permitted Tractebel to have a high dividend payment, 95% payout as you can see on page 25. This results in R$ 0.89/share and a dividend yield, only for the first semester, of 4%, which would be close to 8% annualized.

So this is the comments I wanted to make and I think now we can go to the Q&A session.

Q&A Session.

Operator: Excuse me. 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. If at any time you would like to remove yourself from the questioning queue press star (*) two (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.

Excuse me. Our first question comes from Ms. Carolina Dores from Morgan Stanley.

Ms. Carolina Dores: Hi! Good afternoon Marc, Previtali! I want to get more details on the thermal plant that you sold electricity yesterday. What is Tractebel's role? Will you operate the thermal plant and then acquire the bagasse from the mills? Will the Capex be done only by you? I want to understand your role.

Mr. Verstraete: Ok, hello Carolina. Let me explain to you the model here of this new investment. We will build a thermal plant, greenfield, new. It is a 33 MW plant, total Capex of R$ 120 million. This plant will be built by both partners: Tractebel and Açúcar Guarani.

Then, in order to operate the plant, they will give the fuel, which is the bagasse; they will also bear the delivery risk, and they will also deliver the water. Then they will operate the plant and do the overhaul and the energy is fully sold through the auction, the energy is 20 MW average. In other words, they will not use the energy for their industrial process. What else can I say? Our stake in the 20 MW is 53% and that has been sold at R$ 158/MWh, so this gives a turnover of approximately R$ 28 million per year.

Ms. Dores: But what I do not understand is why Guarani did not enter in this project on its own? Why did they decide to team up with Tractebel as it's theirs most of the risk?

Mr. Verstraete: Because we finance close to 80% of the Capex. In this sector, you have the players who do not need any financing, they do it on their own; then you have small players with whom we do not want to work because maybe for the labor standards, the way they operate, etc.; and so you have to find people in the middle and we found. Well, we had a partnership last year with Dedini, unfortunately it did not go through. We were successful now in repeating this strategy for this auction with Açúcar Guarani, and hopefully we will be able to repeat this in the future again.

Ms. Dores: Ok, thank you.

Operator: Excuse me. Our next question comes from Mr. Bert Whitson from Kiitos Capital Management.

Mr. Bert Whitson: Hi, thank you. Could you comment maybe on your negotiations' timeline for your uncontracted capacity over the next four or five years or so?

Mr. Verstraete: Ok. As you can see on page 9 of our presentation, on the right-hand side, you have the uncontracted energy of the company. In 2008, 2009 everything has been sold; 2010 almost the same, there is a 4% left of our portfolio; and then as of 2011 we have an important part still unsold.

The first comment here is that all the unsold energy will be sold to free clients; it will not go to auction, distribution companies, etc. The second comment is if all existing clients of Tractebel would renew their contracts - those contracts that are fading out - all this energy would already be sold.

So, for us it is not a matter of to whom we sell the energy. It is much more a matter of when and at which price. This is the whole question. Today we still think that by waiting a little bit we will be able to capture higher prices in the future. This is the reason why we still have approximately 20% of our portfolio unsold as of 2011.

Mr. Whitson: Ok, thank you! Do you see any of your existing clients pushing to renew sooner rather than later in light of potentially higher prices?

Mr. Verstraete: If they are interested to renew with Tractebel?

Mr. Whitson: Yes. Do you have the sense that your clients see higher prices in the future? Which would make them intend to renew earlier rather than later?

Mr. Verstraete: Yes. Today we see various clients worried about the situation in the future knocking on our door here, especially 2010, aiming to buy energy and this move intensified itself in the beginning of this year compared to last year, when spot prices reached almost R$ 500/MWh. And at that time we also noticed - it was somewhat of a surprise to ourselves - that you had some free clients uncovered.

They had bought part of their electricity needs and part of it they were buying on the spot market. These guys really got scared and so we have seen this movement over these clients willing to thinking seriously about looking more at the long term.

Mr. Whitson: Ok, thank you. You commented briefly on your tax rate seasonality; but can you comment on the average tax rate annually over the next three years?

Mr. Verstraete: If we apply the interest on equity the effective tax rate drops from the 34% to a level around 28%, 29%. This is what we reached approximately last year, what should be reached this year as well and maybe in the future.

Mr. Whitson: Great, thank you.

Operator: Excuse me. Ladies and gentlemen as a reminder, if you would like to pose a question please press star (*) one (1) on your touch-tone phone. Since there are no further questions, this concludes today's question and answer session. Mr. Marc, at this time you may proceed with your closing statements, sir.

Mr. Verstraete: Well, I want to thank you all for your participation, for the questions, and stress that myself, Antonio Previtali and our whole Investor Relations team are at your disposal to any question. Please feel free to call, send an e-mail. It will be a pleasure to help you. Thank you, bye.

Operator: Thank you. That does conclude our Tractebel's second quarter results conference call for today. Thank you very much for your participation and have a good day.
