

3 A Word from the CEO



In 2005, AES Eletropaulo consolidated the foundations of its long-term strategy. As in most companies, this strategy involves a number of concrete targets to be achieved. However, its ultimate objective is to incorporate the concept of sustainability into AES Eletropaulo by creating conditions that will help the Company to report consistent results, no matter from which angle its performance is evaluated: economic and financial, administrative, operational, commercial, social or environmental. And this implies taking certain internal measures aimed at greater efficiency and excellence, but without forsaking the proactive and respectful relationship and interaction that we have with all of our stakeholders: shareholders, employees, customers, suppliers, the community, government authorities and the regulatory agency, among others.

It so happens that this long-term objective set in 2004, when the Company initiated a profound administrative and financial restructuring program, began to bear fruit in 2005. In fact, the progress made so far has not yet brought us anywhere near the ideal situation envisaged by the Company's executives, and this ideal should only be attained in the course of the next few years. Notwithstanding, it can already be measured in numbers and perceived in the positive image that AES Eletropaulo now enjoys before the public at large and specific segments of our stakeholder community.

A clear token of the truth behind this observation – and one that is directly associated with the capital market – is the inclusion of AES Eletropaulo in the São Paulo Stock Exchange (Bovespa) Corporate Sustainability Index (ISE). Introduced in December 2005, this index originated from a survey that considered not only the companies' corporate governance practices but also their overall performance.

In this regard, we should like to draw attention to the Company's exemplary decision to make allowances for doubtful debts from the Municipal Government of São Paulo in 2005, relative to electricity supplied and services provided from 1996 through 2003, and to the Extraordinary Tariff Reset (RTE) that AES Eletropaulo is entitled to during the period of credit recovery. In the total amount of R\$ 523.3 million, such provisions were one of the main factors behind the R\$ 184.4 million net loss reported in FY 2005.

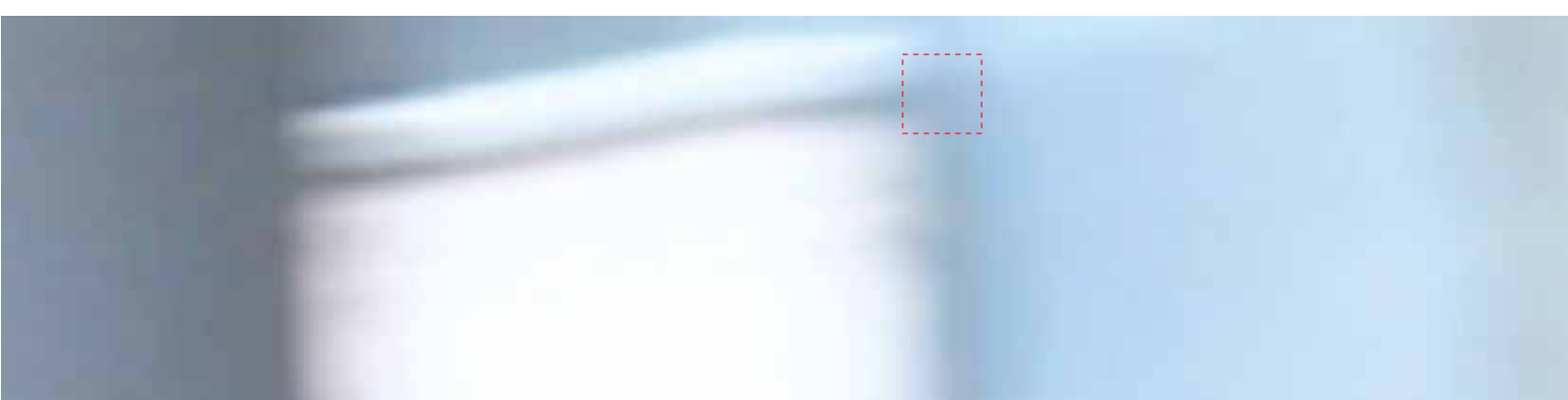


Had it not been for these allowances, the final result would have been a net income close to R\$ 80.2 million. However, the Company's option to make these provisions, despite its negative impact on 2005 earnings, will lead to more solid results going forward along with more transparency in the financial statements.

Furthermore, it should be noted that the treatment given to the debts incurred by the municipal governments was not an isolated issue. In fact, it was part of the Company's overall strategy to improve credit collection and reduce delinquency, among other priorities. The result of such efforts – which involve intensive negotiations with consumers regardless of their category – was also visible in 2005. Today, AES Eletropaulo has one of the highest bill collection rates in the electricity sector: 99.0%. Of this percentage, 98.8% refer to the Private Sector (Residential, Commercial, Industrial and Rural consumer categories) and 102.6% to the Public Sector.

In other words, if our concern for financial disclosure can be observed in decisions such as the recording of allowances for doubtful debts, our efforts to achieve a steady and consistent economic performance are patent in more comprehensive programs that are now jointly developed by all the areas of our Company.

Some of these efforts, such as the initiative to reduce bad debt rates, have already begun to yield tangible results. A case in point is the work done to retain free customers, which required a series of measures to offer superior service and guidance to consumers, while improving the quality and reliability of the energy supplied. A recent survey shows that AES Eletropaulo ranked among the distributors that lost the fewest customers to the free market. Only 13.3% of all the electric power carried through its networks is meant for delivery to this type of consumer, in contrast with an industry average of 20%.



Other programs, which are still maturing, will come to fruition as of 2006, whether in the form of economic and financial results or enhanced business efficiency. Examples of such programs include: financial consolidation, the legalization of clandestine power connections, and the introduction of cost-saving measures that draw on the synergies between AES Eletropaulo and other AES companies in Brazil. It is also the case of certain technological innovations now under way in the administrative and operational areas, whose effects will be felt in the form of efficiency gains and improvements in the quality of the energy supplied.

Although such initiatives may seem to go in different directions, in essence they revolve around common objectives, one of which is our determination to benefit all the parties involved rather than the Company alone. And a good example in this case is the legalization of clandestine power connections, a program that has ceased to be eminently technical to become more socially oriented. For AES Eletropaulo, the incorporation of this dimension is undeniable evidence that it is possible for a business organization to be profitable and, at the same time, socially and environmentally responsible. And it is precisely because we believe in the possibility of fulfilling our basic vocation – which is to generate income – while benefiting all of our stakeholders that we, at AES Eletropaulo, are investing more and more in sustainability.

Eduardo José Bernini
Chief Executive Officer