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## A WORD FROM THE BOARD OF DIRECTORS

The Stockholders,

Companhia Hidro Elétrica do São Francisco – Chesf is pleased to submit its Annual Management Report and the Financial Statements for the year ended December 31, 2008, accompanied by the Independent Auditors' Report and the Fiscal Council's Report.

Chesf is a concessionaire of electric power public services that contributes to the necessary provision of infrastructure for the socioeconomic development of the country, acting as a socially responsible company, in the search for profitability, thru the preservation of environmental resources and the reduction of social and regional inequalities

In 2008, Chesf had a good economic and financial performance, keeping itself solid and profitable.

The Company sought a balanced expansion for its business structure, focused on corporate sustainability, with the following achievements standing out:

- Net income of R\$ 1,437 billion.
- Participation in the Generation Auction 05/2008, promoted by the by National Electric Power Agency – ANEEL, in Consortium formed by Chesf (20%), Eletrosul (20%), Camargo Corrêa Infrastructure Investments S/A (9,9%) and Suez South America Participations Ltda (50,1%), regarding the implantation of the Jirau Hydroelectric Power Plant, in Madeira River, in Porto Velho's Municipal district, State of Rondônia, with an installed power capacity of 3.300 MW and total insured energy of 1.975,3 MW average, with investment of R\$ 540 million, expected to be supported by Chesf.
- Participation in the Transmission Auction 004/2008, held by the National Electric Power Agency – ANEEL, whereby the Company was granted concession of Portion G, corresponding to the implantation of the transmission line São Eunápolis / Teixeira de Freitas C1 - 230 kV, with respective terminals and of the Teixeira de Freitas substation, with investment of R\$ 57,3 million.
- Participation in the Transmission Auction 004/2008, held by the National Electric Power Agency – ANEEL, in Consortium formed by Chesf (19,5%), Eletronorte (30%), ABENGOA (30%) and FIP Brasil Energia (20,5%), whereby the Company was granted Portion C concession, corresponding to the implantation of the 500 kV transmission lines Oriximiná / Itacoatiara C1/C2, with 374 km extension and Itacoatiara / Cariri C1/C2, with 212 km and of the substations Itacoatiara 500/138 kV – 150 MVA and Cariri 500/230 kV – 1.800 MVA, with investment of R\$ 150,1 million, expected to be supported by Chesf.
- Participation in the Transmission Auction 006/2008, held by the National Electric Power Agency – ANEEL, whereby the Company granted Portion G concession, for the implantation of the substation Suape II 500/230 kV – 600 MVA and of the substation Suape III 230/69 kV – 200 MVA, with investment foreseen of R\$ 188,4 million.
- Participation in the Transmission Auction 007/2008, held by the National Electric Power Agency - ANEEL, in Consortium formed by Chesf (24,5%), Furnas (24,5%) and CTEEP – Companhia de Transmissão de Energia Elétrica de São Paulo (51%), whereby the Company was granted Portion D and F, corresponding to the implantation of the 600 kV CC (continued current) transmission lines Coletora Porto Velho (RO) / Araraquara 2 (SP), with 2.375 km extention, to the rectifying AC/CC 500/600 kV station with capacity of 3.150 MW, located in the Coletora Porto Velho substation, and from there to the reconverting CC/AC 600/500 kV station with capacity of 2.950 MW, located in the Araraquara 2 substation, with investment foreseen of R\$ 255,7 million, to be supported by Chesf.
- Increase, in 1.122 MVA, of the electric power transformation capacity in the Chesf's Transmission System.
- Resumption of the work for adoption of procedures in compliance with the USA Law, Sarbanes-Oxley - SOX, in processes relevant to the Company, aiming to the Eletrobrás Certification.

- Implementation of Entrepreneurial Social Responsibility actions, emphasizing the issuance of the Pact Global letter of agreement, the creation of the Ombudsman, the revision of Code of Ethics and Entrepreneurial Conduct, acting in programs of food safety, health, education, citizenship and generation of revenue in the several regions where the Company conducts business.

## COMPANY PROFILE

Chesf, a mixed-economy, publicly-held company was formed pursuant to the Decree-Law number 8.031 of October 3, 1945, and organized at the 1<sup>st</sup> General Stockholders' Meeting held on March 15, 1948.

The generation system is composed of hydrothermal plants, majority of hydraulic plants that are responsible for over 97% of its total production. Its current generating complex with 10,618 MW of installed capacity is composed of 14 power plants supplied by 9 reservoirs with storage capacity of 52 billion cu.m of water and 1 double fuel thermoelectric power plant with 350 MW of installed capacity, as detailed below:

Power Plants	River	Installed Capacity (MW)
<b>HYDROELECTRIC:</b>		<b>10.268,328</b>
Sobradinho	São Francisco	1.050,300
Luiz Gonzaga (Itaparica)	São Francisco	1.479,600
Apolônio Sales (Moxotó)	São Francisco	400,000
Paulo Afonso I	São Francisco	180,001
Paulo Afonso II	São Francisco	443,000
Paulo Afonso III	São Francisco	794,200
Paulo Afonso IV	São Francisco	2.462,400
Piloto	São Francisco	2,000
Xingó	São Francisco	3.162,000
Funil	de Contas	30,000
Pedra	de Contas	20,007
Boa Esperança	Parnaíba	237,300
Curemas	Piancó	3,520
Araras	Acaraú	4,000
<b>THERMOELECTRIC:</b>		<b>350,000</b>
Camaçari	-	350,000
<b>TOTAL</b>		<b>10.618,328</b>

The transmission system, which the first units became operative in 1954, covers the states of Alagoas, Bahia, Ceará, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and Sergipe, with 18,468 km of transmission lines in operation, of which 5,122 km are 500 kV transmission circuits; 12,537 km of 230 kV transmission circuits; 809 km of lower tension transmission circuits; 98 substations with higher than 69 kV tension and 729 transformers in operation, with a total transformation capacity of 42,765 MVA, plus 4,907 Km of optical fiber cables.

## RELATIONSHIP WITH STOCKHOLDERS

As a publicly-traded company, Chesf, though its shares are only traded in the over-the-counter securities market, is subject to the rules laid down by the Comissão de Valores Mobiliários - CVM (Brazilian Securities and Exchange Commission).

The relationship policy of the company is ruled by the disclosure of information with transparency, characterized by the respect for the legal and ethical principles, aligned to the rules to which it is submitted as a public service operator.

The Company through an information channel for disclosing information at its website on the Internet, [www.chesf.gov.br](http://www.chesf.gov.br), under the link "Relations with Investors". Relations with investors are maintained by telephone, mail, e-mail and live contact.



## **OWNERSHIP**

The Company's capital, in the amount of R\$ 4,196.3 million, is comprised in 41,709,653 shares, of which 40,477,564 are common and 1,232,089 are preferred, all without nominal value. Of these, 99.45% is held by Eletrobrás, 0.46% by Ministry of Finance, 0.03% by Finor and 0.06% by other shareholders.

## **CORPORATE GOVERNANCE**

### **Administration**

The Company is administered by an Administrative Council and a Board of Directors.

The Board of Directors is composed of a President, elected among the members of the Administrative Council, and up to 5 Directors, all Brazilian, who are elected by the Administrative Council for a three-year tenure on a full time basis.

The Administrative Council is composed of a Chairman and five (5) members, all shareholders elected at the General Stockholders' Meeting for a three-year tenure, who are entitled to re-election. One of the Administrative Council's members is appointed by the Minister of Planning, Budgeting and Management.

The Fiscal Council is permanent formed by three (3) regular members and three (3) substitutes, all Brazilian elected at the General Stockholders' Meeting for a one-year tenure. One regular member of the Fiscal Council and his substitute will be representatives of the Federal Treasury.

### **Code of Ethics**

Chesf's principles and values follow its code of ethics and the Corporate Governance standards, all of which serve as a reference for its personnel.

The Company Ethics Commission revised the mentioned Code, contemplating hundreds of employees suggestions, collected during seminars about social and ethical responsibility, carried out at the Central and Regional offices. In this code Chesf's values and ethical principles which guide the institutional conduct in the interactions with the dissimilar people relationship, are presented.

### **Internal Controls and Auditing**

The Internal Audit, which reports to the Administrative Council, plans, executes and evaluates the Company's audit activities and acts on the requests made by top management and internal and external control organizations. The Annual Plan of Internal Audit Activities - PAINT is submitted to the Federal Government's Controllershship - CGU.

In compliance with Corporate Law, independent auditors are engaged through a bidding procedure and approved by the Administrative Council audit Chesf's financial statements. The auditors engaged for the audit are not allowed to render services other than the audit and are rotated every five years.

Observing the best practices of corporate governance, Chesf recovered the work for the revision of its main information technology and business procedures according to the Law Sarbanes-Oxley – SOX, of the United States of America, aiming at the Eletrobrás Certification.

## **ELECTRIC POWER ENERGY MARKET**

The market projections disclosed by the Empresa de Pesquisa Energética – EPE, for the period from 2008 to 2017, present a growth in the national consumption of electric power, in the Regions served by the National Interconnected System – SIN, of around 4.9% per year. Such growth represents an increase of 27.922 MW in average at the end of 2017, developing from the current 52.189 MW in average to 80.111 MW in average, considering the integration of some subsystems separated from the National Interconnected System - SIN as of 2009. Northeast region shall have an average expansion of 4.9% per year, with a growth equal to the one foreseen to Brazil, going from 7,557 MW in average to 11,667 MW in average, in the same horizon, representing an increase of 4,110 MW in average up to the end of last year.

This picture demonstrates the need to add new sources of power generation, indicating expansion and diversification opportunities of the investments of the Company, both in natural gas thermoelectric ventures and nuclear ones, already indicated in the Expansion Decennial Plan from 2008 to 2017 of EPE, regarding hydroelectrics of the remaining potential in the Northeast region and in the great utilization by the Northern Region.

## **ELECTRIC POWER TRADING**

The energy traded in 2008 reached 50.692 GWh, distributed among 21 States of Brazil and the Federal District, with detach to sales to distributors within the Regulated Contracting Environment (ACR) which represent 77.2% of that total. States with the largest share of sales in the segment of distribution were São Paulo (19.9%), Rio de Janeiro (10.3%), Paraná (9.8%), Pernambuco (7.7%) and Bahia (7.5%).

Sales to the Northeast accounted for about 43.5% of the total sold by Chesf. Part of this energy was sold directly to the twenty six major industries located in this region.

Chesf also took part in auctions held at the Free Contracting Environment (ACL), both as a promoting entity (sales auctions) and those held by third parties (purchase auctions), which lead to the signing of 118 contracts with free traders and consumers for various supply periods. When compared with 2007, the number of contracts signed within ACL decreased by 27%. In terms of energy traded within this environment, it reduced 46,4 %, decreasing from 6.442 GWh in 2007 to 3.452 GWh in 2008.

The business process got the support of a modern computer platform on which Chesf energy auctions are held. This support allow Chesf quicker, competitive and more transparent business transactions.

## **OPERATING PERFORMANCE**

Chesf integrates the National Interconnected System – SIN, and performs interchange of energy with the North, South and Southeast/Central West Systems.

Given the localization of its main power plants, Chesf receives influence of the hydrological systems of the Northeast and Southeast Regions. Due to this localization and to the influx in the humid period 2007/2008, the main reservoir of the Northeast Region, Sobradinho, reached its full storage in May 2008, its storage was about 73,9% of its useful volume. On December 31, the storage was 26.0% of its useful volume.

The Company generated 41.239 GWh, in 2008, in relation to 57.301GWh, in 2007, representing a reduction of 28,1%. The decrease of the production of energy, in 2008, in comparison to 2007, resulted from the power conditions of the National Interconnected System - SIN and the increase of interchange of energy from others regions to the Northeast region, due to the centralized dispatch policy exercised by the Electric System National Operator - ONS.

Investments in training human resources, improvement of tools for planning interventions and implementing new techniques and maintenance procedures on equipment, transmission lines and devices for protection, control and supervision were maintained.

In 2008, continuous implementation were made and several actions stand out: the constant improvement in transmission and generation systems, with the replacement of obsolete equipment, digitalization of protection systems and installation of appliances to supervise and control the electric systems, the modernization of the Operational Centers with the implementation of advanced functions, such as the state estimator, network configurator, alarm address system and operator training simulator.

Reinforcing the Chesf Telecommunications network, the support infrastructure implantation was initiated to the Digital Route System Radio Sobradinho – Senhor do Bonfim, with the conclusion foreseen for the second quarter of 2009. It was concluded and set in motion the Support of Optic Communication in the Route Teresina - São João do Piauí - Sobradinho, ring North/West, and the derivation for the Eliseu Martins substation. The protection network was implanted in 18 substations, the integration system of protection, allowing a protection equipment supervision installed in substations of Campina Grande, Mirueira, Pau Ferro, Recife II, Eunápolis, Funil, Itapebi, Sapeaçu, Camaçari II, Governor Mangabeira, Jardim, Pituaçu, Cauípe, Delmiro Gouveia, Fortaleza I/II and Pici.

## Performance indicators

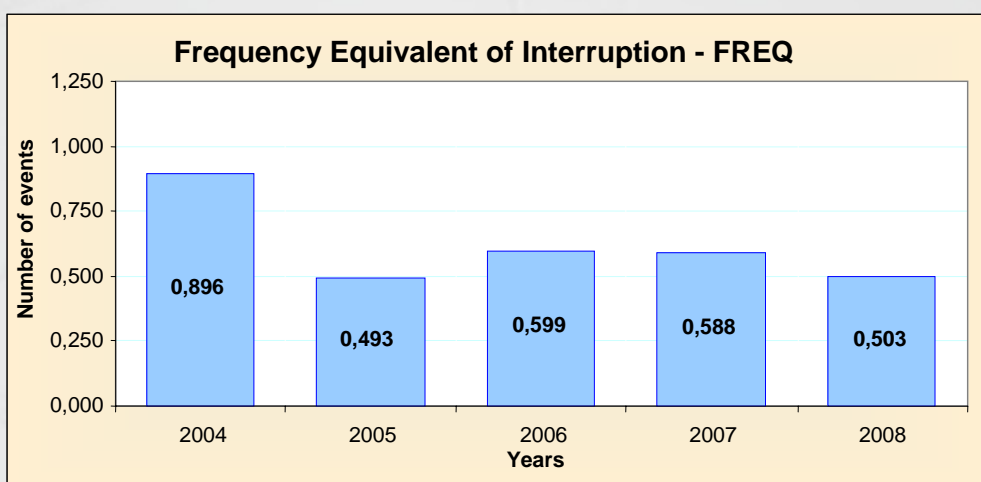
In year of 2008, Chesf obtained good results in the Frequency Equivalent of Interruption – FREQ, Duration Equivalent of Interruption – DREQ, Interrupted Energy – ENES and Operational Availability – OA indicators.

The Frequency Equivalent of Interruption indicators – FREQ and of Duration Equivalent of Interruption – DREQ presented, respectively, the second and the third best results of the last five years.

The Operational Availability – Generation indicator had a reduction regarding the previous years due to contingencies occurred in Xingó power plant elevator transformer and in a generating unit of this same power plant and of the Sobradinho power plant. Although these events have caused the generating units to be out of work for a considerable period, the obtained result was above of the goal set for 2008.

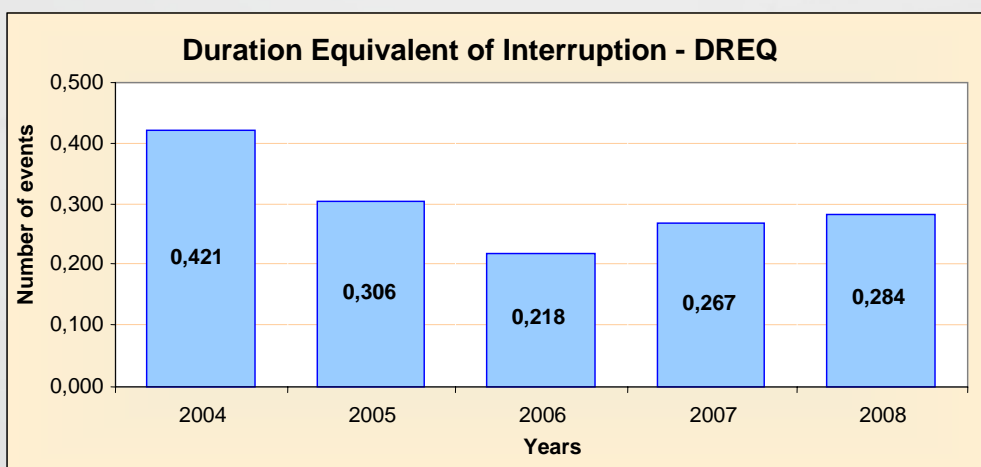
### Frequency Equivalent of Interruption - FREQ

It indicates the equivalent number of electric power supply interruptions.



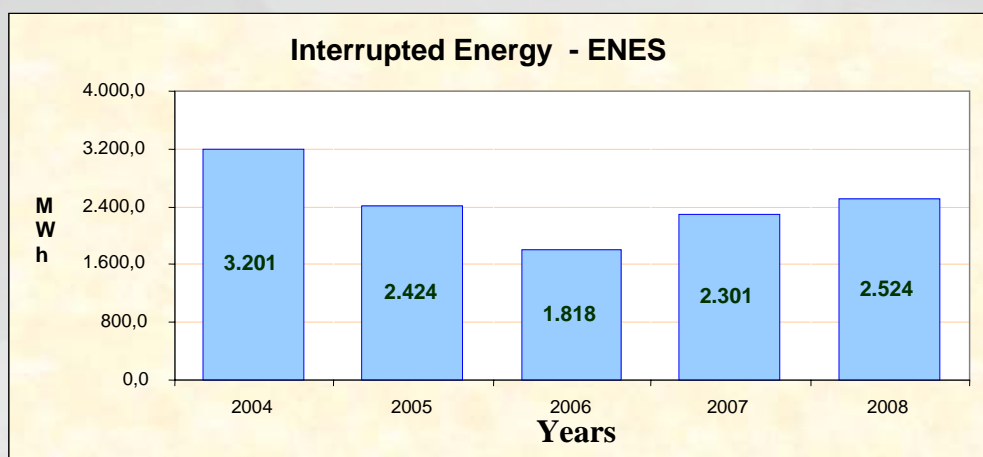
### Duration Equivalent of Interruption - DREQ

It indicates the duration equivalent, in hours, of the electric power supply interruptions.



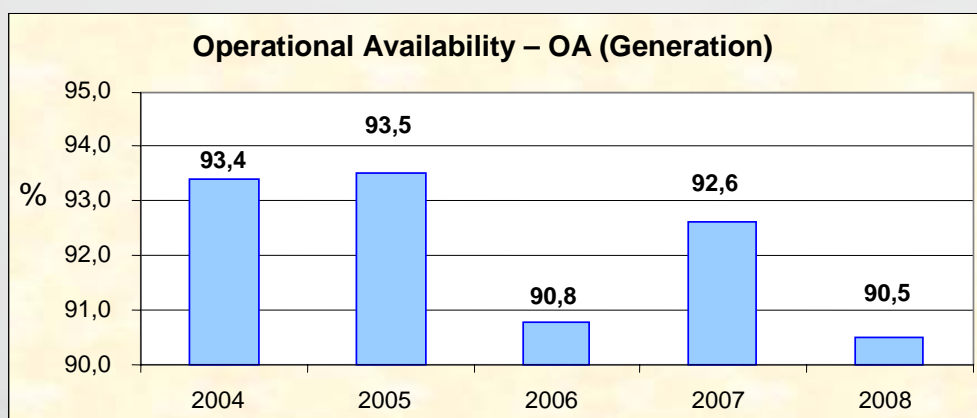
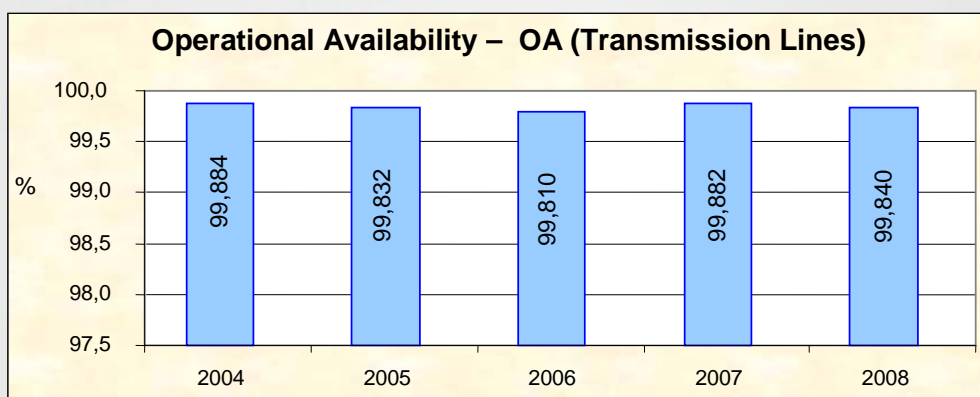
### Interrupted Energy - ENES

It indicates the equivalent amount of electric power, in GWh, during supply interruptions.



### Operational Availability - OA

This indicates the likelihood of the equipment at any given moment being operational, performing its functions, or ready to operate.

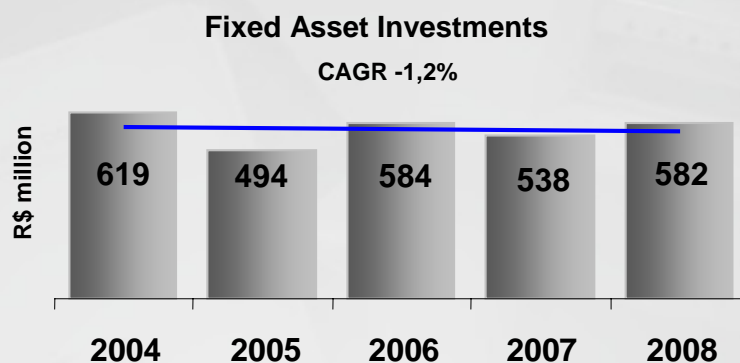




## INVESTMENTS

In year 2008, Chesf investments in fixed assets for the expansion and modernization of its productive capacity totaled R\$ 581,6 million. The amount recorded, considering only the additions to property, is thus distributed: R\$ 40,0 million in energy generation; R\$ 340,9 million in transmission system works; R\$ 134,0 million in Itaparica's Resettlement; and R\$ 66,7 million in infrastructure. In the period 2004 to 2008, the Composed Annual Growth Rate (CAGR) was -1,2%.

The graphic below presents the total investments of the last five years.



### Generation

In order to keep the generation system with a satisfactory availability level, several maintenance and improvement actions were carried out in the power plants of the Companies, including the operational come back to the three units of the Paulo Afonso I Power Plant and of an unit of the Paulo Afonso III Power Plant.

In the Hydroelectric Power Potentials Program, key actions were taken to increase the supply of power generation in the Northeast. Chesf, in partnership with the Construtora Norberto Odebrecht, Engevix Engineering S. A. and Desenvix S.A., proceeded with the environmental studies – EIA/RIMA of the Hydroelectric Development of Riacho Seco, located in the submedium São Francisco River.

### Transmission

The Chesf Transmission System was expanded with the conclusion of the following enterprises:

- Expansion of processing capacity of the Barreiras substation with the installation of the 2<sup>nd</sup> three-phase transformer 230/69 kV - 100 MVA and 2<sup>nd</sup> three-phase transformer 230/138 kV - 100 MVA, both with their associated connections.
- Expansion of processing capacity of the Pirapama substation with the installation of the 4<sup>th</sup> three-phase transformer 230/69 kV - 100 MVA and associated connections.
- Expansion of processing capacity of the Coremas substation with the installation of the 3<sup>rd</sup> three-phase transformer 230/69 kV - 100 MVA and associated connections.
- Expansion of processing capacity of the Icó substation with the installation of the 2<sup>nd</sup> three-phase transformer 230/69 kV - 100 MVA and associated connections.
- Expansion of processing capacity of Teresina substation with the installation of the 4<sup>th</sup> three-phase transformer 230/69 kV - 100 MVA and associated connections.
- Expansion of processing capacity of the Senhor do Bonfim substation with the installation of three-phase transformer 230/69 kV - 100 MVA to replace the 2<sup>nd</sup> three-phase transformer 230/69 kV - 33 MVA.
- Expansion of processing capacity of the Ribeirão substation with the installation of the 3<sup>rd</sup> three-phase transformer 230/69 kV - 100 MVA and associated connections.

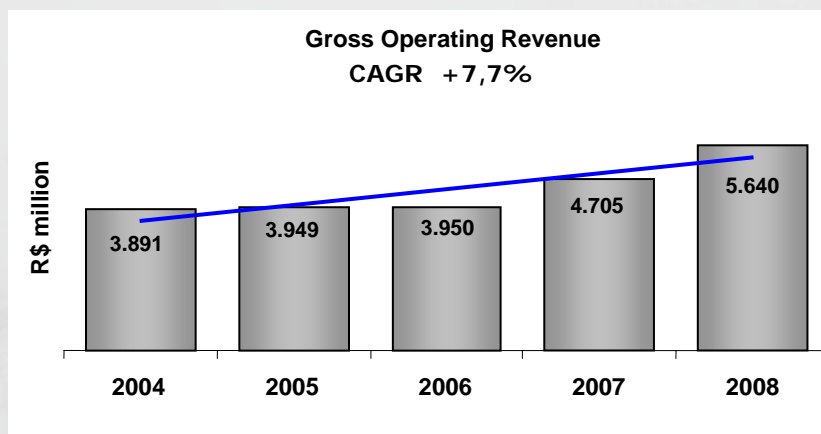


- Expansion of processing capacity of the Mossoró II substation with the installation of the 3<sup>rd</sup> three-phase transformer 230/69 kV - 100 MVA and associated connections.
- Expansion of processing capacity of the substation Bom Jesus da Lapa with the installation of three-phase transformer 230/69 kV - 50 MVA transformer to replace the existing three-phase 230/69 kV - 33 MVA.
- Expansion of processing capacity of the substation Jacaracanga with the installation of the 3<sup>rd</sup> three-phase transformer 230/69 kV - 100 MVA and associated connections.
- Expansion of processing capacity of Catu substation with the installation of the 2<sup>nd</sup> three-phase transformer 230/69/13,8 kV - 100 MVA to replace the existing 62 MVA transformer.
- Expansion of processing capacity of Maceió substation with the installation of the 4<sup>th</sup> three-phase transformer 230/69 kV - 100 MVA and associated connections.
- Complementation of the general module of 138 kV, establishment of inter-module bus in 138 kV, interconnection of the bus in 69 kV and installation of an input line of 138 kV in Barreiras substation.
- Installation of 1 input line of 69 kV in Icó substation, one input line of 69 kV in Coremas substation and 4 line inputs lines of 69 kV in Tauá substation.
- Installation of land transformers in Catu, Bom Jesus da Lapa, Senhor do Bonfim, Teresina and Coremas substations.
- The following enterprises in progress: Transmission lines and extension of substations at 230 kV, whose concessions were gained in the ANEEL Auctions:
  - Works of Acceleration Growth Program (PAC) - Funil/Itapebi, Milagres/Coremas, Ibicoara/Brumado, Paraíso/Açu and Picos/ Tauá.
  - Jardim/Penedo and Eunápolis/Teixeira de Freitas.

## ECONOMIC-FINANCIAL PERFORMANCE

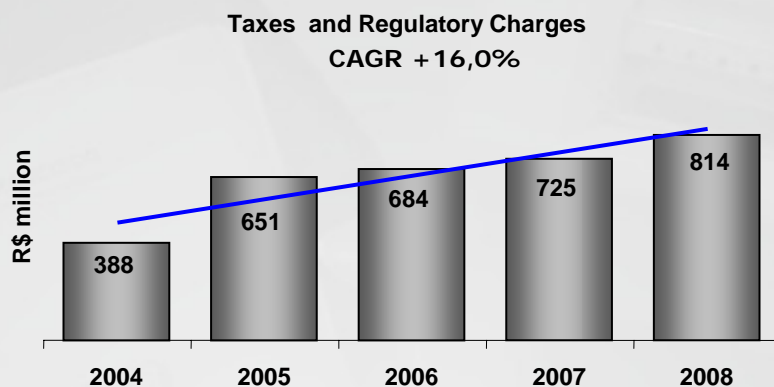
### Gross Operating Revenue

The gross operating revenue of Chesf reached in 2008, the value of R\$ 5,640.4 million, which represents an evolution of 19.9% compared to R\$ 4,705.4 million in 2007. This increase was driven by the following factors: marketing of energy in the short term (+96.6%), due to exceptional growth in energy prices that occurred in the first quarter of 2008, providing energy directly to industries (+21%); supply of energy to marketing and distribution companies (+13.1%), due to new contracts of auctions held in the Free Contracting Environment - ACL, availability of transmission system, implementation of new business of transmission and increases in core network (+7.5%), and adjustments provided for in existing contracts. In the period 2004 to 2008, the compound annual growth rate (CAGR) was +7.7%.



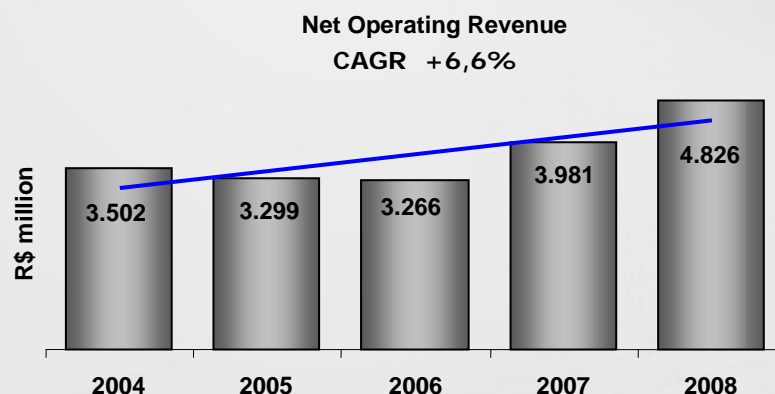
### Taxes and Regulatory Charges on Sales

Taxes and regulatory charges on sales totaled R\$ 814.1 million in the year 2008 (+12.3% on 2007). Of this total, R\$ 498.0 million relate to taxes and social contributions (+19.0% on 2007) and R\$ 316.1 million in regulatory charges (+3.3% on the previous year). The compound annual growth rate (CAGR) over the period 2004 to 2008 was +16.0%.



### Net Operating Revenue

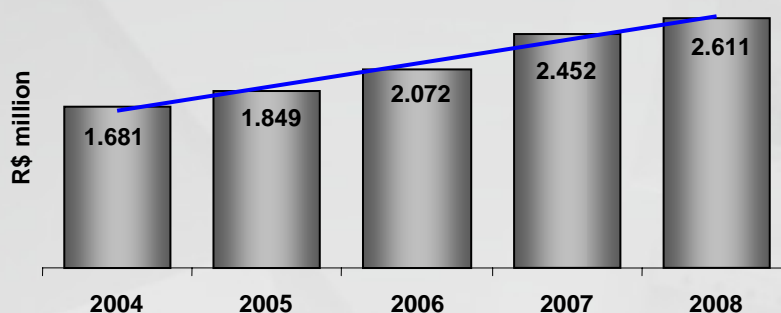
Net operating revenue increased 21.2% (+ R\$ 845.5 million) on the year 2007, reaching R\$ 4,826.3 million in 2008. Of this amount, the sale of electric energy contributed with 78.4% (75.9% in 2007), the revenue for the availability of transmission system power responded with 21.4% (23.9% in 2007) and the remaining 0.2% had other operating income as a source. From 2004 to 2008, the compound annual growth rate (CAGR) was +6.6%.



### Costs and Operating Expenses

Costs and operating expenses totaled R\$ 2,610.9 million in 2008 (6.5% higher than 2007). The electric power service costs were R\$ 1,988.0 million (22.9% over 2007), basically due to the growth in items *fuels for energy production and purchase of energy for resale*. In turn, operating expenses reached the sum of R\$ 622.5 million in 2008 (-25.1% compared to 2007). This reduction is explained, basically, by the *provision for doubtful liquidation credits*, which occurred in 2007, without corresponding occurrence in 2008. The compound annual growth rate (CAGR) was +9.2% in the period 2004 to 2008.

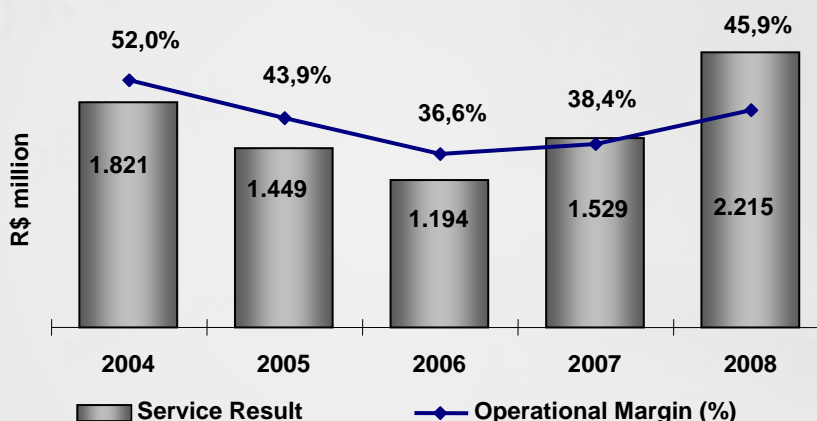
### Costs and Operating Expenses CAGR +9,2%



### Electric Power Service Income and Operating Margin

As a consequence of before mentioned facts the service operational result (EBIT) reached R\$ 2,215.4 million, 44.9% higher than the R\$ 1,528.6 million achieved in 2007. As a result, the operational margin (result of the service / net revenue) advanced to 45.9% of net operating revenues in 2008, an improvement of 7.5 percentage points in comparison to the 38.4% in 2007.

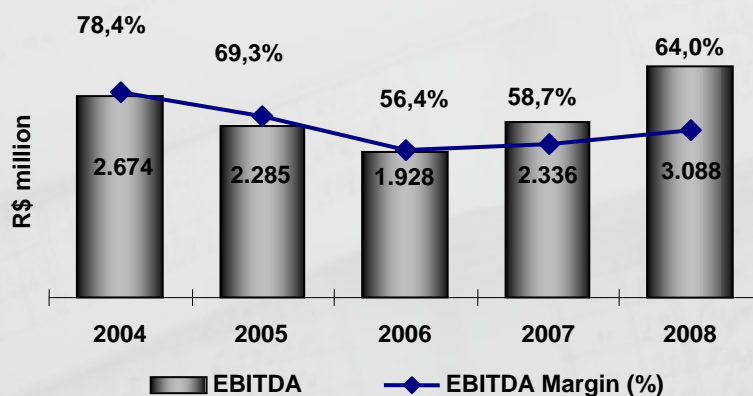
### Electric Power Service Result



### Operating Cash Generation (EBITDA)

The operating cash generation as measured by EBITDA (Earnings Before Interests, Tax, Depreciation and Amortization) rose to R\$ 3.087,5 million in 2008, from the R\$ 2.335,7 million registered in 2007, showing a growth of 32,2%. The EBITDA Margin in relation to net revenues, on its turn, advanced to 64,0%, in comparison to the 58,7% obtained in 2007, representing an increase of 5,3%.

### EBITDA





## Reconciliation of the EBITDA (R\$ million)

### Net Income

(+) Income and Social Contribution tax
(+) Profit sharing
(+) Non-recurring (expenses) incomes
(+) Financial Expenses
(+) Depreciation and amortization
(+) Provisions for contingencies
(=) <b>EBITDA</b>

2008	2007
1,437.3	652.6
204.7	329.2
60.6	54.0
47.8	6.1
644.0	640.3
603.4	594.5
89.7	59.0
<b>3,087.5</b>	<b>2,335.7</b>

## Financial Result

The financial result of the year presented a net expense of R\$ 465.0 million, representing a reduction of 4,4% in relation to the net expense of R\$ 486,6 million obtained in 2007. Such result was mainly originated by the increase in the income from financial investments and by the reduction in the financial charges, resulting from loans and financing debts and other obligations with the Controller paid in advance in the exercise of 2008.

### Financial Incomes (Expenses) – R\$ million

Income from financial investments.....
Income from financial granted to clients.....
Charges on loans and financing.....
Interest and monetary variations on loans and financing.....
Other financial income (expenses).....
(=) <b>Financial net result</b> .....

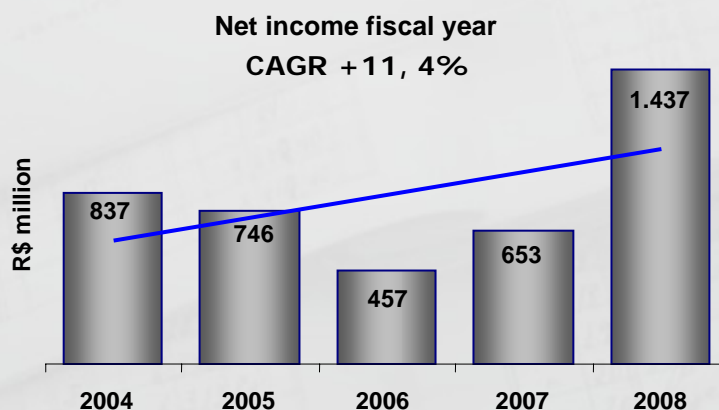
2008	2007
76.8	27.2
70.3	109.2
(487.7)	(573.7)
(83.4)	16.7
(41.0)	(66.0)
<b>(465.0)</b>	<b>(486.6)</b>

## Fiscal incentive - Income tax

The Company obtained in 2008 the granting of tax incentives in the area of operation of the Superintendency of Northeast Development - SUDENE, corresponding to a reduction of 75% of the rate of income tax and its additionals, in accordance with Article 1 of the Provisional Measure nr. 2199-14, of August 24, 2001, with amendment by Article 32 of Law nr. 11.196 of November 21, 2005 for the period 2008 to 2017, and to the reinvestment in the values of R\$ 299.5 million and R\$ 43.8 million, respectively, totalling R\$ 343.3 million. Please note that this fact is covered with deep significance in the Company's economic-financial context, considering the great impact that comes from the reduction in the leverage of resources to their necessary investments, the main goal of these incentives.

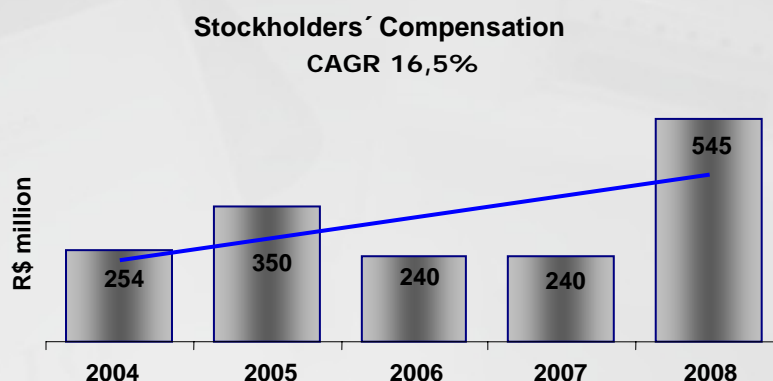
## Net income

The net income obtained by Chesf in 2008 was R\$ 1,437.3 million, the largest profit in the history of the Company. The growth was R\$ 784.7 million, or 120.2%, compared to R\$ 652.6 million in 2007 and is explained mainly by: i) increase in net operating revenues (+21.2%) ii) lower growth in costs and operating expenses (+ 6.5%), iii) improved financial results, iv) reduction in the incidence of income tax on the profit, due to the tax incentive granting received. From 2004 to 2008, the compound annual growth rate (CAGR) was +11.4%.



## STOCKHOLDERS' COMPENSATION

The Bylaws of the Company provides for the distribution of 25% of the net income, adjusted according to the corporate law, as obligatory minimum dividends. However, the administration of the Company, considering the fiscal year net income, resolved to propose in the Ordinary General Meeting - AGO a compensation of R\$ 544,9 million, as dividends, equivalent to 51,4 % (37,4% in 2007) of the adjusted net income, and corresponding to a distribution of R\$ 13,06 per preferred and common stock. The Compounded Annual Growth Rate (CAGR) was +16,5%, in the period 2004 to 2008.



## INDEBTEDNESS (LOANS AND FINANCING)

The gross indebtedness, which includes obligations with the Controller and financial institutions, was of R\$ 3,785.8 million, at the end of the year, 17.0 % less than the R\$ 4,558.8 million at the end of 2007, which includes the early repayment of R\$ 538.9 million on loans and financing with the Controller Company in the year 2008.

Net debt (loans and financing, short and long term, minus the availability and financial investments) totalled at the end of the year, R\$ 2,889.5 million, a decrease of 27.5% over the previous year.

<b>CONSOLIDATED INDEBTEDNESS – R\$ million</b>	<b>2008</b>	<b>2007</b>	<b>Δ%</b>
<b>Short Term</b>	<b>478.0</b>	<b>518.4</b>	<b>-7.8%</b>
In National Currency	368.0	430.7	-14.6%
In Foreign Currency	110.0	87.7	25.4%
<b>Long Term</b>	<b>3,307.8</b>	<b>4,040.4</b>	<b>-18.1%</b>
In National Currency	3,153.8	3,836.8	-17.8%
In Foreign Currency	154.0	203.6	-24.4%
<b>Total Gross Indebtedness</b>	<b>3,785.8</b>	<b>4,558.8</b>	<b>-17.0%</b>
(-) Cash and Equivalent	9.3	30.9	-69.9%
(-) Financial Investments	887.0	543.2	63.3%
<b>Net Indebtedness</b>	<b>2,889.5</b>	<b>3,984.7</b>	<b>-27.5%</b>

## SHAREHOLDING

In December 31, 2008 Chesf had the minority interests with the following companies:

- **STN - Sistema de Transmissão Nordeste S.A**

Interest of 49% in the capital stock of the Company STN - Sistema de Transmissão Nordeste S.A., organized on October 27, 2003, for the implantation, installation, operation and maintenance of the electric power transmission line Teresina II – Sobral III - Fortaleza II, in 500 kV, with concession term of 30 years. STN initiated its commercial operation since January of 2006.

- **Integração Transmissora de Energia S.A – INTESA**

Interest of 12% in the capital stock of the company Integração Transmissora de Energia S.A. – INTESA, organized on December 20, 2005, for the implantation, installation, operation and maintenance of the electric power transmission line Colinas - Serra da Mesa 2, 3rd circuit, in 500 kV, with concession term of 30 years. INTESA initiated its commercial operation in May, 2008.

- **Energética Águas da Pedra S.A.**

Interest of 24.5% in the capital stock of the company Energética Águas da Pedra S.A., organized on April 3, 2007 which purpose is the implementation of Dardanelos Hydroelectric Power Plant. Such Power Plant shall be implemented in Aripuanã River, situated in the north of the Estate of Mato Grosso, with 261 MW installed power and guaranteed total power of 154.9 MW in average, with start up foreseen for January 2011 with concession term of 35 years.

- **Energia Sustentável do Brasil S.A.**

Interest of 20% in the capital stock of the company Energia Sustentável do Brasil S.A., organized on July 15, 2007, for the implantation of the Hydroelectric Power Plant Jirau, in Madeira River, in the Porto Velho municipality, State of Rondônia, with 3.300 MW installed power and total assured energy of 1,975.3 MW average, with start up of the operations foreseen for January 2013 and 35 year concession period.

- **Manaus Transmissora de Energia S.A.**

Interest of 19,5% in the capital stock of the company Manaus Transmissora de Energia S.A., organized on April 22, 2008, for the construction, implantation, operation and maintenance of 500 kV transmission line Oriximiná/Itacoatiara/Cariri, of the substation Itacoatiara 500/138 kV (150 MVA) and of the substation Cariri 500/230 kV (1.800MVA), with start up of operations foreseen for October 2011 and 30 year concession period.

- **Interligação Elétrica do Madeira S.A.**

Interest of 24,5% in the capital stock of the company Interligação Elétrica do Madeira S.A., organized on December 18, 2008, for the construction, implantation, operation and maintenance of the 600 kV Coletora Porto Velho (RO) / Araraquara 2 (SP) Continued Current transmission line, from the Alternating Current/Continued Current 500/600 kV rectifier station, located at the Coletora Porto Velho substation, with capacity of 3.150 MW, to the CC/AC conversion station 600/500 kV, located in the substation Araraquara 2 with capacity of 2.950 MW, with start up of the operations foreseen for April 2013 and period of concession of 30 year.



## INITIAL ADOPTION OF LAW Nr. 11,638/2007

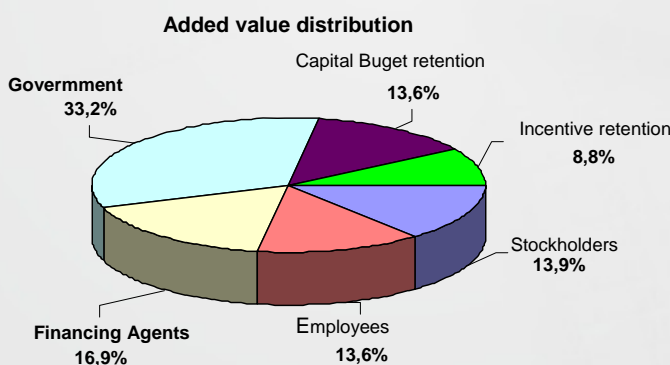
In 2008, entered into force the Law Nr. 11,638 of December 28, 2007, as amended by the Provisional Measure nr. 449, of December 3, 2008, which mark the beginning of the convergence of accounting practices adopted in Brazil, with international standards accounts, issued by the *International Accounting Standards Board - IASB*. The implementation of this legislation is mandatory for annual financial statements for fiscal years starting from January 1, 2008. As provided by the Committee of Accounting Pronouncements through the CPC Technical Pronouncement 13 - Initial Adoption of Law Nr. 11,638/07, approved by Deliberation CVM nr. 565, of December 17, 2008, all settings that impact on result had made against profits accrued on the date of transition, under Article 186 of Law nr. 6,404/76, without retrospective effects on the financial statements.

## RELATIONSHIP WITH INDEPENDENT AUDITORS

The Chesf's policy for engagement of independent auditors relies on principles that preserve their independence. Accordingly, in compliance with CVM Instruction nr. 381, of January 14, 2003, the administration informs that its auditing company RSM Boucinhas, Campos & Conti Auditores Independentes S/S, during 2008, do not rendered other services out of the financial statements auditing services.

## VALUE ADDED

The Company's contribution to the Brazilian economic growth was R\$ 3,930,2 million of value added, in 2008, amount 24,1 % superior to the R\$ 3,168.1 million generated in 2007. This amount was given in return to the society as a whole, by way of salaries, payroll taxes and benefits to its employees and their families (13,6%); taxes, fees and contributions to the municipal, state and federal governments (33,2%); interest paid to the financing agents (16,9%); stockholders' compensation (13,9%), retention of profits for capital buget (13,6%) and tax incentives retention ( 8,8%).



## RESEARCH & DEVELOPMENT PROGRAM

Chesf invests in its Research and Development Program - P&D aiming at finding in the innovation of equipment, systems and processes, the increase of its profitability and the continuous improvement of the renderer service.

In the year of 2008, it was made a high investment in the modernization of the R&D process management, including the development of an integrated system of managerial information and the optimization of the methodology chosen for the projects and executing entities, in a way to meet the strategic needs of the Company.

The Company has two project portfolios. The first one, which meets the requirements of Laws nr. 9,991/2000 and nr. 10,848/2004, is focused on the need for a more specific interest in relation to the electric power production and transmission system, with the involvement of a large range of well known teaching and research entities as the executors of the current projects. The second project portfolio concentrates in common interest matters of the Eletrobrás System companies and has, as executor, the Centro de Pesquisa de Energia Elétrica – CEPEL (Electric Power Research Center), which has been providing relevant services for the national electric sector for more than 30 years. The annual average of resources invested in the portfolios in question is of approximately R\$ 23 million.

In addition to such investments, Chesf contributed to the Fundo Nacional de Desenvolvimento Científico e Tecnológico – FNDCT (Technological and Scientific Development Fund) and born part of the expenses of Empresa de Pesquisa Energética – EPE (Energetic Research Company), reaching an annual average of R\$ 22.5 million. Therefore, in the total, Chesf annually invests in R&D, directly and indirectly, the expressive amount of R\$ 45 million, approximately.

The significant results of the already concluded projects, involving all segments of the productive chain, make it possible to have the certainty of a growing optimization of the results of the Company, of the provision of services to the Company and of the essential academy-company sharing of knowledge, which is an absolutely vital action for the national development consolidation.

## **SOCIAL AND ENVIRONMENTAL RESPONSABILITY**

Chesf understands that the economic development has to be followed by the care with people and with the environment, in search for quality of life. With its actions, it contributes for the social inclusion of thousands of people, by means of investing in education, health, income, job generation and culture and citizenship.

The socio-environmental actuation of the Company is directed to improve the quality of personal and professional life of its employees, to increase the interaction and contribute to the development of its suppliers, to increase the relationship with the communities surrounding its installations and enterprises, to contribute with projects of the Federal Government and with action directed to the society in general and to minimize the environmental impacts resulting from its activities.

## **PEOPLE MANAGEMENT (EMPLOYEES)**

The Company ended the year of 2008 with a staff comprised of 5,535 employees. The *turnover* index of the exercise was of 2,87%. It was concluded the stage of implantation of the Chesf Model Management of People by Competence, which had as objective to design, build and deploy a New Model for managing people, to all employees of the organization. The products generated under the Project are inputs to the discussions on the Integrated Management of People in the context of the Renovation Plan of the Eletrobrás System.

The Company adopts the practice of setting up Paritarian Committees Chesf / Unions, to consider issues of interest to both parties. By suggestion of the Joint Committee on Camp Policies, there were improvements in the provision of public cleansing, paving and urbanization, provision of transport for employees allocated in substations of Juazeiro II and Funil, and continuing the sales of Chesf houses to their residents in the campgrounds of the Company.

### ***Employees' Compensation and Benefits***

In 2008, R\$ 54,5 million were distributed for employees as profit sharing – PLR, resulting from the compliance with goals pre-established by Eletrobrás and Chesf in 2008: to be profitable and to distribute dividends, financial goals (operational margin and cost index) and operational goals (operational availability of the generation and transmission system).

Chesf's employees are entitled to the following benefits: maternal and infant care for children up to 6 months; Educational assistance for children over 6 months up to 20 years; Higher education aid, granted to employees who have no university degree; Life Insurance group; Assistance to the disabled - PAPD for employees and dependents, Medical care and nursing clinics in the Company during business hours; Aid for spectacles and lenses, for employees and their dependents; Complementation of aid-disease; Plan Assisting Employers - PAP, covering medical and hospital care, dental and other health services; Pension for death or disability due to accident at work; Transport - anticipation of travel voucher to be used in the residence / place of work / residence shift; Meal voucher; Food; Private Welfare, by Fundação Chesf de Assistência e Seguridade Social – FACHESF (Chesf Foundation for Assistance and Social Security), with 12,726 participants, with 5,399 active and 7,327 attended.

### **Training and Development**

Chesf adopts a corporative education system, aiming at strongly binding the learning to the needs of the organization and to the employees development.

In 2008, the average number of training hours per employee was of 64,99 corresponding to 3.38% of the work hours. The regulatory mark and the high complexity inherent to the new Model of the Electric Sector have required from Chesf a strategic redirection of the empowerment procedures. In this sense, the Company has been extending the long-term training offer, with the purpose to develop the new required competences. Standing out are the Masters Degrees in Production Engineering and in Economics and Finance, MBA in Energy Management, MBA in Electric Energy Law, Expertise in Knowledge Management, Information Technology and MBA in Management for Excellence. Was implemented the Preparation Management Plan, with the Company's high investment in its management staff, fundamental to the current changes in Eletrobrás System. The central objective of the Plan is to maximize the performance of Chesf executives, allowing training in office management required by the new business environment, in connection to the organizational, strategic, technological, managerial, marketing and culture aspects.

### **Health and Security at Work**

In 2008, Chesf consolidated the Corporate Health and Quality of Life Plan – Viver Bem - Chesf in order to act, in a systemic way, in the prevention, rehabilitation and promotion of health and quality of life of its employees. Among the actions undertaken, there is the Emergency Services Plan – PAE, aimed at providing greater efficiency and agility in attending to the injured employee or the victim of sudden illness, one of the three best projects in the Management Safety and Health at Work category by COGE Prize Foundation.

Aiming to improve the control of risks, Chesf implemented the Preliminary Technical Assessment of Hazards - APP at the interventions in the electric power system and the Program for Prevention of Environmental Risks - PPRA, by which are identified, evaluated and controlled the physical, chemical and biological risks.

The Company has 22 CIPA - International Committee for the Prevention of Accidents, composed equally by employees elected representatives and representatives of the employer. Each year, it is held the INTERCIPA, seminar bringing together representatives of all the CIPA Chesf, representatives of employees and the employer, of the safety of work, representatives of unions and other guests, in order to exchange experiences with regard to good prevention practices to improve the management of health and safety in the workplace. The novelty of the INTERCIPA Chesf has been recognized in various forums, including publications in specialized journals.

In 2008, the Accumulated Frequency of Typical Occupational Accidents with Removal rate was 4.58, or 5% above the tolerable limit for the fiscal year. Regarding the Accumulated Severity of Occupational Accidents Typical with Removal Rate, the accidents were less serious than the previous year, which contributed to reducing the rate of 133 in 2007 to 83 in 2008.



## **Respect for Diversity and Gender Equity**

Chesf recognizes that respecting and promoting diversity are essential for managing organizational climate that fosters a healthy, supportive and facilitator of professional growth and works to facilitate this promotion and the elimination of discrimination of any kind. Therefore, includes in various standards of management of people and the Code of Ethics and Business Conduct, clause that specifies its position against any prejudice and practices that discriminate people by color / race, ethnicity, sex, age, regional origin, economical, social, physical or mental condition, political orientation, religious or sexual or any other condition.

The Company held declaratory auto update register of employees, which was answered by the 95% of the personnel. This plan update has deepened the the understanding of its workforce, which will contribute to the structuring of actions that meet the specific needs of groups of people.

In 2008, Chesf continued to implement the Gender Plan of Action 2007-2008, agreed with the Special Secretariat of Policies for Women - PMS, as a requisite for participation in the program Pro-Gender Equity in the Secretariat.

Chesf continued the actions that extend social inclusion and accessibility for employees with disabilities. To meet the visually impaired, there is information in Braille on the turnstile for access to facilities, the internal doors and elevators in voice synthesizer. For many years, these employees have the specific equipment and software to carry out their activities. The Code of Ethics and Business Conduct is available in Braille. Religious option and political and sexual orientation of employees is respected. The Chesf Headquarters opened in 2008, an ecumenical space for the religious celebrations.

## **SUPPLIERS**

The Company promotes, periodically, the updating of its suppliers on the procedures used for the management of the contracts. It also acts in order to strengthen the partnership and improve the quality of the services and products. For such, it was held out one-day meetings, in Recife, Salvador and Paulo Afonso. The requirements of social responsibility, ethics and gender questions were emphasized in a specific lecture, which is included in the schedule of the events. In 2008, Chesf approved the “Principles and Rules of Managerial Conduct in Chesf's Relation with the Suppliers”, in which it is also fixed the repudiation to the infantile work and to the submission of professional for jobs in degrading terms. For the goods supply contract and services there is the exigency to obeying these principles.

## **RELATIONSHIP WITH THE COMMUNITIES**

The Company develops the following structural programs:

- Generation Program – service to the needy population of the microregions where the Company implemented hydroelectric generation, comprising the Lagos do São Francisco Program covering the hydroelectric areas Luiz Gonzaga (Itaparica), Apolônio Sales (Moxotó), Paulo Afonso and Xingó Complex; Sobradinho Program (cities surrounding such hydroelectric); Boa Esperança Program (neighbor cities of hydroelectric Boa Esperança) and Rio de Contas Program (cities surrounding the hydroelectrics Funil and Pedra).
- Transmission Program – actuation in the communities of the cities where the substations are installed or which they are cut by transmission lines.
- Metropolitan Regions Program – actuation in the communities of the cities of the Metropolitan regions of Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe and Bahia, where the main installations of the Company are located.

Almost all programs and projects implemented by Chesf have the following purposes:

### **Education, Qualification and Knowledge Divulagation**

The education, qualification and knowledge divulgation programs developed by Chesf, reached more than 14,693 children, teenagers and adults.

In this context, it must be given importance to the support from the Company to the Archaeology and Anthropology Implementation Center of Paulo Afonso and to the development of archaeological research in the region.

### **Generation of Work and Income and Regional Development**

The programs for the generation of employment and income and regional development involved the participation of 13,164 adults. In addition, three seminars were held to constitute the forum for the sustainable development for the population living at the edges of Pedra and Funil power plants reservoirs.

Chesf is coordinating and implementing projects for regional development, aligned with the social programs of the Federal Government. In the Northeast, the Light for All Program, coordinated by the Director of Operations of the Company, held 192,088 links that benefited 960,440 people.

### **Food Complementation**

The programs of food complementation attended 2,404 people.

### **Health promotion**

Chesf keeps Nair Alves de Souza Hospital, in agreement with General Health Service - SUS. In 2008, approximately 100 thousand people of 22 cities in 5 states of the Northeast were attended by this agreement with SUS, with 258,124 procedures performed.

It was held the Annual Health and Citizenship Fair in locations around the premises of the Company, in Recife, Paulo Afonso, Salvador, Fortaleza, Sobradinho and Teresina, with the participation of 5,531 people.

### **Citizenship**

The Company supported the operation of the Police Department for Women's Assistance in Paulo Afonso. Chesf employees have place on the Municipal Council of Women's Rights and the Municipal Council of Children and Adolescents. Three times a year, CIPA are holding internal campaigns for blood donation and bone marrow, in partnership with the state hemocenters. The Company continued to actively participating in 16 Days of Activism Campaign for End of Violence against Women, with the promotion of talks to communities and distribution of programs for the community radio campaign.

### **Environmental Sustainability**

The Chesf adopts a systematic management of impacts and environmental issues arising from their resources in generation and transmission as well as processes of storage and handling of dangerous products, and in 2008, R\$ 15.4 million were designed for programs that aimed at preserving the environment.

In the area of generation, all businesses have an operating license, except the power plants Pedra and Funil, in Bahia, and Boa Esperança, in Piauí, whose licenses are in the process of renewal. More than 30 social programs directed to the recovery of degraded areas, monitoring of water quality, management and conservation of specimens of fish in the region and training of fishermen, health and environmental education and archaeological rescue were performed. Programs to Support the Municipalities of the neighboring of Itaparica and Paulo Afonso have been completed and are being carried out the surveys and analysis of Environmental Studies for the new hydroelectric enterprises of Parnaíba and São Francisco rivers.

Programs of environmental education of the neighboring of Araras power plant in Ceará, with the involvement of some 150 families, and of the Paulo Afonso reservoirs complex, in the initial phase of deployment, which should involve the bordering communities, have been developed.

To meet the National Program for Revitalization of São Francisco, the issue of restoration of riparian forests on its banks, 400,000 seedlings were planted in the municipalities of Itacuruba, Belém do São Francisco, Petrolândia and Santa Maria da Boa Vista.

Actions for the adequacy of Permanent Preservation Areas in the neighborings of the power generation plants are being negotiated with Public Prosecutor's Office of Bahia. In the power transmission area, all projects after 1988 are licensed or in process of license renewal. On projects prior to the year 1988, 62 were settled in 2008 and another 73 are within the process of licensing conclusion in environmental agencies. Environmental permits were renewed on 51 ventures transmission and answered 643 of Environmental Permits constraints, which represent the implementation of various environmental programs, such as: Survey and Monitoring of Fauna and Flora, the Mamucabas River Revitalization, Archaeological Studies, Selective replanting in the transmission lines tracks, among others.

Five programs of Environmental Communication were performed on the new Chesf transmission ventures - 230 kV transmission lines Funil/Itapebi and Ibicoara/Brumado, Bahia; Paraíso/Açu in Rio Grande do Norte; Milagres/Coremas, in Ceará and Paraíba; and Jardim/Penedo, in Sergipe and Bahia. These programs involved the Departments of Education and Health of municipalities, social organizations and 1,313 families living along the lines crossing tracks.

There were two emergency actions to combat fires under transmission lines, in the State of Ceará, with the IBAMA-Prevfogo, involving about 50 families. Actions were initiated together with FUNAI to develop a program of environmental education for the indigenous community of Fulnil-ô in the state of Pernambuco.

On the issue of environmental compensation, plans were drawn up the handling of the Biological Reserve of Santa Isabel, in Sergipe and the Biological Reserve of Serra Negra, in Pernambuco. The hazardous products area has 6 licenses for operation of various facilities for custody and handling of these products, with 60 constraints, in addition to monitoring the actions of environmental risk of waste and disposal of hazardous products. A pro-active decision by the Company, was approved in 2008, a plan for replacement and disposal of all equipment in operation and storage containing ascarel.

In 2008, Chesf was not fined for breach of environmental protection standards, emphasizing that there is no restriction on the Company's operational activities.

### **The Itaparica Resettlement Program**

Chesf invested R\$ 134.1 million in the Resettlement of Itaparica, in works, services, purchase of equipment, assistance and resettlement in the process of agricultural production, environmental programs, compensations to the Indigenous Community Tuxá, to farmers of Itacoatiara (Rodelas/BA) and the Apolônio Sales Perimeter (Petrolândia/PE), in addition to land acquisition for Jusante Project (Gloria/BA) and land regularization of acquired areas.

The implementation of the works on Jusante Irrigated Project have been started, after granting of the License Deployment - LI, and in sequence the deployment of Perimeter Barreiras Block 2, located in Tacaratu/PE, with the completion of the distribution network. The last phase of this project is on bidding, consisting of the blending, the implantation of the road system and the irrigation network.

In relation to Indigenous Community Tuxá, it was built a House of Flour in the Tuxá village of Inajá/PE and the building of the Cultural Center of the Tuxá village of Rodelas/BA. It was also paid the last installment of the indemnifying agreement established in the Terms of Adjustment of Conduct - TAC signed in August 2004 with the Federal Public Ministry, the Union, Tuxá Indigenous Communities, the Fundação Nacional do Índio – FUNAI (National Indian Foundation) and the Special Secretariat of Human Rights.



The management of the irrigated perimeters is conducted by the Company for the Development of the San Francisco and Parnaíba Valleys - Codevasf in accordance with the Statement of Cooperation signed between Chesf and Codevasf, in March 2007. It was continued the modernization of the irrigated perimeters facilities and deployment of agricultural drainage to allow good conditions for the productivity for longer period of time of irrigated areas. Also, it was started the inventory of the common use irrigation infrastructure of irrigated perimeters to be transferred to Codevasf.

Also, based on the stated terms of cooperation, has been given continuity to the programs of assistance for all irrigating straps in operation, with the provision of operation and maintenance services of public infrastructure for irrigation and technical assistance and rural extension - ATER. Resettled farmers which do not yet have suitable land for irrigated production are paid monthly, the Temporary Maintenance Allowance - VMT for help with family uphold.

## **SOCIO-ENVIRONMENTAL INFORMATION**

The key indicators representing Chesf's corporate and socio-environmental responsibility are shown as follows:

## SOCIO-ENVIRONMENTAL INFORMATION

(Values expressed in thousands of reais)

1 - Wealth Generation and Distribution		Em 2008:		3.930.176		In 2007:		3.168.126	
Added Value Demonstration		33.2%	government	13.6%	employees	44.1%	government	15.2%	employees
The Added Value Demonstration - DVA is presented, in the totality, in the set of the Accounting Statements.		36.3%	stockholders	16.9%	financiers	20.6%	stockholders	20.1%	financiers
2 - HUMAN RESOURCES		In 2008:				In 2007:			
2.1 - Remuneration									
Gross payroll (GP)		561.341				490.493			
- Employees		558.863				487.879			
- Administrators		2.478				2.614			
Relation between larger and smaller remuneration:									
- Employees		23,4				23,3			
- Administrators		1,0				1,0			
2.2 - Benefits Granted		Value (000)	% on GP	% on NI	Value (000)	% on GP	% on NI		
Social Charges		112.402	20,0%	2,3%	99.698	20,3%	2,5%		
Alimentation		34.578	6,2%	0,7%	32.359	6,6%	0,8%		
Carry		591	0,1%	0,0%	718	0,1%	0,0%		
Private Pension Funds		33.988	6,1%	0,7%	28.857	5,9%	0,7%		
Health care		40.180	7,2%	0,8%	31.895	6,5%	0,8%		
Work safety and medicine		2.484	0,4%	0,1%	2.233	0,5%	0,1%		
Education and Nursery		8.695	1,5%	0,2%	5.701	1,2%	0,1%		
Culture		-	0,0%	0,0%	-	0,0%	0,0%		
Training and professional development		6.972	1,2%	0,1%	6.676	1,4%	0,2%		
Participation in the profits or results		60.652	10,8%	1,3%	54.504	11,1%	1,4%		
Total		300.542	53,5%	6,2%	262.641	53,5%	6,6%		
2.3 - Composition of the Functional Body									
Number of employees at the end of the year		5.535				5.640			
Number of admissions		109				7			
Number of dismissals		80				55			
Number of trainees at the end of the year		-				185			
Number of employed bearers of special needs at the end of the year		56				43			
Number of services providers subcontracted at the end of the year		-				-			
Number of employees by gender:									
- Men		4.398				4.484			
- Women		1.137				1.156			
Number of employees for age band:									
- Smaller of 18 years		-				-			
- Out of the 18 to 35 years		881				915			
- Out of the 36 to 60 years		4.336				4.447			
- above 60 years		318				278			
Number of employees by level of schooling:									
- Illiterate		0				0			
- Basic schooling		1.020				1.101			
- Intermediate schooling		434				442			
- Technical schooling		2.142				2.188			
- Superior schooling		1.767				1.736			
- Postgraduated		172				173			
Percentile of leadership positions occupants, by gender:									
- Men		84,8%				86,8%			
- Women		15,2%				13,2%			
2.4 - Contingencies and Liabilities:									
Number of labor lawsuits moved against the entity		810				1.040			
Number of labor lawsuits deemed valid		278				349			
Number of labor lawsuits deemed unfounded		162				216			
Total of indemnity and fines paid by Justice		6.024				-			
3 - Entity Iteration with the External Environment		Value (000)	% on OI	% on NI	Value (000)	% on OI	% on NI		
3.1 - Relationship with the community									
Total Investments in:									
Education		4.398	0,3%	0,1%	3.844	0,4%	0,1%		
Culture		6.221	0,4%	0,1%	11.278	1,1%	0,3%		
Health and infrastructure		13.124	0,8%	0,3%	9.022	0,9%	0,2%		
Sport and leisure		1.155	0,1%	0,0%	2.689	0,3%	0,1%		
Alimentation		604	0,0%	0,0%	479	0,0%	0,0%		
Working and income generation		4.436	0,3%	0,1%	1.790	0,2%	0,0%		
Resettlement of families		134.086	7,9%	2,8%	109.459	10,5%	2,7%		
Total Investments		164.024	9,6%	3,4%	138.561	13,3%	3,5%		
Taxes (excluded payroll taxes)		706.544	41,5%	14,6%	773.574	74,2%	19,4%		
Financial indemnity by the water utilization		164.794	9,7%	3,4%	222.707	21,4%	5,6%		
Total - Relationship with the community		1.035.362	60,8%	21,5%	1.134.842	108,9%	28,5%		
3.2 - Interaction with Suppliers		Required controls on:							
Social responsibility criteria used for selecting suppliers		Environmental risks, environmental work conditions, medical control on environmental health, work-by-night or unhealthful work practice by people under 18 years of age.							

4 - Interaction with the Environment	In 2008			In 2007		
	Value (000)	% on OR	% on NI	Value (000)	% on OR	% on NI
Investments and expenses with maintenance in the operational lawsuits for environment improvement	10.675	0,6%	0,2%	7.869	0,8%	0,2%
Investments and expenses with preservation and/or environments recovery degraded	2.689	0,2%	0,1%	2.187	0,2%	0,1%
Investments and expenses with education environmental for employees, subcontracted, entity autonomous and administrators	66	0,0%	0,0%	95	0,0%	0,0%
Investments and expenses with education environmental for the community	1.240	0,1%	0,0%	1.296	0,1%	0,0%
Investments and expenses with other environmental projects	741	0,0%	0,0%	1.762	0,2%	0,0%
Quantity of environmental, administrative and moved judicial lawsuits against the entity	5	0,0%	0,0%	8	0,0%	0,0%
Fines value and the relative compensations to the matter environmental, determined administrative and/or judicially	-	0,0%	0,0%	-	0,0%	0,0%
Obligations and environmental contingencies	-	0,0%	0,0%	-	0,0%	0,0%
<b>Total interaction with the environment</b>	<b>15.411</b>	<b>0,9%</b>	<b>0,3%</b>	<b>13.209</b>	<b>1,3%</b>	<b>0,3%</b>
<b>5 - Other information</b>	<b>2008</b>			<b>2007</b>		
Net Income (NI)	4.826.300			3.980.753		
Operational Result (OR)	1.702.619			1.041.975		

Recife, March 09, 2009

**The Board of Directors**

# **BALANCE SHEET AS OF DECEMBER, 31**

(values expressed in thousands of reais)

## **ASSETS**

### **CURRENT ASSETS**

	<b>2008</b>	<b>2007</b> (Reclassified)
Cash and cash equivalents	9,292	30,913
Money market investments – note 5	886,998	543,187
Consumers, concessionaires and permit grantees – note 6	781,126	1,039,921
(-) Allowance for doubtful accounts – note 32	(499)	(190,504)
Taxes and contributions to compensate – note 7	72,103	10,983
Stocks – note 8	74,392	71,066
Tax credits – note 9	31,000	86,814
Collateral security and linked deposits	8,003	48,064
Ongoing service	104,937	84,548
Others – note 10	82,970	64,050
	<b>2,050,322</b>	<b>1,789,042</b>

### **NON-CURRENT**

#### **Long Term Receivables**

Consumers, concessionaires and permit grantees – note 6	74,145	112,704
(-) Allowance for doubtful accounts – note 32	(5,231)	(15,023)
Taxes and contributions to compensate – note 7	8,934	8,552
Assets and rights destined to alienation	11,559	10,769
Tax credits – note 9	116,732	134,444
Others – note 10	6,431	6,216
	<b>212,570</b>	<b>257,662</b>

#### **Investments – note 11**

**250,344**      **157,673**

#### **Property, plant and equipment – note 12**

**16,214,918**      **16,230,656**

#### **Intangible assets – note 13**

**32,048**      **32,695**

#### **Deferred charges**

-      **276**

### **TOTAL ASSETS**

**16,709,880**      **16,678,962**  
**18,760,202**      **18,468,004**

The accompanying notes are integrant part of the financial statements



**BALANCE SHEET AS OF DECEMBER, 31**

(values expressed in thousands of reais)

	<b>2008</b>	<b>2007</b> (Reclassified)
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Suppliers – note 14	198,246	263,926
Payroll	8,363	7,608
Taxes and social contributions - note 15	107,178	214,893
Loans and financing – note 16	468,487	467,687
Charges on debts – note 16	9,516	50,680
Profit sharing – note 26	61,143	54,504
Stockholders' compensation – note 27	544,893	240,014
Estimated liabilities	78,949	71,474
Private pension plan entity – note 18	273,720	167,388
Research and development	69,765	65,218
Others - note 17	104,291	101,011
	<b>1,924,551</b>	<b>1,704,403</b>
<b>NON-CURRENT LIABILITIES</b>		
Taxes and social contributions - note 15	45,592	40,535
Loans and financing – note 16	3,307,765	4,040,440
Private pension plan entity – note 18	125,100	357,299
Research and development	106,187	65,283
Provisions for contingencies – note 19	415,434	336,068
Others – note 17	62,423	57,972
	<b>4,062,501</b>	<b>4,897,597</b>
<b>STOCKHOLDERS' EQUITY</b>		
Capital - note 20	4,196,306	1,696,306
Capital reserves - note 20	4,916,199	7,416,199
Profit reserves - note 20	3,366,249	2,459,103
	<b>12,478,754</b>	<b>11,571,608</b>
Funds for capital increase	294,396	294,396
	<b>12,773,150</b>	<b>11,866,004</b>
<b>TOTAL LIABILITIES</b>	<b>18,760,202</b>	<b>18,468,004</b>

The accompanying notes are integral part of the financial statements

## STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31

(In thousands of reais)

	2008	2007 (Reclassified)
<b>OPERATING REVENUE</b>		
Electric power supply – note 21	752,897	622,417
Electric power bulk supply – note 21	2,883,454	2,550,355
Transmission system availability – note 21	1,208,308	1,123,832
Electric power short-term (CCEE)	786,796	400,292
Others operating revenues	8,912	8,540
	<b>5,640,367</b>	<b>4,705,436</b>
<b>Deductions from operating revenue</b>		
Global Reversal Reserve – RGR	(144,382)	(122,005)
ICMS on electric power (Added value tax)	(90,941)	(77,237)
ISS	(404)	(467)
Research and development	(48,260)	(40,215)
Fuel Consumption Account – CCC	(79,180)	(106,637)
Energy Development Account – CDE	(18,994)	(17,601)
PROINFA	(25,281)	(19,594)
PASEP (Civil servants savings program)	(72,514)	(60,799)
COFINS (Contribution for social security financing)	(334,111)	(280,128)
	<b>(814,067)</b>	<b>(724,683)</b>
<b>Net operating revenue</b>	<b>4,826,300</b>	<b>3,980,753</b>
<b>COST OF ELECTRIC POWER SERVICE</b> – note 23		
<b>Cost with electric power</b>		
Electric power purchased for resale	(43,236)	(173)
Charges on use of electric power network	(665,257)	(614,469)
<b>Operating cost</b>		
Personnel	(205,351)	(173,623)
Material	(11,358)	(13,528)
Fuel for electric power production	(335,281)	(37,020)
Third-party's service	(47,381)	(48,241)
Financial compensation for the water use	(164,794)	(222,707)
Depreciation and amortization	(546,465)	(542,450)
Others	31,130	35,033
	<b>(1,987,993)</b>	<b>(1,617,178)</b>
<b>COST OF SERVICE RENDERED TO THIRD PARTIES</b> - note 23	<b>(392)</b>	<b>(3,865)</b>
<b>GROSS OPERATING PROFIT</b>	<b>2,837,915</b>	<b>2,359,710</b>
<b>OPERATING EXPENSES</b> – note 23	<b>(622,550)</b>	<b>(831,127)</b>
<b>SERVICE RESULT</b>	<b>2,215,365</b>	<b>1,528,583</b>
<b>FINANCIAL REVENUE (EXPENSE)</b>		
Revenue from temporary cash investments	76,854	27,237
Monetary variation and additions – electric power sold	70,272	109,234
Other monetary variations – assets	2,492	771
Other financial revenues	29,965	16,454
Pis/Pasep and Cofins	(608)	(14)
Debt charges	(487,669)	(573,671)
Monetary variations on loans and financing	(83,363)	16,749
Other monetary variations – liabilities	(48,889)	(41,302)
Other financial expenses	(24,033)	(42,066)
	<b>(464,979)</b>	<b>(486,608)</b>
<b>OTHER REVENUES (EXPENSES)</b>		
Revenues	1,690	-
Expenses	(49,457)	-
	<b>(47,767)</b>	<b>-</b>
<b>OPERATING RESULT</b>	<b>1,702,619</b>	<b>1,041,975</b>
Non-operating revenues	-	3,292
Non-operating expenses	-	(9,417)
<b>Non-operating result</b>	<b>-</b>	<b>(6,125)</b>
<b>Profit before social contribution and income tax</b>	<b>1,702,619</b>	<b>1,035,850</b>
Social contribution – note 24	(146,282)	(88,581)
Income tax – note 24	(401,645)	(240,632)
Fiscal Incentive – note 25	343,251	-
<b>Profit before sharing and reversal of interest on equity capital</b>	<b>1,497,943</b>	<b>706,637</b>
Profit sharing – note 26	(60,652)	(54,007)
<b>NET INCOME FOR THE YEAR</b>	<b>1,437,291</b>	<b>652,630</b>
Net income per share (R\$)	34,46	15,65

The accompanying notes are integral part of the financial statements

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(In thousands of reais)

	REALIZED SUBSCRIBED CAPITAL	CAPITAL RESERVES	PROFITS RESERVES					RETAINED EARNINGS	FUNDS FOR CAPITAL INCREASE	TOTAL
			PROFIT TO BE IMPLEMENTED	LEGAL	STATUTORY	RETENTION OF PROFITS	FISCAL INCENTIVE			
AT DECEMBER 31, 2006	1,696,306	7,416,199	528,420	232,583	8,179	1,277,291	-	-	294,396	11,453,374
Realization of profit reserves	-	-	(22,399)	-	-	-	-	22,399	-	-
Net income for the year	-	-	-	-	-	-	-	652,630	-	652,630
Appropriations:										
Legal reserve	-	-	-	32,631	-	-	-	(32,631)	-	-
Proposed dividends – note 27	-	-	-	-	-	-	-	(240,000)	-	(240,000)
Profits retention reserve	-	-	-	-	-	402,398	-	(402,398)	-	-
AT DECEMBER 31, 2007	1,696,306	7,416,199	506,021	265,214	8,179	1,679,689	-	-	294,396	11,866,004
Capital increase	2,500,000	(2,500,000)	-	-	-	-	-	-	-	-
Initial adjustments resulting from Law nr. 11,638/2007	-	-	-	-	-	-	-	14,730	-	14,730
Realization of profit reserves	-	-	(20,952)	-	-	-	-	20,952	-	-
Net income for the year	-	-	-	-	-	-	-	1,437,291	-	1,437,291
Appropriations:										
Legal reserve	-	-	-	54,702	-	-	-	(54,702)	-	-
Proposed dividends - note 27	-	-	-	-	-	-	-	(544,875)	-	(544,875)
Profits retention reserve (*)	-	-	-	-	-	530,145	-	(530,145)	-	-
Fiscal incentive reserve (**)	-	-	-	-	-	-	343,251	(343,251)	-	-
AT DECEMBER 31, 2008	4,196,306	4,916,199	485,069	319,916	8,179	2,209,834	343,251	-	294,396	12,773,150

(\*) The value of R\$ 530,145 thousand, destined to the Profits retention reserve, correspondent to the exercise net profit portion not distributed, it integrates the writs of sources that compose the Company investments budget.

(\*\*) Considering the established in art. 195-A of the Law nr. 6,404/1976, included by the Law nr. 11,638/2007, the exercise net profit portion due to fiscal incentives was destined to the constitution of denominated profit reserve of fiscal incentives.

The accompanying notes are integrant part of the financial statements

**STATEMENT OF CASH FLOW YEARS ENDED DECEMBER 31**  
(In thousands of reais)

	<b>2008</b>	<b>2007</b> (Reclassified)
<b>Operating activities</b>		
Net income for the period	1,437,291	652,630
Expenses (revenues) not affecting cash:		
Depreciation and amortization	603,403	594,478
Long-term monetary and exchange variations (net)	87,272	21,006
Deferred income tax and social contribution	(36,154)	7,603
Equity – note 11	(16,467)	-
Free energy – note 32	(35,021)	(86,863)
Provisions for contingencies	64,197	-
Investment lowered	24,069	-
Regulatory liability of the transmission	(5,470)	5,772
Others	-	(1,623)
	<b>2,123,120</b>	<b>1,193,003</b>
<b>Variation in current assets</b>		
Consumers, concessionaires and permit grantees	258,795	(157,426)
Stocks	(3,326)	(3,704)
Taxes and contributions to compensate	(61,120)	46,157
Advances to employees	(17,009)	(3,440)
Collateral security and linked deposits	40,061	(44,141)
Tax credits	55,814	(55,411)
Services in progress	(20,389)	(3,280)
Allowance for doubtful accounts	(190,005)	141,683
Others operating assets	(1,911)	(16,322)
	<b>60,910</b>	<b>(95,884)</b>
<b>Variation in current liabilities</b>		
Suppliers	(65,680)	59,534
Taxes and social contributions	(116,816)	144,890
Estimated obligations	7,475	15,564
Profit sharing	6,639	6,304
Consumer charges payable	(8,205)	(7,485)
Research and development	4,547	11,930
Financial compensation for the use of water resources	(3,283)	(1,692)
TAC Community Tuxá – Itaparica	25,724	-
Others operating liabilities	(1,100)	3,130
	<b>(150,699)</b>	<b>232,175</b>
<b>Use of non-current assets</b>		
Securities receivable – consumers	75,218	323,939
Tax credits	53,964	33,245
Allowance for doubtful accounts	(9,792)	(43,837)
Finsocial credit update	(382)	(8,552)
Others	1,434	(3,037)
	<b>120,442</b>	<b>301,758</b>
<b>Increase in non-current liabilities</b>		
Provisions for contingencies	15,168	30,634
Consumer charges payable	35,471	19,174
Others receivables – Fachesf	(25,724)	-
	<b>24,915</b>	<b>49,808</b>
<b>Net cash provided by operating activities</b>	<b>2,178,688</b>	<b>1,680,860</b>
<b>Investing activities</b>		
Investments in property, plant and equipment and intangible assets	(581,644)	(538,428)
Goods and rights for future use	(1,418)	(7,909)
Permanent equity	(82,597)	(34,337)
Others	(1,338)	-
	<b>(666,997)</b>	<b>(580,674)</b>
<b>Financing activities</b>		
Long-term loans and financing	159,456	390,741
Charges payable on loans and financing	454,869	529,758
Monetary variation on loans and financing	32,989	(7,915)
Payments of short-term installments of long-term loans and financing	(978,773)	(740,492)
Financial charges paid to stockholders and related parties	(472,156)	(459,123)
Financial charges paid to financial institutions and others	(42,615)	(89,420)
Stockholders' compensation	(248,236)	(211,294)
Private pension plan entity	(143,696)	(141,989)
Disposals of property, plant and equipment and intangible assets	20,388	27,525
Others	28,273	7,258
	<b>(1,189,501)</b>	<b>(694,951)</b>
<b>TOTAL EFFECTS ON CASH BALANCE</b>	<b>322,190</b>	<b>405,235</b>
Cash and cash equivalents, beginning of year	574,100	168,865
Cash and cash equivalents, end of year	896,290	574,100
<b>CASH VARIATION</b>	<b>322,190</b>	<b>405,235</b>

The accompanying notes are integral part of the financial statements



**VALUE ADDED STATEMENT YEARS ENDED DECEMBER 31**

(In thousands of reais)

**GENERATION OF ADDED-VALUE**

**Revenues**

Electric power supply, transmission and others	5,592,460	4,705,226
Allowance for doubtful accounts	199,798	(96,566)
Loss – Free energy <sup>note 32</sup>	(210,940)	(185,839)
Non-operating income	-	(6,125)

**2008**

**2007**  
(Reclassified)

<b>5,581,318</b>	<b>4,416,696</b>
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**(-) Input acquired from third parties**

Material	26,971	30,655
Fuel for energy production	335,281	37,020
Third-party services	133,185	129,262
Electric power purchased for resale	43,236	173
Electric network usage charge	665,257	614,469
Others	23,532	(3,581)

<b>1,227,462</b>	<b>807,998</b>
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**(=) Gross added value**

<b>4,353,856</b>	<b>3,608,698</b>
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**(-) Retentions**

Reintegration quotas (Depreciation and amortization)	<b>603,403</b>	<b>594,478</b>
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<b>603,403</b>	<b>594,478</b>
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**(=) Net added value**

<b>3,750,453</b>	<b>3,014,220</b>
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**(+) Added value transferred**

Result of equity method	16,467	-
Dividends and interest on capital	7,470	13,139
Rentals	140	210
Financial income	155,646	140,557

<b>179,723</b>	<b>153,906</b>
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**(=) Added value to be distributed**

<b>3,930,176</b>	<b>3,168,126</b>
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**DISTRIBUTION OF ADDED VALUE**

**Personnel:**

Salaries/benefits/Severance pay fund (FGTS)	414,456	362,391
Profit sharing	60,652	54,007
Management fees	1,700	1,797
Provisions for labor contingencies/indemnities	21,546	34,799
Private pension plan entity – normal contributions	33,988	28,857

<b>532,342</b>	<b>481,851</b>
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**Governments:**

Payroll charges	88,711	78,442
Taxes	706,544	773,574
Sector charges – note 22	502,724	544,413

<b>1,297,979</b>	<b>1,396,429</b>
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**Financing agents:**

Financial charges, monetary variation and others	485,200	487,375
Eletrobrás	158,374	130,479
Other financing agents	18,990	19,362

<b>662,564</b>	<b>637,216</b>
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**Stockholders:**

Interest on equity capital	544,875	240,000
Dividends – note 27		

<b>892,416</b>	<b>412,630</b>
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**Retained profit**

<b>3,930,176</b>	<b>3,168,126</b>
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**Average added value per employee**

<b>710</b>	<b>562</b>
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The accompanying notes are integrant part of the financial statements

## **NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008**

*(In thousands of reais, unless otherwise stated)*

### **1 - OPERATIONS**

Companhia Hidro Elétrica do São Francisco – Chesf, with central office at Rua Delmiro Gouveia, 333, Bairro do Bongi, Zip Code 50761-901, in the city of Recife, state of Pernambuco, is a listed mixed capital company, controlled by Eletrobrás. The Company was created through Decree-Law number 8.031/1945, and started its operations on March 15, 1948. Its key business activities is the generation and transmission of electric power. As from 2002, with the gradual release of its supply contracts (initial contracts) at the rate of 25% per year, as established by Law 9.648, of May 27, 1998, the Company, which main market used to be located in the Northeast region of Brazil, began to serve others Brazilian regions, having today, as main markets Northeast and Southeast regions.

The Company's electric power is generated at 14 hydroelectric power plants and 1 thermoelectric power plant, for a total installed capacity of 10.618 MW. Power transmission takes place through a system comprised of 83 transmission substations, 15 step-up-substations and 18.468 kilometers of high voltage lines.

The electric power is sold through contracts signed with distribution concessionaires, through power reserve contracts and electric power supply contracts, signed with industrial consumers serviced directly by the Company; and also through contracts came by electric power auctions promoted by the Electric Power Trading Chamber - CCEE and through electric power sale and purchase auctions, promoted by sellers or by free consumers. Any differences between the generated electric power and the sold electric power under said agreements are commercialized on the spot market through CCEE.

The Transmission activity and the resulting RAP - Annual Permitted Revenue as determined by National Electric Power Agency – ANEEL, which amount is annually adjusted, is supported by the CPST - Transmission Services Contracts and by the CCT - Transmission System Connection Contracts, all connected to the Transmission System Concession Contract. For the authorizations granted by ANEEL, by resolutions, for new undertakings characterized as Revenue of New Investments - RBNI, shall be subjected to a tax review each 4 years with objecting to promote the tax efficiency and the practice of low prices. The other existent installations in time determination of the concession agreement, defined as Basic Network Revenue for the Existent Services - RBSE have their revenue fixed and annually readjusted until the end of the concession, July of 2015. In addition to the existent concession agreement, Chesf has signed new concession agreements for the provision of transmission services in the Basic Network, resulting from transmission actions provided by ANEEL. The revenue obtained in such transmission actions shall be fixed and annually readjusted by IPCA during the concession period - 30 years – and is also subject to tax reviews at each four years.

As from March 1st, 1999, the National Electric System Operator - ONS, a private civil rights and non-profit organization, whose operation was authorized by Resolution number 351/1998, issued by ANEEL, assumed the control and the operation of the National Interconnected System - SIN. In this context, the Company's power plants and transmission network are under the coordination, supervision and control of the said entity.

## 2 - CONCESSIONS

The Company detains the next concessions and permissions:

CONCESSIONS / PERMISSIONS	River	Installed Capacity (MW)	Used Capacity in 2008 (MW average/year)	Concession / Permission Date	Expiration Date
<b>Power Plants</b>					
<b>Hydroelectrics</b>					
Paulo Afonso I	São Francisco	180.001	59.457	10/03/1945	10/02/2015
Paulo Afonso II	São Francisco	443.000	107.934	10/03/1945	10/02/2015
Paulo Afonso III	São Francisco	794.200	162.325	10/03/1945	10/02/2015
Paulo Afonso IV	São Francisco	2,462.400	1,176.744	10/03/1945	10/02/2015
Apolônio Sales (Moxotó)	São Francisco	400.000	84.568	10/03/1945	10/02/2015
Luiz Gonzaga (Itaparica)	São Francisco	1,479.600	731.869	10/03/1945	10/03/2015
Xingo	São Francisco	3,162.000	1,788.775	10/03/1945	10/02/2015
Piloto	São Francisco	2.000	-	02/16/1949	07/07/2015
Araras	Acaraú	4.000	-	08/29/1958	07/07/2015
Funil	das Contas	30.000	8.296	08/25/1961	07/07/2015
Pedra	das Contas	20.007	2.314	08/25/1961	07/07/2015
Castelo Branco (B. Esperança)	Parnaíba	237.300	151.686	10/11/1965	10/10/2015
Sobradinho	São Francisco	1,050.300	355.226	02/10/1972	02/09/2022
Curemas	Piancó	3.520	0.911	11/26/1974	11/25/2024
<b>Thermoelectric</b>					
Camaçari	-	350.000	64.735	08/11/1977	08/10/2007 (*)

## TRANSMISSION SYSTEM

### Concession Contract nr. 061/2001 – ANEEL:

#### In use:

- 83 transmission substations, 15 elevators substations and 18.260 km of high tension lines.

06/29/2001 07/07/2015

### Covenants obtained by means of ANEEL's Auctions:

#### In use:

- transmission line Milagres/Tauá (CE), in 230 kV, with extension of the 208 km.

03/04/2005 03/03/2035

#### In implantation:

- transmission line Milagres/Coremas (CE/PB), in 230 kV, with extension of 120 km, approximately.
- transmission line Funil/Itapebi (BA), in 230 kV, with extension of 200 km, approximately.
- transmission line Ibicoara/Brumado (BA), in 230 kV, with extension of 100 km, approximately.
- transmission line Picos/Tauá (PI/CE), in 230 kV, with extension of 180 km, approximately.
- transmission line Paraíso/Açu II (RN), in 230 kV, with extension of 135 km, approximately.
- transmission line Jardim/Penedo (SE/AL), in 230 kV, with extension of 110 km, approximately.
- transmission line Eunápolis/Teixeira de Freitas II (BA), in 230 kV, with extension of 152 km, approximately.

03/04/2005 03/03/2035

04/20/2007 04/20/2037

06/14/2007 06/14/2037

06/14/2007 06/14/2037

06/14/2007 06/14/2037

03/17/2008 03/17/2038

10/16/2008 10/16/2038

Obs.: Used capacity corresponds to the average generation, in MW, in the period.

(\*) Extension asked to ANEEL, on 03/30/2005. Process is nowadays in Ministry of Mines and Energy – MME for decision.



The plants' installed capacity is always higher than their production and considers:

- the existence of periods, as along the day and as along the year, in which energy demand is either higher or lower in the system which the plant or generation system is dimensioned.
- the existence of periods in which equipment is shutdown for maintenance preventive and corrective purposes;
- the production of hydroelectric plants still depends on the availability of water in the river where they are located. In periods of higher water it's possible to increase generation, in the same way be reducing generation can be nuded in periods of water scarcity, as is normally seen in periods of energy rationing.

The production of the Chesf System's plants is connected with the Electro-Energy Operation Planning and Scheduling, with horizons and breakdown range from annual through daily and hourly levels; actually the planning is prepared by the National Electric Power Operator (ONS). ONS determines the generation amount and source that are required to attend the energy requirements of the country in an optimized way. It takes into account market requirements, water and equipment availability, the cost of generation and the viability of transmission this energy through a complex system that interconnects different regions.

### **3 - PRESENTATION OF THE FINANCIAL STATEMENTS**

These financial statements are presented in accordance with accounting practices adopted in Brazil, according to corporate law and to the rules of the Comissão de Valores Mobiliários (Brazilian Securities and Exchange Commission) - CVM, together with specific legislation applicable to the concessionaires of public service, issued by the Agência Nacional de Energia Elétrica (National Electric Power Agency) - ANEEL. In this way, include all changes in accounting practices introduced by Law Nr. 11,638/2007 and the Provisional Measure nr. 449/2008, and regulations issued by the Committee of Accounting Pronouncements - CPC, of the CVM and the ANEEL.

Attending to the changes of accounting practices established by Brazilian Law nr. 11,638/2007 and Provisional Measure nr. 449/2008, the Company decided, as authorized by CVM Deliberation nr. 565/2008, which approved the Technical Pronouncement CPC 13 - Initial Adoption of Law nr. 11,638/2007 and the Provisional Measure nr. 449/2008, not re-present the values of December 31, 2007 proceeding as if the new rules were already in force on that date.

Therefore, it was practiced as provided in paragraph 1 of Article 186 of Law nr. 6404/1976, which establishes that the adjustments resulting from change in accounting practices or criteria should be recorded directly to retained earnings. Therefore, the Company set December 31, 2008 as the date of transition to the adoption of new accounting practices. Adjustments resulting from change of accounting practices as provided in Pronouncement Technical CPC 13, reflected in the account of retained earnings on January 1, 2008.

The changes in Brazilian accounting practices are briefly summarized below:

#### **I - That affected the preparation and presentation of financial statements of the Company.**

##### **a) Statement of Sources and Applications of Funds – DOAR**

The DOAR was replaced by the Statement of Cash Flow - DFC. According to the item 51 of Technical Pronouncement CPC 03, the Company has been adopting the practice of presenting the DFC, in place of presenting the DOAR present to give on these financial statements.



**b) Demonstration of Added Value – DVA**

It was included the presentation of the DVA, which aims to demonstrate the value added by the Company and the composition of the origin and distribution of the generated wealth. The Company already used the practice of presenting the DVA.

**c) Intangible**

The creation, in the Balance Sheet, of a new group of accounts called Intangible, to register intangible rights for maintenance and operation. The company had already created this group of accounts on your Balance Sheet.

**d) Deferred Assets**

Elimination of the group of accounts called Assets Deferred. Thus, the Company chose to allocate in other groups of assets – Property, plant and equipment and Intangible - when possible to qualify; or making the reduction in deferred expenses when could not be allocated in assets at the date of transition, by making the record of de value against accumulated profits, or losses, net of tax effects.

**e) Non-operating result**

The segregation between the operating results and non-operational was eliminated. The figures so far recorded in accounts representative of non-operating results becomes to be classified and presented as Other Income or Other Expenses in Operating group.

**f) Financial instruments**

The classification of financial instruments in a given category should be made at the time of your registration. In the initial implementation of the Law is permitted to classify financial instruments at the date of transition. The Company applied the rules of classification and measurement, provided in Technical Pronouncement CPC 14.

**g) Adjust the present value**

Attending to the Deliberation CVM nr. 564, of December 17, 2008, which approved the Technical Pronouncement CPC 12, the Company analyzed the account items and concluded that its assets and liabilities are presented to present value or have irrelevant effects not needing, this way, to make adjusts.

**h) Assets recuperation value**

In attendance of the requirements from CVM Deliberation nr. 527/2007 of November 1, 2007, which approved the Technical Pronouncement CPC 01 - Reducing to recoverable amount of assets, the Company checked if there was any indication that could occur losses in its assets, considering them together, as a single cash-generating unit in order to verify its recoverability.

**i) Equity**

According to the change on the parameters for defining in what investments should be adopted the valuation by the method of assessment equity, the Company started to apply this form of assessment to permanent investments held in companies in which holds 20% or more of voting capital participation in or exercise significant influence over the management of the investee or as part of a group or is under common control.

**j) Capital reserve - Donations and Subsidies for Investments**

According to the Law nr. 11,638/2007, the Provisional Measure - PM nr. 449/2008 and the Technical Pronouncement CPC 13 - initial adoption of Law nr. 11,638/2007 and Measure nr. 449/2008, the balances of the reserve capital - donations and grants for investments will be kept in your account until your total usage. According to the CPC 07 Technical Pronouncement subsidies and government assistance, began to be recognized as revenue and share of net profits resulting, intended to reserve for tax incentives, with its exclusion from the basis of calculation of the mandatory dividend.

**k) Tax Effect of Initial Implementation of Law nr. 11,638/2007 and PM nr. 449/2008**

The Company chose the Transitional Regime Tax (RTT) established by Provisional Measure nr. 449/2008, by which the investigation of IRPJ (Income Tax) of CSLL (Social Contribution) of PIS/PASEP and COFINS, for the biennium 2008 - 2009, remain to be determined on the accounting methods and criteria established by Law nr. 6,404 of December 15, 1976, valid until December 31, 2007. Thus, the income tax and social contribution deferred, calculated on the adjustments arising from the adoption of new practices arising from the Law nr. 11,638/2007 and PM nr. 449/2008 were recorded in these financial statements, where applicable, in accordance with Instruction CVM nr. 371/2002.

**II - What did not affect the preparation and presentation of financial statements of the Company.**

**a) Leasing**

Compulsory registration with the fixed assets of the entity that holds rights on tangible property for the maintenance of its activities from financial leasing operations, which transfer to the lessor the benefits, risks and control over the property. The Company's management does not identify any transaction that falls in Technical Pronouncement CPC 06.

**b) Remuneration based on shares**

Costs related to stock based compensation, granted to the executive authority must be recorded and posted in the financial statements. The Company's management compensation practices that do not fit into CPC Technical Pronouncement 10 - payment based on stocks.

**c) Results for Future Exercises**

Elimination in the Balance Sheet, the group of accounts called the results for future years.

**d) Adjustment of Evaluation Sheet**

Creation, in equity, the group of accounts called Adjustment Evaluation Sheet for record of the effects of changes in exchange rates on investment and conversion of financial statements presented in functional currencies other than the investor.

**e) Revaluation Reserve**

In response to new accounting rules imposed is forbidden to revaluation of assets and the consequent recognition of the revaluation reserve. The Company has no record of such reserve.

**III – Effects on outcome and in equity arising from the initial adoption of Law nr. 11,638/2007, Provisional Measure - PM nr. 449/2008 and regulations are as follows:**

	2008	
	Net Income	Stockholders' Equity
Balance as previous accounting practice	1,459,247	12,758,420
Effects settings of initial adoption of Law nr.11,638/2007 and of the PM nr. 449/2008 arising:		
• It drops of the balance of the Deffered Assets	-	(276)
• it drops of Intangible Assets	-	(13)
• Equity	(13,233)	14,921
• Investments dividends evaluated by equity	(8,723)	-
• Temporary differences of income tax and social contribution	-	98
	(21,956)	14,730
Balance as current accounting practice	1,437,291	12,773,150
<b>Reconciliation accomplished</b>	<b>2008</b>	
Result		
Revenues (expenses) not operational for Other revenues (expenses) operational		(47,767)

For the purpose of better comparison with this year, the Balance Sheet of the previous year was reclassified, when applicable, as follow:

	2008	2007		
		Reclassified	Adjustment	Published
<b>Balance Sheet</b>				
<b>Current Assets</b>				
Securities	-	-	(32)	32
Global Reserve of Reversion	-	-	(11,141)	11,141
Another	82,970	64,050	11,173	52,877
<b>Non-Current Assets</b>				
Long-term receivables				
Securities	-	-	(740)	740
Other	6,431	6,216	740	5,476
Property	16,214,918	16,230,656	105,552	16,125,104
Intangible	32,048	32,695	(105,552)	138,247
<b>Current Liabilities</b>				
Research and Development	69,765	65,218	(65,283)	130,501
<b>Non-Current Liabilities</b>				
Research and Development	106,187	65,283	65,283	-

#### 4 - MAIN ACCOUNTING PRACTICES

##### I - GENERAL

###### Inflationary effects

- As provided by Law nr. 9.249/1995, only the effects of monetary variations are reflected on indexed assets and liabilities as contracted. The entries to headings such as permanent assets, stockholder's equity and concession liabilities are restated up to December 31, 1995 according to the monetary restatement method (recognition of the effects of inflation).



## Current and non-current assets

- Money market investments are recorded at cost, plus the related earnings up to the balance sheet date, perfected by the pro-failure criteria, that are equal to their market values;
- The consumers, concessionaires and permit grantees receivable counts, are result of energy sale, of transmission system availability, of services rendered, default increases and others, up to the exercise closing, are accounted on accrual basis;
- The provision for doubtful accounts is recorded in amount considered sufficient by the Administration to cover possible losses in the realization of receivables;
- Securities are recorded at their acquisition cost plus yield up to the balance sheet date, with a provision for adjustment to probable realizable value;
- The financial instruments classification in a given category should be made at the time of your registration. In the initial implementation of the Law is permitted to classify financial instruments at the date of transition. The Company applies the rules of classification and measurement, in Technical Pronouncement CPC 14;
- Materials in stock, recorded as Current Assets, are stated at their average acquisition costs as well as those for investments purposes are recorded in property, plant and equipment, at their acquisition cost net of provision for loss, when applicable, and not exceeding the costs of replacement or values of achievement.
- Deferred tax assets were recognized at the income tax and social contribution, rates then ruling in connection with temporary differences and negative basis.
- Collateral securities and linked deposits, in connection with guarantees provided to suppliers are recorded at cost, plus yield as of the balance sheet date;
- Indexed assets are restated up to the balance sheet date; others assets are recorded at cost, net of provisions for losses;
- Investments in companies with significant influence, or 20% or more of the voting capital, or in a same group, or are under common control are recorded by the equity accounting method, and all others recorded at cost while the ones prior to 31 December 1995, are corrected after monetarily restated by that date;
- Property, plant and equipment are recorded at acquisition or implantation cost, plus monetary restatement up to December 31, 1995; depreciation is calculated on the straight-line method. On January 1, 2007, the Company adopted the depreciation rates established by the ANEEL Resolution nr. 240, as of Dec. 5, 2006, which is between 2% per year and 20% per year (note 12).
- As dismissal allowed in the Technical Pronouncement CPC 13 – Initial Arrogation of the Law nr. 11,638/2007 and of the Provisional Measure nr. 449/2008, the Company will make a first periodic analysis of the economic life span of his goods starting from January 1<sup>st</sup>, 2009. For the goods bound to the electric power public service concession the Company follows an estimate of economic useful life covenanted by ANEEL;

- Part of the central administration expenses is monthly allocated to the purchase of equipment in progress, limited to 10% of the direct expenses with personnel and third party services registered in these works;
- According to the Accounting Instruction 6.3.23, of the Accounting Manual for the Electric Power Public Utilities, the amount arising from liabilities in connection with concessions is stated as a deduction of Property, Plant and Equipment (see notes 12.a and 12.d).
- In compliance with the Accounting Instruction 6.3.10, of the Accounting Manual for the Electric Power Public Utilities, interest and other financial charges, as well as inflationary effects, in connection with third-party loans and financing that are used in property, plant and equipment in progress are registered in this subgroup as cost (see note 12.c)
- The rights that have a tangible object for maintaining the activities of the Company, arising from financial market rental fees are, where applicable, recorded in property, plant and equipment in return for debt funding. The assets are subject to depreciation observed its estimated economic life;
- The environmental costs of actions and programs with up to the release of the first license of operation are recorded in property, plant and equipment and expenditures made since then will be recorded in income for the year as they are incurred.
- Intangible assets are recognized in expenses related to the acquisition of corporate software, less the accumulated depreciation. The costs associated with maintenance of software are recognized, when incurred, as expenditure for the year.

#### **Current and non-current liabilities**

- Stated at known or estimated amounts, plus, when applicable, the respective finance charges and monetary variations incurred through the balance sheet date;
- Transactions in foreign currencies are converted to the real exchange rate prevailing on the dates of transactions. The balances of the accounts are converted by the representative exchange rate at the balance sheet date. Gains and losses arising from exchange rate fluctuations observed in the settlement of transactions and the conversion to actual monetary assets and liabilities in foreign currencies are recognized in income for the year;
- Loans and financing obtained by the fair value are recognized in the receipt of funds, net of transaction costs and will be measured at amortized cost, which together with costs, interest and monetary variations and / or exchange in terms of the contract, incurred by the balance sheet date;
- Provisions are recognized when a past event has created a future obligation with probability output of resources and their value can be estimated with certainty. Thus, the value established as a provision is the best estimate of a probable settlement of obligation on the date of the financial statements, taking into account the risks and uncertainties related;
- The costs of the pension plan held at Fundação Chesf de Assistência e Seguridade Social – Fachesf, are recognized as contributions are incurred. Actuarial liabilities and the costs and expenses arising from them are recorded according to CVM Resolution nr. 371/2000.

### **Stockholders' equity**

- Unrealized income arising from monetary restatement credit balance are appropriated to a reserve up to 1995 and reversed to retained earnings ratably to write-offs, depreciation and amortization of permanent and intangible assets;
- Funds intended for capital increase are stated as such, providing that they are irreversible.

### **Results of operations**

- Income is determined on the accrual basis, taking into account the tax credits arisen and realized in the period and the reduction of income tax from the tax incentive SUDENE, calculated on the profit of the farm (note 25);
- The statement of operations accounts are recorded in accordance with the Accounting Manual for the Electric Power Public Service, as approved by the ANEEL Resolution 444 of October 26, 2001, and provides for segregation of revenues and expenses arising from generation and transmission activities, thereby allowing the calculation of each segment's book income (Note 30);
- The revenue and expense consist primarily of interest and monetary and exchange variations arising from financial investments, loans and financing obtained;
- In compliance with Generally Accepted Accounting Principles, the exchange rate variations are fully recognized in the result for the period.

### **Statements of cash flow (DFC) and Value Added Statement (DVA)**

- The Company has been publishing these statements in accordance with provisions set forth in the Accounting Manual for Electric Power Public Service.
- DFC was established as mandatory in the SA Law under the amendment introduced by Law nr.11,638/2007, is governed by the Technical Pronouncement CPC 03. The statement was approved and imposed by CVM Deliberation nr. 547/2008 and by the CFC Resolution nr. 1,125/2008. The Company has used the indirect method for the disclosure of cash flow from operating activities;
- The DVA has been made mandatory for listed companies in the Law nr. 11,638/2007, but the CPC Technical Pronouncement 09 recommends its development as part of the financial statements for all companies to disclose financial statements. This Pronouncement was approved by CVM Deliberation nr. 557/2008 and by the Conselho Federal de Contabilidade (Federal Accounting Council) - CFC Resolution nr. 1,138/2008.

### **Assessment of the recoverable amount of assets**

The Company's management evaluates on a periodic basis, or whenever any circumstance thus establish, the recoverability of long-term assets, particularly the fixed assets held and used in its operations, in order to identify any deterioration of these assets or groups of assets, which may lead to not a full recovery of these assets or group of assets.

Circumstances are identified which may require the evaluation of the recoverability of certain assets and the measurement of possible losses. The Company calculates the estimated amount of recovery based on the cash-generating unit to which belongs the set of its assets. In the definition of cash-generating unit it took into consideration the following aspects:

1. The component implements activities that generate revenues (inclusive internal operations) and they incur in expenses (including the transactions with other same company components);



2. The operating results of the component are regularly reviewed by the manager, allowing the monitoring of their performance and deciding on the allocation of resources in that activity.
3. It requires the availability of information on this organizational component, so as to provide the segmentation of the information.

The characteristics above are not consistent with the management model for your company's individual assets, plants, transmission lines or other assets.

The Company pursues its management turned to the set of assets and cannot accurately segregate the information listed above. For this reason the company defined as cash-generating unit the set of its assets.

In assessing the fair value, are used to estimated future cash flows, discounted to present value by the discount rate before tax that reflects current market assessment of the time, value of money and specific risks related to the asset or group of assets.

If the recoverable amount of the value of an asset or cash-generating unit is less than the carrying value, this is reduced to its likely value of recovery. The corresponding loss (impairment), the non recoverability of the asset or cash-generating unit is recognized in income for the year.

The recoverable amount of the cash-generating unit may be reviewed and, if increases in the future, the provision for losses on the recoverability of assets (impairment) recognized in the past is reversed in whole or in part, to effect the outcome of the exercise, to set the asset to its likely value of recovery, limited to the original carrying value of the asset or cash-generating unit.

According to the Technical Pronouncement CPC 01, the Company examined whether there are indications that this loss may have occurred. These assumptions are presented below:

External sources of information:

- (a) during the period, the market value of an asset has decreased significantly more than would be expected as a result of the passage of time or normal use;
- (b) significant changes with adverse effect on the entity occurred during the period, or will occur in the near future, in the environmental technology, market, economic or legal, in which the entity operates or in the market for which the asset is used;
- (c) the market interest rates or other market rates of return on investments increased during the period, and these increases probably will affect the discount rate used in calculating the value in use of an asset in use and significantly reduce the amount recoverable of assets;
- (d) the carrying value of the equity of the entity is greater than the value of its shares on the market.

Internal sources of information:

- (a) available evidence of obsolescence or physical damage of an asset;
- (b) significant changes, with adverse effect on the entity, occurred during the period, or must occur in the near future, in the extent or manner in which an asset is or will be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to drop in an asset before the previously expected date and review of the life span of an asset as finite rather than indefinite;



- (c) available evidence, from internal report, indicating that the economic performance of an asset is or will be worse than expected.

Under these assumptions, the Company has not identified a possible devaluation of their assets.

## **II - SPECIFIC OF THE ELECTRIC SECTOR**

### **Accounts plan**

- The Company adopts the accounts plan, related part of the Electric Power Public Service Accounting Manual - MCSPEE, instituted by the ANEEL Resolution nr. 444, of October 26, 2001, with last update formalized on December 26, 2008, by means of the Resolution ANEEL nr. 4,815.

### **Regulatory Assets and Liabilities**

- Are the assets or liabilities values required as a result of concession contracts, which have as objectives, among others, to ensure the economic and financial balance of the concession.

### **Bonds linked to the granting of the Public Service Electric Energy Concession**

- They represent the values balance and/or goods received from Federal Government, of Consumers in general and, in partnership with the Company.

### **Global Reversion Reserve – RGR**

- Charge created by Decree nr. 41,019, of February 26, 1957, and its duration extended up to 2010, through Law nr.10,438 of April 26, 2002. Refers to an annual amount established by ANEEL, paid monthly into twelfths by the concessionaires for the purpose of providing resources for reversal and/or taking over of the Electric Power Public Service, but also to finance the expansion and development of the service. Its annual value amounts to 2.5% of the investments made by the concessionaire in assets tied to the provision of the electric power service and limited to 3.0% of its annual revenue. Centrais Elétricas Brasileiras S.A. – Eletrobrás is in charge of its management.

### **Program of Incentives to Alternative Sources of Energy - PROINFA**

- Established by the Law nr. 10,438/2002, in his art. 3, as amended by art. 9 of Law nr. 10,762/2003, and Article 2 of Law nr. 10,889/2004, aims to increase the participation of alternative sources in the production of renewable energy, particularly entrepreneurs who have no ties to corporate licensees in generation, transmission, or distribution of electric energy, and to also increase the participation of staff in the Electric Sector.

### **Financial Compensation for the Water Use - CFURH**

- Created by the Law nr. 7,990/1989, target itself to compensate the municipal districts affected by the loss of productive earths, caused by flood of areas in the reservoirs implantation of hydroelectric plants. Of the levied amount monthly in the quality of financial indemnity, 45% they destine to the State, 45% to the Municipal districts, 3% to the Ministry of Environment, 3% to the Ministry of Mines and Energy, and 4% to the Ministry of Science and Technology. The administration of its levies stays ANEEL's position. CFURH's calculation it bases on effective generation of the hydroelectric plants, according to following formula:  $CFURH = TAR \times GH \times 6,75\%$ , where TAR refers to the Tariff Up-to-date of Reference, established annually by ANEEL (in R\$/MWh) and GH is the amount (in MWh) of the monthly generation of the hydroelectric power plant.

### **Fossil fuels consumption account - CCC**

- Created by Decree nr. 73,102/1973 is paid monthly by all agents who sell electricity to final consumers. Its objective is to share the costs related to the consumption of fuels for thermoelectric power generation in Isolated Systems, especially in the North of the country. The CCC values are established annually by ANEEL for each concessionaire according to their market and can vary depending on the need for the use of thermoelectric plants. Since the year 2008, is limited to cover costs of thermoelectric generation of Isolated Systems. Its management is in charge of Centrais Elétricas Brasileiras S.A. - Eletrobrás.

### **Energetic Development Account – CDE**

- Created by Law nr. 10,438/2002, for the purpose of providing resources to: i) the development of the energy, ii) the competitiveness of energy produced from sources such as wind, small hydroelectric plants, biomass, natural gas and coal, in areas served by the interconnected electrical systems, iii) promote the universal of public electric power service throughout the national territory. The resources are from: (i) the annual payments made in respect of Use of Public Patrimony - UBP, under grants of generation concession, (ii) fines imposed by ANEEL, and (iii) payments of annual quotas for all agents who sell electricity to final consumers in the National Interconnected System, based on the values of CCC systems interconnected in the year 2001, updated annually by the growth of the market and the IPCA. Its management is in charge of the Ministry of Mines and Energy and Eletrobrás.

### **Research and Development - P&D**

- Created by Law nr. 9,991/2000, the program of P&D states that the concessionaires and public generation and transmission of electricity permission granted companies are required to invest annually the amount of at least 1% (one percent) of its net operating revenues in research and development of the Electric Sector. The resources are intended for the Ministry of Science and Technology, National Fund for Scientific and Technological Development - FNDCT, the Ministry of Mines and Energy and the agents, to be applied to projects approved by ANEEL. The Ministries of Science and Technology and of Mines and Energy, as well as ANEEL and the agents themselves are involved with its management.

### **Rate of Inspection of Electric Power Public Service - TFSEE**

- Established by Law nr. 9,427/1996, is equivalent to 0.5% of annual economic benefit received by the concessionaire, or authorized permission granted company of Electric Energy Public Service. Its annual value is set by ANEEL in order to provide its revenue to cover the cost of their activities. For the segments of generation and transmission (independent producers, auto producers, concession and permission granted companies) the value is determined at the beginning of each calendar year, and for concession granted, the calculation is given to each anniversary date of the grant. The values established by resolution shall be paid monthly into twelfths and its management is in charge of ANEEL.

## 5 - INVESTMENTS IN MONEY MARKET AND SECURITIES

Financial institution	Application Type	Expiration	Remuneration	2008	2007
<b><u>Money Market Investments</u></b>					
BB-DTVM	Extra-market Fund	-	12,11%	<b>886,998</b>	<b>543,187</b>
<b><u>Securities</u></b>					
Minority interest	Shares Provision for losses	-	Interest on equity capital/Dividends	45 (8) <b>37</b>	42 (10) <b>32</b>
National Treasury	National Treasury Notes - P series	07/09/2012	TR + 6% a.a.	330	315
	National Treasury Notes - P series	07/09/2014	TR + 6% a.a.	157	149
	National Treasury Notes - P series	12/28/2015	TR + 6% a.a.	291	276
				<b>778</b>	<b>740</b>
<b>TOTAL</b>				<b>815</b>	<b>772</b>
<b>Current</b>				<b>37</b>	<b>32</b>
<b>Non-current</b>				<b>778</b>	<b>740</b>

- Money Market Investments

Under this heading are short-term investments in Banco do Brasil Distribuidora de Títulos e Valores Mobiliários S.A. – BB-DTVM, under the specific legislation applicable to state-owned companies, as established by Decree-Law nr. 1,290 of 12/03/1973, as amended by the Banco Central do Brasil (Central Bank of Brazil) Resolution nr. 3.284 of May 25, 2005, which established new mechanisms for investments by public companies and mixed-economy companies under Federal Indirect Administration.

- Securities

Common and preferred shares basically represent minority interest in the Telecommunications Sector; their value being adjusted to their probable realizable value and recorded as current assets;

National Treasury Notes – P Series refer to sale of shares representing minority interest, deposited with the National Privatization Fund (the “FND”), pursuant to Decree nr. 1,068/1994, and are stated in non-current assets/long term receivables.

## 6 - CONSUMERS, CONCESSIONAIRES AND PERMIT GRANTEES

Credits receivable from energy sales and availability of the transmission system, in the short and the long-term can be summarized as follows:

	Falling due	Overdue			Total	
		Until 90 days	More than 90 days	Total	2008	2007
Industrial consumers:						
Energy sales – Contracts	57,766	7,987	126,086	134,073	191,839	160,059
Extraordinary Tariff Recomposition (*)	-	-	-	-	-	32,782
Concessionaires and Permit Grantees						
Energy sales – Contracts	466,404	9,783	19,535	29,318	495,722	499,114
Commercialization at CCEE	11,984	-	-	-	11,984	89,887
Free energy – reimbursement (*)	20,938	-	-	-	20,938	253,441
Connection to the transmission system	5,408	3,151	5,154	8,305	13,713	9,043
Transmission system availability	113,228	1,165	6,682	7,847	121,075	108,299
	<b>675,728</b>	<b>22,086</b>	<b>157,457</b>	<b>179,543</b>	<b>855,271</b>	<b>1,152,625</b>
<b>Current</b>					<b>781,126</b>	<b>1,039,921</b>
<b>Non-current</b>					<b>74,145</b>	<b>112,704</b>

(\*) note 32

### • RENEGOTIATED RECEIVABLES

Part of the credits to receive before related were renegotiated, as follow:

Debtor	2008			2007
	Current	Non-current	Total	Total
Libra S.A.	7,190	-	7,190	5,616
Rio Doce Manganês S.A.	84,980	-	84,980	72,998
Cepisa	71,972	63,159	135,131	132,571
<b>Total</b>	<b>164,142</b>	<b>63,159</b>	<b>227,301</b>	<b>211,185</b>

The credits for renegotiated energy have the next characteristics:

- **Libra S.A.** – An acknowledgement of indebtedness statement was signed by Chesf and Ligas do Brasil S.A. – Libra dated September 1, 2004 in the amount of R\$ 3,423 thousand, repayable in 36 monthly installments from September 25, 2004 and bearing interest at the Central Bank Overnight (SELIC) rate plus 1% p.m.
- **Rio Doce Manganês S.A.** – Private Instrument for Obligation Recognition and Payment Agreement signed between Chesf and SIBRA, currently Rio Doce Manganês S.A., dated June 30, 1995, in the amount of R\$ 21,915 thousand, repayable in 120 monthly installments from March 31, 1997 and bearing interest at the General Market Price Index (IGP-M) rate plus 6% p.a.
- **Cepisa** – Term Recognition and Payment of Debt nr. 001/2007, dated July 1<sup>st</sup>, 2007, in the amount of R\$ 121,569 thousand, payable in 52 monthly installments, corrected by the IGP-M, plus interest of 1% p.m.



## 7 – TAXES AND CONTRIBUTIONS TO COMPENSATE

	2008			2007
	Current	Non-current	Total	Total (Reclassified)
Corporate income tax (IRPJ) / Social Contribution (CSLL)	63,361	-	<b>63,361</b>	217
Income tax paid in advance	390	-	<b>390</b>	390
Finsocial	1,276	8,934	<b>10,210</b>	9,621
Pis/Pasep	1,028	-	<b>1,028</b>	1,261
Cofins	4,735	-	<b>4,735</b>	5,809
Others	1,313	-	<b>1,313</b>	2,237
	<b>72,103</b>	<b>8,934</b>	<b>81,037</b>	<b>19,535</b>

## 8 – STOCKS

	2008	2007
<b>Raw material for production of energy</b>	<b>5,767</b>	<b>-</b>
<b>Material:</b>		
Stockroom	54,039	55,125
Processing, manufacture and equipment repair	1,005	1,116
Loaned	2	8
Destined in alienation	8,956	12,027
Internal movement - investment	1,056	-
	<b>65,058</b>	<b>68,276</b>
<b>Acquisitions in progress</b>	<b>2,051</b>	<b>1,983</b>
<b>Advances to suppliers</b>	<b>1,516</b>	<b>807</b>
<b>Total</b>	<b>74,392</b>	<b>71,066</b>

## 9 – TAX CREDITS

### • Corporate Income Tax and Social Contribution

Pursuant to CVM Resolution nr. 273 of August 20, 1998, the Company recognizes in its Current and Non-current assets tax credits to be offset against future taxable income. These credits, in the amount of R\$ 147,732 thousand, arise from temporary differences and negative social contribution basis, as detailed as follows:

	2008	2007
<b>Temporary differences</b>		
. DNAEE Administrative Act nr. 250/1985 - credit in 1994	93,477	98,943
. Provisions for contingencies	215,150	150,954
. Allowance for doubtful accounts	5,729	205,527
. Provision for losses - studies and projects	44,684	-
. Effects settings of initial adoption of Law nr.11,638/2007	289	-
. Other provisions	14,979	14,706
	<b>374,308</b>	<b>470,130</b>
<b>Negative social contribution basis</b>	320,890	781,313
	<b>695,198</b>	<b>1,251,443</b>
<b>Tax credits</b>		
. Income tax on temporary differences	93,577	117,533
. Social contribution on temporary differences (provisions)	25,275	33,407
. Negative social contribution basis	28,880	70,318
	<b>147,732</b>	<b>221,258</b>
<b>Current</b>	<b>31,000</b>	<b>86,814</b>
<b>Non-current</b>	<b>116,732</b>	<b>134,444</b>

These tax effects consist of a 9% rate on social contribution and a 10% surtax over the 15% basic rate on the calculation basis to ascertain income tax payable, pursuant to Law nr. 9,430, of Dec. 30, 1996.

The amount of tax credits arising from Social Contribution (CSLL) negative basis totaled R\$ 41,651 thousand, this year. R\$ 28,880 thousand remains to be used – against a negative tax basis of R\$ 320,890 thousand. The Technical Study elaborated by the Administration, revised on Dec. 31, 2008, demonstrates a estimate of total accomplishment of this value in the next exercise, having been, therefore, accounted in the Current Assets.

Other tax credits, in connection with temporary differences - provisions for contingencies, allowance for doubtful accounts, valuation allowance and provision for inflationary effects recorded under “Property, Plant and Equipment” - in the amount of R\$ 118,852 thousand, R\$ 2,120 thousand in Current Assets, and R\$ 116,732 thousand, in non-current assets, that will be realized in connection with the final court decision about lawsuits, with realization of marketable securities and Property, Plant and Equipment, respectively.

These estimates are reviewed periodically to reflect any changes in the realization of any such values for financial statement purposes.

• **PIS/PASEP and COFINS - UNCONSTITUTIONALITY**

The STF – Supreme Court declared unconstitutional the section 1<sup>st</sup>, art. 3<sup>th</sup> of Law nr. 9,718/1998, which increased the PIS/PASEP and COFINS bases of calculation, so that the sales concept was modified to cover all revenues earned by a company, irrespective of the type of activity performed and the accounting classification adopted. This provision had no legal supporting basis, having been the object of constitutional amendment subsequently.

Said decision benefits only the companies that filed the extraordinary appeals on which judgments have been passed.

The Company's PIS/PASEP potential credits for the period from February 1999 to November 2002, and COFINS's credits for the period from February 1999 to January 2004, which, adjusted up to the end of this year, correspond respectively to R\$ 18,737 thousand and R\$ 130,599 thousand, amounting R\$ 149,336 thousand.

Based on the CTN – National Taxation Code, in June 2005 the Company filed an appeal to the Secretaria da Receita Federal (Federal Income Tax Authority), claiming for the recognition of its right to overpayment and refunding thereof. This overpayment was the result of unconstitutional increase in tax basis of calculation, on which there has been no pronouncement/judgment to the date of completion of these financial statements.

Considering the rejection of the appeal by the Federal Income Tax Authority, the Company filed lawsuits to recover these PIS/PASEP and COFINS credits. A favorable lower court decision on the PIS/PASEP case was obtained. The lawsuits are currently in phase on Special and Extraordinary Appeal, awaiting for appreciation by the Superior Courts.

**10 - OTHER ASSETS**

	2008			2007
	Current	Non-current	Total	Total (Reclassified)
Advances to employees	26,078	-	26,078	9,069
Securities	37	778	815	772
Global Reversion Reserve	650	-	650	11,141
Financing to third-parties	367	-	367	3,445
Alienation in progress	5,261	-	5,261	4,840
Deactivations in progress	11,383	-	11,383	7,817
Insurance premiums	2,277	-	2,277	2,008
Charge recoverable	1,437	-	1,437	1,628
Alienation of assets and rights	4,007	-	4,007	3,764
Advances to suppliers	5,681	-	5,681	4,061
Advances to Eletropar	5,279	1,456	6,735	1,456
FGTS / Company - Account	-	3,513	3,513	3,338
Dividends receivable	9,942	-	9,942	2,888
Services to third – parties	3,408	-	3,408	901
Others	7,163	684	7,847	13,138
	<b>82,970</b>	<b>6,431</b>	<b>89,401</b>	<b>70,266</b>

## 11 - INVESTMENTS

### Composition:

	2008	2007
1. Permanent equity interest		
Affiliates		
Patrimonial equivalence		
• STN - Sistema de Transmissão Nordeste S.A.	112,780	97,020
• Integração Transmissora de Energia S.A. – Intesa	22,893	18,000
• Energética Águas da Pedra S.A.	61,985	31,790
• Energia Sustentável do Brasil S.A.	50,002	-
Other equity interest	613	638
	<b>248,273</b>	<b>147,448</b>
2. Other Investments		
• Assets and rights for future use - Studies and projects	-	7,909
• Others	2,071	2,316
	<b>2,071</b>	<b>10,225</b>
<b>Total</b>	<b>250,344</b>	<b>157,673</b>

### STN - Sistema de Transmissão Nordeste S.A.

In accordance with the Federal Government policy of attracting private capital to enhance investments in the electric sector, and pursuant to Law nr. 10,438/2002, the Consórcio AC Transmissão, formed by Chesf and Cia. Técnica de Engenharia Elétrica - Alusa, participated in the Auction nr. 001/2003-ANEEL for concession of transmission lines; the Consortium was the winner of Portion C, corresponding to a transmission line of 546 km, 500 kV, in the sections Teresina (state of Piauí), Sobral and Fortaleza (state of Ceará), with estimated annual revenues of R\$ 77,9 million.

For this purpose, the Company and Alusa organized the venture company STN – Sistema de Transmissão Nordeste S.A. - to build and operate the said transmission line; Alusa holds 51% of the equity interest of STN and Chesf holds 49%. The venture was completed in December 2005, and operations started in January 2006.

Still about this venture, Chesf was contracted by STN for the technical management of the works and for operation and maintenance of the transmission line. The Company received the total amount of R\$ 1,920 thousand for the services rendered. The Company also recorded in the year, income from equity in the amount of R\$ 15,605 thousand.

### Integração Transmissora de Energia S.A. - Intesa

The Company also owns partnership in the energy transmission activity with an affiliated company in the power transmission activities, the company Integração Transmissora de Energia S.A. - Intesa, in which participates with 12% of the capital stock. The Intesa is engaged in building, implementing, operating and maintaining the Electric Power Transmission Public Service of the Interconnected Electric System's Basic Network, consisting of the 500 kV transmission line of Colinas/Serra da Mesa 2, 3<sup>rd</sup> circuit, related line entries and facilities, pursuant to Concession Agreement nr. 002/2006-ANEEL, signed with the concession authority on April 27, 2006 through ANEEL for a period of 30 (thirty) years. Intesa has an authorized capital of R\$ 150 million in registered common shares, without par value. The other participants are Fundo de Investimentos em Participações Brasil Energia – FIP, with 51%, and Eletronorte, with 37%. Intesa started operations on May 30, 2008. The Company also recorded in the year, income from equity in the amount of R\$ 862 thousand.



### **Energética Águas da Pedra S.A.**

Still in the investments scope the Company maintains as colligated in the energy generation activity the company Energética Águas da Pedras S.A., constituted on April 03, 2007, in which it holds an interested of 24,5%, together with Eletronorte (24,5%) and Neoenergia S.A. (51,0%). Said company originate from Aripuanã Consortium, auction winner nr. 004/2006-ANEEL, held on October 10, 2006, in relation to the energy contract from new enterprises, afterwards giving approvals within the Regulated Contracting Environment - ACR, for the implantation of the Hydroelectric Power Plant Dardanelos - HPP Dardanelos, with investment provided of R\$ 760,8 million. The HPP Dardanelos will be implanted in Aripuanã River, situated in the north of the State of Mato Grosso, with potency of 261 MW and total guaranteed power of 154,9 MW average, to supply Aripuanã's Municipal district and afterwards the National Interconnected System - SIN. The first machines shall start operation in 2011, and 147 MW in average was commercialized from 2011 to 2041. The enterprise concession term is 35 (thirty-five) years starting from July 03, 2007, signature date of concession agreement nr. 002/2007-MME-UHE DARDANELOS.

### **Energia Sustentável do Brasil S.A.**

The Company has 20% participation in the capital of the company Energia Sustentável do Brasil S.A, established on July 15, 2007, related to the generation activity, together with the companies Suez Energy South America Participações Ltda., 50.1%, Eletrosul Centrais Elétricas S.A, 20%, and Camargo Corrêa Investimentos em Infra-Estrutura S.A, 9.9%. The Company was associated with said company with the objective of participating in the Auction nr. 005/2008-ANEEL, to obtaining the concession and sale of energy from the Hydroelectric Power Plant Jirau - HPP Jirau - in the Madeira River, municipality of Porto Velho, State of Rondônia capital, with installed capacity of minimum 3,300 MW, and entry into operation planned to 2013, as the consortium was the winner. The enterprise concession term is 35 (thirty-five) years from August 13, 2008, signature date of the concession agreement nr. 002/2008 - MME-UHE-JIRAU.

### **Manaus Transmissora de Energia S.A.**

Company created from the Amazon Consortium and formed on April 22, 2008 for the implementation of 500 kV transmission lines of Oriximiná (AP) - Itacoatiara (AM), with approximate length of 374 km and Itacoatiara (AM) - Cariri (AM), with approximately 212 km long, implantation of Itacoatiara 500/138 kV substation (150 MVA) and the 500/230 kV Cariri substation (1,800 MVA), as per the concession contract nr. 010/2008 - ANEEL, with 30 (thirty) years granting time beginning from October 16, 2008, the date of signing the contract. The Company owns 19.5% of its capital, together with the Abengoa Holding of Spain, with 30%, Fundo de Investimentos em Participações Brasil Energia, with 20.5%, and Eletronorte, with 30%. The total investment budget is R\$ 1,114 million, with starting of operations forecasted to October/2011.

### **Interligação Elétrica do Madeira S.A.**

The Company also participates in the activity related to Electricity Transmission of the Interligação Elétrica do Madeira SA company, created since the ANEEL - 007/2008 Auction, and owns 24.5% of its the capital. Said company, established on December 18, 2008, has for object the build, implantation, operation and maintenance of facilities for transmitting electricity from the core network of National Interconnected Electric System, specifically Collector of Porto Velho (RO) - Araraquara 2 (SP) number 01, DC, +/- 600 kV, transmission lines, Rectifier Station number 02 AC / DC, 500 kV +/- 600 kV – 3,150 MW, number 02 De-rectifier Station DC / AC +/- 600 kV/500 kV – 2,950 MW and other additional works under the Concession Agreement to be signed with the Federal Government, through the ANEEL.

## Patrimonial Equivalence

Colligated	Participation (%)	Investment	Patrimony Liquid	Result until 12/31/2008	Result of the Equity
STN – Sistema de Transmissão Nordeste S.A.	49	112,780	230,164	31,353	15,605
Integração Transmissora de Energia S.A. – Intesa	12	22,893	190,773	2,016	862
Energética Águas da Pedra S.A.	24.5	61,985	253,000	-	-
Energia Sustentável do Brasil S.A.	20	50,002	250,010	-	-

## Statement of Changes in Investments

Colligated	Balance as of 12/31/2007	Increase of Capital	Effects settings of initial adoption of Law nr. 11,638/2007	Patrimonial Equivalence	Dividends	Balance as of 12/31/2008
STN – Sistema de Transmissão Nordeste S.A.	97,020	-	4,509	15,605	(4,354)	112,780
Integração Transm. de Energia S.A. – Intesa	18,000	2,400	1,688	862	(57)	22,893
Energética Águas da Pedra S.A.	31,790	30,195	-	-	-	61,985
Energia Sustentável do Brasil S.A.	-	50,002	-	-	-	50,002
<b>TOTAL</b>	<b>146,810</b>	<b>82,597</b>	<b>6,197</b>	<b>16,467</b>	<b>(4,411)</b>	<b>247,660</b>

## 12 - PROPERTY, PLANT AND EQUIPMENT

### a) Property, plant and equipment segregated by nature and activity

	2008	2007 (Reclassified)
In Use	15,080,926	14,901,169
In Progress	1,289,859	1,485,128
	<b>16,370,785</b>	<b>16,386,297</b>
Concession-related obligations	(155,867)	(155,641)
	<b>16,214,918</b>	<b>16,230,656</b>

	Annual average depreciation rates (%)	2008				2007
		Cost	Depreciation accumulated	(-) Concession – related obligations	Net amount	Net amount (Reclassified)
<b>In use</b>						
Generation	2.41	17,319,003	(6,940,820)	(93,273)	10,284,910	10,456,755
Transmission	2.98	7,479,588	(3,321,142)	(25,848)	4,132,598	3,866,897
Administration	7.18	1,030,983	(486,686)	(36,746)	507,551	421,876
		<b>25,829,574</b>	<b>(10,748,648)</b>	<b>(155,867)</b>	<b>14,925,059</b>	<b>14,745,528</b>
<b>In progress</b>						
Generation		195,185	-	-	195,185	169,214
Transmission		1,015,348	-	-	1,015,348	1,181,160
Administration		79,326	-	-	79,326	134,754
		<b>1,289,859</b>	<b>-</b>	<b>-</b>	<b>1,289,859</b>	<b>1,485,128</b>
		<b>27,119,433</b>	<b>(10,748,648)</b>	<b>(155,867)</b>	<b>16,214,918</b>	<b>16,230,656</b>

## b) Annual depreciation rates

The Company calculated and accounted the depreciation quotas of each assets or facilities item in accordance with rates established by ANEEL Resolution nr. 240, of December 05, 2006, taking as a basis the book balances shown in the respective UC – Reference File Units, as instructed by DNAEE (now ANEEL) Ordinance nr. 815, of November 30, 1994.

The main annual depreciation rates applicable to activities in general are as follows:

	<b>Annual Depreciation Rates (%)</b>
<b><u>Generation</u></b>	
Sluice gate	3.3
Reservoir	2.0
Control House	2.0
Generator	3.3
Panel – Control and Measurement	3.0
Hydraulic turbine	2.5
Overhead bridge, crane and gantry	3.3
Turbogenerator	4.0
<b><u>Transmission</u></b>	
Capacitors bench	5.0
Lathe bed	2.5
Key	3.3
Circuit breaker	3.0
Supporting structure	2.5
Access structure	4.0
Transmission lines structure	2.5
Control panel	3.0
Reactor	2.8
Ground-cabling system	2.5
Power transformer	2.5
Measure transformer	3.0
<b><u>Central Management</u></b>	
General equipment	10.0
Vehicles	20.0



### c) Financial charges and inflation effects

According to item 4 of Accounting Instruction nr. 6.3.10, of the Accounting Manual for the Electric Power Public Services, and CVM Deliberation nr.193, of July 11, 1996, part of the financial charges and the effects of inflation were transferred to property, plant and equipment in progress, as shown below:

	2008			2007
	Generation	Transmission	Total	Total
Total financial charges	431,672	72,548	504,220	593,137
(-)Transference to property, plant and equipment in progress	(1,351)	(15,200)	(16,551)	(19,466)
<b>Net effect on income</b>	<b>430,321</b>	<b>57,348</b>	<b>487,669</b>	<b>573,671</b>
Total effects of inflation	80,279	7,252	87,531	(18,341)
(-)Transference to property, plant and equipment in progress	(733)	(3,435)	(4,168)	1,592
<b>Net effect on income</b>	<b>79,546</b>	<b>3,817</b>	<b>83,363</b>	<b>(16,749)</b>

### d) Concession-related obligations

As from January 1, 1996, these liabilities have ceased to be restated to reflect inflation, pursuant to legal provisions.

Composition:

	2008	2007
Federal Government's participation	108,052	108,052
Contributions from consumers	3,344	3,344
Donations and subventions for investments	43,865	43,865
Research and Development	606	380
	<b>155,867</b>	<b>155,641</b>

The Federal Government share relates to funds received from the federal government to be used in generation and transmission of the electric power expansion.

Contributions from consumers refer to funds used to perform the works that were necessary to meet the demand for energy supply connections.

Due to their nature, the accounts under this heading do not represent effective financial liabilities and therefore are not included as liabilities for the purpose of financial-economic index calculations.

According to Articles 63 and 64 of Federal Decree nr. 41,019/1957, assets and facilities used in the production, transmission, distribution and sale, are tied to these services and cannot be retired, sold, assigned or subject to lien without the written consent of the Regulatory Agency. The Resolution nr. 20/1999 issued by ANEEL regulates the disentailment of assets from Public Electric Power Utilities, and provides a prior consent for the separation of assets that is not fit for the Concession, when put up for sale and determining that the sales product is deposited in a bank account for use at the Concession's sole discretion. In its operations, the Company has not identified assets of a significant value considered as unserviceable.

### 13 – INTANGIBLE ASSETS

- Intangible assets segregated by nature and activity

	Annual average amortization rates (%)	2008			2007
		Cost	Amortization accumulated	Net amount	Net amount (Reclassified)
<b>In use</b>					
Generation	20,00	416	(125)	291	374
Transmission	20,00	34	(8)	26	23
Administration	20,00	38,379	(8,743)	29,636	25,193
		<b>38,829</b>	<b>(8,876)</b>	<b>29,953</b>	<b>25,590</b>
<b>In progress</b>					
Generation		32	-	32	28
Transmission		63	-	63	31
Administration		2,000	-	2,000	7,046
		<b>2,095</b>	<b>-</b>	<b>2,095</b>	<b>7,105</b>
		<b>40,924</b>	<b>(8,876)</b>	<b>32,048</b>	<b>32,695</b>

### 14 - SUPPLIERS

The suppliers account has the following composition:

	2008	2007
<b>Current</b>		
Materials and services	116,709	195,300
Electric power:		
Free energy	3,038	-
CCEE	2,737	3
Charges on electric network use:		
Eletronorte	6,804	6,429
Eletrosul	6,196	5,749
Furnas	14,327	12,362
CTEEP	10,123	9,859
Cemig	3,416	3,223
TSN	3,291	3,020
Others	31,605	27,981
<b>Total</b>	<b>198,246</b>	<b>263,926</b>

## 15 - TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

The Company's taxes and contributions payable are recorded as current and non-current liabilities as follows:

	2008			2007
	Current	Non-current	Total	Total
IRPJ	-	-	-	138,594
CSLL	28,074	-	28,074	6,296
COFINS	27,027	-	27,027	28,104
ICMS	8,985	-	8,985	9,899
Deffered ICMS	-	45,592	45,592	40,535
INSS	10,647	-	10,647	9,945
PIS/PASEP	5,867	-	5,867	6,100
IRRF	16,861	-	16,861	6,071
FGTS	3,838	-	3,838	2,853
Others	5,879	-	5,879	7,031
	<b>107,178</b>	<b>45,592</b>	<b>152,770</b>	<b>255,428</b>

## 16 - LOANS AND FINANCING

The main information about loans and financing denominated in foreign and local currencies is as follows:

### a) Composition:

	Current		Non-current	Total	Total
	Principal	Charges	Principal	2008	2007
<b><u>Foreign currency</u></b>					
Eletrobrás	53,871	-	153,997	207,868	200,791
Financial institutions	55,841	317	-	56,158	90,480
	<b>109,712</b>	<b>317</b>	<b>153,997</b>	<b>264,026</b>	<b>291,271</b>
<b><u>Local currency</u></b>					
Eletrobrás	358,775	-	2,834,362	3,193,137	4,010,450
Banco do Brasil	-	9,193	249,966	259,159	257,086
Banco do Nordeste	-	6	69,440	69,446	-
	<b>358,775</b>	<b>9,199</b>	<b>3,153,768</b>	<b>3,521,742</b>	<b>4,267,536</b>
<b>Total</b>	<b>468,487</b>	<b>9,516</b>	<b>3,307,765</b>	<b>3,785,768</b>	<b>4,558,807</b>

- b) The above debt in foreign currency with financial institutions is guaranteed by the Federal Government's sureties. The loan with Banco do Brasil is guaranteed by means of the compensation and assignment of credits, in the even they are required by the creditor. For the amount of R\$ 3,235,758 thousand in loans taken from Eletrobrás, no surety was required. However, at the discretion of the lender it may be claimed and the Company will have to provide it under the risk of having the maturity dates anticipated.

The financing provided by the Parent Company (Eletrobrás) is funded by the Global Reversal Reserve (RGR) and has as main destination the works at the Itaparica and the Xingó Hydroelectric Power Plants and their transmission systems as well.

- c) This year, the variation of the main indexes used for restatement of loans and financing were as follows:

<b>Index</b>	<b>Annual variation (%)</b>	
	<b>2008</b>	<b>2007</b>
USD	31.94	-17.15
Eur	24.13	-7.50
IGP-M	4.75	7.75
IPCA	5.90	4.45

- d) Composition of loans and financing by currency and restatement index:

<b>Currency (equivalent in R\$)/Index</b>	<b>2008</b>		<b>2007</b>	
	<b>R\$ thousand</b>	<b>%</b>	<b>R\$ thousand</b>	<b>%</b>
<b>Foreign currency</b>				
USD	207,868	5.49	200,791	4.41
Eur	56,158	1.48	90,480	1.99
	<b>264,026</b>	<b>6.97</b>	<b>291,271</b>	<b>6.40</b>
<b>Local currency</b>				
Not restated (*)	3,174,904	83.86	3,471,548	76.15
Not restated (**)	69,446	1.84	-	-
IGP-M	-	-	538,902	11.82
CDI	259,159	6.85	257,086	5.63
IPCA	18,233	0.48	-	-
	<b>3,521,742</b>	<b>93.03</b>	<b>4,267,536</b>	<b>93.60</b>
<b>Total</b>	<b>3,785,768</b>	<b>100.00</b>	<b>4,558,807</b>	<b>100.00</b>

(\*) Of the total of Eletrobrás loans, R\$ 3.174.904 thousand derives from the RGR – Global Reversal Reserve, collected by the Electric Sector and earmarked for reinvestment therein. Of this total amount, R\$ 3,027,890 thousand (95.37%) bears interest at 10% p.a. and administrative rate at 2% p.a.; whereas R\$ 146,751 thousand (4.62%) and R\$ 263 thousand (0.01%) bears interest at 5% p.a. and administrative rate at 2% p.a. and 1.5% p.a., respectively. These loans are not subject to monetary restatement, because the permanent assets' restatement method applicable to these loans, too, has been legally suspended.

(\*\*) Total contracted with Banco do Nordeste do Brasil S.A., with interest of 10% p.a. and bonus of 25% for punctuality.



- e) The principal of long-term loans and financing, amounting to R\$ 3,307,765 thousand, matures as follows:

	<b>2008</b>			<b>2007</b>
	<b>Local currency</b>	<b>Foreign currency</b>	<b>Total</b>	<b>Total</b>
2009	-	-	-	475,924
2010	390,185	49,329	439,514	435,442
2011	336,090	51,306	387,396	382,048
2012	612,478	53,362	665,840	662,941
2013	339,498	-	339,498	350,086
2014	372,553	-	372,553	385,563
2015	409,070	-	409,070	424,753
After 2015	693,894	-	693,894	923,683
<b>Total</b>	<b>3,153,768</b>	<b>153,997</b>	<b>3,307,765</b>	<b>4,040,440</b>

- f) Loans and financing are subject to the following interest rates:

	<b>Domestic Market</b>	<b>Foreign Market</b>
	<b>(% p.a.)</b>	<b>(% p.a.)</b>
<u>Fixed rates</u>		
2008	5.00 to 10.00	-
2007	5.00 to 10.00	-
<u>Variable rates</u>		
2008	14.40	3.94 to 7.55
2007	4.45 to 11.65	6.19 to 7.55

- g) Changes in Loans and Financing:

	<b>Local currency</b>		<b>Foreign currency</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
<b>As of December 31, 2006</b>	<b>574,644</b>	<b>3,923,067</b>	<b>98,836</b>	<b>333,569</b>
Receipts	-	390,741	-	-
Charges	517,300	-	27,988	-
Monetary and exchange variation	2,913	34,253	(10,828)	(44,641)
Transferences	511,239	(511,239)	85,310	(85,310)
Payment of principal and charges	(1,175,382)	-	(113,653)	-
<b>As of December 31, 2007</b>	<b>430,714</b>	<b>3,836,822</b>	<b>87,653</b>	<b>203,618</b>
Receipts	-	159,456	-	-
Charges	455,914	-	17,603	-
Monetary and exchange variation	7,097	15,216	25,892	39,327
Transferences	857,726	(857,726)	88,948	(88,948)
Payment of principal and charges	(1,383,477)	-	(110,067)	-
<b>As of December 31, 2008</b>	<b>367,974</b>	<b>3,153,768</b>	<b>110,029</b>	<b>153,997</b>

## 17 – OTHER LIABILITIES

	2008			2007
	Current	Non-current	Total	Total (Reclassified)
Financial compensation for water use	33,112	-	33,112	36,395
Consumer charges payable	19,049	54,539	73,588	46,322
ANEEL inspection rate	1,819	-	1,819	1,304
Private pension entity – normal contribution	6,784	-	6,784	5,893
Other creditors – CEEE	974	-	974	4,012
Acquisition of properties – camping facilities	4,605	-	4,605	2,623
Regulatory transmission liabilities	574	302	876	16,732
Tuxá Community Agreement – Itaparica	25,724	-	25,724	25,724
FGTS / company account	-	3,513	3,513	3,338
Eletropar	-	1,456	1,456	1,456
Others	11,650	2,613	14,263	15,184
	<b>104,291</b>	<b>62,423</b>	<b>166,714</b>	<b>158,983</b>

## 18 - SOCIAL SECURITY PLAN AND OTHER BENEFITS TO EMPLOYEES

The Company sponsors the Fundação Chesf de Assistência e Seguridade Social – Fachesf, a private not-for-profit entity, with the purpose of ensuring supplementary benefits to those provided by the Government-Sponsored Social Security.

Fachesf's actuarial model is one of capitalization and the Plan originally established is the Defined Benefit (BD Plan). On June 29, 2001, Defined Contribution Pension Plans (CD Plan) and Settled Benefit (BS Plan) were implemented, and participants transference from the BD Plan to the new Plans, closed on November 19, 2001, reaching 97.1%.

Since the accounting principles laid down in CVM Deliberation nr. 371/2000 have been adopted, the plans jointly sponsored by the Company and Fachesf have accumulated losses, which, on December 31, 2008, summed up R\$ 220,225 thousand. The alteration of the situation of the plan, which on December 31, 2007 accumulated consolidated gains of R\$ 14,356 thousand, was a principal cause the financial loss arising from the return achieved by the plans this year on the actuarial goal registered in the same period.

In the form of items 53 and 54 of said Deliberation, gains/losses that exceed the greater of 10% of the Actuarial Present Value of Obligation and Fair Value of Plan Assets, are being recognized by the average service of the Active Participants of the Plans.

The following are detailed commitments related to Pension Plans, as described in the applicable paragraphs of item 81 of CVM Deliberation nr. 371/2000, as of the base date December 31, 2008.

### Basic Characteristics of the Benefit Plan

On behalf of Chesf's employees, Fachesf administers 03 (three) Pension Plans: The Defined Benefit Plan, the Defined Contribution Pension Plan and the Settled Benefit Plan.

The Defined Benefit Plan guarantees to participants 100% benefit calculated based on the average of their last salaries.

The Defined Contribution Pension Plan is a plan in which the participants choose their level of contribution and the sponsor adds a variable percentage of the contribution chosen by the participants. The accumulation of these funds is what will determine the amount of the participant's benefit in the future. Chesf is responsible for the costs of the risk benefits and for managing the plan. This is the only plan open for enrollments.

The participants who chose to be transferred to the Defined Contribution Pension Plan had the option to maintain in the Settled Benefit Plan the proportional amount, which they accumulated in the original plan, or transfer the present value of said benefits to the Defined Contribution Pension Plan.

### 1. Accounting Policy Adopted by the Entity for Recognizing Actuarial Gains and Losses.

The amount of actuarial gains and losses recognized will correspond to the portion of gain or loss exceeding 10% of the Present Value of the Actuarial Obligation or 10% of the Fair Amount of the Plan's Assets, whichever is higher, amortized by the average future services of the plan's participants according to item 53 of the IBRACON Pronouncement on Accounting for Employee Benefits.

### 2 - Statistics on the Data Registration

POPULATION	Position at 12/31/2008				Position at 12/31/2007
	DB Plan	SB Plan (*)	DC Plan	Total (*)	
1. Active Participants	65	2,361	5,572	7,998	7,980
2. Beneficiaries:					
2.1. Retired	5,288	241	295	5,824	7,264
2.2. Pensioners	1,281	59	95	1,435	1,371
Sum (2)	6,569	300	390	7,259	8,635
TOTAL (1+2)	6,634	2,661	5,962	15,257	16,615

(\*) It should consider that the population in SB Plan also is included in the Plan DC, therefore distorting the total.

AGE CHARACTERISTICS	Position in 12/31/2008				Position in 12/31/2007
	Plan DB	Plan SB	Plan DC	Total	
1. Active Participants					
1.1. Average age	56.0	53.8	47.9	49.7	48.9
1.2. Credited service (total)	30.5	28.6	21.4	23.6	22.9
1.3. Time to Retirement	8.0	4.9	12.1	9.9	7.7
2. Retired					
2.1. Average age	66.2	59.9	59.3	65.6	64.2
2.2. Life expectation	18.8	23.4	24.0	19.3	18.9
3. Pensioners					
3.1. Average age	64.0	49.3	49.0	62.4	61.1
3.2. Life expectation	21.1	39.1	39.2	23.0	22.5
<b>SALARIES AND BENEFITS</b>					
1. Active Participants					
1.1 Average Salary in R\$	6,522.70	6,586.30	5,973.19	6,158.65	4,513.86
2. Retired					
2.1 Average Benefit in R\$	2,445.22	2,191.23	338.46	2,328.00	1,925.95
3. Pensioners					
3.1 Average Benefit in R\$	975.33	803.22	570.46	941.45	788.78

### 3 - Consolidated Balance State

	2009 (Projection)	2008	2007
<b>I - CONSOLIDATED OBLIGATIONS</b>			
(a) At the beginning of the year	3,439,968	3,282,761	2,999,667
(b) Service Cost	68,782	896	791
(c) Interests Cost	359,472	359,637	328,497
(d) Benefits Paid	(215,719)	(205,773)	(179,690)
(e) New Income DC Plan	-	-	45,297
(f) (Gain) and Losses:	-	2,447	88,199
(g) At the end of the year	3,652,503	3,439,968	3,282,761

## II – ASSETS GUARANTOR

(a) At the beginning of the year	2,820,923	2,772,430	2,201,712
(b) Expected return on assets	262,864	311,072	248,920
(c) Contributions and investments	176,042	167,605	237,258
(d) Benefits Paid	(215,719)	(205,773)	(179,690)
(e) Gain and (Losses)	-	(224,411)	264,230
(f) At the end of the year	3,044,110	2,820,923	2,772,430
<b>III- COVERAGE STATUS</b>			
At the year end	(608,393)	(619,045)	(510,331)

## 4 – (Gains) and Accumulated Losses

	2008	2007
(a) At the beginning of the year	(14,356)	165,017
(b) At the obligations of the year	2,447	88,199
(c) At the Assets guarantors	224,411	(264,230)
(d) Amortizations	7,723	(3,342)
(e) At the end of the year	220,225	(14,356)
(f) Deferral limit	343,997	328,276
(g) Period of deferral	9.9	7.7
(h) Recognition of following year	-	7,723

## 5 – Plan Periodic Cost

	2009 (Projection)
(a) Service Cost	68,782
(b) Interest Cost	359,472
(c) Expected return on assets	(262,864)
(d) Participants Contributions	(39,599)
(e) Amortizations	-
Total Short Term Cost	125,791

## 6 - Liabilities Reconciliation

### Position at 12/31/ 2008

	(Liabilities)/Assets Net Total
Value at the beginning of year	(524,687)
Current Service Cost	(896)
Interest Cost	(359,637)
Expected return on plan assets	311,072
Amortizations	7,723
Actuarial gains or losses	-
Contributions paid	167,605
Special benefits of retirement	-
Other expenses	-
Other adjustments	-
Value at the end of year	(398,820)

## 7 – Actuarial and Financial Assumptions

General Mortality Biometric Table	AT 83
Biometric Admittance for Disability Table	Mercer and AT 49
Disable Table	Mercer and AT 49
Turn over Rate/Table	None
Actuarial Interest Rate	6.0% p.a.
Inflation Projected Rate	5.2% p.a.
Short Term Return Rate	11.51% p.a.



Real Salary Growth Rate	2.45% p.a.
Benefits Capacity Factor	1.00
Salary Capacity Factor	1.00
Health Costs Increase Rate	1.0% p.a.

## 8 - Additional Benefits

In addition to the benefits granted through the complementary social security plans, the Company offers advantages to its employees, such as: health care plan, meal allowance, transportation allowance and day-care assistance, which are periodically negotiated through the collective bargaining agreements. The expenses in connection therewith, during the year, amounted to R\$ 80,344 thousand (R\$ 67,373 thousand, in 2007).

The Company subsidizes part of the awards resulting from a policy of life insurance for active employees. The former retired employees who opted to remain bound by this policy, pay the full premium which is set in a collective basis for the whole mass of active and inactive. However, given the age of mass population characteristics of active and inactive, the actuarial calculation of the award attributable to the segregated mass inactive identifies the existence of an indirect post-employment benefit paid by the Company.

## 9 – Insured Mass Population Characteristics

	ACTIVE	INACTIVE	TOTAL
Insured holders	3,730	4,334	8,064
Insured households	1,322	1,736	3,058
Population holds potential	5,636	5,583	11,219
Level of membership	0.66	0.78	0.72
Annual awards (in R\$ thousand)	9,340	10,935	20,275
Average Salaries / Benefits (in R\$)	3,925	3,545	3,721
Claims paid in 2008 (in R\$ thousand)	1,841	12,067	13,908

## 10 - Consolidated Balance State

	2009 (Projetion)	2008 (**)
<b>I - CONSOLIDATED OBLIGATIONS</b>		
(a) At the beginning of year	117,363	-
(b) Service Cost	7,633	-
(c) Interest Cost	4,206	-
(d) Benefits Paid (*)	(3,999)	-
(e) (Gains) and Losses	-	117,363
(f) At the end of the year	125,203	117,363
<b>II - ASSETS GUARANTOR</b>		
(a) At the beginning of year	-	-
(b) Expected return on assets	-	-
(c) Contributions and investments	-	-
(d) Benefits Paid	-	-
(e) Gains and (Losses)	-	-
(f) At the end of year	-	-

### III- COVERAGE STATE

At the end of year

(125,203)

(117,363)

(\*) Considered only the portion funded by the Company in claims payable to inactive.

(\*\*) Consolidation of future obligations with actives (R\$ 37,183 thousand) and inactive (R\$ 80,180 thousand).

### 11 – (Gains) and losses accumulated

	2008	2007
(a) At the beginning of the year	-	-
(b) At the obligations of the year	117,363	-
(c) At the Assets guarantors	-	-
(d) Amortizations	-	-
(e) At the end of the year	117,363	-
(f) Deferral limit	11,736	-
(g) Period of deferral	9.9	-
(h) Recognition of following year	10,669	-

### 12 – Periodic cost of the Insurance

	2009 (Projection)
(a) Service Cost	7,633
(b) Interest Cost	4,206
(c) Expected return on assets	-
(d) Participants Contributions	-
(e) Amortizations	10,669
Total Short Term Cost	22,508

### 19 – CONTINGENCIES

	Provision at 12/31/2007	Increase (reversals)	Decrease	Provision at 12/31/2008	Judicial deposits	Net Provision at 12/31/2008	Net Provision at 12/31/2007
Labor	58,964	21,401	(10,726)	69,639	(56,950)	12,689	13,840
Civil	373,791	94,336	(14,733)	453,394	(59,419)	393,975	313,907
Tax	8,321	508	(59)	8,770	-	8,770	8,321
<b>Total</b>	<b>441,076</b>	<b>116,245</b>	<b>(25,518)</b>	<b>531,803</b>	<b>(116,369)</b>	<b>415,434</b>	<b>336,068</b>

In compliance with the provisions of the Accounting Manual for Electric Power Public Utilities, approved by ANEEL Resolution nr. 444, on October 26, 2001, Chesf adopts the procedure of classifying the intended cases against the Company due to the risk of loss, based on the opinion of its legal advisors, as follows:

- For legal cases for which a negative outcome for the Company is considered **probable**, a provision is set up;
- For legal cases for which a negative outcome for the Company is considered **possible**, the corresponding information is published in accompanying notes.
- For legal cases for which a negative outcome for the Company is considered **remote**, only information deemed relevant for fully understanding of the financial statements is published in the accompanying notes.

Labor contingencies mostly refer to claims concerning risk, overtime, contributions to Fatchesf severally; and severance indemnities due by outsourced companies default.

More serious civil cases are compensation claims, expropriations and contracts financial recomposition.

Regarding Taxes, there are legal disputes basically involving annulation cases of judicial decisions; credits (Pis/Pasep-Cofins) litigation arising and other natural taxes.

The Company, through the setup of pertinent escrow deposits when necessary, is properly handling all these contingencies.

D) The following cases, for which the risk of a negative outcome is **probable**, stand out:

- a) The Company filed a lawsuit claiming for partial invalidity of amendment (K Factor –Analytical Price Restatement) to the contract of civil work contracted for the Xingó Hydroelectric Power Plant, agreed on by the Consortium formed by Companhia Brasileira de Projetos e Obras – CBPO, CONSTRAN S.A. – Construções e Comércio and Mendes Junior Engenharia S.A. and claiming the return of amounts paid - approximately R\$ 350 million, in double.

The lawsuit was filed at Federal Justice, but a decision of the 5<sup>th</sup> Federal Regional Court established that lawsuit proceedings were moved to Pernambuco's State Justice. On 12/31/2008 was awaiting judgment.

The Company's claim was deemed groundless. The counterclaim filed by the defendant was considered to have ground by the 12<sup>th</sup> Civil Court of the Judicial District of Recife, and the decision was maintained by the 2<sup>nd</sup> Civil Section of Pernambuco's Court of Justice, which led Chesf to enter a Motion to clarify certain issues of the Appeal, which were omitted from the decision of the 2<sup>nd</sup> Civil Chamber. Those motions were judged and rejected by the 2<sup>nd</sup> Civil Chamber. Chesf's lawyers then argued special and extraordinary appeals against the verdict of the 2<sup>nd</sup> Civil Chamber. On 03/31/2004 the special appeals filed by Chesf had been admitted by Pernambuco's Court of Justice and sent to the Superior Court of Justice, while the extraordinary appeals also filed by Chesf, were not admitted. Against that negative, the Company entered the proper bills of review. On 06/30/2005, the referred appeals were *sub judice* at Higher Courts. After that date, and up to 03/30/2006, the bills of review filed by Chesf at the Federal Supreme Court were rejected. The Public Prosecutor Office passed an opinion on the special appeal filed by Chesf and by the Federal Government at the Supreme Court of Justice, declaring the annulment of the law-suit due to the lack of jurisdiction of Pernambuco's State Justice to render a decision on the merits of the case, and ordering the reexamination of the merits by a court with proper jurisdiction. On 09/30/2006 the case was with the judge waiting for a decision.

In November 1998, the defendants requested temporary execution of anticipated custody, in the amount of R\$ 245 million, the case being suspended by determination of the 12<sup>th</sup> Civil Court Judge (PET 1621). This extension was the result of a Regimental Appeal by the Consortium, which was judged on 06/24/2002, unanimously maintaining the extension previously handed down by the STJ President, remaining, therefore, discarded the possibility of obtaining by the Consortium, the advance protection.

Later, the defendants requested award calculation, in order to appraise the current amount of indemnity, in case all appeals by Chesf and Federal Government are rejected. On 09/30/2005, the expert work required by the judge in charge of the case was being done, for the purpose of determining the real amount involved. After the expert work was completed and the records sent to the judge, both parts requested clarifications, and reports are being examined again, by the expert.



Based on the opinion of its legal advisers and on calculations that included the suspension of payment of the installments of K Factor, and its respective monetary restatements, the Management records a provision under non-current liabilities in the amount of R\$ 357.067 thousand, as of 12/31/2008. This provision is intended to cover possible losses resulting from this issue, and it corresponds to partial disallowance of K Factor between July 1990 and December 1993, in accordance to Law nr. 8.030/1990, and to full payment suspension of K Factor between January 1994 and January 1996, in accordance with to the Company.

On 12/31/2007, the Special Appeal and the Bill of Review were waiting for judgment at Superior Court of Justice and Federal Supreme Court, respectively; the records of these appeals were concluded according to the Reporter Minister, being important to point out that, in the 12<sup>th</sup> Court of the Judicial District of Recife, the settlement law-suit of the state decision was still in course, with hearing for debates on the expert report established for 02/19/2008.

In the process of judging the liquidation of the sentence, the judge recognized that the power to appreciate the demand is of the Federal Court considering that the Federal Government presence as the interested party. The Xingó Consortium, enter with a declaratory embargo against the decision, having the judge, in view of this action, kept its decision and referred the case to the Federal Court. Being dissatisfied with this decision, the Xingó Consortium brought further aggravation instrument, which On 09/30/2008, was *sub judice* at the Court of Pernambuco. On 12/31/2008, it was waiting for judgement to such aggravation.

The time required for this process to be completed cannot be foreseen.

- b) A law-suit filed by the “Sindicato de Eletricitários da Bahia” (Bahia Electricity Sector Workers Union) is under way at the “Tribunal Regional do Trabalho do Estado da Bahia”(State of Bahia Regional Labor Court) claiming for payment of the salary difference due to employees from Paulo Afonso – BA, under the Amendment to the Decree Law nr. 1971 – ADL and the Annuity on Risk Additional, to the “Gerência Regional de Paulo Afonso – GRP” (Regional Paulo Afonso Management), involving an estimated R\$ 7.5 million. The Company filed a bill of review under Review appeal with the TST – Superior Labor Court, which was sentenced unfounded. The process has transited in “rem judicatam” and Chesf was convicted. It began the execution phase and R\$ 3.7 million has been paid to a significant portion of employees. There remains an expectation of payment of R\$ 3.8 million. On 12/31/2008, the situation remained unchanged, awaiting the verdict of settlement.
- c) An law-suit was filed with the 8th Fortaleza Court by the SINDELETRO - “Sindicato de Eletricitários do Ceará” (Ceará Electricity Sector Workers Union) claiming for refunding for losses borne by the “Gerência Regional Norte – GRN” (Northern Regional Management) (Ceará and Rio Grande do Norte) employees after interruption of the collective transportation services, involving an estimated R\$ 6 million. The request for resumption of the transportation services was partially accepted, and the Company obeyed the judicial order. The plaintiff claimed for supplementation of transportation and the condemnation of the Company to pay a daily fine, which the Company contested. After a hearing on August 23, 2005, in which one of the parties and Chesf submitted their final arguments, the previous decision was modified, the resumption of transportation services being ordered only to the extent previously existing. Also in the same decision, the parameters for settlement of the sentence were defined, so that the labor credit was reduced to R\$ 1.3 million. The execution is under way at the Labor Justice of 1<sup>st</sup> Instance in Fortaleza, CE. On 12/31/2008, it was awaiting for further trial of the legal requirement, in further petition of the claimant, in the execution process.
- d) Law-suit filed at the 4<sup>th</sup> Labor Court in Recife – PE, by the “Sindicato dos Trabalhadores das Indústrias Urbanas do Estado de Pernambuco – Urbanitários” (Union of Industry Workers from Pernambuco) in the name of 460 employees from Recife - PE office, requesting risk premium on all wages and salaries, in the amount of R\$ 4,0 millions. First instance judgment excluded about 300 of said employees, due to pending lawsuits, and deemed the claim groundless. The Union filed regular appeal at the 6<sup>th</sup> Regional Labor Court. The law-suit is in phase of liquidation from one side to the



other ability. On 06/30/2008, had been concluded the legal expertise to the established value of R\$ 3.3 million. By calculations of the Company legal advisers this facility is R\$ 2.9 million; the difference will be subject to challenge in implementing embargoes. On 12/31/2008, the situation remained unchanged.

- e) Indemnity law-suit of 14,400 ha of land in the fazenda Aldeia, proposed in the Santo Sé District, in Bahia, by Aderson Moura de Souza and wife Estate (Proc. 0085/1993). The first degree sentence upheld the application condemning Chesf to pay the value of R\$ 50 million, equal to principal plus interest and monetary correction. On 12/31/2008, Chesf had appealed to the Bahia Justice Court.

- II) The following additional law-suits filed against the Company involving *possible risk of loss* have not been provided for:

Contingencies	2008	2007
Labor	87,965	23,106
Civil and Tax	250,292	268,003
<b>Total</b>	<b>338,257</b>	<b>291,109</b>

Among these, highlight the following:

- a) 2 (two) compensation law-suits brought before the court by the Consortium formed by the following companies: CBPO/CONSTRAN/Mendes Junior, who claim for condemnation of the Company and payment of additional financial compensation, because of late payment on contract invoices relating to the Xingó Hydroelectric Power Plant. A petition dated 06/08/1999 refers to the invoices issued as of 04/30/1990 and the other, dated 05/31/2000, to the invoices issued up to that date. In these legal cases, the plaintiffs filed a generic request, limited to pointing out the existence of an alleged right to financial compensation, being the calculation of the amounts involved postponed to the settlement.

The Company contested that law-suits and requested that the Federal Government be admitted to the proceedings, which were sent to one of the courts in the Federal Justice in Pernambuco. The Consortium presented a request mentioning the admission of the Federal Government in the proceedings.

In August 2005, after the results of the expert work and additional explanations, a hearing took place and the final arguments were scheduled to be presented on 10/17/2005. Currently, the law-suits are ready for dispatch and the final clearing and the sentence will follow. On 12/31/2008 the situation remained unchanged.

- b) Public civil law-suit has been filed against Chesf by the “Associação Comunitária do Povoado do Cabeço e Adjacências” (Community Association of the Cabeço County and Surrounding Areas) in the state of Sergipe, involving R\$ 100 million, at the 2<sup>nd</sup>. Federal Court in Sergipe (process nr. 20028500002809-6), claiming for financial compensation for alleged material environmental damage caused to the fishermen from Cabeço, downstream Xingó HPP, all caused by the implantation of this power plant.

The law-suit was filed at the Federal Court, on 06/27/2002, and contested within the legal timeframe. After a series of events, which did not affect the process or the claims, on 08/31/2005 the judge in charge determined that IBAMA, IMA/AL, CRA/BA, the Federal Government and ADEMA/SE should be included as defendant in the case, while ordering that they be summoned.

On 09/30/2005 compliance with the summons was expected and on 09/30/2006 the records were completed for the Judge, after inclusion of the proxy of new Chesf's lawyers. As of 12/31/2006, the law-suit was suspended by decision of the Judge and waits for the judgment of the bill of review filed by the plaintiff at the 5<sup>th</sup> Federal Regional Court. Chesf's codefendants (Federal Government, IBAMA, IMA-AL, CRA-BA and ADEMA-SE) had already been summoned. On 09/12/2007, the judge passed the following decision: “Await the information on the *res judicata* of the interlocutory appeal, and Chesf shall communicate”. Considering that the interlocutory filed by Chesf was denied, this Company filed appeals for clarification of the decision, against this decision, which was awaiting a decision on 03/31/2008.

On 06/13/2008 was published decision of the judge ordering the summons of the Federal Government and IBAMA, and the subpoena of the author to express on the terms of the defense. On 09/30/2008, the records were given for IBAMA's acknowledgment. On 12/31/2008, await the completion of the conciliation hearing, scheduled to 02/19/2009. No reconciliation has occurred during the hearing on 02/19/2009, the judge ordered new measures to the progress of the procedures.

- c) In the district of Brejo Grande/SE, there is also a public civil law-suit brought against Chesf by the Community Association of Cabeço e Saramém village, to which was assigned the value of R\$ 100 million for the same purposes of the demand previously discussed, and are abandoned by the party that made the author since February 2005. The last procedural progress was in November/2007, when the judge decided to subpoena the prosecutor to decide on the case. On 03/31/2008, the process remained blocked and still without expression of the prosecutor. On 06/30/2008, decision was made by the judge of the District of Brejo Grande, recognizing the lack of ability of local justice to assess the cause, determining the referral of the case to the Federal Court. On 09/30/2008, the records were in order for revision by IBAMA. On 12/31/2008, awaiting the return of documents from IBAMA.

According to its lawyers, an unfavorable outcome for the Company is **possible** (b and c items), due to possible defense failure, but not concerning the amounts claimed for.

**III) Among legal law-suits for which a negative outcome for the Company is considered *remote*, stands out:**

In spite of being deemed to involve a **remote** risk of loss, in the Company's legal counsel opinion, there is an ongoing case initiated by Mendes Junior, hired by the Company to build the Itaparica Hydroelectric Power Plant, for alleged financial losses due to late payment of invoices by the Company.

This collection law-suit is based on the Declaratory law-suit judged valid for the purpose of declaring the existence of a Mendes Junior's credit against Chesf, thus ensuring financial refunding.

After decision from the Superior Justice Court, knowing no special action brought by Construtora Mendes Junior, and confirming decision of the 2<sup>nd</sup> Civil Chamber of the Justice Court in Pernambuco, which annulled the award, even determining the redistribution of the process to a Federal Jurisdiction in Pernambuco, the case was referred to the 12<sup>th</sup> Federal Jurisdiction, taking the number 2000.83.00.014864-7, to be new skill and be given new sentence.

As determined by the Federal Justice of the 12<sup>th</sup> Court's Section in Pernambuco, an expert report was presented, whereby, in reply to Chesf's inquiry, the expert declared that "*it was impossible, based on an analysis of Mendes Junior's accounting records, to affirm that it raised funds in the money market in the periods of delay in payment of invoices, specifically for financing Itaparica works*". This response was confirmed by the analysis made by the Technical Assistant of Chesf, which included careful examination of the financial statements of Mendes Junior. Based on these results, the Chesf asked the total rejection of the law-suit.

The Federal Public Ministry presented application for declaration of nullity of the whole process. And, in substance, called the rejection of the law-suit.

The law-suit was partially maintained, by verdict published on March 8, 2008.

Against this sentence, Mendes Junior presented embargoes of declaration, which called for the report prepared by the Official Expert to be followed in its entirety. The Federal Public Ministry made embargoes claims to declare the proceedings to be dismissed by entirely groundless.

The embargo of Mendes Junior and Federal Public Ministry were rejected by the Judge of the 12<sup>th</sup> Federal Jurisdiction.

The Federal Government and Chesf presented declaratory embargoes, respected by the Judge, by a decision that clarified some points of order concerning the determination of any debt of Chesf with Mendes Junior. As explained in the decision the point in determining that the dimensioning of any debt of Chesf with Mendes Junior, must be deducted any and all payments of principal, and any and all compensation paid by Chesf in the contract.

Chesf appealed against this decision of appeal, which sought the total rejection of the law-suit, especially considering that in this case for recovery, it was the Mendes Junior, to do justice to any kind of financial compensation, in compliance with the decision rendered in Declaratory Case previously judged, proving that resources specifically raised to finance the works of Itaparica, due to the delay in Chesf payment of some bills, and that the financial costs that had, with the fundraising, would have been higher than the total paid by Chesf increases as a result of these delays. On 12/31/2008, the Federal Government, the Chesf and Mendes Junior, had lodged appeals, with the current deadline for the Public Ministry to speak about the sentence.

Considering elements already existing in the process, we see that the Mendes Junior has not taken any loan, specifically to finance the law-suit of Itaparica (or have not taken them in that amounts), and considering that, according to the verdict, the full benefits granted to Junior Mendes, during the execution of the contract should be compensated; and considering, finally, the preliminary calculations already made by Chesf, the legal advisers of the Company supports the position of sponsor of the Company, in that moment, the risks of loss are *remote*.

## 20 - STOCKHOLDERS' EQUITY

### • Capital Stock

Capital stock in the amount of R\$ 4,196,306 thousand, comprises shares without nominal value, thus distributed:

Stockholders	Number of shares in thousands					
	Common		Preferred		Total	%
	Quant.	%	Quant.	%		
Eletrobrás	40,478	100.000	1,002	81.331	41,480	99.449
Ministry of Finance	-	-	194	15.747	194	0.465
Finor	-	-	13	1.055	13	0.031
Others	-	-	23	1.867	23	0.055
	<b>40,478</b>	<b>100.000</b>	<b>1,232</b>	<b>100.000</b>	<b>41,710</b>	<b>100.000</b>

Common shares are nominative and entitled to vote. The preferred shares, also nominative, have no specific class nor are voting or convertible into common shares, although they take priority in dividend distribution at 10% p.a., as a minimum, calculated on capital corresponding to this class of share.

### • Capital reserves

	2008	2007
Premium on share issue	-	769,028
Donations/subventions for investments	4,759,353	4,759,353
Yield on assets and rights formed out of equity capital	156,846	1,691,475
Monetary restatement of property, plant and equipment	-	196,343
	<b>4,916,199</b>	<b>7,416,199</b>



• **Profits reserves**

	<b>2008</b>	<b>2007</b>
Legal	319,916	265,214
Statutory	8,179	8,179
Unrealized profit	485,069	506,021
Fiscal Incentives	343,251	-
Retained profit	2,209,834	1,679,689
	<b>3,366,249</b>	<b>2,459,103</b>

The Legal Reserve is set up at 5% of the net income for the year, in accordance with corporate legislation and limited to 20% of the capital stock.

The Unrealized Profit Reserve, which is set up out of the credit balance of monetary restatement for years prior to 1995, is reversed to the retained earnings account, based on the realization of property, plant and equipment, and included in the stockholders' compensation basis of calculation.

The Fiscal Incentives Reserves was created by the Law nr. 11,638/2007. Was revoked in the Law nr. 6,404/1976 the letter "d" of paragraph 1 Article 182 - which allowed the recording of donations and grants for investment as capital reserve - and added Article 195-A which allows to the general assembly, a proposal of the administrative, intended to reserve the portion of tax net profit from donations or government grants for investments, which may be excluded from the calculation basis of the mandatory dividend.

The Retained Profit Reserve, established by article 196 of Law nr. 6,404/1976 is composed of portions of the net income and is intended to compose the source of funds for use in the Company's investments. In the year, R\$ 530,145 thousand was appropriated to this reserve, based on the Company's capital budget, established by Law nr. 11,897, of 12/30/2008, that defines investments of R\$ 1,000,199 thousand for 2009, with the following applications:

<b>Description</b>	<b>Budget Portion</b>
Maintenance of Generation System	101,866
Studies for Generation Expansion	15,160
Implementing of Camaçari TPP'S Combined cycle	1,724
<b>Total Generation</b>	<b>118,750</b>
Itaparica HPP Resettlement	161,042
<b>Total Itaparica</b>	<b>161,042</b>
Expansion of Northeast Transmission System	238,535
Reinforcements and improvements the Transmission System	265,871
Transmission System Maintenance (Improvements)	116,685
<b>Total Transmission</b>	<b>621,091</b>
Infrastructure – Real state	16,254
Infrastructure - Equipment/Vehicles/Furniture	33,845
Infrastructure – Informatics/Telecommunication/Teleprocessing	49,217
<b>Total Infrastructure</b>	<b>99,316</b>
<b>Total General</b>	<b>1,000,199</b>



## 21 - ELECTRIC POWER SUPPLY/PROVISION AND THE TRANSMISSION SYSTEM AVAILABILITY

The Company's revenues arise substantially from the sale of electric power and availability of the transmission system. These operations are backed by power sales and purchase contracts, by short-term transactions in the market, involving the Electric Power Commercialization Chamber – CCEE, and by contracts from the transmission system.

This revenue is thus composed:

	2008			2007		
	Number of clients	GWh	R\$ thousand	Number of clients	GWh	R\$ thousand
Industrial supply	25	9,065	752,897	20	8,213	622,417
Energy provision (*)	54	41,627	3,670,250	53	41,383	2,950,647
Transmission system avail.	167	-	1,208,308	155	-	1,123,832
<b>Total</b>		<b>50,692</b>	<b>5,631,455</b>		<b>49,596</b>	<b>4,696,896</b>

(\*) Includes short-term operations (CCEE) worth R\$ 786.796 thousand (R\$ 400,292 thousand in 2007).

## 22 – REGULATORY CHARGES

The Company incurred, in the fiscal year, in regulatory charges, totalizing R\$ 502,724 thousand, with the following composition:

	2008	2007
Global Reversal Reserve – RGR	144,382	122,005
Research and Development	48,260	40,215
Fuel Consumption Account - CCC	79,180	106,637
Energetic Development Account – CDE	18,994	17,601
Program of Incentives to Alternative Sources of Energy - Proinfa	25,281	19,594
Electric Power Public Service Inspection Rate – TFSEE	21,833	15,654
Financial Compensation for the Water Use – CFURH	164,794	222,707
	<b>502,724</b>	<b>544,413</b>

## 23 - OPERATING COSTS AND EXPENSES

The general and administrative costs and expenses shown in the Statement of Operations are thus composed:

		2008		2007
	Operating costs	Operating expenses	Total	Total
Electric power purchased for resale	43,236	-	43,236	173
Charges on use of electric power network	665,257	-	665,257	614,469
Personnel	205,858	333,142	539,000	471,662
Material	11,379	15,592	26,971	30,655
Fuel for energy production	335,281	-	335,281	37,020
Third parties' services	47,381	85,804	133,185	129,262
Depreciation and amortization	546,465	56,938	603,403	594,478
Financial compensation for water use	164,794	-	164,794	222,707
Leases and Rentals	5,499	13,491	18,990	19,362
Provisions for contingencies	-	89,714	89,714	58,988
Taxes	136	4,593	4,729	3,845
Provision (provision reversal) for doubtful accounts	-	(199,798)	(199,798)	96,566
Loss of Free energy	-	210,940	210,940	185,839
Others	(36,901)	12,134	(24,767)	(12,856)
<b>Total</b>	<b>1,988,385</b>	<b>622,550</b>	<b>2,610,935</b>	<b>2,452,170</b>

## 24 - RECONCILIATION OF ACTUAL AND NOMINAL RATES OF PROVISIONS FOR INCOME TAX AND SOCIAL CONTRIBUTION

Below, the reconciliation of actual and nominal rates used in calculating provisions for income tax and social contribution:

	2008	
	Social Contribution	Income Tax
Profit before social contribution and income tax	1,702,619	1,702,619
Total social contribution and income tax burden calculated at 9% and 15%, plus surtax, respectively.	153,236	425,631
Fiscal effects on permanent additions or exclusions	(6,954)	(23,986)
<b>Income tax and social contribution for the year</b>	<b>146,282</b>	<b>401,645</b>

## 25 - FISCAL INCENTIVE – SUDENE

The Provisional Measure nr. 2,199-14, of August 24, 2001, amended by Law nr. 11,196, of November 21, 2005, allows that companies located in the Northeast Region undertaking works in the infrastructure sector, considered by act of the Executive Power, one of the priority sectors for regional development, reduce the value amount of due income tax for investment in projects for installation, expansion, modernization or diversification.

Chesf obtained, in 2008, the granting right to a reduction of 75% (seventy-five percent) of the Income Tax and Non-refundable Additional, calculated on the profit of the holding. This incentive was granted for the years 2008 to 2017.

In October 2007 was registered the process at the Superintendency of Northeast Development - SUDENE with the project request to send reports establishing the Company's facilities, which were issued by that Superintendency in May 2008.

In August of that year, based on Constitutive Reports was presented a protocol at the Brazilian Federal Revenue (Receita Federal do Brasil) Application for Recognition of Right to Reduction of IRPJ to obtain its approval in December 2008.

Also in the year 2008 Chesf presented at SUDENE project requiring the support for reinvestment under art. 19 of Law nr. 8,167, of January 16, 2001, as amended by art. 3 of the Provisional Measure nr. 2,199-14/2001. This project was approved by SUDENE in November 2008.

The fiscal incentives above mentioned totalled R\$ 343,251 thousand in 2008, with results in the year recorded as a reduction of income tax assessed on customer Pronouncement Technical CPC 07. The share of profit arising from these tax incentives were fully intended to Profit Reserve called Tax Incentives Reserve and excluded from the calculation basis of the mandatory dividend, in accordance with Article 195-A of Law nr. 6404/1976, which can only be used to increase capital or absorb any losses.

## 26 – PROFIT SHARING

As a result the Collective Bargaining Agreement and observing the legal determinations, the Company booked the amount of R\$ 60,652 thousand interested for employee profit sharing for the year, to be submitted to the Annual General Stockholders Meeting – AGO.

## 27 - STOCKHOLDERS' COMPENSATION

Although Company's social statute establishes a distribution of 25% of the net result calculated in each social exercise adjusted according to the Law, such as minimum obligatory dividends, is being proposed, for the exercise, the following distribution:

	2008	2007
Net income for the year	1,437,291	652,630
Fiscal Incentives Reserve set up - SUDENE	(343,251)	-
Legal reserve set up	(54,702)	(32,631)
Realization of unrealized earnings reserve	20,952	22,399
<b>Adjusted net income – basis of compensation calculation</b>	<b>1,060,290</b>	<b>642,398</b>
Minimum statutory dividends (25%)	265,073	160,600
<b>Compensation proposed:</b>		
Dividends	530,145	240,000
Adjustments arising from the Law nr. 11,638/2007	14,730	-
<b>Net compensation</b>	<b>544,875</b>	<b>240,000</b>
Percentage on adjusted net income	51,4%	37,4%
Dividends per common/preferred share (R\$)	<b>13,06</b>	<b>5,75</b>

Stockholder's compensation will be paid to on the date to be fixed at the Annual General Meeting - AGO of Stockholders, or according to the company's brazilian law in case AGO doesn't deal with the issue. Compensation will be monetarily revaluated from December 31, 2008 up to payment, according to Central Bank of Brazil overnight rate variation (SELIC).

## 28 – RELATED-PARTIES TRANSACTIONS

The transactions with related-parties are accomplished according to standards and market prices or based on contracts applicable to the Electric Sector. In the following sequence, we identify companies/entities related with the Company:

Companies	Operation Nature	2008			2007		
		Assets	Liabilities	Result	Assets	Liabilities	Result
Eletrobrás	Accounts receivable	494	-	-	379	-	-
	Loans	-	3,401,005	-	-	4,211,241	-
	Accounts payable	-	31	-	-	332	-
	Financial expense	-	-	(485,198)	-	-	(487,375)
	Int. on equity/Dividends	-	541,874	(8,195)	-	238,678	(7,065)
		<b>494</b>	<b>3,942,910</b>	<b>(493,393)</b>	<b>379</b>	<b>4,450,251</b>	<b>(494,440)</b>
Furnas	Consumers, concessionaires and permit grantees	4,933	-	-	4,724	-	-
	Suppliers	-	14,327	-	-	12,362	-
	Network usage revenue	-	-	43,601	-	-	42,213
	Network usage charge	-	-	(117,700)	-	-	(121,577)
	Int. on equity/Dividends	-	12	-	-	5	-
		<b>4,933</b>	<b>14,339</b>	<b>(74,099)</b>	<b>4,724</b>	<b>12,367</b>	<b>(79,364)</b>
Eletrosul	Accounts receivable	18	-	-	34	-	-
	Suppliers	-	6,196	-	-	5,749	-
	Network usage charge	-	-	(55,048)	-	-	(50,637)
		<b>18</b>	<b>6,196</b>	<b>(55,048)</b>	<b>34</b>	<b>5,749</b>	<b>(50,637)</b>
Eletronorte	Consumers, concessionaires and permit grantees	6,737	-	-	6,364	-	-
	Suppliers	-	6,804	-	-	6,429	-
	Accounts receivable	5	-	-	11	-	-
	Network usage revenue	-	-	59,546	-	-	57,338
	Network usage charge	-	-	(61,320)	-	-	(55,889)
		<b>6,742</b>	<b>6,804</b>	<b>(1,774)</b>	<b>6,375</b>	<b>6,429</b>	<b>1,449</b>
Eletronuclear	Consumers, concessionaires and permit grantees	570	-	-	538	-	-
	Revenue from use of the	-	-	5,034	-	-	4,847
	Int. on equity/Dividends	-	7	-	-	3	-
		<b>570</b>	<b>7</b>	<b>5,034</b>	<b>538</b>	<b>3</b>	<b>4,847</b>
CGTEE	Consumers, concessionaires and permit grantees	89	-	-	70	-	-
	Network usage revenue	-	-	787	-	-	632
		<b>89</b>	<b>-</b>	<b>787</b>	<b>70</b>	<b>-</b>	<b>632</b>
Eletropar	Accounts receivable	14,693	-	-	14,693	-	-
	(-) Provision for losses	(13,237)	-	-	(13,237)	-	-
	Advance to suppliers	5,279	-	-	5,279	-	-
	Accounts payable	-	1,456	-	-	1,456	-
		<b>6,735</b>	<b>1,456</b>	<b>-</b>	<b>6,735</b>	<b>1,456</b>	<b>-</b>
Ceal	Consumers, concessionaires and permit grantees	18,547	-	-	12,118	-	-
	Accounts receivable	11	-	-	-	-	-
	Network usage revenue	-	-	9,558	-	-	7,475
		<b>18,558</b>	<b>-</b>	<b>9,558</b>	<b>12,118</b>	<b>-</b>	<b>7,475</b>
Cepisa	Consumers, concessionaires and permit grantees	142,738	-	-	138,969	-	-
	Network usage revenue	-	-	14,071	-	-	11,869
		<b>142,738</b>	<b>-</b>	<b>14,071</b>	<b>138,969</b>	<b>-</b>	<b>11,869</b>
STN	Permanent equity	112,780	-	-	97,020	-	-
	Int. on equity/Dividends	9,831	-	-	2,888	-	-
	Suppliers	-	1,069	-	-	1,029	-
	Service provide revenue	-	-	1,920	-	-	1,775
	Int. on equity/Dividends	-	-	6,444	-	-	2,888
	Equity method revenue	-	-	15,605	-	-	-
	Network usage charge	-	-	(9,666)	-	-	(9,076)
		<b>122,611</b>	<b>1,069</b>	<b>14,303</b>	<b>99,908</b>	<b>1,029</b>	<b>(4,413)</b>



Intesa	Permanent equity	22,893	-	-	18,000	-	-
	Int. on equity/Dividends	57	-	-	-	-	-
	Equity method revenue	-	-	862	-	-	-
		<b>22,950</b>	-	<b>862</b>	<b>18,000</b>	-	-
Energética Águas da Pedra	Permanent equity	61,985	-	-	31,790	-	-
		<b>61,985</b>	-	-	<b>31,790</b>	-	-
Energia Sustentável do Brasil	Permanent equity	50,002	-	-	-	-	-
		<b>50,002</b>	-	-	-	-	-
Fachesf	Suppliers	-	3,856	-	-	6,938	-
	Normal contribution	-	6,784	-	-	5,893	-
	Actuarial contracts	-	398,820	-	-	524,687	-
	Financial expense	-	-	(299)	-	-	-
	Operating expenses	-	-	(33,689)	-	-	(28,857)
		-	<b>409,460</b>	<b>(33,988)</b>	-	<b>537,518</b>	<b>(28,857)</b>
Cepel	Operating expenses	-	-	(9,010)	-	-	8,622
		-	-	<b>(9,010)</b>	-	-	<b>8,622</b>

Transactions by each company:

### **ELETROBRÁS**

- Loan Agreements entered into between the parties, with contracting conditions informed in note 16.
- Compensation for the invested capital.

### **FURNAS**

- Agreements for transmission system availability.
- Agreements for the use of transmission system network.
- Compensation for the invested capital.

### **ELETROSUL**

- Agreements for the use of transmission system network.

### **ELETRONORTE**

- Agreements for transmission system availability.
- Agreements for the use of transmission system network.

### **ELETRONUCLEAR**

- Agreements for transmission system availability.
- Agreements for the use of transmission system network.
- Compensation for the capital invested.

### **CGTEE**

- Agreements for transmission system availability.
- Agreements for the use of transmission system network.

### **ELETROPAR**

- Agreements for services;
- Agreements for the use of transmission system network.

**CEAL**

- Agreements for the supply of electric power;
- Agreements for the use of transmission system network.

**CEPISA**

- Agreements for the supply of electric power;
- Agreements for the use of transmission system network.

**STN**

- Agreement for services of transmission line maintenance and operation;
- Amount invested in shareholding;
- Compensation for the invested capital.

**INTESA**

- Amount invested in shareholding;
- Compensation for the capital invested.

**ENERGÉTICA ÁGUAS DA PEDRA S.A.**

- Amount invested in shareholding.

**ENERGIA SUSTENTÁVEL DO BRASIL S.A.**

- Amount invested in shareholding.

**FACHESE**

- Commitments regarding actuarial pension supplement;
- Contract for rental of the Company office buildings and annex;
- Intermediation of providing health services, life insurance and other benefits to employees of the Company.

**CEPEL**

- Contract for monthly contribution as associated company.

Besides the companies listed above, the Company also maintains relationships with the following companies, with no commercial transactions in the year.

- MANAUS TRANSMISSORA DE ENERGIA S.A.
- CENTRAIS ELÉTRICAS DE RONDÔNIA S.A.
- COMPANHIA DE ELETRICIDADE DO ACRE
- MANAUS ENERGIA S.A.

## 29 - FINANCIAL INSTRUMENTS

Through its Instruction nr. 235 of March 23, 1995, CVM established mechanisms for disclosure in accompanying notes of the market value of financial instruments, whether reflected in the financial statements or not.

The Company's financial instruments are as follows:

### ASSETS

- Investments in the Money Market

These are stated at market value, due to their maturity in extremely short-term.

### LIABILITIES

- Loans and financing

These local and foreign lending operations are restated based on currencies of the respective countries of origin up to the balance sheet date, being provided for at fixed or variable rates ruling at 12/31/2008, in domestic and foreign markets, and loan agreements with the parent company, Eletrobrás, which represent around 90% of the total debt, almost all of which (89%) bearing interest at 10% p.a. The market rate for Eletrobrás is defined taking into account the risk premium compatible with the activities of the Electric Sector. Given the special circumstances surrounding the funding of its expansion projects, the market value of these loans is the same as their book value.

- Exchange risk

Of the total debt of the Company as of 12/31/2008, R\$ 264.026 thousand refers to agreements in foreign currencies, 7% comprising US\$ 88,947 thousand (basically relending from Eletrobrás) and Eur 17,343 thousand (balances of Xingó HPP financing), which is why the Company is exposed to exchange risks from these currencies. This year, these two currencies varied in relation to the Real by +31.94% and +24.13%, respectively.

### 30 - STATEMENT OF OPERATIONS BY ACTIVITY

	2008			2007 (Reclassified)		
	Generation	Transmission	Total	Generation	Transmission	Total
<b>OPERATING REVENUE</b>						
Electric power supply	752,897	-	752,897	622,417	-	622,417
Electric power bulk supply	2,883,454	-	2,883,454	2,550,355	-	2,550,355
Transmission system availability	-	1,208,308	1,208,308	-	1,123,832	1,123,832
Electric power short-term (CCEE)	786,796	-	786,796	400,292	-	400,292
Other operating revenues	2,527	6,385	8,912	2,472	6,068	8,540
	<b>4,425,674</b>	<b>1,214,693</b>	<b>5,640,367</b>	<b>3,575,536</b>	<b>1,129,900</b>	<b>4,705,436</b>
<b>Operating revenue deductions</b>						
Global Reversal Reserve – RGR	(116,415)	(27,967)	(144,382)	(92,697)	(29,308)	(122,005)
ICMS on electric power (added value tax)	(90,941)	-	(90,941)	(77,237)	-	(77,237)
ISS	(113)	(291)	(404)	(130)	(337)	(467)
Research and development	(37,970)	(10,290)	(48,260)	(30,660)	(9,555)	(40,215)
Fuel consumption account - CCC	-	(79,180)	(79,180)	-	(106,637)	(106,637)
Energetic development account – CDE	-	(18,994)	(18,994)	-	(17,601)	(17,601)
PROINFA	-	(25,281)	(25,281)	-	(19,594)	(19,594)
PIS/PASEP	(63,212)	(9,302)	(72,514)	(53,432)	(7,367)	(60,799)
COFINS	(291,222)	(42,889)	(334,111)	(246,152)	(33,976)	(280,128)
	<b>(599,873)</b>	<b>(214,194)</b>	<b>(814,067)</b>	<b>(500,308)</b>	<b>(224,375)</b>	<b>(724,683)</b>
<b>NET OPERATING REVENUE</b>	<b>3,825,801</b>	<b>1,000,499</b>	<b>4,826,300</b>	<b>3,075,228</b>	<b>905,525</b>	<b>3,980,753</b>
<b>COST OF ELECTRIC POWER SERVICE</b>						
<b>Cost with electric power</b>						
Electric power purchased for resale	(43,236)	-	(43,236)	(173)	-	(173)
Charges on use of electric power network	(665,257)	-	(665,257)	(614,469)	-	(614,469)
<b>Operating cost</b>						
Personnel	(56,715)	(148,636)	(205,351)	(48,717)	(124,906)	(173,623)
Material	(4,319)	(7,039)	(11,358)	(4,479)	(9,049)	(13,528)
Fuel for electric power production	(335,281)	-	(335,281)	(37,020)	-	(37,020)
Third-parties' services	(14,818)	(32,563)	(47,381)	(16,840)	(31,401)	(48,241)
Financial compensation for the water use	(164,794)	-	(164,794)	(222,707)	-	(222,707)
Depreciation and amortization	(349,388)	(197,077)	(546,465)	(353,266)	(189,184)	(542,450)
Inspection rate of ANEEL	(13,434)	(8,399)	(21,833)	(8,192)	(7,462)	(15,654)
Others	55,596	(2,633)	52,963	48,018	2,669	50,687
	<b>(1,591,646)</b>	<b>(396,347)</b>	<b>(1,987,993)</b>	<b>(1,257,845)</b>	<b>(359,333)</b>	<b>(1,617,178)</b>
<b>SERVICE COST TO THIRD PARTIES</b>	<b>136</b>	<b>(528)</b>	<b>(392)</b>	<b>(478)</b>	<b>(3,387)</b>	<b>(3,865)</b>
<b>GROSS OPERATING PROFIT</b>	<b>2,234,291</b>	<b>603,624</b>	<b>2,837,915</b>	<b>1,816,905</b>	<b>542,805</b>	<b>2,359,710</b>
<b>OPERATING EXPENSES</b>	<b>(204,758)</b>	<b>(417,792)</b>	<b>(622,550)</b>	<b>(461,078)</b>	<b>(370,049)</b>	<b>(831,127)</b>
<b>SERVICE INCOME</b>	<b>2,029,533</b>	<b>185,832</b>	<b>2,215,365</b>	<b>1,355,827</b>	<b>172,756</b>	<b>1,528,583</b>
<b>FINANCIAL REVENUE (EXPENSE)</b>						
Revenue from temporary cash investments	59,738	17,116	76,854	21,364	5,873	27,237
Mon. var. and additions – Elet. power sold	65,269	5,003	70,272	108,232	1,002	109,234
Other monetary variations – assets	631	1,861	2,492	224	547	771
Other financial revenues	20,524	9,441	29,965	10,877	5,577	16,454
Pis/Pasep and Cofins	(452)	(156)	(608)	(10)	(4)	(14)
Debt charges	(430,321)	(57,348)	(487,669)	(504,141)	(69,530)	(573,671)
Monetary variations on loans and financing	(79,546)	(3,817)	(83,363)	15,000	1,749	16,749
Other monetary variations - liabilities	(14,076)	(34,813)	(48,889)	(12,165)	(29,137)	(41,302)
Other financial expenses	(12,907)	(11,126)	(24,033)	(17,488)	(24,578)	(42,066)
	<b>(391,140)</b>	<b>(73,839)</b>	<b>(464,979)</b>	<b>(378,107)</b>	<b>(108,501)</b>	<b>(486,608)</b>
<b>OTHER REVENUES (EXPENSES)</b>						
Revenues	270	1,420	1,690	-	-	-
Expenses	(18,442)	(31,015)	(49,457)	-	-	-
	<b>(18,172)</b>	<b>(29,595)</b>	<b>(47,767)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>OPERATING RESULT</b>	<b>1,620,221</b>	<b>82,398</b>	<b>1,702,619</b>	<b>977,720</b>	<b>64,255</b>	<b>1,041,975</b>
Non-operating revenue	-	-	-	379	2,913	3,292
Non-operating expense	-	-	-	(3,087)	(6,330)	(9,417)
<b>Non-operating income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,708)</b>	<b>(3,417)</b>	<b>(6,125)</b>
<b>Profit before social contrib. and income Tax</b>	<b>1,620,221</b>	<b>82,398</b>	<b>1,702,619</b>	<b>975,012</b>	<b>60,838</b>	<b>1,035,850</b>
Social contribution	(142,650)	(3,632)	(146,282)	(89,318)	737	(88,581)
Income tax	(394,923)	(6,722)	(401,645)	(229,405)	(11,227)	(240,632)
Fiscal Incentives	326,640	16,611	343,251	-	-	-
<b>Profit before sharing</b>	<b>1,409,288</b>	<b>88,655</b>	<b>1,497,943</b>	<b>656,289</b>	<b>50,348</b>	<b>706,637</b>
Profit sharing	(17,221)	(43,431)	(60,652)	(14,561)	(39,446)	(54,007)
<b>Net income for the year</b>	<b>1,392,067</b>	<b>45,224</b>	<b>1,437,291</b>	<b>641,728</b>	<b>10,902</b>	<b>652,630</b>
Net income per share (R\$)	-	-	34.46	-	-	15.65



### 31 - INSURANCE

Under a contract signed with Bradesco Auto/RE – Cia. de Seguros, with 4-year duration as from 04/30/2005, the Company's main assets such as implantation work and stored material are insured under annual policies for R\$ 3,445,453 thousand. The policy in force is valid from 04/30/2008 to 04/30/2009. Specification by risk is as follows:

<u>Policies</u>	<u>Insured Amount</u>	<u>Annual Premium</u>
<b>- Risks:</b>		
Fire, lightning strike, explosion, electric damage, electrical equipment	3,433,512	6,842
<b>- Aeronautic Risks</b>	11,941	407
	<b>3,445,453</b>	<b>7,249</b>

The amount insured under the aeronautic risk policy includes R\$ 1,605 thousand of third-party liability.

Besides these, the Company has transportation insurance policies to guarantee the handling of materials, through safe national transport arrangements in land, sea and air and international air and sea which are valid from May 2008 through May 2009, with sums insured, registered until 31/12/2008 totalling R\$ 72,409 thousand payable in monthly installments, with premiums amounting to R\$ 166 thousand.

In setting the insurance and risk management policies, the physical location, level of exposure of assets and cost/benefit relationship are taken into consideration.

### 32 - GENERAL ELECTRIC SECTOR AGREEMENT – EXTRAORDINARY TARIFF RECOMPOSITION – RTE; VARIATION OF THE “PORTION A” ITEMS AND FREE ENERGY PASSED ON

1. RTE composition ratified by ANEEL, representing Loss of Revenue and Free Energy.

ITEMS	RATIFICATION INSTRUMENT NR.	RATIFIED AMOUNT	ACCUMULATED COMPENSATION 12/31/2008	AMORTIZED AMOUNT UP TO 12/31/2008	BALANCE TO BE PASSED ON AS OF 12/31/2008
		(1)	(2)	(3)	(4) = (1 + 2 – 3)
Loss of revenue	Resolution 480/02, 481/02 and 01/04.	40,674	8,898	49,572	-
Free Energy	Resolutions 01/04 and 45/04.	77,303	37,144	114,447	-
<b>Totais</b>		<b>117,977</b>	<b>46,042</b>	<b>164,019</b>	<b>-</b>

2. Composition of the variation of “Portion A” Items (period from 01/01/2001 to 10/25/2001) ratified by ANEEL.

ITEMS	RATIFIED AMOUNT RESOLUTIONS NRS. 482/02 AND 001/04	ACCUMULATED COMPENSATION UP TO 12/31/2008	ACCUMULATED AMOUNT UP TO 12/31/2008	AMORTIZED AMOUNT UP TO 12/31/2008	BALANCE TO BE PASSED ON AS OF 12/31/2008
	( 1 )	( 2 )	(3) = (1) + (2)	( 4 )	(5) = (3) - (4)
“Portion A” (period from 01/01 to 10/25/2001)	21,827	34,682	56,509	56,509	-

3. Composition of amounts ratified by ANEEL, representing Free Energy Passed On, i.e., energy purchased at the MAE – Wholesale Electric Power Market, currently CCEE – Electric Power Commercialization Chamber over the duration of the Emergency Reduction of Electric Power Consumption Program.

ITEMS	RATIFIED AMOUNT RESOLUTIONS NRS. 001/04 E 045/04	ACCUMULATED COMPENSATION UP TO 12/31/2008	ACCUMULATED AMOUNT UP TO 12/31/2008	AMORTIZED AMOUNT UP TO 12/31/2008	REDUCTION OF TAXES AND CHARGES Official Letter nr. 2.409/2007 – SFF/ANEEL	BALANCE TO BE PASSED ON AS OF 12/31/2008
	( 1 )	( 2 )	(3) = (1) + (2)	(4)	(5)	(6) = (3)-(4)-(5)
Free Energy Passed On	77,303	36,976	114,279	110,267	6,871	(2,859)

In compliance with the determinations of Official Letter nr. 2.409/2007-SFF/ANEEL, the Company registered in its accounting reversing entry of the values related to the regulatory taxes and charges, whose encumbrance was attributed to the generation concessionaire and that were not effectively supported by the consumers, under the Terms of Technical Note nr. 392/2007-SFF/ANEEL. Since the repass terms had been concluded and all the values repassed, with such registry it was verified the occurrence of a over payment, in the amount of R\$ 2,859 thousand, to receive from said concessionaires.

Under the Electric Sector General Agreement, signed by the generators and the distributors on 12/18/2001, this year the Company received R\$ 33,148 thousand, corresponding to the Free Energy Reimbursement.

On the other hand, the Company, in compliance with the determinations of Official Letter nr. 2.409/2007-SFF/ANEEL, registered the write-off of the receivables of Free Energy not billed by the distributors within the established term by ANEEL, in the amount of R\$ 396,779 thousand, such as, the reversing entry of the fiscal charges and regulatory charges born by it, deduced by the financial repasses distribution concessionaire of Free Energy, which values were not effectively supported by the consumers, under the terms of Technical Note nr. 392/2007-SFF/ANEEL, in the amount of R\$ 13,689 thousand, and its accounts receivable in relation to Free Energy, per debtor, as follows:

<b>Receivables</b>	<b>12/31/2008</b>
<b>Company</b>	<b>Amount (R\$ 000)</b>
AMPLA (CERJ)	11,837
CEPISA	9
COELCE	1
COSERN	8,556
CSPE – SUL PAULISTA	535
<b>Total</b>	<b>20,938</b>
<b>(-) Allowance for doubtful accounts</b>	<b>(5,730)</b>
<b>Total receivables</b>	<b>15,208</b>
<b>Current</b>	<b>5,756</b>
<b>Non-current</b>	<b>9,452</b>

Considering that the Distributors have a deadline, established by ANEEL, to collect the RTE from the consumers and repossess the due values to the generating companies, the Company, after the adjustment of the accounts receivable of Free Energy to the determinations established in said official letter, prepared a new study in a way to find the installment of the non-realizable receivables, due to the termination of the RTE deadlines of the distributors. Accordingly, it was estimated in R\$ 5,730 thousand, the provision for losses in the realization of such credits on December 31, 2008.

In this exercise, considering the closure of these periods was written off for the loss of such a receivable accounts, amounting to R\$ 210,940 thousand, with a corresponding reversal of previously established provisions in the amount of R\$ 200,153 thousand.

In view of the interpretation given by ANEEL, regarding the non-realization of the accounts receivable of Free Energy, imposing substantial losses to the Generators, the Company, together with the companies of the ELETROBRÁS System, is using its best efforts before the competent bodies and instances, in the sense to preserve its rights provided in the General Agreement of the Electric Sector.

#### **Law-suits relating to bookings for short-term energy from setembro/2000 period to May 2002**

There are ongoing law-suits filed against the National Electric Energy Agency - ANEEL, referring to the bookings for the short-term energy, corresponding to the period setembro/2000 to December 2002, proceeded by the Board of Electric Energy Commercialization - CCEE. As part of the process, the Company may be required to bear the amount of R\$ 285,923 thousand in historical values. However, according to the assessment of its legal advisors, the risk of loss to the Company in this case is classified as "*possible*", it is not, therefore, accounting provisioning.

### 33 - FEDERAL GOVERNMENT'S ASSETS AND RIGHTS USED BY THE CONCESSIONAIRE

According to the Accounting Instruction 6.3.13 of the Accounting Manual for the Electric Power Public Utilities, the Company keeps in auxiliary records Federal Government's assets and rights amounting to R\$ 68,465 thousand (restated cost), under special use scheme, segregated by activity, as shown below:

	2008								2007	
	Generation				Transmission				Generation	Transm.
	Qty. Items	Restated Cost	Estimated Depreciation	Net Value	Qty. Items	Restated Cost	Estimated Depreciation	Net Value	Net Value	Net Value
HPP Castelo Branco Dam	1	56,858	(50,035)	6,823	-	-	-	-	7,960	-
Plots of land	10	2,958	-	2,958	4	223	-	223	2,958	223
Buildings	223	1,688	(1,688)	-	2	13	(11)	2	-	3
HPP Itaparica Resettlement	1	5,201	(2,139)	3,062	-	-	-	-	3,270	-
Guadalupe-PI Airport	1	926	(926)	-	-	-	-	-	-	-
Access road to HPP Castelo Branco	1	508	(508)	-	-	-	-	-	-	-
Others	-	-	-	-	3	90	(76)	14	-	18
<b>Total</b>	<b>237</b>	<b>68,139</b>	<b>(55,296)</b>	<b>12,843</b>	<b>9</b>	<b>326</b>	<b>(87)</b>	<b>239</b>	<b>14,188</b>	<b>244</b>

### 34 - EMPLOYEES' AND MANAGEMENT'S COMPENSATION

With December 2008 as a basis and pursuant to the Company's salary policy, the highest and the lowest monthly compensation paid to employees were R\$ 24,668.60 and R\$ 1,067.00, respectively; the highest fees paid to top management was R\$ 28,186.40. These compensations comprise permanent salaries, bonuses and additional fees.

### 35 – REVENUES – PUBLIC TRANSMISSION SERVICE CONCESSIONAIRES

The Annual Permitted Revenue (RAP) is defined on Clause First, item XIV, of the Concession Contract, and deals with revenues authorized by the National Electric Power Agency's (ANEEL) Resolution through the use of the facilities of the Transmission System listed on that Concession Contract. The transmitter's RAP comprises RPB's installments (installments referring to Base Network facilities) and RPC's (installment referring to remaining transmission and connections facilities). RPB itself comprises RBSE (revenues referring to transmission assets listed by ANEEL Resolution nr. 167/2000, for the transmission facilities existing then), plus RBNI (revenue related to the new assets to be incorporated to the transmission system of the company), both annually readjusted by the IGP-M. After the First Periodical Tariff Review of the Electric Power Transmission Concessionaire in July 2007, RBNI shall not have its values reduced by half after the 15<sup>th</sup> year as of the start of the operations, as established by the authorizations issued by ANEEL at the time. For new concessions, obtained in Transmission Public Auctions, the revenue corresponds to the value indicated in the offers, being fixed and annually readjusted by IPCA during the concession period and shall also be subject to tariff reviews at each 4 years, during the 30 years of concession period.



### 36 – ENVIRONMENT

Are spending process practiced by the Company in order to meet their commitments to the environment:

Expenses nature	Application		Total
	Property	Result	
Maintenance in the operational process for environment improvement	6,806	3,869	<b>10,675</b>
Degraded environments preservation and/or rehabilitation	818	1,871	<b>2,689</b>
Environmental education for employees, subcontractors, entity autonomous and curators	-	66	<b>66</b>
Environmental education for the community	-	1,240	<b>1,240</b>
Other environmental projects	685	56	<b>741</b>
<b>Total</b>	<b>8,309</b>	<b>7,102</b>	<b>15,411</b>

- *Maintenance in the operational processes for environment improvement*, includes the expenses of studies, assessments, surveys, plans and programs for use of monitoring, among others, not considering actions for rehabilitation or mitigation of environmental impact.
- *Degraded environments preservation and/or rehabilitation*, includes spending on implementation of actions aimed to preserve and/or restore degraded environments with impacts already identified, a repair action in progress and may refer to aquatic, terrestrial and atmospheric environments.
- *Environmental education for employees, subcontractors, and entity autonomous and curators*, comprises the shares of spending on education and/or training for sustainability, focusing on internal and public service providers.
- *Environmental education for the community*, includes the shares of spending on education and/or training for sustainability, focusing on communities impacted by the implementation of undertakings of the Company.
- *Other environmental projects*, cover the expenses with other actions taken by the Company, having as object the preservation of the environment.

The Company has commitments for spending on the environment, the amount of R\$ 53,011 thousand, with estimates of disbursement of R\$ 33,956 thousand for the year 2009 and R\$ 19,055 thousand for 2010.

## BOARD OF ADMINISTRATIVE AND FISCAL COUNCILS AND DIRECTORS

### ADMINISTRATIVE COUNCIL

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**Ubirajara Rocha Meira**  
Chairman

**Dilton da Conti Oliveira**  
Council Member

**Swedenberger do Nascimento Barbosa**  
Council Member

**Altino Ventura Filho**  
Council Member

**Erenice Alves Guerra**  
Council Member

**Marcelo Viana Estevão de Moraes**  
Council Member

### FISCAL COUNCIL

---

**Pedro Gaudêncio de Castro**  
President

**Sonia Regina Jung**  
Council Member

**Antônio Carlos Pinho de Argôlo**  
Council Member

### BOARD OF DIRECTORS

---

**Dilton da Conti Oliveira**  
Chief and Executive Officer

**Marcos José Mota de Cerqueira**  
Economic-Financial Director

**José Ailton de Lima**  
Director of Engineering and Construction

**Mozart Bandeira Arnaud**  
Director of Operations and  
Deputy Managing Director

### SUPERINTENDENCY OF EXECUTION AND ECONOMIC-FINANCIAL CONTROL

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**José Ivan Pereira Filho**  
Superintendent  
CRC-PE-007552/O-6 – Accountant

## **THE INDEPENDENT AUDITORS' REPORT**

To the  
Board of Directors and Stockholders of  
Companhia Hidro Elétrica do São Francisco - CHESF

1. We have examined the balance sheet of Companhia Hidro Elétrica do São Francisco - CHESF as of December 31, 2008, and accompanying statements of operations, changes in the stockholders' equity, cash flow and value added for the year then ended, prepared under the responsibility of its management. Our responsibility is to express an opinion on such financial statements based on our audit.

2. Our exam was conducted in accordance with the auditing standards accepted in Brazil, and they comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, as well as accounting and internal control system of the Company; (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements; and (c) assessing the accounting principles used and the more significant accounting estimates made by the management, as well as evaluating the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material aspects, the equity and financial position of Companhia Hidro Elétrica do São Francisco - CHESF as of December 31, 2008, as well as the result of its operations, changes in its stockholders' equity and cash flow and value added for the period ended on such date, in compliance with the accounting practices adopted in Brazil.

4. Previously, we audited the financial statements of Companhia Hidro Elétrica do São Francisco - CHESF for the year ended December 31, 2007, comprising the balance sheet, the statements of operations, of changes in equity and the sources and uses of resources that year in addition to further information including statements of cash flow and value added, on which we state our opinion without exception, of February 1<sup>st</sup>, 2008. As mentioned in Note 3,

the accounting practices adopted in Brazil have changed as from January 1<sup>st</sup>, 2008. The financial statements for the year ended December 31, 2007, presented in conjunction with the financial statements of 2008 have been prepared in accordance with accounting practices adopted in Brazil in force until December 31, 2007 and as permitted by the Technical Pronouncement CPC 13 - Initial Adoption of the Law nr. 11,638/2007 and Provisional Measure nr. 449/2008, are not resubmitted with the adjustments for comparison purposes between years.

Recife (PE), February 27, 2009.

RSM BOUCINHAS, CAMPOS & CONTI  
Auditores Independentes S/S  
CRC-SP-5.528/O-S-PE

Toshio Nishioka  
Accountant-CRC-SP-104.690/O-S-PE



## THE FISCAL COUNCIL'S REPORT

The Fiscal Council of Companhia Hidro Elétrica do São Francisco – Chesf, in the use of its legal and statutory attributions, carried out the analysis of the **Management Report**, as well as of the **Balance Sheet and other Accounting Statements**, related to the fiscal year ended on 12/31/2008, in view of the Independent Auditors' Report, RSM Boucinhas, Campos & Conti Auditores Independentes S/S, issued on February 27, 2009, without exceptions, prepared according to the applicable audit rules in Brazil.

It further became aware of the following propositions to be send to the Stockholders' General Meeting:

1. Result destination proposal of the fiscal year; and
2. Capital budget proposal.

The Fiscal Council, by unanimity, believes that **said corporate documents properly reflect**, in every relevant aspect, **the equity, financial and managerial status** of the Companhia Hidro Elétrica do São Francisco – Chesf.

In addition, by unanimity, it declares to be **in favor of the submission of the result destination proposal of the fiscal year and of the capital budget** to the Stockholders' General Meeting, as presented by the Administration Council.

Brasília, March 23, 2009.

*Pedro Gaudêncio de Castro*  
*President*

*Sonia Regina Jung*  
*Member*

*Antônio Carlos Pinho de Argôlo*  
*Member*