

The Business of AES Tietê



Plants

As a power generator, AES Tietê's assets are its power plants and its operational activity is concentrated on assuring the perfect maintenance and operation of this infrastructure. The majority of AES Tietê's plants – Barra Bonita, Bariri, Ibitinga, Promissão and Nova Avanhandava – are located along a 1,100 kilometer stretch of the Tietê River, which cuts through the state of São Paulo. Together, these plants represent 38.7% of the Company's 2,651 MW installed capacity.

The largest power plant is Água Vermelha, at Rio Grande and the border of the states of São Paulo and Minas Gerais. It has installed capacity of 1,396 MW,

which is equivalent to more than 50% of AES Tietê's total power generation capacity. Moreover, the Company has three hydroelectric power plants on the Pardo River – Caconde, Euclides da Cunha and Limoeiro – and one small hydroelectric plant (PCH) on the Mogi-Guaçu River (Mogi-Guaçu Plant).

The reservoirs of the plants, besides generating energy, make it possible to control high water conditions, provide irrigation, permit river navigation and foster commercial activities such as tourism, recreation and sport / professional fishing.



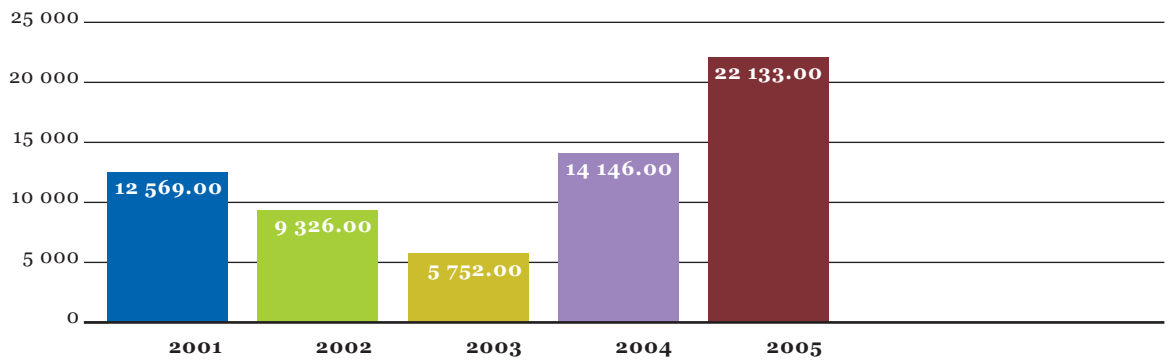
Maintenance

In order to meet its targets, the Company has a long-term maintenance timetable that takes into consideration the useful life of the equipment and the number of hours they are in use. Complying with this program, during 2005 the Bariri power plant – which has 143 MW production capacity of and is the fourth largest in terms of generation capacity owned by AES Tietê – conducted maintenance to refurbish Generating Unit No. 2. In 2006, the process should be concluded with the refurbishing of Generating Unit No. 3, which will require an investment of R\$ 11 million.

Within the modernization program prepared for next year, an automated system for the Limoeiro plant is scheduled to be installed, which will make it possible to dispatch and operate the unit remotely. Limoeiro has been chosen to be the first to adopt this system because is not a big plant.

The Company plans to install the same system in other plants in the future as well.

Power Plants Maintenance Costs | R\$ Thousand



Waterway

As part of the obligations called for under the Privatization Public Notice, AES Tietê operates and maintains six river locks at the power plants located on the Tietê River, as well as improving the channels and canals that make up the Tietê-Paraná Waterway system. This activity, which is the subject of an agreement signed with the government of the state of São Paulo, does not generate revenues for the Company. Nevertheless, river transportation – used mainly for cargo – is essential for the social and economic development of the state.

AES Tietê is part of the Tietê-Paraná Waterway, contributing with six river locks that permit vessels to pass over dams as high as 30 meters and connect the Greater São Paulo region to the Itaipu Dam area on the Paraná River. In 2005, the vessels that traveled through the river locks operated by AES Tietê transported about 7 million tons of freight, mainly fuel, sugarcane, soybeans, soy meal and sand.

In 2006, AES Tietê will conclude all of the obligations foreseen in its concession contract with regard to the Tietê/Paraná Waterway, according to the Privatization Public Notice. This same year, work will also be initiated for the reform and the maintenance of the river locks when R\$ 2.6 million shall be invested.



Regulatory Environment

In the electricity sector, 2005 was notable for the application of new rules introduced by Law no. 10848, of March 15, 2004, known as the “Law of the New Model.”

The more visible initiatives were the holding of existing energy auctions and the first new energy auction, occurred in December.

AES Tietê has all of its assured energy contracted over the long term. Thus, the rules of the New Regulatory Mark announced by the Brazilian Electric Energy Agency (Aneel) in 2004 did not bring substantial changes in terms of business management. The Company has a bilateral supply contract with AES Eletropaulo, which is in effect until 2015 and will respond for the equivalent of almost 100% of its assured energy as of 2006.

In 2003, the two companies signed the Second Amendment to the Bilateral Agreement, which among other minor changes, postpones its maturity date to June 2028, when AES Eletropaulo’s concession period finishes. In 2005, however, Aneel’s Economic and Financial Inspection Superintendence declared itself against the terms of the amendment. AES Eletropaulo appealed this decision. The final decision at the administrative level will be made by the Board of Directors of the Agency – and on a date yet to be established.

AES Tietê has systematically generated volumes above its assured energy, established at 11,200 GWh. In 2005, the effective generation surpassed this amount by 15%. Despite the fact that the assured energy volume for the whole system should be revised by 2004, the Mines and Energy Ministry decided to postpone such revision to 2014.

