International Conference Call
Tractebel Energia
Third Quarter 2007 Earnings Release
November 12, 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.

Mr. Antonio Previtali: Ladies and gentlemen, good morning or good afternoon depending where you are and welcome to Tractebel Energia's conference call to discuss the third quarter of 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 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.

We split the presentation today in three parts: strategy, growth and financial performance. I will be conducting the first one and then I will pass the call over to Marc Verstraete, our CFO and Investor relations Officer.

So regarding the strategy I would like you to move on page 9 of the presentation in which, on the left-hand side of the page you have the supply and demand chart. The bar is in blue showing the effects of the natural gas crisis coming in Brazil and for the first time since we first began showing this chart we have a substantial change in the profile of the chart and as you can see considering 2007, 2008 and 2009 the current demand is even bigger than the supply and the reason for that is that the natural gas forecasted to be delivered to the country has not showed up, which means that if it was not for the very good rainy season that Brazil has been facing during this year we would be in a complicated situation.
But since there is going on a lot of rainfall regime so we are going to be able to go in order to meet the demand by 2008 and possibly by 2009 and the reason for that is that when the plot this chart on the supply side we considered the assured energy, which is a probabilistic issue and it corresponds more or less a half of the installed capacity on the hydro power plants. Since it is raining a lot, the actual generation of the hydro power plants is being bigger than the assured energy, so we possibly will succeed in having no shortage during this year and the coming two years.

Situation gets better in 2010 and 2011, but not that much and back in 2012 and 2013 if no new power plants come into place we may face a big-time, a more severe supply situation for Brazil.

Another aspect that has been not seen so far in this chart is related to the blue curve, the curve that shows the average price of the auctions held by the government both for existing and new energy auctions. For the first time we do not have a completely upward curve, for the first time we have a figure which is not bigger than the previous one and this one goes for 2012, but there are some explanations for that: we do not envisage that the expansion cost is going to decrease and the reason, we could say that this particular point with R$ 128.61 per MWh in 2012 is more or less something cannot be considered as a trend because we have some distortions on this figure.
Differently from all the previous figures this one does not take into consideration the A-3 auction (A minus 3), in other words the auction in which the builder of the power plant has a commitment to deliver the energy in three-years time and when you have a A-3 auction chances are that you have higher prices than the A-5 (A minus 5) year auctions because you have more thermal power plants in these auctions, and thermal power plants can be built in a time lower ... shorter than the hydro thermal power plant.

Apart from that there is another explanation, which is the fact that under PAC - which is the program for boosting economy in Brazil - offers better conditions for financing by BNDES for the projects that took part in the auctions for 2012, so it creates a sort of distortion as for the other auctions, the previous ones, we did not have such conditions.
On the right hand side of the page you have the amount of energy from Tractebel not contracted for the time being. So trying to take advantage of this increase in prices we have positioned ourselves in a way to benefit from increasing prices. The main change in this chart in comparison to the previous one is related to the year 2012, since in the previous one we had something like 25% of our total resources still to be contracted and in this one we have only 18% of the total resources still to be contracted, of course it is an advance that we have sold some energy.

Now let us move on to page 10, in which you can have a look at the energy balance of Tractebel, it can be seen as a snapshot taken in September 30th. The main changes between the energy balance and the previous one ... in the previous one is that we are not considering any longer São João biomass projects; we had a partnership with Dedini - a Sao Paulo based sugar and alcohol company - but as Dedini was acquired by Abengoa, a Spanish group, Abengoa decided to cease this partnership and now they are going to develop the project by themselves and Tractebel will be able to get reimbursed, to get indemnification from the fact that the contract has been cancelled.
Another change is the inclusion of Estreito, the energy coming from Estreito, which is the hydro power plant in which Suez has 40% of the total installed

capacity and assured energy; this energy was sold in an auction that took place a couple of months ago. This energy still belongs to Estreito, but in the first months, maybe in the first half of 2008 this project will be transferred to Tractebel following pretty much the same mechanism of transfer that took place with São Salvador.
Again the energy from CIEN is still out of this energy balance. We are trying to get this energy resumed, but this time has not come so far - but we are still working on that.

Another interesting issue to mention in this energy balance is the fact that we have changed the prices that we usually presented both for the sales and for the purchases that the company has made. Instead of showing the gross price we are now showing only the net price, in other words we are excluding PIS/COFINS and ICM taxes and also the research and development deductions that we have to make and the reason for that is that we realized that some analysts were having a kind of trouble as they had the gross value and they were transforming this gross value in a net one.
For instance, if Tractebel sells energy to a distribution company or to a trading company the PIS/COFINS is not applied and when Tractebel sells the energy to a final consumer ICM taxes, which is a sale tax, varies depending on the state in which the consumer is located. So because of that it tends to be a rather tough task for analysts - that is why we decided to release already the net figure.
But in order to allow analysts to make comparisons between this net value and the previous gross value we are going to let you know two different examples so you can have a better idea of the gross value. Considering this 86 ... R$ 85.7 per MWh for the sales average price, if we were selling energy to a distribution or a trading company the gross amount would be something like R$ 100, very close to the previous figure that we were releasing; and in the case we would be selling the energy to a free customer located in Sao Paulo, the gross price would be something like R$ 120. Now you can have a better idea when trying to compare those figures. Now I will turn the call over to Marc, which is going to present both the growth and the financial performance during this quarter. Please Marc.

Mr. Marc Verstraete: Good morning to everybody. With respect to growth I think we have two main changes compared to the second quarter of this year, so what happened in this quarter were at least three changes: first of all is São João, the biomass plant which we decided to stop the development due to the non interest of the Spanish group to continue this project with Tractebel Energia; the second change is Estreito - finally after five years of development we have been able to sell the energy of this power plant at the latest new energy auction – so this has been a major achievement and now we can put the construction of the plant at full speed, we already started a little bit before but with slow speed; the plant should be in operation in 2011 and the energy has been sold as of 2012, so we will have as Previtali said some free energy in 2011. Also Estreito the idea is to transfer the project to Tractebel Energia early 2008, as soon as we close the financing and now we have the energy sold, we have the EPC contract signed,

we are closing the financing with BNDES and then we proclaim so in the same way we did with São Salvador.
And the third change is with respect our thermal plant in the south of Brazil to sell energy to Uruguay. There we recently acquired a company called Seival; the purpose of this acquisition was to speed up the development process of the plant. The company we acquired already has an installation license for 540 MW thermal power plant, has already license for the use of water and has a tax relief on ICMS, tax relief on imported equipment, so the acquisition was ... the idea was to speed up the development and we are already in advanced discussions with both the Uruguayan and the Brazilian government, so let us see if we can go ahead with this development and start the construction in 2008.

The second part of the presentation was my second part, the third part is the financial performance. So you can see on page 16 of our slide presentation the increase in both the net revenues and Ebitda. The figures we are showing here, net revenues of 2.2 billion and Ebitda of 1.3 billion are accumulated figures for the first nine months of this year, so an increase in both and as you can see on page 17 the Ebitda margin for the first nine months of this year stayed above 60% and net income reached R$ 745 million.

I will now comment a little bit more in detail the results of the third quarter, which is the main purpose of this conference call. So we can flip to page 18, we have the first driver for the results is the energy sold. You can see that the energy sold increased both compared to the last quarter and to the third quarter of last year and the increase is mainly driven by exports to Argentina. We have been exporting in June, a lot in July/August and a little bit less in September and since October the exports have been put on 0.
What this export to activity means, what was its impact on the Ebitda of the company? In this quarter the impact on the revenues was R$ 125 million; from this we have to deduct an extra expense over R$ 22 million we had with CCEE, the energy trading board, and also R$ 70 million related to the expense of the coal purchase, so the Ebitda impact was 33 million in this quarter. If you add up the 7 to 8 million Ebitda impact in the month of June you have a total Ebitda impact of around R$ 40 million, which is pretty much in line with the expectation we had at the beginning of this process.
The average price of Energy sold reached R$ 89 in this quarter, again important to mention here this figure is now a net of all tax deductions - ICMS, PIS/COFINS - and also of the R&D deduction and in this case we also opted to exclude the exports in order to not pollute this price with the export activity, which is a non-core business, non-recurring activity.
The Ebitda as you know reached R$ 530 million, is a record Ebitda for Tractebel Energia. I think we have too, on top of the exports, another major driver for the excellent results was with respect to expenses, mainly the expenses related to the exposure to the purchase of thermal substitution energy. As we already mentioned in previous conference calls and meetings, Tractebel Energia opted for allocating its hydro resources, and allocate more, expose itself towards the

spot price much more in the first half of the year in order to be under-exposed in the second half of this year. So far I think that the strategy paid off, we just had a slight negative surprise in June when the spot price increased and we were over-exposed but if we look at the behavior of the spot price in the second half of this year - the spot price is traded currently around R$ 200/MWh, a little bit below, we have clearly developed a winning strategy by allocating the energy differently as opposed to a flat allocation throughout the year.
This resulted also in a good figure for the net income, the net income reached R$ 273 million as opposed to 230 in the second quarter and 258 in the third quarter of 06. Well, we have to mention that in the third quarter of 06 the net profit was boosted by a lawsuit that we won and which had a net profit impact of R$ 58 million.

So this is roughly the comment I would like to make respecting to the net result, maybe just to conclude a slight comment on the page 21 with respect to the Capex. As you can see, as opposed to the last three years Tractebel Energia is back in development mode, we have a high Capex this year with respect to the São Salvador plant and we will have Capex as of next year for the Estreito plant - the numbers here only show the equity that were injecting in these projects and for both São Salvador and Estreito we count with one-third equity, two-thirds BNDES financing. In this Capex we still do not show the Capex of the thermal power plant in the south of Brazil because this is still a project under development.

Then to conclude on page 22 you have our view of our dividend policy. On October 25th we paid out the dividends with respect to the results of the first half of this year - R$ 0.69 per share and the next dividend payment should take place in April, May, after the release of the full year results. So I think we can now move to the Q&A session, so please if you have some questions do not hesitate.

Q&A Session

Operator: Thank you. Ladies and gentlemen, will now begin the question and answer session. If you have a question please press the star key followed by the one 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 time. Our first question comes from Marcus Sequeira from Deutsche Bank. Please go ahead.

Mr. Marcus Sequeira: Thank you, good morning everyone. I have just two questions, one on São Salvador; there have been reports of some social unrest in that area, I am just wondering if that could have any impact on the conclusion of this project and the second question is regarding exports to Argentina; how

much do you expect or if you Argentina to continue in the fourth quarter? Thank you.

Mr. Verstraete: With respect to the first question, the social unrest in São Salvador it is true that there was some. I think this is part of building a hydro plant today and might only increase in the future, it was caused by the map as we were able to detect. Right now the situation went back to normal, the impact on the results of the company will be very limited, as we did not ... our policy is not to send anything to these people as we do not recognize the institution but it is always a very complicated issue. We have been negotiating, we have taken a very careful look at their requests and I think we could reach, hopefully, an agreement with very limited financial impact.
With respect to your second question it is a good question, will the exports go on? In this year and no, we do not think so in 2007. In 2008 possibly in wintertime and depending on the situation in Argentina, depending on how severe the winter will be this activity could come back as it has been the case already in 2006, but we do not like to consider this activity as a recurring business for Tractebel Energia since it depends very much on the situation in the country, much more than on our ... it is not under our control, let us say.

Mr. Sequeira: Thank you very much.

Mr. Verstraete: You are welcome.

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

Mr. Eduardo Haiama: Hi, good morning. Basically have two questions, the first one is regarding Seival project. You mentioned that you estimated a Capex of US$ 850 million, but if I am not wrong part of this Capex is related to the conversion to ... from 6 to 50 Hz and also I do not know if there is something related to transmission line that could also be included in this Capex; could you give the breakdown exactly what is going to be for the power plants, the transmission cost and also for this conversion side? That would be the first question.
And the second question is related to the energy supply graph that you showed on slide 9. You showed there is a deficit in 2012 and 2013 and I wonder, given that in 2012 there is going to be a lot of energy that is going to expire that was auctioned in 2004 if you believe there is a chance of the federal government to anticipate the auction for increase in capacity from 2012 something earlier, so to maybe try to avoid a little bit of migration of more existing energy to the free market? These are my questions, thank you.

Mr. Verstraete: Ok, with respect to the first question to be very honest I do not have the full breakdown of the figures here with me, we are still also negotiating with the EPC contractor but I would be glad to give you this information or at least a rough estimation – because it is not final yet - of this breakdown in a better

occasion, we can discuss over phone or I can send you per e-mail as I do not have them with me here, sorry for that. The second question ...

Mr. Previtali: Hi Haiama, this is Previtali. We have not received any signs that there could be an anticipation of the 2013 auction; indeed, as we approach this 2013 auction all the players in Brazil must be very careful since there is going to the a tremendous amount of energy freed, something like 10,000 average MW, which is something like 20% of Brazil's current demand, but we have no sign that there is going to be an anticipation. Of course we are taking extra care with the uncontracted energy for this time and what we can say is that we have been keeping a very close eye on the moods for the purchase and sale of the energy around 2011 and 2012.

Mr. Haiama: Ok, thank you.

Mr. Previtali: Thank you.

Operator: Again ladies and gentlemen, if you would like to ask a question please press the star key followed by the one key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue please press star, two. Again, if you would like to ask a question please press the star key followed by the one key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue please press star, two. This concludes today's question and answer session. Mr. Marc, at this time you may proceed with your closing statements.

Mr. Verstraete: Well, I would like to thank all of you for your attention, thank you also for the questions although they were very few today, so it is a sign also that our press release is detailed and complete. I would also want to say that we remain at your disposal here, for any questions please feel free to call myself, Previtali or the members of his team, Rafael or Ana, and we will be able, we will be glad to help you with any doubts. So once again thanks a lot and bye.

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