

UBS Investment Research

First Read: Transmissao Paulista

Successful Offer for ONs. Buy 2 Reiterated.

■ ISA concludes tender offer for ON shares

TRPL's controlling shareholder, ISA, concluded today the tender offer for TRPL ON shares, buying 24.6 million shares at R\$30.7 (80% tag along), which totaled R\$755 million. Since this amount represents 39% of ONs and 16% of total capital, ISA now holds 89% of ONs and 37% of total. No details have yet been provided on the shareholders that rejected the offer, but Eletrobras was likely one of them.

■ Likely to be financed by new debt

Although ISA did not disclose the financing strategy used to support the R\$755 million offer, if we look at past statements made by the company's management, the company would raise new debt at the holding level—the same strategy used in the acquisition of TRPL's control.

■ High dividend expectations reinforced

We view ISA's higher economic stake in TRPL as positive for the investment case, as it better aligns interests between controlling and minority shareholders. This, coupled with ISA's need for cash to serve its debt, should provide greater incentive to pay higher dividends.

■ Valuation: Buy 2 Reiterated

We reiterate our Buy 2 rating and PT of R\$37, based on the DCF model with K_e of 11% in U.S. dollar terms. At current prices, implied total return potential is 34%.

Highlights (R\$m)	12/04	12/05	12/06E	12/07E	12/08E
Revenues	1,098	1,205	1,282	1,269	1,437
EBIT (UBS)	416	459	497	365	680
Net income (UBS)	349	468	423	197	316
EPS (UBS, R\$)	2.34	3.14	2.83	1.32	2.12
Net DPS (UBS, R\$)	0.50	1.60	0.47	1.25	2.01

Profitability & Valuation	5-yr hist. av.	12/05	12/06E	12/07E	12/08E
EBIT margin %	-	38.1	38.8	28.7	47.3
ROIC (EBIT) %	-	13.4	13.4	8.6	14.9
EV/EBITDA x	-	4.9	6.4	8.1	5.4
PE (UBS) x	-	6.6	10.1	21.8	13.5
Net dividend yield %	-	7.7	1.7	4.4	7.0

Source: Company accounts, Thomson Financial, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of R\$28.65 on 08 Jan 2007 19:39 EST

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Global Equity Research

Americas

Electric Utilities

Rating **Buy 2***
Unchanged

Price target **R\$37.00/US\$17.02**
Unchanged

Price **R\$28.65/US\$13.35**

RIC: TRPL4.SA BBG: TRPL4 BZ

9 January 2007

Trading data (local/US\$)

52-wk. range	R\$30.48-18.00/US\$14.20-7.84
Market cap.	R\$4.40bn/US\$2.05bn
Shares o/s	86.7m (COM)
Free float	34%
Avg. daily volume ('000)	201,595
Avg. daily value (R\$m)	5,599.9

Balance sheet data 12/06E

Shareholders' equity	R\$4.20bn
P/BV (UBS)	1.0x
Net cash (debt)	R\$0.14bn

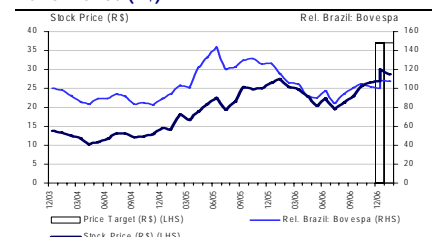
Forecast returns

Forecast price appreciation	+29.1%
Forecast dividend yield	4.4%
Forecast stock return	+33.5%
Market return assumption	18.3%
Forecast excess return	+15.2%

EPS (UBS, R\$)

	12/06E		12/05
	UBS	Cons.	Actual
Q1	0.55	-	0.56
Q2	0.75	-	0.85
Q3	1.13	-	0.84
Q4E	0.40	-	0.89
12/06E	2.83	-	
12/07E	1.32	-	

Performance (R\$)



Source: UBS

www.ubs.com/investmentresearch

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

*Exception to core rating bands; See Page 3

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■ Cia. de Transmissao de Energia Paulista

Transmissão Paulista (CTEEP) is the largest private-owned transmission company in Brazil, operating 11,780 km of transmission lines and 102 substations, totaling 38,500 MVA of capacity. The company operates under an extremely low-risk environment, in which revenues are fixed (adjusted annually by IGP-M) and determined by the regulator (Aneel), based on its existing infrastructure, regardless of the actually energy volume transmitted by the company.

■ Statement of Risk

On the operating front, we highlight execution risk, since we expect large operating improvements during the next two years. If ISA is not able to implement the necessary cost-cutting measures, the company could miss our estimates. Given its regulated nature, the electricity sector is subjected to political or legal interferences. Therefore, the federal government could implement changes or apply more severe rules to the tariff revision process that could negatively affect companies' cash flow. Finally, an abrupt change in FX rate should negatively affect foreign investors, as companies' tariffs are basically adjusted by inflation annually.

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	Buy 2	FSR is > 6% above the MRA, lower degree of predictability	Buy	44%	36%
Neutral 1	FSR is between -6% and 6% of the MRA, higher degree of predictability	Neutral 2	FSR is between -6% and 6% of the MRA, lower degree of predictability	Hold/Neutral	43%	36%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	Reduce 2	FSR is > 6% below the MRA, lower degree of predictability	Sell	13%	26%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 31 December 2006.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Companies mentioned

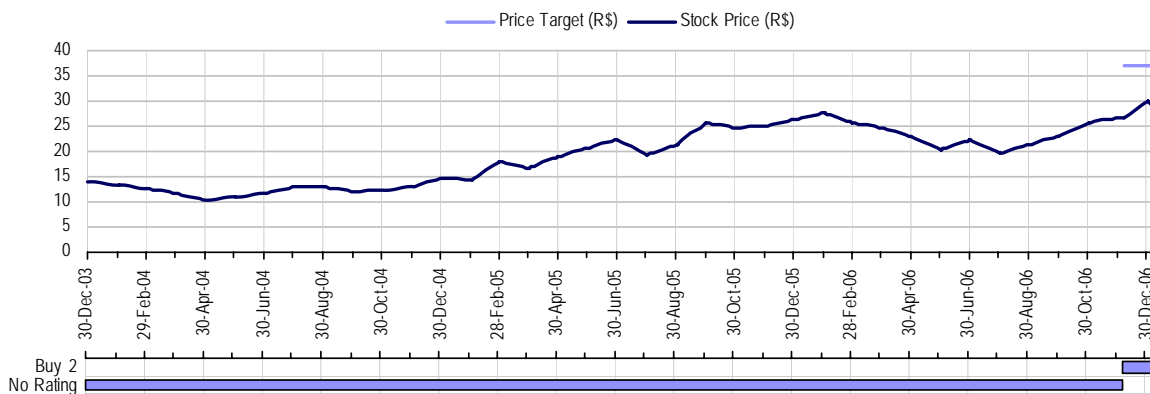
Company Name	Reuters	Rating	Price	Price date/time
Eletrobras (PN) ^{2,4,5,16,20}	ELET6.SA	Neutral 2 (CBE)	R\$45.51	08 Jan 2007 19:39 EST
Transmissao Paulista ²⁰	TRPL4.SA	Buy 2 (CBE)	R\$28.65	08 Jan 2007 19:39 EST

Source: UBS. EST: Eastern standard time.

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4. Within the past three years, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.
20. Because UBS believes this security presents significantly higher-than-normal risk, its rating is deemed Buy if the FSR exceeds the MRA by 10% (compared with 6% under the normal rating system).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Cia. de Transmissao de Energia Paulista (R\$)



Source: UBS; as of 8 January 2007.

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