

UBS Investment Research

Transmissao Paulista

Recurring 4Q07 Below Expectations

■ Lower-than-expected operating results after adjusting for non-recurrings

Transmissao Paulista announced its full 4Q07 results this morning. At first glance, results came in strong, but watch out for non-recurring items and reclassifications. After adjusting for these items, operating results were below expectations on higher costs. TRPL remains as one of our best picks in the sector but, after delivering the first lower-than-expected results in the past 5 quarters and the strong outperformance observed lately, we believe these results could weigh on the stock.

■ Lower EBITDA; Higher Earnings

Reported EBITDA was R\$362mn in the quarter, compared to our R\$279mn expectation—after adjusting for the one-off items, EBITDA drops to R\$244mn, 12% below our estimate. Recurring costs amounted to R\$138mn vs. our R\$95mn estimate—we should still check with mgmt for the reason for these higher costs. Earnings came in at R\$297mn and, even after adjusting (adj earnings of R\$219mn), it was better than our R\$197mn estimate, on lower income tax.

■ Going through one-offs and reclassification

TRPL reported 2 non-recurring gains in the quarter: (1) pension fund obligations of R\$96.7mn, booked on personnel expenses, according to auditors' recommendation; and (2) R\$21.7mn from renegotiation of fiscal obligations. The company also reclassified R\$130mn of CCC/CDE and Proinfa charges from SG&A to deductions of gross revenues, with a neutral impact for EBITDA.

■ Valuation

Our PT of R\$52 is derived from a DCF model with Ke of 9.0% and no perpetuity.

Highlights (R\$m)	12/05	12/06	12/07E	12/08E	12/09E
Revenues	1,205	1,323	1,436	1,573	1,666
EBIT (UBS)	459	61	872	1,008	1,074
Net Income (UBS)	468	118	756	731	720
EPS (UBS, R\$)	3.14	0.79	5.06	4.90	4.82
Net DPS (UBS, R\$)	1.60	0.36	4.81	4.65	4.58

Profitability & Valuation	5-yr hist av.	12/06	12/07E	12/08E	12/09E
EBIT margin %	-	4.6	60.7	64.1	64.4
ROIC (EBIT) %	-	1.8	22.5	22.4	21.9
EV/EBITDA (core) x	-	16.0	5.7	5.3	5.3
PE (UBS) x	-	30.3	8.5	8.8	8.9
Net dividend yield %	-	1.5	11.2	10.8	10.7

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are 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\$43.00 on 06 Feb 2008 19:37 EST

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Global Equity Research

Americas

Electric Utilities

12-month rating **Buy ***
Unchanged

12m price target **R\$52.00/US\$29.12**
Unchanged

Price **R\$43.00/US\$24.08**

RIC: TRPL4.SA BBG: TRPL4 BZ

7 February 2008

Trading data (local/US\$)

52-wk range	R\$45.00-26.90/US\$25.78-12.70
Market cap.	R\$5.89bn/US\$3.30bn
Shares o/s	86.7m (COM)
Free float	34%
Avg. daily volume ('000)	316
Avg. daily value (R\$m)	12.6

Balance sheet data 12/07E

Shareholders' equity	R\$4.07bn
P/BV (UBS)	1.6x
Net Cash (debt)	(R\$0.23bn)

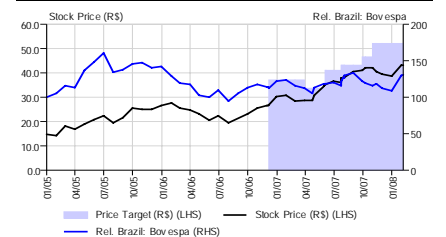
Forecast returns

Forecast price appreciation	+20.9%
Forecast dividend yield	11.2%
Forecast stock return	+32.1%
Market return assumption	17.3%
Forecast excess return	+14.8%

EPS (UBS, R\$)

	12/07E		12/06
	UBS	Cons.	Actual
Q1	1.52	-	0.55
Q2	0.90	-	0.75
Q3E	1.32	-	1.13
Q4E	1.32	-	(1.65)
12/07E	5.06	-	-
12/08E	4.90	-	-

Performance (R\$)



Source: UBS

www.ubs.com/investmentresearch

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 3. * Exception to core rating bands; See page5

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Table 1: 4Q07 Results

	4Q06	3Q07	4Q07E	4Q07A	A/E	Q-o-Q	Y-o-Y
Gross Revenues	356,316	427,715	403,462	397,551	-1%	-7%	12%
Deductions	-25,634	-48,254	-30,260	-144,925	379%	200%	465%
Net Revenues	330,682	379,461	373,202	252,626	-32%	-33%	-24%
Cost of Goods Sold	-692,581	-107,628	-138,439	66,205	-148%	-162%	-110%
Headcount	-103,229	-48,174	-48,590	44,298			
Layoff costs	-475,630	0	0				
Depreciation - Old	-42,376	-43,688	-43,947	-43,615			
Other	-71,346	-15,766	-45,902	66,457			
EBIT	-361,899	271,833	234,763	318,831	36%	17%	nm
Financial Result	31,327	17,692	-129,956	-246,340			
Financial Revenues	34,396	23,161	6,142	11,037			
Amortization	4,246	4,247	4,247	-12,739			
Revenues	30,150	18,914	1,895	23,776			
Monetary Variation							
Financial Expenses	-3,069	-5,469	-136,098	-257,377			
ISE	0	0	-128,098	-238,737			
Expenses	-3,739	-6,808	-5,036	-17,175			
Monetary Variation	670	1,339	-2,964	-1,465			
Non-Operating	-32,710	8,094	0	-11,282			
EBT	-363,282	297,619	104,808	61,209	-42%	-79%	nm
Income Tax	117,466	-101,219	-35,635	-2,984			
ISE Reversal	0	0	128,098	238,737			
Net Profit	-245,816	196,400	197,271	296,962	51%	51%	nm
Pension gains				-96,800			
Reversal of Provisions				-21,740			
Tax on non-recurrings				40,304			
Adj Earnings	-245,816	196,400	197,271	218,726	11%	11%	nm

Source: Company reports and UBS Pactual estimates

Table 2: EBITDA Calculation

	4Q06	3Q07	4Q07E	4Q07A	A/E	Q-o-Q	Y-o-Y
Reported EBITDA	-319,523	315,521	278,710	362,446	30%	15%	nm
Pension gains				-96,800			
Reversal of Provisions				-21,740			
Adj EBITDA	-319,523	315,521	278,710	243,906	-12%	-23%	nm

Source: Company reports and UBS Pactual estimates

■ 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 Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	55%	39%
Neutral	Hold/Neutral	36%	36%
Sell	Sell	8%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	50%

1:Percentage of companies under coverage globally within the 12-month rating category.

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

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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).

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.

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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Cia. de Transmissao de Energia Paulista ^{13, 20}	TRPL4.SA	Buy (CBE)	N/A	R\$43.00	06 Feb 2008

Source: UBS. All prices as of local market close.

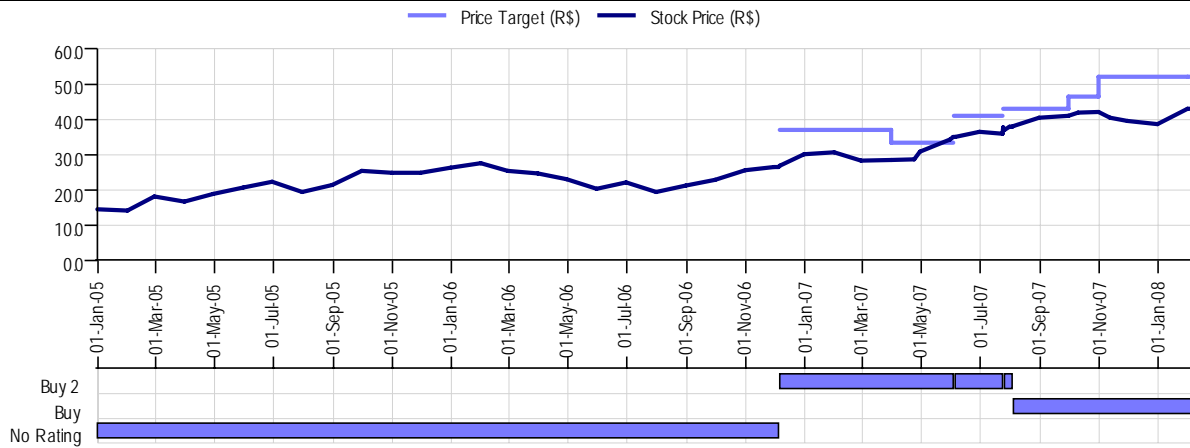
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

13. UBS AG, its affiliates or subsidiaries beneficially owned 1% or more of a class of this company's common equity securities as of last month's end (or the prior month's end if this report is dated less than 10 days after the most recent month's end).
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).

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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 06 Feb 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; 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; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. 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. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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