

Companhia Brasileira de Alumínio

**Financial statements for the year ended
December 31st, 2006 and 2005
and report of independent auditors**

Report of independent auditors

To the Management and Stockholders
Companhia Brasileira de Alumínio

- 1** We have audited the balance sheets of Companhia Brasileira de Alumínio as of December 31st, 2006 and 2005 and the related statements of results, of changes in stockholders' equity and of the source and application of funds for each of the years ended on those dates, as prepared under the responsibility of the Company management. Our responsibility is to express an opinion on these financial statements. The audits on the financial statements of the affiliated companies BAESA - Energética Barra Grande S.A., Machadinho Energética S.A., Mineração Rio do Norte S.A. and Petrocoque S.A. Indústria e Comércio and of the indirect affiliated company VBC Energia S.A., referred to in Note 8, whose investments are evaluated under the equivalent net worth method, have been conducted under the responsibility of other independent auditors. The opinions on the indirect affiliate VBC Energia S.A. and on the affiliate Machadinho Energética S.A. have included an emphasis paragraph related to the matters described under paragraph 4 below and in Note 8(c), respectively. Our opinion on the amount of such investments and on their resulting profits, amounting to R\$ 244,092 thousand (2005 – R\$ 314,495 thousand) and R\$ 51,438 thousand (2005 - R\$ 74,803 thousand), respectively, is based solely and exclusively on reports from such other auditors.
- 2** Our audits have been conducted in accordance with the generally accepted auditing standards in Brazil, which require that such audits are conducted to obtain reasonable assurance that the financial statements are fairly presented, in all material respects. Therefore, our audits comprise, among other procedures:

 - (a) the planning of our audit works considering the relevance of the balances, the volume of transactions and the Company's accounting systems and internal controls;
 - (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial

Companhia Brasileira de Alumínio

statements; and (c) assessing the accounting principles and the most significant estimates adopted by the Company management, as well as the overall presentation of the financial statements.

- 3 On basis of our audits and on the opinions under the responsibility of the other independent auditors, our opinion is that the financial statements mentioned in the first paragraph present fairly, in all material respects, the equity and financial position of Companhia Brasileira de Alumínio at December 31st, 2006 and 2005 and the results of its operations, the changes in stockholders' equity and the source and application of funds in the periods ended on those dates, in conformity with generally accepted accounting principles adopted in Brazil.
- 4 The financial statements of the indirect affiliate VBC Energia S.A., as of December 31st, 2006 and of VBC Participações S.A., as of December 31st, 2005, contain an emphasis paragraph related to the current position of the certification, on a temporary basis, of the 2003 periodic tariff review made by the National Electric Energy Agency – ANEEL of its controlled society Companhia Piratininga de Força e Luz. In view of the temporary nature of such tariff review, the financial statements at December 31st, 2006 and 2005 do not contemplate possible adjustments that could lead to a definitive tariff repositioning.

São Paulo, April 23rd, 2007

PricewaterhouseCoopers
Independent Auditors
CRC 2SP000160/O-5

Marcelo Orlando
Accountant CRC 1SP217518/O-7

Companhia Brasileira de Alumínio

Balance sheets for the year end December 31st
In thousand reais

Assets	2006	2005	Liabilities and stockholders' equity	2006	2005
Current assets			Current liabilities		
Available cash	1,824	57,450	Financings (Note 12)	206,947	309,868
Marketable bonds and securities (Note 3)	1,244,882	1,075,702	Suppliers	264,334	200,355
Accounts receivable from customers (Note 4)	358,928	249,864	Salaries and social security charges	11,924	18,467
Inventory (Note 5)	444,733	366,263	Taxes and contributions payable	170,818	104,750
Recoverable taxes (Note 6)	122,079	55,548	Interests on stockholders' equity	229,500	213,444
Other accounts receivable	136,984	124,963	Vacation allowance	33,477	20,778
	<u>2,309,430</u>	<u>1,929,790</u>	Other accounts payable	132,410	162,013
Non current assets				<u>1,049,410</u>	<u>1,029,675</u>
Long-term receivables			Non current liabilities		
Recoverable taxes (Note 6)	89,199	53,571	Long-term payables		
Deferred income tax & social contribution (Note 11)	31,098	38,682	Financings (Note 12)	663,649	607,534
Advance payment to suppliers		10,793	Provision for contingencies (Note 14)	9,426	19,060
Other accounts receivable	5,239	8,115	Other accounts payable	32,878	72,539
	<u>125,536</u>	<u>111,161</u>		<u>705,953</u>	<u>699,133</u>
Permanent			Stockholders' equity (Note 15)		
Investments (Note 8)	660,375	700,492	Capital stock	3,012,785	2,800,000
Property, plant and equipment (Note 9)	2,852,199	2,361,645	Revaluation reserve	2,968	3,027
Deferred (Note 10)	102,668	85,296	Profit Reserves	220,032	175,408
	<u>3,615,242</u>	<u>3,147,433</u>	Accrued profits	1,059,060	481,141
Total assets	<u><u>6,050,208</u></u>	<u><u>5,188,384</u></u>		<u>4,294,845</u>	<u>3,459,576</u>
			Total liabilities and stockholders' equity	<u><u>6,050,208</u></u>	<u><u>5,188,384</u></u>

The management explanatory notes are an integral part of the financial statements.

Companhia Brasileira de Alumínio

Statement of income

Years ended December 31st

In thousand reais, unless otherwise indicated

	<u>2006</u>	<u>2005</u>
Gross sales revenues		
Local market	2,274,908	1,956,936
Overseas markets	<u>1,002,331</u>	<u>855,528</u>
	3,277,239	2,812,464
Sales deductions		
Sales and service taxes	(518,905)	(486,828)
Returns and rebates	<u>(34,913)</u>	<u>(34,985)</u>
Net Sales revenues	2,723,421	2,290,651
Cost of products sold	<u>(1,854,673)</u>	<u>(1,527,049)</u>
Gross profit	<u>868,748</u>	<u>763,602</u>
Operating expenses		
Sales expenses	(87,033)	(86,227)
Administrative expenses	<u>(69,288)</u>	<u>(55,435)</u>
Operating profit before statutory participation and financial results	<u>712,427</u>	<u>621,940</u>
Result of statutory participation		
Equity interest on controlled and affiliated companies (Note 8)	156,200	150,030
Capital gain on equity interests (Note 17)	<u>120,093</u>	<u>10,976</u>
	<u>276,293</u>	<u>161,006</u>
Financial result		
Financial expenses	(119,771)	(162,574)
Financial Income	<u>221,331</u>	<u>206,563</u>
	<u>101,560</u>	<u>43,989</u>
Operating profit	<u>1,090,280</u>	<u>826,935</u>
Non-operating results		
Non-operating income, net	<u>24,442</u>	<u>5,793</u>
Profit before income tax and social contribution	<u>1,114,722</u>	<u>832,728</u>
Income tax and social contribution (Note 11(b))		
Current	(214,654)	(116,318)

The management explanatory notes are an integral part of the financial statements.

Companhia Brasileira de Alumínio

Statement of income

Years ended December 31st 2001 and 2000

(In thousand reais, except net profit per share)

Deferred	<u>(7,584)</u>	<u>5,450</u>
	<u>(222,238)</u>	<u>(110,868)</u>
Net profit in fiscal year	<u>892,484</u>	<u>721,860</u>
Net profit per share at year end - R\$	<u>1,16</u>	<u>1,01</u>

The management explanatory notes are an integral part of the financial statements.

Companhia Brasileira de Alumínio

Statement of changes in stockholders' equity

In thousand reais, unless otherwise indicated

	-{}-	Profit Reserve			
	Capital stock	Revaluation reserve	Legal Reserve	Accrued profits	
				Total	
as of December 31st, 2004	2,500,000	3,100	139,315	390,301	3,032,716
Capitalization of reserves as per Stockholders' Ordinary General Meeting, dated April 29 th , 2005	300,000			(300,000)	
Realization of revaluation reserves		(73)		73	
Net profit in financial year				721,860	721,860
Profit Destination					
Appropriation to legal reserve			36,093	(36,093)	
Interests on stockholders' equity (R\$ 0.41 per share) (Note 15 (b))				(295,000)	(295,000)
as of December 31st, 2005	2,800,000	3,027	175,408	481,141	3,459,576
Paid-up capital, as per Stockholders' Ordinary General Meeting, dated September 29 th , 2006 (Note 15 (a))	212,785				212,785
Realization of revaluation reserves		(59)		59	
Net profit in financial year				892,484	892,484
Profit Destination					
Appropriation to legal reserve			44,624	(44,624)	
Interests on stockholders' equity (R\$ 0.35 per share) (Note 15 (b))				(270,000)	(270,000)
as of December 31st, 2006	<u>3,012,785</u>	<u>2,968</u>	<u>220,032</u>	<u>1,059,060</u>	<u>4,294,845</u>

The management explanatory notes are an integral part of the financial statements.

Companhia Brasileira de Alumínio

Statement of source and application of funds

Years ended December 31st

In thousand reais

	<u>2006</u>	<u>2005</u>
Source of funds		
From Company operations		
Net profit in financial year	892,484	721,860
Expenses (income) not affecting the circulating capital		
Deferred income tax & social contribution	7,584	(5,450)
Equivalent net worth result	(156,200)	(150,030)
(Reversal) provision for contingencies	(49,295)	14,569
Residual value of retired asset	84,731	1,389
Depreciation, amortization and depletion	381,268	274,317
Gain on equity changes		(10,976)
Interests and monetary changes of long-term items	26,063	20,782
Of stockholders		
Paid-up capital	<u>212,785</u>	
	1,399,420	866,461
Of third parties		
Dividends from controlled and affiliated companies	156,401	160,176
Inflow of resources into long-term liabilities	<u>258,301</u>	<u>325,023</u>
Total sources	<u>1,814,122</u>	<u>1,351,660</u>
Application of funds		
In long-term receivables	21,959	36,938
In fixed assets		
Investments	44,551	12,860
Property, Plant & Equipment	855,499	883,771
Deferred	33,959	31,709
Long-term financing transfer to current assets	228,249	249,139
Interests on stockholders' equity	<u>270,000</u>	<u>295,000</u>
Total applications	<u>1,454,217</u>	<u>1,509,417</u>
Increase (decrease) in circulating capital	<u><u>359,905</u></u>	<u><u>(157,757)</u></u>

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Statement of source and application of funds

Years ended December 31st

In thousand reais

(cont'd)

	<u>2006</u>	<u>2005</u>
Change in circulating capital		
Current assets	379,640	257,007
Current liabilities	<u>19,735</u>	<u>414,764</u>
Increase (decrease) in circulating capital	<u><u>359,905</u></u>	<u><u>(157,757)</u></u>

The management explanatory notes are an integral part of the financial statements.

Companhia Brasileira de Alumínio

Management explanatory notes to financial statements as of December 31st, 2006 and 2005

In thousand reais, unless otherwise indicated

1 Operational context

Companhia Brasileira de Alumínio (“Company”) is a corporation that integrates the Votorantim Group, having as its preponderant activities the exploitation and beneficiation of bauxite deposits throughout the national territory, to produce and commercialize, within the country and abroad, both primary and transformed aluminum, with a broad product lineup, such as ingots, billets, rods, plates, coils, tiles, sheets, extruded products, wires and cables.

The Company started in 2005 a new aluminum production expansion program that reached completion in February 2007, to increase its annual production capacity to 475 thousand metric tons. Together with such expansion program, the Company increased its production capacity in the rolling mill area, with an aim at reaching new local and international markets, by manufacturing coils up to two meters wide.

In the mining area, the Company is building a new bauxite beneficiation plant in the municipality of Miraf – State of Minas Gerais, to be completed in the second half of 2007, thus increasing the installed ore production capacity. The Company acquired some mining rights in the region of Barro Alto – State of Goiás, thus aggregating over 20 million tons of bauxite to its current reserves. In the northern region of the state of Pará, the Company resumed its mining research works in the municipality of Paragominas, aiming at measuring, evaluating and exploiting the bauxite reserves in that area.

Simultaneously with the growth in the production capacity of primary aluminum and in its bauxite reserves, the Company increased its equity interest in a company called Campos Novos Energia S.A., from 22.69% to 24.73% of the undertaking, which started its power generation activities in 2007. The purpose of such investment, together with all other investments already made by the Company in the power generation segment, is to maintain its current level of 60% consumption from Company-owned power plants.

Companhia Brasileira de Alumínio

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In thousand reais, unless otherwise indicated

2 Summary of significant accounting policies

The Company financial statements were prepared and are being presented in conformity with the generally accepted accounting principles adopted in Brazil, on basis of the provisions contained in the Brazilian Corporate Law.

The preparation of financial statements requires management to make estimates when recording certain assets, liabilities and other transactions. Therefore, the Company financial statements include a number of estimates to help selecting the useful life of fixed assets, the necessary allowances for losses in accounts receivable, fixed assets, contingent liabilities and other similar accounts. Actual results could differ from such estimates.

(a) Determination of results

The results of operations are determined on the accrual basis. Income is recognized at the time of product delivery, considering that risks and benefits are then transferred to buyer. The provision for income tax is constituted by adding the amount of fiscal incentive. Deferred taxes were recognized on basis of the applicable income tax rates and social contribution on fiscal losses and temporary differences, to the extent of their probable realization.

(b) Current assets and long-term receivables

Financial applications are stated considering the financial income earned up to December 31st of each year. The shares of investment funds are stated at their realization value, on basis of the share value disclosed on the last business day prior to the date of balance sheet preparation.

The bad debt allowance is calculated on basis of losses deemed probable, the amount of which is considered by the management to be sufficient to cover any expected loss in the realization of accounts receivable.

Inventories are stated at the average of purchase or production cost, a value that is lower than replacement costs or realization values, deducted from the bad debt allowance. Imports in progress are stated at their specific incurred costs.

All other assets are stated at cost or realization values, including, if applicable, all incomes, exchange rate variations and earned monetary variations.

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In thousand reais, unless otherwise indicated

(c) **Permanent**

Stated at their monetary corrected cost up to December 31st, 1995, in combination with the following aspects:

- . Equity interests in controlled and affiliated companies evaluated by the equivalent net worth method, aggregated by the premium paid on investment acquisition, as explained in Note 8. All other investments are stated at their monetarily corrected cost of acquisition. Investments are deducted by the amount of allowances, as required.
- . Amortization of premium paid in investment acquisitions over ten years on basis of the expected future profitability.
- . The revaluation of assets originating from consolidated companies, stated on basis of evaluations made by independent experts.
- . Depreciation of fixed assets, calculated by the straight-line method, at the rates mentioned in Note 9, which take into account the estimated useful life of such assets and, if applicable, the corrected cost of the asset is deducted from the provision at the recovery value, taking into account the expected amount to be recovered through the future use of such asset in the Company operations.
- . Amortization of deferred asset, stated by the straight-line method, over a period not exceeding five years, counted from the date when benefits will start to be generated.
- . Depletion of ore deposits, stated on basis of the ratio obtained between effective production and estimated deposit capacity.

(d) **Current liabilities and long-term liabilities**

Stated at their known or computable values aggregated, if applicable, of the corresponding encumbrances, exchange rate variations and incurred monetary variations.

(e) **Income tax & social contribution**

Income tax and social contribution comprise all incurred taxes. Incurred taxes are calculated over the taxable income in the fiscal years, by using the applicable tax rates at the time of

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balance sheet preparation, namely: (i) income tax - calculated at the rate of 25% (15% over the taxable income, aggregated by the additional rate of 10%) and (ii) social contribution – calculated at the rate of 9% over the adjusted accounting profit.

Income tax and social contribution deferred assets are constituted up to the limit of probable taxable income occurring in the future, against which taxes will be assessed.

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Management explanatory notes to financial
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In thousand reais, unless otherwise indicated

3 Marketable bonds and securities

	<u>2006</u>	<u>2005</u>
Fixed income applications		
Third parties	299,987	95,664
Related party (Note 7)	941,663	977,775
Others	<u>3,232</u>	<u>2,263</u>
	<u>1,244,882</u>	<u>1,075,702</u>

The portfolio of financial investment funds is formed by 13% of government bonds (2005 - 23%), 80% private (2005 - 65%) and 7% of committed operations (2005 - 12%).

Fixed income applications refer to shares in investment funds, remunerated by the variation of the Interbank Deposit Certificate - IDC. In 2006, the average profitability of such funds was IDC plus spread.

4 Accounts receivable from clients

	<u>2006</u>	<u>2005</u>
Local market	245,925	216,784
Overseas markets	<u>113,256</u>	<u>54,441</u>
	<u>359,181</u>	<u>271,225</u>
Bad debt allowance	<u>(253)</u>	<u>(21,361)</u>
	<u>358,928</u>	<u>249,864</u>

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5 Inventory

	<u>2006</u>	<u>2005</u>
Finished products	198,762	148,129
Products in process	159,506	101,696
Raw materials	35,515	49,725
Storeroom	51,942	51,084
Imports in progress and others	5,634	20,033
Provision for inventory obsolescence	<u>(6,626)</u>	<u>(4,404)</u>
	<u>444,733</u>	<u>366,263</u>

6 Recoverable taxes

	<u>2006</u>	<u>2005</u>
State Sale and Service Tax – ICMS and Tax on Industrialized Products – IPI (*)	182,446	101,384
Withheld taxes and advance tax payments	<u>28,832</u>	<u>7,735</u>
	211,278	109,119
Current assets	<u>(122,079)</u>	<u>(55,548)</u>
Long-term receivables	<u>89,199</u>	<u>53,571</u>

(*) Includes ICMS credits resulting from the purchase of goods intended for fixed assets, in conformity with Complementary Law No.102/2000.

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7 Balances and transactions with related parties

Description	Balances at December 31 st , 2006				Balances at December 31 st , 2005			Transactions			
	Assets		Liabilities		Assets	Liabilities		Income	Expenses/purchases		
	Current	Permanent	Current	Long-term payables	Current	Current	Long-term payables	2006	2005	2006	2005
Marketable bonds and securities											
Votorantim Asset Management DTVM Ltda.	941,663				977,775			133,300	169,049		
Accounts receivable											
Votorantrade N.V.	18,954				160			381,154	264,745		
Others	1,782				1,265			18,658	20,017		
	20,736				1,425			399,812	284,762		
Other accounts receivable											
Indústria e Comércio Metalúrgica Atlas S.A.	11,262	3,373			30,958						
Santa Cruz Geração de Energia S.A.	36,708										
Mineração Rio do Norte S.A.					41,300						
Others	18,570	20			9,130						
	66,540	3,393			81,388						

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Management explanatory notes to financial statements as of December 31st, 2006 and 2005

In thousand reais, unless otherwise indicated

Description	Balances at December 31 st , 2006				Balances at December 31 st , 2005			Transactions			
	Assets		Liabilities		Assets		Liabilities		Revenues	Expenses/purchases	
	Current	Permanent	Current	Long-term payables	Current	Current	Long-term payables	2006	2005	2006	2005
Advance payment to suppliers											
Indústria e Comércio Metalúrgica											
Atlas S.A.					10	40,561					
Engemix S.A.					165						
					175	40,561					
Advance for future capital increase											
VID-Votorantim Invest. Industriais			10,101								
Advance to customers											
Affiliated companies			101			47					
Suppliers											
Indústria e Comércio Metalúrgica											
Atlas S.A.			2,414							156,140	
Engemix S.A.			884			8,379				12,956	100,831
Machadinho Energética S.A.			30,651			36,327				48,639	50,764
Petrocoque S.A. Indústria e Comércio			5,546			3,253				108,789	
Companhia Luz e Força Santa Cruz											92,288
BAESA – Energética Barra Grande S.A.			8,404							48,337	
Companhia Nitro Química Brasileira			448			1,700				22,829	21,076
Others			7,039			7,981				33,632	54,299
			55,386			57,640				431,322	319,258

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Management explanatory notes to financial statements as of December 31st, 2006 and 2005

In thousand reais, unless otherwise indicated

Description	Balances at December 31 st , 2006					Balances at December 31 st , 2005			Transactions			
	Assets			Liabilities		Assets		Liabilities	Revenues		Expenses/purchases	
	Current	Long-term receivables	Permanent	Current	Long-term payables	Current	Current	Long-term payables	2006	2005	2006	2005
Interests on stockholders' equity Votorantim Participações S.A.					228,939			213444				
Other accounts payable FUNSEJEM Others					8,758		618	9,652				
					8,758		618	9,652				

Financial charges incurred on loans correspond to the variation of Interbank Deposit Certificate - IDC.

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8 Investments

	Information from controlled/affiliates		Shares/quotas held - thousands	Equity Interest on other companies - %	Equivalent net worth result	Premium	Balances of investments
	Adjusted net Stockholders' Equity	Fiscal year Result					
Controlled companies							
CBA Overseas Trading CO Ltd.	1,534	(196)	150	100,00	(359)		1,534
Companhia Luz e Força Santa Cruz	83,168	22,293	371,744	99,99	15,670		
Santa Cruz Geração de Energia S.A.	44,967		42,102	100,00	37,800		44,967
Indústria e Comércio Metalúrgica Atlas S.A.	3,943	44,173	396,301	99,86	11,471		3,943
Mineração Zona da Mata Ltda.			1,000	100,00		26,986	
Affiliates							
BAESA – Energética Barra Grande S.A.	443,072	51,082	59,757	15,00	7,662	9,334	66,461
Campos Novos Energia S.A.	388,787		96,129	24,73		40,594	96,129
Machadinho Energética S.A.	357,395	3,212	98,911	29,11	935		104,038
Mineração Rio do Norte S.A.	584,885	340,808	60,000	10,00	34,567		58,488
Petrocoque S.A. Indústria e Comércio	44,194	19,090	7,650	22,50	(823)	6,587	9,944
Votorantim Energia Ltda.	466,326	598,410	227,434	21,77	49,277		101,519
					<u>156,200</u>	<u>83,501</u>	<u>487,023</u>
Other investments, at cost							<u>89,851</u>
						<u>83,501</u>	<u>576,874</u>
						<u>660,375</u>	

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Management explanatory notes to financial statements as of December 31st, 2006 and 2005

In thousand reais, unless otherwise indicated

	2005						
	Information from controlled/affiliates						
	Adjusted net stockholders' equity	Year end Result	Shares/quotas held - thousands	Equity Interest on other companies- %	Equivalent net worth result	Premium	Investment balances
Controlled companies							
CBA Overseas Trading CO Ltd.	1,893	(301)	150	100,00	(595)		1,893
Companhia Luz e Força Santa Cruz	89,240	28,626	371,744	99,99	28,617		89,231
Santa Cruz Geração de Energia S.A.	53,686	15,179	42,102	100,00	15,186		53,686
Indústria e Comércio Metalúrgica Atlas S.A.	34,741	32,887	396,301	99,86	32,902		34,692
Mineração Zona da Mata Ltda.			1,000	100,00		8,756	
Affiliates							
BAESA – Energética Barra Grande S.A.							
Campos Novos Energia S.A.	392,419	(5,962)	59,757	15,00	(894)	9,334	58,863
Machadinho Energética S.A.	388,787		88,222	22,69		29,824	88,222
Mineração Rio do Norte S.A.	354,183	4,802	98,911	29,11	1,398		103,103
Petrocoque S.A. Indústria e Comércio	578,970	419,778	60,000	10,00	42,476		57,897
Votorantim Energia Ltda.	54,858	12,629	5,100	15,00	1,894		8,229
	343,301	103,999	227,434	25,87	29,046		88,812
					<u>150,030</u>	<u>47,914</u>	<u>584,628</u>
Other investments, at cost							
							<u>67,950</u>
						<u>47,914</u>	<u>652,578</u>
						<u>700,492</u>	

(a) Companhia Luz e Força Santa Cruz and Santa Cruz Geração de Energia S.A.

The Management Board of Companhia Luz e Força Santa Cruz, in compliance with the provision prohibiting electric energy distribution companies to develop power generation and transmission activities, as well as to have equity interests on other companies, approved the proposal for activity segregation and created the controlled company Santa Cruz Geração S.A. to carry out the required generation activities.

Under the provisions of Law No. 10.848/04, a joint stock company was incorporated on August 1st, 2005, called "Santa Cruz Geração de Energia S.A.", with a capital stock of R\$ 1, as stated in the Minutes of the General Meeting on the Incorporation of a Joint Stock Company. On November 1st, 2005, the assets, rights and obligations related to the generation activity of Companhia Luz e Força Santa Cruz were transferred to Santa Cruz Geração de Energia S.A., on basis of the evaluation of the book value of the net assets on October 30th, 2005. Consequently, the Company became the holder of 100% equity interest in Santa Cruz Geração de Energia S.A..

Investment alienation - Companhia Luz e Força Santa Cruz

With due consent obtained from the National Electric Energy Agency - ANEEL, on December 26th, 2006, the Company and Nova 4 Participações S.A., a corporation fully controlled by CPFL Energia S.A. have entered, on October 2nd, 2006, into a purchase and sale agreement of 99.9923% of the capital stock of Companhia Luz e Força Santa Cruz for the amount of R\$ 203,000. The Company management understands that, while future events are not manageable either by the Company or by Nova 4 Participações Ltda., both these Companies have undertaken to use their best reasonable efforts to reach a favorable outcome.

(b) Mineração Zona da Mata Ltda.

In October 2003, the Company acquired 100% equity interest in Mineração Zona da Mata Ltda., an organization holding specific mining rights to operate in the region of Cataguases – in the State of Minas Gerais. The total price of such acquisition was determined in pursuance of the measurements related to the ore content in the reserves of Mineração Zona da Mata Ltda., which were completed in December 2006. The premium amounting to R\$ 26,986 is founded on the expected future profitability and shall be amortized over a period of ten years, counted from the start of the exploration process in the acquired areas.

(c) Machadinho Energética S.A.

On September 2nd, 2004, Machadinho Energética S.A. published a Relevant Fact, in compliance with the provisions of CVM (Brazilian Federal Securities Commission) Instruction No.

358/2002, pursuant to Official Letter No. 829/2004 – issued by the Superintendence of Economic and Financial Inspection of the National Electric Energy Agency SFF/ANEEL ("Official Letter SFF"), under the understanding that Machadinho Energia S.A. could not supposedly be the co-owner of the assets bound to Machadinho HEPP (represented by its reservoir and power plant lands, power plant-dam infrastructure, power house, spillway, etc., and the equipment installed therein), for not having the corresponding title of such grant. It was, therefore, determined that a schedule of actions should be established for transferring the ownership title to such assets to the stockholders of Machadinho Energética S.A.

Machadinho Energética S.A. reports that the Machadinho Consortium, through its parent company Tractebel Energia S.A., filed an administrative appeal for a supersedeas, currently being discussed.

On April 24th, 2006, the senior management of Machadinho Energética S.A., together with all its shareholding companies, have sought with ANEEL board, (i) to consider the Administrative Appeal and its Complementary Allegations, as well as the Economic-Financial report issued by Machadinho Energética S.A.; (ii) to recognize and rule on the untimeliness and inadequacy of Decisions No. 2.263/05 and No. 643/06 and their consequent reversal; (iii) to ratify Official Letters No. 659/99 and 002/00; and (iv) to recognize that Machadinho Energética S.A. is legally subject to ANEEL inspection.

On December 18th, 2006, ANEEL Attorney General issued Advice No. 561/06, in reply to a request from the Proceeding Relator Director in favor of the allegations submitted by Machadinho Energética S.A.

Lastly, Machadinho Energética S.A. reiterates that, irrespective of the decision made by ANEEL Collegiate Board being maintained in the judicial purview, its likely compliance will result in no loss to the holders of debentures issued by Machadinho Energética S.A.

The advice of independent auditors, dated February 9th, 2007, contained an emphasis paragraph on the aforementioned issue and a conclusion that Machadinho Energética S.A. financial statements had been prepared under the assumption that the Company operations would be maintained with the current structure and that no adjustments or reclassifications had been included despite being possibly required in the event of the judicial decision being reversed in the future.

(d) Mineração Rio do Norte S.A.

Mineração Rio do Norte S.A. was fined for having reduced its capital stock, as decided on July 22nd, 1999. On April 16th, 2003, the affiliate was serviced summons by the local Internal Revenue Service demanding payment of the related Assessment Notice. For purposes of suspending the tax credit liability, Mineração Rio do Norte S.A. judicially deposited the amount of R\$ 316,011 in May 2003, to keep the mentioned proceeding in the judicial sphere.

According to Mineração Rio do Norte S.A. management and on basis of the legal advice of their lawyers, the company will probably prevail in this suit and, therefore, the corresponding provision for contingencies has not been accounted for.

(e) Votorantim Energia Ltda.

Votorantim Energia Ltda. holds a 30.42% equity interest in VBC Energia S.A., whose financial statements have been examined by other auditors. The financial statements of the indirect affiliate VBC Energia S.A., as of December 31st, 2006 and 2005, contain an emphasis paragraph related to the current position of the certification, on a temporary basis, of the 2003 periodic tariff review made by the National Electric Energy Agency – ANEEL of its controlled society Companhia Piratininga de Força e Luz. In view of the temporary nature of such tariff review, the financial statements at December 31st, 2006 and 2005 do not contemplate possible adjustments that could lead to a definitive tariff repositioning.

(f) Campos Novos Energia S.A.

Campos Novos Energia S.A. is a closed corporation, the object of which is to build, operate and exploit the Campos Novos Hydroelectric Benefit (provided by the Canoas River – State of Santa Catarina), with a design installed power, as stated in the grant agreement, will be 880 MW. The start-up of commercial operations happened on February 3rd, 2007.

The advice from the independent auditor, dated January 26th, 2007, contained an emphasis paragraph as to the fact of the company Campos Novos Energia S.A. having spent significant amounts in organization, development and pre-operational costs which, according to estimates and projections prepared by the Company management, should be absorbed by future operating income.

(g) BAESA – Energética Barra Grande S.A.

On September 29th, 2006, a Relevant Fact was published to highlight the intent of Energética Barra Grande S.A. stockholders to restructure the company through a split-off of the Company assets and liabilities, whereby Energética Barra Grande S.A. would have CPFL Geração de Energia S.A. and DME Energética Ltda. as its sole stockholders (thereafter known as BAESA Remanescente).

The management of Barra Grande HEPP will be formed by a consortium comprised of BAESA Remanescente and those stockholders no longer having an equity participation in Energética Barra Grande S.A., namely Alcoa Alumínio S.A., Companhia Brasileira de Alumínio and Camargo e Corrêa Cimentos S.A.

The consortium to be formed, will hold a shared grant of the assets and output of Barra Grande HEPP, based on the same equity participation previously held in Energética Barra Grande S.A..

In 2004, Energética Barra Grande S.A. issued 18,000 unsecured simple debentures, not convertible into shares, in the amount of R\$ 180,000. In the split-off case, the Company will propose changes in debenture characteristics to debenture holders, whereby CPFL Energia S.A. will become the guarantor of 100% of the debt represented by debentures, which will be fully kept by the split-off BAESA Remanescente. The mentioned corporate restructuring process shall be subject to analysis by BNDES and shall comply with all legal and regulatory procedures, and shall be previously submitted to government authorities, in particular to the National Electric Energy Agency - ANEEL.

(h) Other information

The investments in the following controlled and affiliated companies have been examined by other independent auditors: Mineração Rio do Norte S.A., Petrocoque S.A. Indústria e Comércio, Machadinho Energética S.A. and BAESA - Energética Barra Grande S.A.

Any premium involved in the equity acquisitions of BAESA - Energética Barra Grande S.A. and Campos Novos Energia S.A. will be founded on future profitability expectations arising out of their grant agreements, being amortized over the duration of such agreements, starting from the date of the commercial operations of each company. The premium resulting from measurements of the ore content in Mineração Zona da Mata Ltda. reserves shall be amortized over ten years, counted from the start of the exploitation process in the acquired areas.

9 Property, Plant & Equipment

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Accrued depreciation and depletion</u>	<u>Balance</u>	<u>Balance</u>
	<u>corrected</u>	<u>depletion</u>	<u>Balance</u>	<u>Balance</u>
				<u>Annual depreciation Rate - %</u>
Land	76,304		76,304	77,161
Buildings & civil works (i)	925,177	(343,200)	581,977	440,143 3 to 4
Machinery & equipment (i)	2,766,969	(1,452,589)	1,314,380	1,255,084 3 to 20
Facilities	108,942	(93,541)	15,401	30,116 10
Furniture & fixtures	7,780	(3,864)	3,916	3,239 10
Vehicles	54,552	(38,788)	15,764	22,116 20 and 25
Deposits covered by prospecting decree (ii)	170,574	(10,992)	159,582	169,464
Works in progress	598,893		598,893	203,359

Advance payments to suppliers	76,110		76,110	149,058	
Others	<u>24,030</u>	<u>(14,158)</u>	<u>9,872</u>	<u>11,905</u>	15 and 20
	<u>4,809,331</u>	<u>(1,957,132)</u>	<u>2,852,199</u>	<u>2,361,645</u>	

(i) The depreciation rates take into account the estimated operating life of assets, limited to the time of grant in the case of assets bound to Canoas HEPP.

(ii) Depletion calculated on basis of the production proportion relative to deposit layer thickness.

Fixed assets include investments made in the erection of hydroelectric power plants, amounting to R\$ 63,922 (2005 - R\$ 63,881), whose environmental licenses are pending approval and clearance. According to the Company management, the operations to benefit from the electric energy at those units shall be started in the medium run. With the start of operations, the Company management, supported by the opinion of its legal advisers, hopes to achieve favorable outcomes with respect to the environmental proceedings related to such units. On December 31st, 2006 such proceedings amounted to R\$ 79 (2005 - R\$ 79).

10 Deferred

			<u>2006</u>	<u>2005</u>	Annual amortization rates - %
	<u>Corrected cost</u>	<u>Accrued amortization</u>	<u>Balance</u>	<u>Balance</u>	
Pre-operational expenses	166,908	(64,240)	102,668	83,002	20
Others				<u>2,294</u>	20
	<u>166,908</u>	<u>(64,240)</u>	<u>102,668</u>	<u>85,296</u>	

Deferred assets on December 31st, 2006 and 2005 include investments made in pre-operational expenses for the erection of hydroelectric power plants, amounting to R\$ 36,757 (2005 - R\$ 15,850), whose environmental licenses are pending approval and clearance. According to the Company management, the operations to benefit from the electric energy at those units shall be started in the medium run.

The pre-operational expenses are represented by administrative and conservation expenses in the construction phase of those hydroelectric power plants.

11 Income tax & social contribution

(a) Deferred taxes on temporary differences

Deferred income tax and social contribution, stated in the long-term receivables, were calculated at their nominal realization rates over the following items:

	<u>2006</u>	<u>2005</u>
Provision for		
Contingencies	3,205	6,448
Payment of PIS and COFINS	19	2,515
Pension plan – FUNSEJEM	2,978	3,282
Fiscal incentive losses	1,580	1,580
Bad debt losses		1,015
Inventory and fixed asset losses	3,632	2,328
Electric Energy charges - ECE (*)	12,099	12,306
Others	7,585	9,208
	<u>31,098</u>	<u>38,682</u>

(*) Emergency Capacity Charge – ECE

(b) Reconciliation of income tax and social contribution expenses

The conciliation between income tax and social contribution, nominal and effective, can be stated as follows:

	<u>2006</u>	<u>2005</u>
Profit before income tax and social contribution	1,114,722	832,728
Nominal rate - %	<u>34</u>	<u>34</u>
Income tax and social contribution at nominal rate	(379,005)	(283,128)
Reconciliation:		
Tax on stockholders' equity interests	91,800	100,300
Equivalent net worth	53,108	51,010
Portion of non-taxable income	13,330	16,905
Income tax reduction by incentives	3,733	2,507
Dividends received	2,010	923
Others	<u>(7,214)</u>	<u>615</u>
Income tax and social contribution expenses	<u>(222,238)</u>	<u>(110,868)</u>
Effective income tax and social contribution - %	<u>20</u>	<u>13</u>

The Company management expectations are that deferred tax credits resulting from temporary differences will be redeemed no later than 2011, however, estimates cannot be made with reasonable accuracy as to the fiscal year when such temporary differences will be redeemed, as part of them is subject to judicial decisions.

12 Financings

<u>Modality/purpose</u>	<u>Annual financial charges incurred</u>	<u>2006</u>		<u>2005</u>	
		<u>Current</u>	<u>Long term</u>	<u>Current</u>	<u>Long term</u>
Pre-payment of exports	US\$ + LIBOR + spread	87,007		140,379	97,937
Advances on contracts exchange	US\$ + spread	716		102,372	
Permanent asset acquisitions (fixed assets)					
BNDES Canoas HEPP I & II	TJLP + spread	13,121	31,285	12,941	43,454
BNDES Pirajú HEPP	TJLP + spread	10,681	21,991	10,865	32,976
BNDES Industrial expansion	TJLP + spread	95,422	610,373	43,311	433,167
		<u>206,947</u>	<u>663,649</u>	<u>309,868</u>	<u>607,534</u>

The average financing spread in foreign currency is 1.84% per year (2005 – 1.09% per year) and in local currency is 4.11% per year (2005 – 3.82% per year).

	<u>2006</u>	<u>2005</u>
Maturity of long-term tranches		
2007		203,195
2008	167,925	126,389
2009	178,057	124,203
2010	132,596	71,839
2011	112,046	60,752
2012 onwards	73,025	21,156
	<u>663,649</u>	<u>607,534</u>

All obligations are secured by promissory notes, surety letters from the controlling company Votorantim Participações S.A. and by the assets object of the financing.

(a) Restrictive clauses

The financing agreements with National Economic and Social Development Bank – BNDES, tied in with the acquisition of fixed assets contain restrictive clauses related to (i) change in the direction of investments to other non-approved agreements, (ii) sale of the Company, or

otherwise any operation of incorporation, split-up, merger indicating a deviation of the appropriation to other activities, (iii) sale of the financed asset, (iv) the failure to use the appropriation on the construction for a minimum period after being cleared, and (v) commercial negotiation on market closure made with competitors preventing the Company from growing. The Company management is complying with each of such restrictive clauses.

(b) Bank sureties

The Company entered into bank surety agreements granted to third parties as a result of commercial operations, as demonstrated below:

Description	2006	2005
Invested and affiliated companies		17,209
Commercial operations with third parties	53,981	52,006
	53,981	69,215

13 Other assumed commitments

(a) Granted guaranties

The Company is the guarantor of loan agreements entered into by invested and affiliated companies, as demonstrated below:

	2006	2005
Campos Novos Energia S.A. Intervening in loan agreements with BNDES	1,080,496	1,080,496
BAESA – Energética Barra Grande S.A. Intervening in loan agreements with BNDES	300,000	300,000
Companhia Mineira de Metais Surety letter to BNDES	112,000	112,000
ANEEL grant agreement	4,560	4,560
Machadinho Energética S.A. Intervening in loan agreements with BNDES	76,200	76,200
Surety letter to BNDES	402,000	402,000
	1,975,256	1,975,256

(b) **Commitments**

Additionally, the Company holds a minimum electric energy consumption agreement with CESP - Companhia Energética de São Paulo, for 284 MW, with 147 MW up to 2011 and 137 MW up to 2015. The latter provides for a drop to 110 MW as of January 2006, with its maturity extended to December 2011.

14 Contingencies

On the dates of the financial statements, the Company recorded the following liabilities and the corresponding judicial deposits related to contingencies:

	<u>Judicial Deposits</u>		<u>Provision for contingencies</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Tax contingencies			148	148
Environmental contingencies			79	79
Labor and contingencies				
social security	806	831	4,473	4,896
Civil claims	957	821	4,726	13,937
	<u>1,763</u>	<u>1,652</u>	<u>9,426</u>	<u>19,060</u>

The provision transaction is demonstrated below:

	<u>Environment al and tax</u>	<u>Labor</u>	<u>Civil</u>	<u>Total</u>
Balances at December 31 st , 2005	227	4,896	13,937	19,060
Additions		18,782	57,420	76,202
Retirements		(19,205)	(55,958)	(75,163)
Reversals			(10,673)	(10,673)
Balances at December 31 st , 2006	<u>227</u>	<u>4,473</u>	<u>4,726</u>	<u>9,426</u>

The Company is party in legal suits and administrative proceedings, arising out of the normal course of its operations, involving tax and labor issues, and civil aspects, for which it constituted a provision for contingencies based on information of the Company legal advisors on the probability of success in such suits and on the assessment of the relevance of all involved amounts. The constituted provision for contingencies, substantially represented by labor and civil proceedings, accounted for better estimates of value in those cases where outside and house lawyers understand that there are expected losses involved in Company operations, with a portion of some claims being secured by pledged assets or judicial deposits.

Possible losses

The Company faces judicial claims of a tax, civil, labor and environmental nature amounting to R\$ 64,268, R\$ 8,752, R\$ 557 and R\$ 24,964, respectively, involving risks of loss, as assessed by Company management and its legal advisers as being possible, and for which no provision has been constituted.

15 Stockholders' equity

(a) Capital stock

The capital stock, fully subscribed and paid-up on December 31st, 2006 and 2005 is represented by 767,409,053 common shares, nominative and without par value, held by stockholders domiciled in the country. Stockholders are assured the right to receive, as mandatory dividend, an amount equivalent to 10% of the net profit declared as required by law.

In an Ordinary and Extraordinary General Meeting held on September 29th, 2006, stockholders approved a capital increase from R\$ 2,800,000 to R\$ 3,012,785 by capitalizing the interests on stockholders' Equity related to fiscal year 2005.

(b) Interests on stockholders' equity and dividends

The Company is proposing the payment of R\$ 270,000 (2005 - R\$ 295,000) by way of interests on stockholders' equity, imputable to mandatory year-end dividend, to be authorized by the Ordinary General Meeting - AGO, the aggregate amounts of which will exceed the minimum mandatory dividend.

The value of the mentioned interests was posted under the caption "Financial expenses", as set forth in the tax legislation. For purposes of financial statement presentation, interests on stockholders' equity have been reverted from the "Financial expenses" account to the "Accrued profits" account.

Once the statutory provisions are met, the balance of accrued profits on December 31st, 2006, amounting to R\$1,059,060 remains at the disposition of the AGO.

16 Defined contribution pension plan

(a) Regular retirement plan

In July 2001, the Company joined the FUNSEJEM - Senador José Ermírio de Moraes Foundation, a closed, non-profit pension fund, offering to all employees of companies integrating the Votorantim Group the opportunity of participating in such plan. Under the

provisions set forth in the fund regulations, the Company equalizes the employees' contributions to FUNSEJEM in accordance with the employee's compensation level. For employees whose compensation is below a given amount, the Company equalizes those contributions representing up to 1.5% of the employee's monthly compensation. For employees whose compensation is above a given amount, the Company equalizes the employee's contributions representing up to 6% of the employee's monthly compensation. Voluntary contributions to FUNSEJEM are also accepted. The contributions on the part of the Company in 2006 totaled R\$ 3,697 (2005 - R\$ 3,169).

(b) Special retirement plan

Additionally, the Company assumed in July 2001, by way of special contribution, the cost of past services corresponding to 6% over the base salary, multiplied by the number of years of continuous services to certain participants who have met the conditions set forth in the plan regulations, namely (i) ten years of continuous services, minimum, (ii) the sum of the employee's age with the number of continuous years of service equal to or greater than 55 years, and (iii) applicable salary equal to or greater than 15 times the value of the Aluminum Reference Unit - URA.

On December 31st, 2006 the constituted provision amounted to R\$ 8,758 (2005 - R\$ 9,652). Such amounts are paid on a monthly basis to FUNSEJEM, together with the regular contributions to the defined contribution pension plan. In 2006, they totaled R\$ 839 (2005 - R\$ 739). In 2006, the Company effected payments to FUNSEJEM amounting to R\$ 1,305 (2005 R\$ 613) in relation to participants that had resigned and that were over 55 years of age, becoming eligible to redemption.

17 Capital gain on equity interests

The capital gain on equity interests, amounting to R\$ 120,093 (2005 - R\$ 10,976), is substantially represented by the alienation of Companhia Luz e Força Santa Cruz, for the amount of R\$ 118,534.

18 Insurance coverage

Based on cost-benefit considerations, the Company holds no insurance coverage against possible claims on its own fixed assets. Such a policy was implemented by the management and mutually agreed with stockholders, as the Company has no track records of relevant asset losses. In turn, the Company holds insurance policies on materials stocked in its branches, as well as on materials transported to customers and between branches.

19 Financial instruments

The Company evaluated its assets and liabilities with respect to their market/realization values, by availing itself of the available information and of evaluation methodologies set forth by the top management. However, both the interpretation of market data and the selection of evaluation methods require a considerable amount of judgment and reasonable estimates to produce the most adequate realization value. Consequently, the presented estimates not necessarily indicate the amounts capable of being realized under the current market conditions. The use of different market and/or methodology assumptions for such estimates could cause a material effect on estimated realization values.

Valuation of financial instruments

The key financial instruments for the Company assets and liabilities on December 31st, 2006 are described below, together with their valuation/evaluation criteria.

(a) Cash and banks, financial applications, accounts receivable, other circulating assets and accounts payable

The values recorded under availabilities, accounts receivable, other circulating assets, accounts payable and miscellaneous provisions will be close to the realization value of their corresponding assets.

The financial applications, substantially represented by quotas of investment funds, are recorded at their realization values, obtained by the value of the latest available quota.

(b) Investments

Investments are either stated by the equivalent net worth method or by their corrected cost, basically consisting of controlled and affiliated companies, which have a strategic interest to the Company operations. The Company is not interested in alienating such investments in the short run.

(c) Financings

Subject to interests at usual market rates, as described in Note 12. The estimated market value was calculated on basis of the present value of future cash disbursements, using interest rates available to the Company for issuing debts of similar maturities and terms.

(d) Credit risks

The Company sales policy is intimately associated with the level of credit risk which the Company is prepared to take in the course of its business. The diversification of its portfolio of receivables, the selectivity of its clients, as well as the follow-up on sales financing terms per business segment and individual position limits, are the adopted procedures to minimize occasional default problems in its accounts receivable.

(e) Derivative instruments

The Company carried out swap operations to be protected against the effects of variations in its exposure to foreign currencies. Additionally, temporary excess cash are applied in line with treasury policies, which are periodically reevaluated.

On December 31st, 2005, the swap contracts, entered into through financial applications made in an exclusive investment fund, managed by Banco Votorantim S.A., and recorded at market value by the fund, totaled R\$ 79,819. These contracts have been settled in the 2006 fiscal year.