

Table of Contents

The following table sets forth the period end, high and low commercial market/foreign exchange market selling rates published by the Central Bank expressed in *reais* per U.S.\$ for the periods and dates indicated.

Month	Reais per U.S. Dollar		
	Period-end	Low	High
June 2008	1.5919	1.5919	1.6428
July 2008	1.5666	1.5641	1.6147
August 2008	1.6344	1.5593	1.6389
September 2008	1.9143	1.6447	1.9559
October 2008	2.1153	1.9213	2.3924
November 2008	2.3331	2.1210	2.4277
December 2008	2.3370	2.3370	2.5004
January 2009	2.3162	2.1889	2.3803
February 2009	2.3784	2.2446	2.3916
March 2009	2.3152	2.2375	2.4218
April 2009	2.1783	2.1699	2.2899
May 2009	1.9730	1.9730	2.1476
June 2009 (through June 26, 2009)	1.9396	1.9301	2.0074

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian Government in the future. See "Item 3.D, Risk Factors—Risks Relating to Brazil".

We currently maintain our financial books and records in *reais*. For ease of presentation, however, certain consolidated financial information contained in this annual report has been presented in U.S. dollars. See "Item 8, Financial Information".

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to our Company

Some of our concessions are due to expire in 2015 and Brazilian law currently does not permit us to renew these concessions; if we are unable to renew those concessions our results of operations would be materially adversely affected.

We carry out our generation, transmission and distribution activities pursuant to concession agreements entered into with the Brazilian Government through ANEEL. These concessions range in duration from 20 to 35 years. Our concession agreements with the earliest expiration dates are due to expire in 2015 and have already been renewed once (see "Item 4.B, Business Overview—Generation—Concessions"), except for Samuel, Serra da Mesa and Corumbá I, which expire in September 2009, May 2011 and November 2014, respectively. We have requested renewal for Samuel and Serra da Mesa and are currently awaiting approval from ANEEL. These concessions (expiring in 2015 or prior) represent approximately 91.15% of the assured energy of our subsidiary Chesf and 48.17% of the assured energy of our subsidiary Furnas. Chesf and Furnas represent 19.7% and 18.0%, respectively, of our consolidated intangible assets as of December 31, 2008. For a further discussion of Chesf and Furnas, see "Item 4, Information on the Company—Organizational Structure". Presently, Law No. 10.848 of 2004 only permits concessions to be renewed once. However, there are working groups in place examining proposals for a change in this law. If the law is not changed, we would be unable to renew certain concessions and would have to take part in auctions for these concessions again. If we are unable to renew any of our concessions and were unable to gain any of the auctions for these concessions, we would lose the business derived from these concessions, which would adversely affect our financial condition and results of operations.

We are controlled by the Brazilian Government, the current policies and priorities of which directly affect our operations.

The Brazilian Government, as our controlling shareholder, has pursued (and may continue to pursue) some of its macroeconomic and social objectives through us using principally Brazilian Government funds, which we administer. These funds are the RGR Fund, the CCC Account and the CDE Account. The Brazilian Government also has the power to appoint eight out of the 10 members of our *Conselho de Administração* (or Board of Directors) and, through them, a majority of the executive officers responsible for our day-to-day management. Separately, the Brazilian Government has in the past and may in the future require us to make investments, incur costs or engage in transactions (which may include, for example, requiring us to make acquisitions) that may not be consistent with our objective of maximizing our profits. As a company controlled by the Brazilian Government, we are subject to Law No. 8,666 of June 21, 1993 (or the Procurement Law), pursuant to which procurement of goods and services by us are determined by price, meaning we must select the lowest bidder to supply such goods and services. Although there are some exceptions to the lowest-price rule of the Procurement Law, these are limited in nature. Accordingly, we may be required to contract goods and/or services of a lower quality than would otherwise be the case, which might adversely affect our financial condition and results of operations.

We are subject to rules limiting borrowing by public sector companies and may not be able to obtain sufficient funds to complete our proposed capital expenditure programs.

Our current budget anticipates capital expenditures of approximately R\$7.2 billion in 2009. We cannot assure you that we will be able to finance our proposed capital expenditure programs from either our cash flow or external resources. Moreover, as a state controlled company, we are subject to certain rules limiting our indebtedness and investments and must submit our proposed annual budgets, including estimates of the amounts of our financing requirements and sources of our financing, to the Ministry of Planning, Budget and Management and the Brazilian Congress for approval. Thus, if our operations do not fall within the parameters and conditions established by such rules and the Brazilian government, we may have difficulty in obtaining the necessary financing authorizations, which could create difficulties in raising funds. If we are unable to obtain such funds, our ability to invest in capital expenditures for expansion and maintenance may be adversely impacted, which would materially adversely affect the execution of our growth strategy, particularly large scale projects such as the construction of the new nuclear plant, Angra III.

We own a number of subsidiaries whose performance significantly influences our results.

We conduct our business mainly through our operating subsidiaries, including Eletronorte, CGTEE, Eletronuclear, Chesf, Furnas and Eletrosul and through Itaipu. Our ability to meet our financial obligations is therefore related in part to the cash flow and earnings of those subsidiaries and the distribution or other transfer of those earnings to us in the form of dividends, loans or other advances and payment. Some of our subsidiaries are, or may in the future be, subject to loan agreements that prohibit or limit the transfer of funds to us in the form of dividends, loans or advances and/or require that any indebtedness of those subsidiaries to us be subordinate to the indebtedness under those loan agreements. Our subsidiaries are separate legal entities. Any right we may have to receive assets of any subsidiary or other payments upon its liquidation or reorganization will be effectively subordinated to the claims of that subsidiary's creditors (including tax authorities, trade creditors and lenders to such subsidiaries), except to the extent that we are a creditor of that subsidiary, in which case our claims would still be subordinated to any security interest in the assets of that subsidiary and indebtedness of that subsidiary senior to that held by us.

The amounts we receive from the Fuel Consumption Account may decrease.

The Brazilian Government introduced the Fuel Consumption Account, or CCC Account, in 1973. The purpose of the CCC Account is to generate financial reserves payable to distribution companies and some generation companies (all of which must make annual contributions to the CCC Account) to cover some of the costs of the operation of thermoelectric plants in the event of adverse hydrological conditions. Although the Brazilian Government has announced that the CCC Account is to be gradually phased out, we (together with other companies in our industry)

Table of Contents

continue to receive reimbursements from that account. In recent periods, the amounts we have received as reimbursements from the CCC Account have exceeded our contributions to that account. However, we cannot assure you that we will continue to receive reimbursements from the CCC Account (in amounts that exceed our contributions or at all) and any decrease in the amounts we receive may materially adversely affect our financial condition and results of operations. See "Item 4.B, Business Overview—The Brazilian Power Industry—Regulatory Charges".

If many of our assets were deemed assets dedicated to providing an essential public service, they would not be available for liquidation in the event of bankruptcy and could not be subject to attachment to secure a judgment.

On February 9, 2005, the Brazilian Government enacted Law No. 11,101, or the New Bankruptcy Law. The New Bankruptcy Law, which came into effect on June 9, 2005, governs judicial recovery, extrajudicial recovery and liquidation proceedings and replaces the debt reorganization judicial proceeding known as *concordata* (reorganization) for judicial recovery and extrajudicial recovery. The New Bankruptcy Law provides that its provisions do not apply to government owned and mixed capital companies (such as Eletrobrás). However, the Brazilian Federal Constitution establishes that mixed capital companies, such as Eletrobrás, which operate a commercial business, will be subject to the legal regime applicable to private corporations in respect of civil, commercial, labor and tax matters. Accordingly it is unclear whether or not the provisions relating to judicial and extrajudicial recovery and liquidation proceedings of the New Bankruptcy Law would apply to us. For a further description about the New Bankruptcy Law, please see "Item 4.B, Business Overview—The Effects of the New Bankruptcy Law on Us".

We believe that a substantial portion of our assets, including our generation assets, our transmission network and our limited distribution network, would be deemed by Brazilian courts to be related to providing an essential public service. Accordingly, these assets would not be available for liquidation in the event of bankruptcy or available for attachment to secure a judgment. In either case, these assets would revert to the Brazilian Government pursuant to Brazilian law and the terms of our concession agreements. Although the Brazilian Government would in such circumstances be under an obligation to compensate us in respect of the reversion of these assets, we cannot assure you that the level of compensation received would be equal to the market value of the assets and, accordingly, our financial condition and results of operations may be affected.

We may be liable if there is a nuclear accident involving our subsidiary Eletronuclear.

Our subsidiary Eletronuclear, as an operator of two nuclear power plants, is subject to strict liability under Brazilian law for damages in the event of a nuclear accident. The Vienna Convention on Civil Liability for Nuclear Accidents (or the Vienna Convention) became binding in Brazil in 1993. The Vienna Convention provides that an operator of a nuclear installation, such as Eletronuclear, in a jurisdiction which has adopted legislation implementing the Vienna Convention, will be strictly liable for unlimited damages in the event of a nuclear accident (except in certain limited exceptions), subject to the right of any such jurisdiction to adopt legislation placing limits on liability, which Brazil has not done. Eletronuclear is regulated by several federal and state agencies. Eletronuclear's Angra I and Angra II plants are currently insured for an aggregate amount of U.S.\$93 million in the event of a nuclear accident (see "Item 4.B, Business Overview—Generation—Nuclear Plants"). We cannot assure that this coverage will be sufficient in the event of a nuclear accident. Accordingly, any nuclear accident may have a material adverse effect on our financial condition and results of operations.

We do not have alternative supply sources for the key raw materials that our thermal and nuclear plants use.

Our thermal plants operate on coal and/or oil and our nuclear plants operate on processed uranium. In each case, we are entirely dependent on third parties for the provision of these raw materials. In the event that supplies of these raw materials become unavailable for any reason, we do not have alternative supply sources and, therefore, the ability of our thermal and/or nuclear plants, as applicable, to generate electricity would be materially adversely affected.

Table of Contents

Our subsidiary Eletronorte has historically supplied electricity at a loss and our ability to reduce these losses in the future may be limited.

As a result of our status as a mixed-capital company and to support governmental development objectives, our subsidiary Eletronorte has historically operated a number of isolated systems in the northern region of Brazil supplying electricity at prices below the applicable cost of generation. Although Eletronorte has negotiated supply contracts and applicable tariffs to attempt to reduce its losses in the future, we have only been able to implement changes to our operations in isolated areas of Brazil on a gradual basis.

Furthermore, Eletronorte remains dependent upon purchases of oil in order to generate electricity at its isolated plants and is unable to distribute the electricity that it generates through the interconnected power system, adversely affecting its profitability and cash flow from operations. Discussions have taken place regarding proposals to connect the plants owned by Eletronorte to the interconnected power system and to supply them with natural gas by means of a pipeline from gas fields in the Amazon region. However we cannot assure you that any of these proposals will be implemented and, accordingly, there is a risk that net losses attributable to Eletronorte will continue to adversely affect our profitability, our financial condition and the results of our operations.

We may incur losses and spend time and money defending pending litigation and arbitration.

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. We have established provisions for all amounts in dispute that represent a probable loss in the view of our legal advisors and in relation to those disputes that are covered by laws, administrative decrees, decrees or our court rulings that have proven to be unfavorable. As of December 31, 2008, we provisioned a total aggregate amount of approximately R\$3,532 million in respect of our legal proceedings (plus judicial deposits of R\$921 million), of which R\$242 million related to tax claims, R\$2,965 million related to civil claims and R\$1,246 million related to labor claims. (See "Item 8.A-Consolidated Financial Statements and Other Information-Litigation").

In the event that claims involving a material amount and for which we have no provisions were to be decided against us, or in the event that the losses estimated turn out to be significantly higher than the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on our financial condition and results of operations. In addition, our management may be required to direct its time and attention to defending these claims, which could preclude them from focusing on our core business. Depending on the outcome, certain litigation could result in restrictions in our operations and have a material adverse effect on certain of our businesses.

Our insurance coverage may be insufficient to cover potential losses.

Our business is generally subject to a number of risks and hazards, including industrial accidents, labor disputes, unexpected geological conditions, changes in the regulatory environment, environmental hazards and weather and other natural phenomena. Our insurance covers only part of the losses that we may incur. We maintain insurance in amounts that we believe to be adequate to cover damages to our plants caused by fire, general third-party liability for accidents and operational risks. If we are unable to renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance that exceed our insurance limits, we could be subject to significant unexpected additional losses.

Judgment may not be enforceable against our directors or officers.

All of our directors and officers named in this annual report reside in Brazil. We, our directors and officers and our Fiscal Council members, have not agreed to accept service of process in the United States. Substantially all of our assets, as well as the assets of these persons, are located in Brazil. As a result, it may not be possible to effect service of process within the United States or other jurisdictions outside Brazil upon these persons, attach their assets, or enforce against them or us in United States courts, or the courts of other jurisdictions outside Brazil, judgments predicated upon the civil liability provisions of the securities laws of the United States or the laws of other jurisdictions.

Risks Relating to Brazil

Macroeconomic conditions globally and in Brazil have weakened and our business and results of operations are likely to be materially adversely affected while these conditions persist.

Recent market volatility and disruption globally has been accompanied by worsening economic data in the world's major economies. Substantially all of our revenue is generated by our operations in Brazil, and in keeping with the global trend, the Brazilian economy has weakened since the third quarter of 2008. According to the Brazilian Geography and Statistics Institute (or the IBGE), Brazil's GDP declined by 3.6% in the fourth quarter of 2008 compared to the previous fiscal quarter, which was the most significant quarterly decline in GDP since 1996. The unemployment rate has also increased in recent months, reaching 8.9% in April 2009 according to IBGE. Recent volatility in commodity prices has also impacted certain key industries in Brazil. According to a survey among financial institutions carried out by the Central Bank on February 2009, the rate of growth in Brazilian GDP is forecast to decline or remain close to zero in 2009. Weakening economic conditions in Brazil may impair the ability of some of our customers in the free market to pay us amounts due under contracts we have with them and/or prompt some of those customers to seek renegotiations of the terms of the applicable contracts. In addition, weakening economic conditions may limit our ability to execute our strategy in the same way that we would in a period of economic growth and stability. Accordingly, for so long as these conditions persist, our results of operations may be adversely affected.

The Brazilian Government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian economic and political conditions have a direct impact on our business, financial condition, results of operations and prospects.

The Brazilian economy has been characterized by the significant involvement of the Brazilian Government, which often changes monetary, credit and other policies to influence Brazil's economy. The Brazilian Government's actions to control inflation and effect other policies have often involved wage and price controls, depreciation of the *real*, controls over remittances of funds abroad, intervention by the Central Bank to affect base interest rates and other measures. We have no control over, and cannot predict, what measures or policies the Brazilian Government may take in the future. Our business, financial condition, results of operations and prospects may be adversely affected by changes in Brazilian Government policies, as well as general factors including, without limitation:

- Brazilian economic growth;
- inflation;
- interest rates;
- variations in exchange rates;
- exchange control policies;
- liquidity of the domestic capital and lending markets;
- fiscal policy and changes in tax laws; and
- other political, diplomatic, social and economic policies or developments in or affecting Brazil.

Changes in, or uncertainties regarding the implementation of, the policies listed above could contribute to economic uncertainty in Brazil, thereby increasing the volatility of the Brazilian securities market and the value of Brazilian securities traded abroad.

The stability of the Brazilian real is affected by its relationship with the U.S. dollar, inflation and Brazilian Government policy regarding exchange rates. Our business could be adversely affected by any recurrence of volatility affecting our foreign currency-linked receivables and obligations.

The Brazilian currency has experienced high degrees of volatility in the past. Although the *real* appreciated against the U.S. dollar in 2005, 2006 and 2007, the *real* experienced a significant degree of fluctuation in 2008, ranging from R\$1.559 to U.S.\$1.00 to R\$2.500 to U.S.\$1.00, and ended the year at R\$2.337 to U.S.\$1.00, which represents a material depreciation from the average for the year of R\$1.837 to U.S.\$1.00 and the Brazilian currency has historically suffered frequent devaluations or depreciations. Although over the longer term devaluations or depreciations of the Brazilian currency are generally correlated with the rate of inflation in Brazil, depreciations of the Brazilian currency over shorter periods of time have resulted in significant fluctuations in the value of the Brazilian currency. The relationship of Brazil's currency to the value of the U.S. dollar, relative rates of devaluation or depreciation of Brazil's currency and prevailing rates of inflation have affected, and may in the future affect our financial results.

The *real* may not maintain its current value or the Brazilian Government may implement foreign currency control mechanisms. Any governmental interference with the exchange rate, or the implementation of exchange control mechanisms, could lead to a depreciation of the *real*, which could reduce the value of our receivables and make our foreign currency-linked obligations more expensive. Other than in respect of our revenues and receivables denominated in U.S. dollars, such devaluation could materially adversely affect our business, operations or prospects.

Inflation, and the Brazilian Government's measures to curb inflation, may contribute significantly to economic uncertainty in Brazil and materially adversely impact our operating results.

Brazil has historically experienced high rates of inflation. Inflation and some of the Brazilian Government's measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy generally. Inflation, policies adopted to contain inflationary pressures and uncertainties regarding possible future governmental intervention have contributed to economic uncertainty.

Since the introduction of the *real* in 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist. According to the *Índice Geral de Preços-Mercado* (General Market Inflation Index, or IGP-M), Brazilian general market inflation rates were 3.8% in 2006, 7.75% in 2007 and 9.81% in 2008. According to the *Índice de Preços ao Consumidor Amplo* (Consumer Price Index, or IPCA), Brazilian price inflation rates were 3.1% in 2006, 4.5% in 2007 and 5.9% in 2008.

If Brazil were to experience high levels of inflation in the future, inflationary cost pressures may lead to further government intervention, including the introduction of policies that could adversely affect our business, financial condition, results of operations and prospects.

The market value of securities issued by Brazilian companies is influenced by the perception of risk in Brazil and by the risk of other emerging economies.

Adverse events in the Brazilian economy and in market conditions of other emerging markets, especially in Latin America, may adversely affect the market prices of securities issued by Brazilian companies. Even if economic conditions in these countries differ considerably from economic conditions prevailing in Brazil, investors' reactions to events in those countries may have a negative effect on the market prices of securities of Brazilian issuers. As a consequence of economic problems in various emerging market countries in recent years (such as the financial crisis in Argentina that began in 2001), investors have tended to examine investments in emerging markets with heightened caution. These crises could result in Brazilian companies facing higher costs for raising funds, thereby impeding access to capital markets. Recently, emerging market indices declined because of global economic uncertainty and indications of inflationary pressures in the United States. The Brazilian economy is affected by general global economic conditions, especially those in the United States (including the levels of U.S. interest rates and the behavior of major U.S. stock indices). There is no guarantee that international capital markets will remain open to Brazilian companies or that the costs of financing in such markets will be advantageous for us.

These factors could affect the trading price of our common and preferred shares and ADSs and could make it more difficult for us to access capital markets and finance future operations.

Risks Relating to the Brazilian Power Industry

We cannot predict whether the constitutionality of the Electricity Regulatory Law will be upheld; if it is not, we may face both uncertainty and costs in re-aligning our business.

In 2004, the Brazilian Government enacted the Electricity Regulatory Law, a far-reaching piece of legislation that provides the framework for regulation of the electricity sector in Brazil. We have aligned our business within this framework. However, the constitutionality of the Electricity Regulatory Law is being challenged in the Brazilian Supreme Court. The Supreme Court has not yet issued a final ruling in this case although it recently agreed to deny a request to suspend the effectiveness of the Electricity Regulatory Law while the challenge is pending. If the Supreme Court were to hold that the Electricity Regulatory Law is unconstitutional, this would result in significant uncertainty in Brazil as to the appropriate regulatory framework for the electricity sector, which could materially adversely affect the operation of our business. Moreover, we have no way of predicting the terms of any alternative framework for the regulation of electricity in Brazil. We would likely face costs in re-aligning our business to meet the requirements of any such framework, which would materially adversely affect our financial condition and results of operations.

We could be penalized by ANEEL for failing to comply with the terms of our concession agreements and we may not recover the full value of our investment in the event that any of our concession agreements are terminated.

ANEEL may impose penalties on us in the event that we fail to comply with any provision of our concession agreements. Depending on the extent of the non-compliance, these penalties could include substantial fines (in some cases up to two per cent of our gross revenues in the fiscal year immediately preceding the assessment) and restrictions on our operations. ANEEL may also terminate our concessions prior to their due date in the event that we fail to comply with their provisions, are declared bankrupt or are dissolved, or in the event that ANEEL determines that such termination would serve the public interest (see “Item 4.B, Business Overview—Generation—Concessions”).

We believe that we are currently in compliance with all material terms of our concession agreements. However, we cannot assure you that we will not be penalized by ANEEL for a future breach of our concession agreements or that our concessions will not be terminated in the future. In the event that ANEEL were to terminate any of our concessions before their expiration date, the compensation we recover for the unamortized portion of our investment may not be sufficient for us to recover the full value of our investment and, accordingly, could have a material adverse affect on our financial condition and results of operations.

We are subject to safety, health and environmental laws and regulations that may become more stringent in the future and may result in increased liabilities and increased capital expenditures.

Our operations are subject to comprehensive federal, state and local safety, health and environmental legislation as well as supervision by agencies of the Brazilian Government that are responsible for the implementation of such laws. Among other things, these laws require us to obtain environmental licenses for the construction of new facilities or the installation and operation of new equipment required for our business. The rules are complex and may change over time, making our ability to comply with the applicable requirements more difficult or even impossible, thereby precluding our continuing or future generation, distribution and transmission operations. For example, the Ministry of Environment required us to fulfil 33 steps related to health and safety and environment in order to receive a permit for operation of our Madeira river project. We see increasing health and safety requirements as a trend in our industry. Moreover, private individuals, non-governmental organizations and the public have certain rights to commence legal proceedings to obtain injunctions to suspend or cancel the licensing process. In addition, Brazilian Government agencies could take enforcement action against us for any failure to comply with applicable laws. Such enforcement action could include, among other things, the imposition of fines, revocation of licenses and suspension of operations. Such failures may also result in criminal liability, irrespective of our strict liability to perform environmental remediation and to indemnify third parties for environmental damage. We cannot accurately predict the effect that compliance with enhanced environmental, health or safety regulations may have on our business. If we do not secure the appropriate permits, our growth strategy will be significantly adversely affected, which may materially adversely affect our results of operations and our financial condition.

Environmental regulations require us to perform environmental impact studies on future projects and obtain regulatory permits.

We must conduct environmental impact studies and obtain regulatory permits for our current and future projects. We cannot assure you that these environmental impact studies will be approved by the Brazilian Government, that public opposition will not result in delays or modifications to any proposed project or that laws or regulations will not change or be interpreted in a manner that could materially adversely affect our operations or plans for the projects in which we have an investment. We believe that concern for environmental protection is an increasing trend in our industry. Changes in environmental regulations, or changes in the policy of enforcement of existing environmental regulations, could materially adversely affect our results of operations and our financial condition by delaying the implementation of electricity projects, increasing the costs of expansion, or subjecting us to regulatory fines for non-compliance with environmental regulations.

We are affected by hydrological conditions and if the poor hydrological conditions of recent years were to recur, our results of operations would be affected as non-hydrological sources of generation were used.

Prevailing hydrological conditions could adversely affect our operations in a number of different ways, not all of which we can predict. For example, hydrological conditions that result in a low supply of electricity in Brazil could cause, among other things, the implementation of broad electricity conservation programs, including mandatory reductions in electricity generation or consumption. The most recent period of extremely low rainfall in a large portion of Brazil was in the years immediately prior to 2001, and as a result, the Brazilian Government instituted a program to reduce electricity consumption from June 1, 2001 to February 28, 2002. A recurrence of unfavorable hydrological conditions that result in a reduced supply of electricity to the Brazilian market could cause, among other things, the implementation of broad electricity conservation programs, including mandated reductions in electricity consumption. Hydrological conditions in late 2007 and early 2008 have been poor, particularly impacting reservoir levels in the northeastern and southeastern regions of Brazil. A prolonged continuation of these poor conditions could lead to a greater usage of other sources of generation of electricity and the implementation of broad electricity conservation programs, including mandated reductions in electricity. In the event of electricity shortages, the Brazilian Government typically mandates increased production from thermal plants that use fossil fuel as their generation sources. Although we have thermal facilities, hydroelectric facilities are the most significant component of our generation business and, accordingly, we are particularly affected when hydrological conditions are poor. Our generation capacity could also be affected by events such as floods which might do damage to our installations. This may in turn materially adversely affect our financial condition and results of operations.

Construction, expansion and operation of our electricity generation, transmission and distribution facilities and equipment involve significant risks that could lead to lost revenues or increased expenses.

The construction, expansion and operation of facilities and equipment for the generation, transmission and distribution of electricity involves many risks, including:

- the inability to obtain required governmental permits and approvals;
- the unavailability of equipment;
- supply interruptions;
- work stoppages;
- labor unrest;
- social unrest;

Table of Contents

- interruptions by weather and hydrological conditions;
- unforeseen engineering and environmental problems;
- increases in electricity losses, including technical and commercial losses;
- construction and operational delays, or unanticipated cost overruns; and
- the unavailability of adequate funding.

If we experience any of these or other problems, we may not be able to generate, transmit and distribute electricity in amounts consistent with our projections, which may have a material adverse effect on our financial condition and results of operations. We do not have insurance for some of these risks, including certain weather risks.

We are strictly liable for any damages resulting from inadequate supply of electricity to distribution companies, and our contracted insurance policies may not fully cover such damages.

Under Brazilian law, we are strictly liable for direct and indirect damages resulting from the inadequate supply of electricity to distribution companies, such as abrupt interruptions or disturbances arising from the generation, distribution or transmission systems. Accordingly, we may be held liable for such damages even if we were not at fault. As a result of the inherent uncertainty involved in these matters, we do not maintain any provisions in relation to potential damage, and these interruptions or disturbances may not be covered by our insurance policies or may exceed the coverage limits of such policies. Accordingly, if we are found liable to pay damages in a material amount, our financial condition and results of operations would be materially adversely affected to a greater degree than those claims where we have recorded provisions.

We do not have an established history of preparing U.S. GAAP financial statements and we lack in-depth internal expertise on U.S. GAAP.

Historically, our financial statements have been prepared in accordance with accounting practices adopted in Brazil, the accounting standards issued by the *Instituto dos Auditores Independentes do Brasil* (or Brazilian Institute of Independent Accountants) and the standards and procedures of the CVM. We do not have U.S. GAAP financial data for any period prior to the year ended December 31, 2004.

As a result, we currently lack in-depth internal expertise with U.S. GAAP. At the date of this annual report, we use a third party consultancy firm to assist us in preparing U.S. GAAP financial statements. If we are unable to develop this expertise internally or through external hires, we may face challenges in certain areas such as making the assessments required by U.S. GAAP in consolidating the results of our operating subsidiaries. Although we plan to train and/or hire personnel with U.S. GAAP expertise following our listing on The New York Stock Exchange (the NYSE), we cannot give any assurances as to whether we will be successful in training, hiring and retaining the appropriate personnel. If we are unable to train, hire and retain the appropriate personnel, our ability to prepare U.S. GAAP financial statements in a consistent and timely manner might be jeopardized.

Risks Relating to our Shares and ADSs

You may not receive unpaid dividends.

We have only partially paid accrued dividends for the years 1979, 1980, 1981, 1982, 1983, 1984, 1989, 1996 and 1998 in respect of the common shares. The amount of the unpaid portion of these dividends was originally R\$887 million, but following adjustment for inflation using the Selic rate, we currently record approximately R\$9.3 billion on our balance sheet (at December 31, 2008) as "Shareholders' remuneration and dividends". This amount is not due to individual shareholders until the dividend is paid, which has not yet happened. If a dividend is paid, our then current shareholders will be entitled to receive it. Under Brazilian corporate law, there is no date by which these dividends must be paid. This is a widely accepted interpretation of Brazilian corporate law. However, we cannot assure you that this interpretation may not be challenged in the future by the CVM or by former or minority

shareholders. Our management continues to consider this issue but, if they do not declare a payment date for these dividends, the holders of our common shares (and our related ADSs) will not receive them. Dividends for the years after 1998 have been declared and paid to our shareholders. We may receive adverse publicity in relation to these unpaid dividends and may be subject to litigation from former shareholders demanding payment.

If you hold our preferred shares, you will have extremely limited voting rights.

In accordance with the Brazilian Corporate Law and our by-laws, holders of the preferred shares, and, by extension, holders of the ADSs representing them, are not entitled to vote at our shareholders' meetings, except in very limited circumstances. This means, among other things, that a preferred shareholder is not entitled to vote on corporate transactions, including mergers or consolidations with other companies. Our principal shareholder, who holds the majority of common shares with voting rights and controls us, is therefore able to approve corporate measures without the approval of holders of our preferred shares. Accordingly, an investment in our preferred shares is not suitable for you if voting rights are an important consideration in your investment decision.

Exercise of voting rights with respect to common and preferred shares involves additional procedural steps.

When holders of common shares are entitled to vote, and in the limited circumstances where the holders of preferred shares are able to vote, holders may exercise voting rights with respect to the shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs. There are no provisions under Brazilian law or under our by-laws that limit ADS holders' ability to exercise their voting rights through the depositary bank with respect to the underlying shares. However, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders. For example, holders of our shares will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary bank, which will in turn, as soon as practicable thereafter, mail to holders of ADSs the notice of such meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary bank how to vote their shares. Because of this extra procedural step involving the depositary bank, the process for exercising voting rights will take longer for ADS holders than for holders of shares. ADSs for which the depositary bank does not receive timely voting instructions will not be voted at any meeting.

If we issue new shares or our shareholders sell shares in the future, the market price of your ADSs may be reduced.

Sales of a substantial number of shares, or the belief that this may occur, could decrease the prevailing market price of our common and preferred shares and ADSs by diluting the shares' value. If we issue new shares or our existing shareholders sell shares they hold, the market price of our common and preferred shares, and of the ADSs, may decrease significantly. Such issuances and sales also might make it more difficult for us to issue shares or ADSs in the future at a time and a price that we deem appropriate and for you to sell your securities at or above the price you paid for them.

Exchange controls and restrictions on remittances abroad may adversely affect holders of ADSs.

You may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of *reais* into foreign currencies. The Brazilian Government imposed remittance restrictions for approximately three months in late 1989 and early 1990. Restrictions like these would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of our shares, as the case may be, from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. We cannot assure you that the Brazilian Government will not take similar measures in the future.

Exchanging ADSs for the underlying shares may have unfavorable consequences.

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our preferred shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the preferred shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw preferred shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the preferred shares unless you obtain your own electronic certificate of foreign capital registration or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration you would not be able to remit abroad non-Brazilian currency. In addition, if you do not qualify under the foreign investment regulations you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our preferred shares.

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our preferred shares or the return of your capital in a timely manner. The depositary's electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

The relative volatility and illiquidity of the Brazilian securities market may adversely affect you.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may substantially limit your ability to sell the common or preferred shares underlying your ADSs at a price and time at which you wish to do so. The *BM&FBOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros* (the São Paulo Stock Exchange or BM&FBOVESPA), the only stock exchange in Brazil upon which shares are traded, had a market capitalization of approximately U.S.\$588 billion as of December 31, 2008 and an average daily trading volume of approximately U.S.\$2.8 billion in the same period, compared to a market capitalization of approximately U.S.\$14.3 trillion as of December 31, 2008 and an average daily trading volume of approximately U.S.\$82 billion in the same period on the NYSE.

There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The top ten stocks in terms of trading volume accounted for approximately 53.14% of all shares traded on the BM&FBOVESPA in 2008.

You may receive reduced dividend payments if our net income does not reach certain levels.

Under the Corporate Law and our by-laws, we must pay our shareholders a mandatory distribution equal to at least 25% of our adjusted net income for the preceding fiscal year, with holders of preferred shares having priority of payment. Our by-laws require us to pay holders of our preferred shares annual dividends equal to the greater of 8% (in the case of our class "A" preferred shares) and 6% (in the case of our class "B" preferred shares). Our by-laws do not provide that we must pay any minimum dividend to holders of our ordinary shares. If our net income is negative or insufficient in a fiscal year, our management may recommend at the annual shareholders' meeting in respect of that year that the payment of the mandatory dividend should not be made.

You may not be able to exercise preemptive rights with respect to the preferred or common shares.

You may not be able to exercise the preemptive rights relating to the preferred or common shares underlying your ADSs unless a registration statement under the United States Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary or, if the preemptive rights cannot be sold, they will be allowed to lapse and accordingly your ownership position relating to the preferred or common shares will be diluted.