

ADMINISTRATION REPORT – 2006

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Message from the CEO

On the eve of completing 50 years, FURNAS keeps complying with the mission of generating and transmitting energy for the sustenance of national development and the task of operating, in levels of excellence, the largest extra-high voltage system in Latin America.

A complex of 11 hydroelectric and 2 thermoelectric generation plants, almost 20 thousand kilometers of transmission lines and 46 substations allowed for about 13% of all electric energy generated, 40% of that transmitted and 52% of the transformation capacity of SIN, with the expressive level of 99% of availability in the transmission installations.

The need for increased offer of energy to cope with the demand resulting from the Country's development implied, during the period, in paying special attention to the associations aimed at the implementation of the hydroelectric projects of Foz do Chapecó, Serra do Facão and Baguari, in parallel with preparation measures directed to the undertakings of Simplício and Batalha, exclusively by the Company.

In the context of energy transmission, two new Substations, Gurupi and Pirineus, were commissioned, thereby allowing, respectively, the connection of Peixe Angical Power Plant to the system and the improvement of supply to Anápolis, an important industrial center of Goiás. Increased reliability in the energy supply to the states of São Paulo e Minas Gerais resulted from reinforcements and improvements executed at Substations Ibiúna, Itutinga and Campinas. The interconnection between Southeastern and Southern regions was improved with an expressive gain of 500 MW in average, thanks to modifications introduced in the trunk of 750 kV of Itaipu transmission system. This represented an important contribution in complementing the supply to the Southern region, whose reservoirs were presenting reduced levels of storage.

Roughly R\$ 900 million were applied directly in expansions and improvements of generation and transmission installations, including the Hydroelectric Power Plants Furnas, Marechal Mascarenhas de Moraes and Luiz Carlos Barreto de Carvalho, all along the Grande river, and with over 40 years in operation.

It is worth noting that, in the accomplishment of its mission, FURNAS did not disregard of acting towards the transformation of social structure and invested in social projects and cultural activities in the regions where are located its installations. The Company proceeded with the coordination of Coep, grouping around one thousand private and public entities and directly promoted 117 social projects, benefiting 134 thousand people, in the fields of education and development, citizenship and rights, health and nutrition, labor and income. In addition, sixteen exhibitions took place in the Cultural Space and 38 cultural projects were supported.

The high degree of commitment by the working staff, and the trust assured by the Federal Government, in special by MME and Eletrobrás, made possible the accomplishment of our task and, therefore, deserve the gratefulness of the Company's Administration, which presents herewith the Annual Report for the year 2006, trusting to have fulfilled the expectations of shareholders, clients and the community.

José Pedro Rodrigues de Oliveira
Chief Executive Officer

Company Profile

FURNAS is a mix private/state owned limited company established on February 28, 1957, by Decree No. 41.066, which authorized the Company to build Brazil's first large hydroelectric power plant.

As a subsidiary of Eletrobrás, it received the mission of serving a multi-state market by constructing and operating electric power plants, as well as transmission systems in high and extra-high voltages connecting interstate systems and transmitting the energy produced by bi-national projects.

The Company supplies electric energy basically to the Southeastern and the Midwestern regions, interconnecting eight states and the Federal District, where around 50% of the Brazilian population is located, responding for, approximately, 63% of the Country's GDP.

Installations operated by FURNAS comprise 11 hydroelectric power plants, out of which 8 in full ownership and 3 in cooperation with private investors (2 in partnership and 1 through a Specific Purpose Company – SPE), besides two conventional thermal power plants, as well as 46 substations, with a transforming capacity of 101,107 MVA and a transmission grid of 19,278 km. Included therein are the circuits of Itaipu Transmission System in 750 kV Alternate Current (AC) and \pm 600 kV Direct Current (DC) and other strategic links flowing energy to the Southern, Southeastern, Midwestern and Northern regions of the Country.

In 2006, in spite of the de-contracting of 100% of the Initial Contracts, in accordance with Law No. 9.648, of May 27, 1998, the amount of energy sales reached 56,322 GWh.

I – MANAGEMENT

COMPANY BUSINESS

Outlook of the Brazilian Economy and Market

Monetary policy was marked, in 2006, by flattening of the Special System for Settlement and Custody (*Sistema Especial de Liquidação e de Custódia – Selic*) interest rate which, by the end of the period, had reached 13.25%. Inflation was kept under control and the measuring index, Consumer Price Index Expanded (*Índice de Preços ao Consumidor Ampliado – IPCA*), attained 3.16%. According to Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística – IBGE*), the GDP increased 2.3%, at market prices. This growth resulted from a 2.7% increase in the added value at basic prices and a 4.4% elevation in the products taxes. The growth in the added value resulted from the behavior of its three component sectors: agro-business (3.2%), industry (3.0%) and services (2.4%). In the same period the GDP *per capita* grew 1.4%.

The progressive valuation of exchange rate did not affect negatively the commercial trade balance and Brazil registered a new historic record, with a surplus of US\$ 46 billion, 3.05% higher than in 2005. Nevertheless, it contributed to an increase of 24.2% in imports (US\$ 91 billion) in relation to the previous year. Exports (US\$ 137 billion) grew 16.2%, under the influence of basic products or manufactures of low added value.

According to preliminary data disclosed by Energy Research Company (*Empresa de Pesquisas Energéticas – EPE*), the electric energy consumption in 2006 reached 347 TWh, representing an expansion of 3.8% over the total of 2005. This result sustains the historic trend of annual growth of the electricity market being higher than those of the economy. Nevertheless, this expansion represented a reduction in comparison to the previous year, when consumption grew 4.6%; this may be explained by a weaker performance of Brazilian economy associated to climatic factors. The year of 2006 presented lower average temperatures than the historical trend, with high indexes of precipitation occurrences, thus leading to a decrease in the utilization of cooling and irrigation equipment, which present a substantial share of the energy market performance.

Industrial consumption, accounting for 44% of the total, presented an increase of 3.6%, higher than the foreseen value, around 3%, previously foreseen. The residential consumption segment, with a 25% participation in the total, presented an expansion of 3.9%, with the incorporation of 1.65 million new residential consumers. The commercial class, whose consumption represents 16% of the total, registered the highest growth, reaching 4.5% in relation to 2005. This increase resulted from additions in the number of commercial points, with emphasis on the expansion of hotels chains and of other installations focused on tourism.

The Southeastern region, with a share of 54% of the Brazilian market, presented an increase of 4.2% on its total consumption, with a higher contribution from the commercial category. The North, accounting for only 6.2% of the national consumption, achieved the significant growth of 4.9%. In the Northeastern region, answering for 17% of the Brazilian market, the consumption grew 3.8%. The expansion in the Southern region, with 17% of the market share, attained only 3.3%, as a result of weather negative effects over consumption and the retraction of important industrial segments caused by loss of importing markets. Finally, in the Midwestern region, that represents 6% of the national market, consumption was negatively influenced by weather conditions, combined with the reduction of demand from significant exporting industrial and energy intensive segments, resulting in an expansion of only 1%.

Overview of Company's Business

System's Operation

Activities were developed in the fields of electric studies, electric planning of operation, and actual operation of National Interconnected System (*Sistema Interligado Nacional – SIN*), aiming at the compatibility between National Electricity System Operator (*Operador Nacional do Sistema Elétrico – ONS*) grid procedures and maintenance requirements, operational limitations and specific characteristics of FURNAS' operated equipment.

Also in the context of SIN's operation, but apart from the basic grid, planning and operation of the installations were implemented in accordance with operational procedures prevailing among the interconnected companies acting in generation, transmission and distribution.

During 2006 generation installations were available 92.8% of the time (87.1% when considered the interruptions due to the modernization process) whereas in transmission the lines were available 99.2% of the time.

Generation capacity was increased with the commissioning of all 3 units of Hydroelectric Power Plant (HPP) Peixe Angical (452 MW), outcome of an association with private investors, in the context of a SPE with Energias do Brasil, FURNAS share in the ownership being of 40%.

In the area of transmission the main events were related to the initial operation of new installations, listed below, providing increased reliability and better performance of SIN's operations:

- Pirineus Substation, with 2 line bays, in the region of Anápolis (GO);
- Transmission Line (TL) 500 kV Peixe Angical – Gurupi, with 92 km, also constructed in association, under the concept of SPE, with the company Energias do Brasil, to assure the connection of Peixe Angical HPP to the SIN.

Two important actions were undertaken in the context of Itaipu Transmission System:

- with the purpose of improving the reliability and overall quality of energy transmission through the DC Trunk, associated to the 50 Hz sector of Itaipu HPP, new filter banks for 3rd and 5th harmonics were installed at Ibiúna Substation. They were designed to avoid distortions introduced in the DC/AC conversion by industrial loads and electronic equipment in a steadily growing scale; they were “polluting” the system with harmonic distortions, overloading the pre-existing filters and putting in risk energy transmission. Along 2006, before the installation of new filters, overloads were controlled by means of reducing the power transmitted through the DC link and by disconnecting TL 345 kV Interlagos – Ibiúna and TL 500 kV Ibiúna – Bateias. During the commissioning of new filters overloads were eliminated;
- among several Emergency Control Schemes (*Esquemas de Controle de Emergências – ECE*) with the purpose of improving performance and increasing reliability of SIN, stand out the physical modifications in the transfer bars of Ivaiporã Substation (PR) and corresponding alterations in the ECE, both associated to AC Transmission in 750 kV. Such procedures allowed for an increment of to 2,100 MW in the maximum capacity of interchange between regions Southeast and South therefore permitting a gain in energy transfer of 500 average MW. Such measures were essential to the complementation of energy to the Southern region, where a low precipitation index was prevailing, resulting in reduced impounding levels at the reservoirs.

Within the framework of electric planning of operation were executed pre-operational studies of new equipment, analyses of design, studies for protection adjustments, factory acceptance tests, commissioning of protections, as well as studies at the Electric Systems Real Time Simulator for several different jobs, with emphasis on the following:

- integration of Peixe Angical HPP (452 MW) to the SIN, including the definition and/or upgrading of the logics of North-South Interconnection applicable to the plant, in cooperation with ONS;
- installation of an autotransformers' bank 525/345 kV – 400 MVA, at Ouro Preto Substation;
- installation of the 5th autotransformers' bank 330/138/13.8 kV – 225 MVA, at Vitória Substation;
- installation of banks of *shunt* reactors 60 Mvar/345 kV, associated to the terminals, at Vitória and Ouro Preto Substations, corresponding to TL 345 kV Vitória – Ouro Preto;
- installation of the 3rd autotransformers' bank 765/512.2/69 kV – 1,650 MVA, at Ivaiporã Substation;
- seccionalization of TL Campos – Vitória, in double circuit, along 149 m, and installation of two autotransformers' banks 330/138/13.8 kV – 225 MVA, for connection with Viana Substation;
- installation of 6 line bays, in 138 kV, at Viana Substation, for connection with Escelsa;
- installation of the 2nd Stage of expansion of Santa Cruz TPP with repowering of GU 21 (166 MW), and elaboration of specific electric studies for definition of new settings for the main controllers (tension, speed and additional stabilizing signal) to cope with the new characteristics of the equipment for GU 11 e 21;
- analysis of about 1,350 disturbances at FURNAS' System installations.

Certification of the Company's Operation Centers was renewed, in accordance with Contract for Transmission Services with ONS, abiding by standard NBR ISO 9001:2000.

On the same line of compliance with the policy of continuous improvement was implemented the upgrading of several equipment incorporated into the Supervision and Control Operation Centers.

FURNAS proceeded in making intensive use of the Electric Systems Real Time Simulator, installed at its Main Office, aiming at the continuous improvement of the behaviour of regulation, control and protection devices of plants, substations and ancillary equipment. This Simulator is an International Reference and has been coping with the requests from national and international electric energy companies.

Maintenance of Installations

Modernization of generating power plants proceeded, with the following highlights:

- continuation of services at the units of HPP's Mascarenhas de Moraes and Furnas;
- start of service at Luiz Carlos Barreto de Carvalho HPP (Estreito);
- recovery of steam turbine No. 1 and chemical cleaning of boilers 3 e 4, at Santa Cruz TPP;

- installation of monitoring systems at the generating units of Marimbondo, Porto Colômbia and Funil HPP's;
- issuance of bidding process for contracting of monitoring systems for units 3 and 4 of Santa Cruz TPP.

With respect to substations, the following tasks were undertaken:

- overall revision and re-commissioning tests in 13 extra-high voltage (345, 500 and 765 kV) circuit breakers in several of the company's installations as part of the process of keeping the high level of operational reliability;
- reparation of 15 large equipment items, including transformers and reactors, overall revision of 9 circuit breakers, modernization of 8 disconnecting switches, class 800 kV, and definition of criteria and limits for overloads in transformers and transmission lines, in compliance with requests by ONS;
- modernization of Digital Supervision Systems at Substations Cachoeira Paulista and Brasília Sul and HPP Itumbiara and Marimbondo, in the context of a project from Sinocon, under the responsibility of ONS.

Proceeding with the Recovery Plan for Transmission was executed the replacement of 18,060 insulators, 1,657 spacers-dampers, painting of 262 towers and recovery of 1,507 tower foundations in several circuits.

Also worth mentioning:

- refurbishing of TL Brasília Geral – Xavantes 230 kV, involving the complete replacement of 3 towers, installation of 19,750 dampers in 375 towers and change suspension strings of 85 towers into floating dead end, to allow the initial operation of Pirineus Substation;
- emergency interventions to re-establish the transmission capacity of circuits affected by the action of strong winds, with emphasis to the occurrence involving the simultaneous loss of two circuits of 750 kV AC and one of ± 600 kV DC of Itaipu System. In total, were replaced 5 towers in the lines of 750 kV, ± 600 kV DC, and 345 kV;
- acquisition of aluminum modular structures for emergency interventions, aiming at reducing the period of recovery, in cases of collapse of structures.

In the Telecommunications' System the following actions were of relevance:

- installation of new Optical Ground Wire (OPGW) at Campos – Viana, Vitória – Viana and Rio Verde – Barra do Peixe TL;
- installation of Digital Telephone Centers at installations of Itaipu Transmission System (Substations Ibiúna, Ivaiporã, Foz do Iguaçu, Mogi, Tijuco Preto, Guarulhos, Itapeva and Itaberá) and at the five Operation Centers;
- continuation of installation of the Operational Data Network, independent from the Corporate Data Network, for improved security of the Electric System;
- installation of Optical System (Sisop) and continued overall migration from analogic to digital.

Looking forward to the optimization of operation and maintenance management these activities were incorporated, under the designation of "Integrated Maintenance and Operation System", to the scope of the Enterprise Resource Planning (ERP) under bidding procedures.

Commercialization of Electric Energy

During years 2003 and 2004, the Federal Government set the basis of a new model for the Brazilian Electric Sector, as established by Laws No. 10.847 and 10.848, of 15th of March 2004 and Decree No. 5.163, of 30th of July 2004.

In what respects energy commercialization two contexts were created for the celebration of purchase/sale contracts: Context of Regulated Agreements (*Ambiente de Contratação Regulada – ACR*), open to agents of Generation and Distribution and Context of Free Agreements (*Ambiente de Contratação Livre – ACL*), open to agents of Generation, Traders and Free Consumers.

At ACR, energy commercialization takes place through public auctions, regulated by Brazilian Electricity Regulatory Agency (*Agência Nacional de Energia Elétrica – Aneel*), directly coordinated by the Agency or Electric Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica – CCEE*), and leading to regulated bilateral agreements, called Contracts of Electric Energy Commercialization in Regulated Context (*Contratos de Comercialização de Energia Elétrica no Ambiente Regulado – Ccear*), celebrated between each Selling Agent, on one side, and, on the other, every Purchaser (Distributor) that took part in the auction. FURNAS has been participating in these regulated auctions at ACR, either when focused on energy from existing generation installations, or from new generation projects.

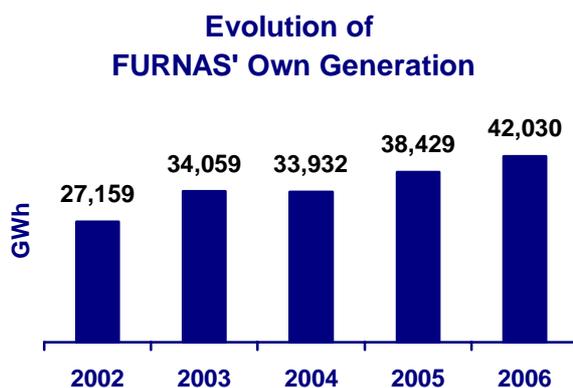
At ACL, free negotiation takes place involving Independent Producers, Traders and Free Consumers. Public Service Concessionaries under Federal control are subject to the legal requirement for Auction or Public Call for Energy Sale and Purchase. In this Context resulting agreements are bilateral, between one supplier and one purchaser.

FURNAS achieved good results in participating at the First Energy Auction from Existing Capacity by selling, in favorable conditions, energy from Manso HPP. In the First Auction for Energy from New Installations, three power plants, representing 54% of hydroelectric potential offered, were assigned to the Company: HPP Simplício, Batalha and Baguari.

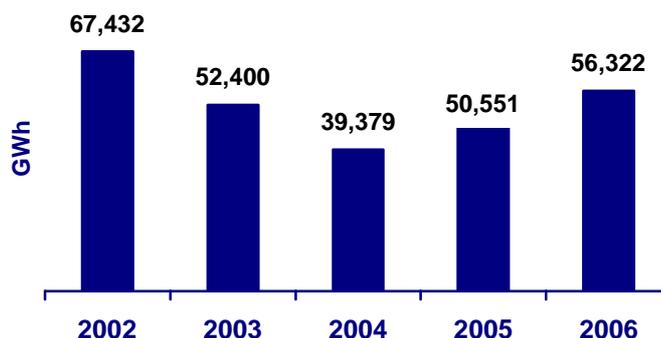
At the Third Interim Auction, in September 2006, 10 MW average were sold for delivery from October to December.

The Company proceeded in participating at several auctions in the ACL context, and became one of the main agents in such market.

Sourcing of energy from existing installations came from plants fully owned by the Company together with energy purchased from Semesa S.A., Proman S.A., EPE – Pantanal Energia, Cien and Eletronuclear. In this latter case the purchase, sanctioned by Resolution Aneel No. 252/2005, is bound to the execution of Decrees No. 2.655/1998 and 4.550/2002 and Regulation MME No. 320/2004.



Electric Energy Commercialized by FURNAS



Obs.: Law No. 9.648/1998 determined the de-contracting of energy covered by the Initial Contracts by 25% in 2003, by 50% in 2004, by 75% in 2005 and by 100% in 2006.

Commercialization of Transmission Services

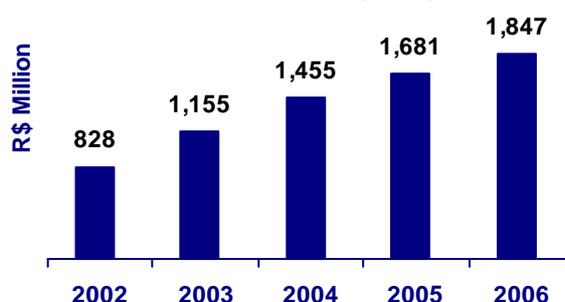
Allowed Annual Revenue (*Receita Anual Permitida* – RAP) is defined by Aneel for all transmission services in the regulated market. The value is annually updated by means of a specific resolution, on the basis of the variation of General Market Price Index (*Índice Geral de Preços do Mercado* – IGP-M), and taking into account the new installations incorporated.

In 2006, the following installations and reinforcements were commissioned:

- bank of series capacitors 230 kV, 183 Mvar for TL 230 kV Rio Verde – Itumbiara;
- line bay of TL 345 kV Viana – Campos – Vitória and corresponding interconnection bays, at Viana Substation;
- expansions associated to the busbar shunt reactor in 500 kV, at Viana Substation;
- expansions associated to the 2nd bank of mono-phase autotransformers 500/230 kV, of 400 MVA, at Serra da Mesa Substation.

The evolution of FURNAS' RAP, presented in the chart below, includes the revenue from the transmission installations of Itaipu Transmission System.

Evolution of FURNAS' Allowed Annual Revenue (RAP)



Obs.: The figure for 2005 was adjusted, from R\$ 1,593 million to R\$ 1,681million, to incorporate the revenue from the transmission installations associated to Itaipu HPP.

Evolution of Revenue from Bilateral Transmission Contracts

Bilateral transmission contracts, signed between FURNAS and agents of the Electric Sector (generators, transmitters, distributors and free consumers), generate revenues additional to RAP, of different natures, as shown below:

Nature of Contract	R\$ Thousand				
	2002	2003	2004	2005	2006
Connection to the Transmission System (<i>Conexão ao Sistema de Transmissão</i> – CCT)	1,517	5,328	6,314	11,352	13,180
Sharing of Installations (<i>Compartilhamento de Instalações</i> – CCI)	-	1,830	703	2,633	2,031
Rendering of Maintenance Services (<i>Prestação de Serviços de Manutenção</i> – CPSM)	285	506	581	1,177	1,036
Rendering of Operation and Maintenance Services (<i>Prestação de Serviços de Operação Manutenção</i> – CPSOM)	-	-	-	2,717	1,563
Sharing of Right of Way (<i>Compartilhamento de Faixa de Passagem</i> – CCFP)	-	-	519	155	-
Sharing of Infrastructure (<i>Compartilhamento de Infra-estrutura</i> – CCIF)	-	-	-	-	2,000
Total	1,802	7,664	8,117	18,034	19,810

Among several measures undertaken with the purpose of keeping path with the trend towards increasing income from transmission contracts, the following are worth mentioning:

- engagement with the utilization of quality materials and equipment, in parallel with adequate installations and operational practices, therefore guaranteeing good levels of regularity, efficiency, safety and fairness in performing services;
- adequacy of costs, in the purpose of creating competitive conditions to guarantee reasonable tariffs;
- adoption of a positive approach towards the market, seeking for new transmission services contracts.

Commercialization of Technical Support, Operational and Administrative Services

In 2006 FURNAS rendered technical and managerial services, in the fields of generation and transmission, for public and private companies of the electric sector, national and international.

Main Services Rendered

Client	Service
<i>Gabinete de Aproveitamento do Médio Kwanza (Gamek)</i> – Angola	Continuation of support services for the operation and maintenance of Capanda HPP
<i>Hidropastaza S.A.</i> – Ecuador	Supervision construction of San Francisco HPP
<i>Electricidade de Moçambique (EDM)</i> – Mozambique	Training of managers from the administrative, commercial, construction, TL's operation and labor security Definition of main parameters and specification of equipment for EDM's Training Center Training of instructors for the Training Center
<i>Enerpeixe S.A.</i> – Brazil	For Peixe Angical HPP Construction phase: <ul style="list-style-type: none"> • Management, quality control and technical support;

Client	Service
	<ul style="list-style-type: none"> Investigation of materials for concrete structures and dam; Support for acquisition of areas and negotiation of right of way both for the main project and Peixe Angical – Gurupi TL; Hydrometric services in areas affected by the reservoir <p>Comissioning phase:</p> <ul style="list-style-type: none"> Supervision of the execution, at the HPP, associated substation and Peixe Angical – Gurupi TL; Preparation of the HPP's Operation Manual <p>Operating phase:</p> <ul style="list-style-type: none"> Hydrological survey, strategic short and medium term planning studies, checking of the dam and operation & maintenance engineering
<i>Companhia Transudeste de Transmissão – Brazil</i>	<p>During construction of 345 kV Montes Claros – Irapé TL, single circuit, 140 km:</p> <ul style="list-style-type: none"> Management of environmental services; Technical management of execution and quality control
<i>Cachoeira Paulista Transmissão e Energia S.A. – Brazil</i>	<p>Operation and maintenance of 500 kV Cachoeira Paulista – Tijuco Preto TL, single circuit, 80 km</p>
<i>Samarco Mineração S.A. – Brazil</i>	<p>Feasibility studies of connection of 345 kV Vitória – Ouro Preto 2 TL to the Basic Grid</p>
<i>Companhia de Transmissão Centroeste de Minas – Brazil</i>	<p>During construction of 345 kV Furnas – Pimenta 2 TL, single circuit, 75 km:</p> <ul style="list-style-type: none"> Technical-administrative support to the owner's activities; Technical and environmental management of execution and quality control
<i>Companhia Brasileira de Alumínio – Brazil</i>	<p>Studies of electric behavior to verify the feasibility of connection to the system of projected Tijuco Alto HPP, about 140 MW, near Cerro Azul and Adrianópolis (PR)</p>
Several Clients	<p>Services involving geotechnics and concrete technology for the construction of HPP's Pinalito (Dominican Republic), Mosquitão (GO) and São Salvador (TO)</p> <p>Personnel Trainings and quality control of equipment at the Electric Systems Real Time Simulator.</p>

Evolution of Electric Installations in Operation

Generating Plants – Installed Capacity, Ownership and Assured Energy

Amounts of assured energy for each Power Plant correspond to the maximum amounts of energy and electric output associated to each installation, available to evidence the compliance with load demands or commercialization through contracts.

Revision of generating plants assured energies was effected in 2004, when MME defined criteria for physical guarantee of generating installations, under the assumption of a deficit of supply limited to 5%.

Power Plant	Instaled Capacity (MW)	Ownership (%)	Assured Energy (Average MW)			
			2003	2004	2005	2006
Hydroelectric						
Full Ownership						
Itumbiara	2,082	100.00	1,015	1,015	1,015	1,015
Marimbondo	1,440	100.00	726	726	726	726
Furnas	1,216	100.00	598	598	598	598
Luiz Carlos B. de Carvalho (Estreito)	1,050	100.00	495	495	495	495
Mascarenhas de Moraes	476	100.00	297	295	295	295
Corumbá I	375	100.00	209	209	209	209
Porto Colômbia	320	100.00	185	185	185	185
Funil	216	100.00	121	121	121	121
Shared Ownership						
In Partnership						
Serra da Mesa	1,275	48.47	671	671	671	671
Manso	212	69.81	92	92	92	92
Specific Purpose Company						
Peixe Angical	452	40.00	-	-	-	63
Thermoelectric						
Full Ownership						
Santa Cruz *	766	100.00	410	450	547	496
Roberto Silveira (Campos)	30	100.00	21	21	21	21
São Gonçalo (Out of Service)	-	100.00	-	-	-	-

* Values of assured energy for Santa Cruz TPP changed from 2004 to 2006 as a result of the time schedule for expansion and conversion to combined cycle.

Transmission Lines – Operating Voltages, Ownership and Extension

Starting 2006, the first Transmission Lines built in cooperation with other companies were put in operation, besides those of full ownership, as shown below:

Full Ownership

Voltage (kV)	km				
	2002	2003	2004	2005	2006
≤ 230	4,349	4,349	4,349	4,349	4,349
345	5,784	5,686	5,686	6,069	6,070
500	3,596	4,371	4,549	4,549	4,549
± 600 (DC)	1,612	1,612	1,612	1,612	1,612
750	2,698	2,698	2,698	2,698	2,698
Total	18,039	18,716	18,894	19,277	19,278

Note: Difference of 1 km between 2005 and 2006 is due to the standardization of criteria for rounding up the figures.

Shared Ownership

Specific Purpose Companies (SPE)

			2006
Voltage (kV)	SPE	Total (km)	Ownership (%)
345	Montes Claros – Irapé TL	139	24
500	Peixe Angical – Gurupi TL	92	40
Total		231	-

Substations – Voltage and Transforming Capacity of Installations in Operation

The evolution of the transforming capacity installed (MVA) at the substations operated by FURNAS, in 2006, was a result of the availability of transformers at Viana, Peixe Angical, Serra da Mesa, Campinas and Samambaia Substations.

Voltage (kV)	MVA				
	2002	2003	2004	2005	2006
≤ 230	3,813	3,913	4,074	4,048	5,213
345	23,531	24,206	24,426	25,021	25,246
500	38,868	42,278	43,078	44,888	47,598
750	19,800	21,400	21,400	23,050	23,050
Total	86,012	91,797	92,978	97,007	101,107

Supervision and Control of Generating Plants and Substations

Since 1997 FURNAS has been installing Digital Systems for Supervision and Control in every new undertaking of generation and transmission, as well as in the expansion of pre-existing installations. By the end of 2006, 17 installations were fully digitalized and 17 under adaptation.

Since 2003, the Company is a participant in the Sinocon project, under the responsibility of ONS, which envisages the modernization of digital supervision equipment of several agents.

Telecommunication Transmission System

This system, composed of radio and optical sub-systems, encompasses 5,251 km of digitalized routes, servicing 78% of all FURNAS operating units. The expansion, in 2006, corresponded to the laying of 26 km of OPGW cables between Viana and Vitória Substations. Out of the 60 operative units (46 substations, 13 power plants and the Operations Center at the main office in Rio de Janeiro), 47 are attended by digital technology, and 3 by analogical. Ten units are attended by third parties.

In 2006, were installed 494 km of OPGW cables at Corumbá – Brasília Sul TL and Rio Verde – Barra do Peixe TL, out of the 560 km foreseen in the agreements signed with Embratel, covering the sharing of infrastructure and donation of hardware.

Investments

Execution of the Budgetary Actions included in the Pluriannual Plan (PPA) 2004-2007 of the Federal Government and committed to FURNAS, required, in 2006, an investment of R\$ 881.3 million. The main projects, reported here, absorbed 80% of the amount invested:

Reinforcements of the Transmission System in the States of Goiás, Mato Grosso and the Federal District

In 2006, the following projects were concluded:

- at Gurupi Substation, installation of one line bay, in 500 kV, for the connection of Peixe Angical HPP to SIN;
- at Serra da Mesa Substation, installation of one transformer bank, 500/230 kV and 400 MVA, therefore eliminating the need for limiting the output of Cana Brava HPP at 250 MW, as a means of avoiding the risk of voltage collapse in the transmission at 230 kV, in the Northern region of the State of Goiás;
- at Itumbiara Substation, installation of one bank of series capacitors, 230 kV and 183 Mvar, making possible to export electric energy generated at the State of Mato Grosso to the load centers of the Southeastern region;
- at Pirineus Substation, installation of 2 line bays, allowing the supply to the region of Anápolis, with resulting relief of transformation equipment of Anhanguera and Xavantes Substations, which supply the region of Goiânia;
- sectioning at Brasília Geral – Xavantes TL Loop Pirineus, to increase the reliability of supply to the region of Anápolis, characterized as an important industrial pole of the State of Goiás;
- at Samambaia Substation, installation of one transformer bank, 500/345 kV and 350 MVA, contributing to the increased interchange of electric energy between Northern and Southern regions;
- at Rio Verde Substation, installation of a bank of series compensators, 230 kV and 216.4 Mvar, allowing the exportation of electric energy generated at the State of Mato Grosso to the load centers of the Southeastern region.

Reinforcements of the Transmission System in the States of São Paulo and Minas Gerais

The following projects were executed:

- at Itutinga Substation, installation of one bank of reactors, in 345 kV and 60 Mvar, with the purpose of keeping the voltage within operational values;
- at Ibiúna Substation, installation of 3 circuit breakers and 2 banks of harmonic filters, with the purpose of reducing the overload on the DC Trunk of Itaipu Transmission System and, consequently, minimize the risk of unavailability;
- at Campinas Substation, installation of a 2nd transformer bank 500/345 kV and 560 MVA, to eliminate the overload caused by the eventual loss of Campinas – Cachoeira Paulista TL 500 kV and, consequently increasing the reliability and safety of the energy supply to the region.

Reinforcements of the Transmission System in the States of Rio de Janeiro and Espírito Santo

The following projects were executed:

- at Viana Substation, installation of a 2nd autotransformer bank 345/138 kV and 4 x 75 MVA, as well as the line bay to Escelsa, allowing a higher flow of energy and better redistribution, therefore increasing safety and avoiding the need for disconnecting circuits and rationing energy in the state of Espírito Santo;
- at Angra Substation, installation of a reactors bank of 45.33 Mvar, in 500 kV, making possible a higher flow of energy generated at Angra I and II NPP;
- at Adrianópolis Substation, installation of a tie breaker, to counteract the tendency towards increased levels of short circuit in the grid serving the State of Rio de Janeiro, caused by the installation of new thermoelectric plants in the region;
- at Adrianópolis – Macaé – Campos Substation, replacement of ground wire, resulting in increased reliability.

Installation of Transmission System Macaé – Campos

The present program refers to the installation of Macaé – Campos TL 3rd circuit, in 345 kV, 92 km long, with the main purpose of assuring the full outflow of energy produced at 2 gas powered TPP, Macaé Merchant and Norte Fluminense, with aggregate capacity of 1,700 MW. The importance of this connection relies not only in avoiding restrictions in the transmission of the full output of both plants but also in increasing the reliability of supply to the Northern part of the State of Rio de Janeiro and to the State of Espírito Santo. This project was awarded to FURNAS, at Auction Aneel 001/2004 – lot G, in 2004. By the end of 2006 field survey and plotting were finished and design, supply and construction contracts were signed.

Maintenance of the Electric Energy Transmission System

Several actions involving maintenance and modernization of transmission installations were undertaken, involving replacement of equipment and protection systems, installation of surge arresters, fire prevention and air conditioning systems. Main features were, at Tijuco Preto Substation, the repair of one transformer and, at Foz do Iguaçu and Ibiúna Substations, start of the repair of one of the conversion transformers, under way by the end of the year. Also to be mentioned are tied to the modernization of Sinocon for replacement of protections in several substations.

Installation of Combined Cycle at Santa Cruz TPP

Santa Cruz TPP, situated in the State of Rio de Janeiro, operates since 1967 with oil derived liquid fuels. Expansion of the plant through utilization of combined cycle foresees the incorporation of turbo-generators, with a capacity of 175 MW each, utilizing natural gas as main fuel and, alternatively diesel oil. Such equipment will generate complementary energy, by means of heat recovery boilers used to feed with steam 2 of the pre-existing turbo-generators, of 80 MW each, adding 350 MW to the plant's original capacity of 600 MW.

In 2006 were concluded the supply and erection of electro-mechanical equipment. Next steps will be the commissioning of all equipment of combined cycle, both with natural gas and diesel, as well as the open cycle, with natural gas.

Modernization of Luiz Carlos Barreto de Carvalho HPP

Luiz Carlos Barreto de Carvalho HPP, situated on the River Grande, State of Minas Gerais, with 1,050 MW of installed capacity, has 6 generating units, the first one being in operation since March 1969, meaning an activity of over 37 years. Modernization of the plant contemplates actions involving overall recovery of turbines, generators and associated items, in parallel with the installation of new systems of control, command, supervision, monitoring and protection, to extend the useful life of the plant. Also contemplated is the digitalization of command and control of the plant, thereby increasing the operational safety and reliability of the equipment and electromechanical systems.

Work, by the end of 2006, was in advanced stage of execution in what concerns detail design and required infrastructure for installation, in accordance program. Supply of equipment also follows the executive planning, foreseeing the imminent start of modernization of first generating unit to start January 2007. Completion of work for all six units is foreseen for august 2010.

Modernization of Furnas HPP

This plant, the first one installed by the Company and operates since 1963; is situated in the River Grande, State of Minas Gerais, with an installed capacity of 1,216 MW in 8 units. This investment program has the main purpose of modernizing the generating units, the substation and ancillary installations, as well as the overall digitalization, with new systems of control, command, supervision, monitoring and protection. In addition to extending the useful life of the plant, the new features shall allow the remote control of the plant and increase the operational safety and, consequently, the reliability of equipment and electromechanical systems.

In 2006 was concluded the work on GU 06. Modernization of the 345 kV Substation reached the final stage. The overall project shows 65% of progress in physical execution, and conclusion of work on all generating units is forecast for 2010.

Modernization of UHE Mascarenhas de Moraes HPP – Phase 1

Mascarenhas de Moraes HPP, situated on the River Grande, State of Minas Gerais, has an installed capacity of 476 MW, 10 generating units, all of them with more than 30 years of operation and presenting advanced degree of deterioration in insulations, in parallel with a marked lack of spare parts. Both problems could lead to long unscheduled stoppages, with loss of energy production. The modernization process envisages the improvement and optimization of operation conditions, to assure an adequate performance, restore a higher efficiency level and extend its useful life for a few additional decades.

This program contemplates, in Phase 1, investments for total modernization of GU 05, 06, 07 and 08, and partial in the remaining units, including installation of new systems of control, command, supervision, monitoring and protection. In addition, foresees the Plant's digitalization, making possible the remote operation from Luiz Carlos Barreto de Carvalho HPP. Further benefits are the improvement and optimization of operation conditions, higher efficiency level and extension of useful life for a few additional decades.

In 2006, was concluded the modernization of GU 01, 04 and 09, as well as that of 138 kV Substation.

Main Relationships of FURNAS

Relationship with the Holding Eletrobrás

FURNAS, as a subsidiary of Eletrobrás, is a member of the Upper Board of Eletrobrás System (*Conselho Superior do Sistema Eletrobrás – Consise*), which gathers the CEO's of all Group companies, to formulate and implement corporate strategies of common interest. In this sense, it participates in the Eletrobrás' Strategic Planning Committee (*Comitê de Planejamento Estratégico da Eletrobrás – Copese*) meetings, with the objective of providing background information to Consise. The work developed by Copese aims at improving the relationship between the Holding company and its subsidiaries, through macro guidance that permeates the strategic planning of each company, respecting their specific characteristics.

Within the scope of Consise, FURNAS Corporate Integration Committee for Research and Technological Development (*Comitê de Integração Corporativa de Pesquisa e Desenvolvimento Tecnológico – Cicop*), stimulates research actions and seeks technological innovation in order to obtain the intellectual property registries (patents, trademarks and computer programs), technology transfers and the System companies partnership with universities, research centers and industries. Within Cicop, FURNAS participates in the following task forces: technology and innovation management; intellectual property and patents; energy efficiency; revitalization of Cepel; articulation with the industry; renewable energies; development of regional projects; R&D at federal government companies; and thermoelectricity.

In 2006, the following activities excelled in the energy conservation area, and were developed in partnership with the Holding company:

- I Energy Conservation Workshop of the Group companies, as a participant in the energy efficiency task force;
- initiation of the convention activities with the objective of implementing the National Program for Electric Energy Conservation (*Programa Nacional de Conservação de Energia Elétrica – Procel*) "Procel at Schools", in a total of 50 cities of the States of São Paulo, Rio de Janeiro, Minas Gerais, Espírito Santo and the Federal District, along a period of 36 months. The agreement budget amounts to R\$ 4,145 million, being 71% covered by Eletrobrás and the remaining 29% by FURNAS.

The Operation, Planning, Engineering and Environment Committee (*Comitê de Operação, Planejamento, Engenharia e Meio Ambiente – Copem*) continues to develop strategic actions and directions, aiming at a coordinated and harmonious action among its companies, so as to obtain higher efficiency and range at the domestic energy scenario. FURNAS is represented in the Committee by two Executive Officers: the Engineering Officer and the Systems Operation and Energy Commercialization Officer. It participates, through its technical structure, in the studies already initiated about market planning and electric energy offering.

In February 2006, Copem held a meeting with the objective of presenting a history of the technical encounters of the Eletrobrás Group companies, which had occurred in 2004 and 2005, in addition to evaluating and approving its Internal By-Laws. During this meeting, the subcommittees were defined, with their respective powers, as well as the number of representatives by integrating company.

The Light for All Program (*Programa Luz para Todos*) aims at universalizing the access to electric power throughout the Country, generating a higher rate of social inclusion and allowing the progress of regions with a low Human Development Index (HDI). It constitutes one of the Federal Government symbols in fighting social differences and in favor of a more just society. Coordinated by MME, the Program is carried out by Eletrobrás, through its subsidiaries. FURNAS coordinates the Program in the Southern region plus the State of Goiás, according to Decree No. 4.873/2003. In 2006, its activities reached 250 thousand connections, to the benefit of 1.3 million people.

Within this Program, which means a vector of development and income towards the beneficiaries, integrated actions were created, composed of a set of activities performed by the state coordinators, through social programs, at the federal, state and local spheres, within the communities involved. Its objective is to maximize the rational utilization of electric power, as well as the socio economic development. Among them, the following deserve to be mentioned: creation of seed beds for the production of vegetables; tanks for breeding fish; sewing equipment; *Arcas das Letras* (bookshelf boxes for the installation of libraries), donated to rural communities to stimulate reading habits; milk refreshment tanks; rice treatment machines; Citizenship Villages (*Aldeias da Cidadania*) in the Kalunga communities; Community Production Centers (*Centros Comunitários de Produção*) and Community Centers to Qualify Agricultural Technicians (*Centros Comunitários de Capacitação de Técnicos Agrícolas*) in order to disseminate the use of energy in an effective and productive way.

The following significant activities were also jointly developed with Eletrobrás:

- proceeding with the adaptation of FURNAS internal controls procedures and document classification, under the coordination of an audit firm hired by Eletrobrás, in order to meet the requirements established by the SOX Law, so as to allow the Holding company to adjust to the new international market rules for the New York Stock Exchange, through the ADR issuance, level 2;
- providing information required for the inclusion of Eletrobrás shares at Business Sustainability Index (ISE) of the São Paulo Stock Exchange (Bovespa), and Dow Jones Sustainability Index (DJSI), of the US Security and Exchange Commission (SEC);
- proceeding with the Cooperation Agreement with Eletrobrás and Eletronorte for the Inventory Study of the hydrographic basin of the Teles Pires River to identify its hydroelectric potential;
- rendering of information to Eletrobrás Financial Officer about FURNAS budgetary execution in addition to the presentation of Budget Proposal for 2007, together with the General Disbursements Plan (*Plano de Dispendios Globais – PDG*);
- participation in the Substation Budget Guidelines Group (*Grupo de Diretrizes para Orçamentos de Subestações*), in charge of developing the document Guidelines Review for the Elaboration of Substation Budgets (*Revisão das Diretrizes para Elaboração de Orçamentos de Subestações*), foreseen in the Technical Cooperation Agreement (*Acordo de Cooperação Técnica*) signed by Eletrobrás and Aneel.

Relationship with the Energy Research Company (EPE)

FURNAS participates in the technical activities for development and analysis of the documentation related to energy planning, as well as provides relevant data and information available in the following working groups: market, generation expansion, transmission expansion and environment.

In 2006, the Company participated in EPE data gathering, providing information to elaborate the National Energy Balance (*Balanço Energético Nacional – BEN*) – 2006, base period 2005.

Relationship with the Electric Energy Trading Chamber (CCEE)

FURNAS, as holder of a public service concession for generating electric energy, participates in the “Generation” category, on a proportional basis to the volume of commercialized energy, calculated from the results of the previous 12 months. This participation occurs in the Board of Directors and at the Arbitral Convention.

Relationship with the National Electricity System Operator (ONS)

FURNAS is represented at the General Meeting and is one of the full members of ONS Board of Directors in the “Transmission” Category.

In 2006, the following activities maybe pointed out:

- action together with ONS, to increase the confidence in the electric system and optimize its performance in parallel with the preservation of its assets integrity, as well as the participation in studies to define the system’s operation philosophy;
- participation in the development of the Expansion and Reinforcement Plan (*Plano de Ampliações e Reforços – PAR*), related to the 2007-2009 period and in the SIN electric operation plan for the year 2007.

Relationship with the Brazilian Electricity Regulatory Agency (Aneel)

FURNAS works with Aneel regarding the matters related to the legalization process of generation and transmission projects involving among others: construction permission; establishment of dates for installations energizing; communication of completion/energizing of projects; information about implementation of reinforcements and improvements in equipment; and about the R&D Program, in its different cycles; cooperation in inspections of installations in operation; requests for approval and review of energy prices; and homologation of energy purchase and sale contracts.

Partnerships

Object of Partnership	Partner	Assured Energy and Power (%)	
		FURNAS Participation	Partner Participation
Contract for construction of Serra da Mesa HPP and leasing to FURNAS, by the partner, of assets and installations of his ownership (general contract of April 26, 1995)	<i>Semesa</i>	48.46	51.54
Contract for sharing of Manso HPP concession (February 10, 2000)	<i>Proman</i>	69.81	30.19

Specific Purpose Companies (SPE)

As a subsidiary of Eletrobrás, the possibility of FURNAS having a shareholder participation in SPE's for electric energy projects became viable since July 2003, with the changes introduced in its Corporate By-Laws, which allowed the following partnerships:

Company	FURNAS Equity Participation (%)
SPE for Generation Project	
<i>Enerpeixe S.A.</i> *	40
<i>Companhia Retiro Baixo Energética</i>	49
<i>Baguari Geração de Energia Elétrica</i>	15
<i>Chapecoense Geração S.A.</i> **	49.9
<i>Serra do Facão Participações S.A.</i> ***	49.9
SPE for Transmission Project	
<i>Companhia de Transmissão Centroeste de Minas</i>	49
<i>Companhia Transudeste de Transmissão</i>	25
<i>Companhia Transirapé de Transmissão</i>	24.5
<i>Companhia Transleste de Transmissão</i> *	24

* Project started operation in 2006.

** SPE *Chapecoense Geração S.A.* holds 40% participation in SPE *Foz do Chapecó Energia*.

*** SPE *Serra do Facão Participações S.A.* holds 49.5% participation in SPE *România Participações*.

Relationship with International Entities in the Energy Sector

Brazilian Committee of the World Energy Council (Comitê Brasileiro do Conselho Mundial de Energia – CBCME)

Associated to the World Energy Council (WEC)

WEC, founded in 1923, congregates entities in the energy area to study and promote provision and sustainable use of world's energy resources. CBCME is a non-governmental, non-profit entity, in which FURNAS participates as a maintaining member, since it was created in 1957. The Company harbors the Committee headquarters in its Central Office in Rio de Janeiro, and supports the accomplishment of national and international events.

In 2006, the following publications stood out, issued by the Committee: Energy Terminology Dictionary (*Dicionário de Terminologia Energética*); Brazil and the Regional Energy Integration of Latin America and the Caribbean (*O Brasil e a Integração Energética Regional da América Latina e do Caribe*); The Global Energy Sustainable Development (*O Desenvolvimento Energético Global Sustentável*); The Coal Case (*O Caso do Carvão*); The Generating Plants Performance (*Desempenho das Usinas Geradoras*); New Realities, New Necessities (*Novas Realidades, Novas Necessidades*); Energy Efficiency – Dream and Reality (*Eficiência Energética – Sonho e Realidade*); Energy Brazilian Statistics Newsletter – No. 51 (*Boletim Estatística Brasileira da Energia – No. 51*).

Brazilian National Committee of Electric Power Production and Transmission (CIGRÉ – Brazil)
Associated to the International Council of the Large Electric Grids (*Conseil International des Grands Réseaux Electriques – CIGRÉ*)

CIGRÉ is a world organization, created in 1921, aimed at developing, valuating and disseminating the knowledge related to high tension transmitted electricity – with the objective of promoting information exchange, and technical, technological and engineering development.

CIGRÉ-Brazil was created in 1971 and currently has 16 committees related to several energy sector technical areas of interest, out of which three are coordinated by FURNAS. Technicians from planning, engineering, operation and maintenance areas participate in the Committee, acting in work groups, courses and seminars, where specific technical subjects are studied and debated by specialists. Among the events promoted by the Committee, stands out the National Seminar of Electric Energy Production and Transmission (*Seminário Nacional de Produção e Transmissão de Energia Elétrica – SNTPEE*), considered the most important in the Brazilian Electric Sector. In 2007 it will be held in Rio de Janeiro, coordinated and sponsored by the Company.

Brazilian Committee of Dams (*Comitê Brasileiro de Barragens – CBDB*)
Associated to the International Committee on Large Dams (ICOLD)

ICOLD, created in 1928, holds conferences and symposiums aimed at presenting technical works and scientific researches related to the hydraulic projects, their benefit and economic and social impacts. Among the various ICOLD publications the World Register of Dams stands out with more than 33 thousand references.

CBDB, created in 1961, is a non-governmental organization, aimed at exchanging information and experience in dams planning, design, construction and operation. It works in Brazil as one of the 85 national committees, established by ICOLD in the member countries. Its headquarters is installed in a place made available by FURNAS, in its Central Office, in Rio de Janeiro. Currently, it has approximately 1,400 individual associates and 55 corporate associates, spread throughout Brazil. One of its main activities is the issuance of books and newsletters that constitute a great collection of technical publications.

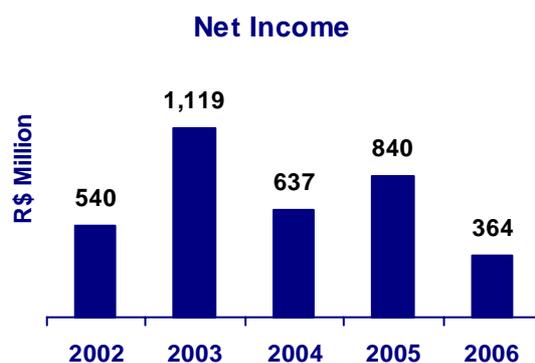
In 1982, CBDB, with FURNAS support, organized the World Congress on Dams, promoted by ICOLD. Additionally, it promotes regularly, since 1962, National Seminar on Large Dams and, more recently, the Symposium on Small and Medium Hydroelectric Plants.

CORPORATE PERFORMANCE

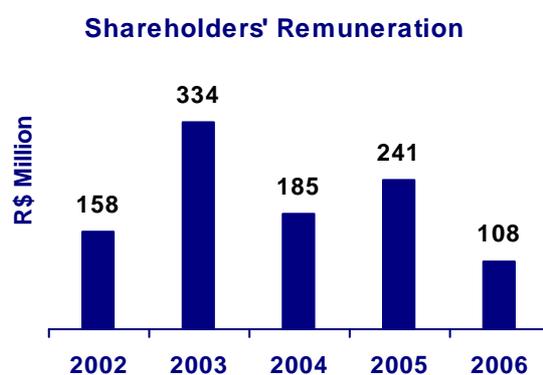
The following indicators reflect the corporate performance evolution, in the 2002-2006 period.

Results

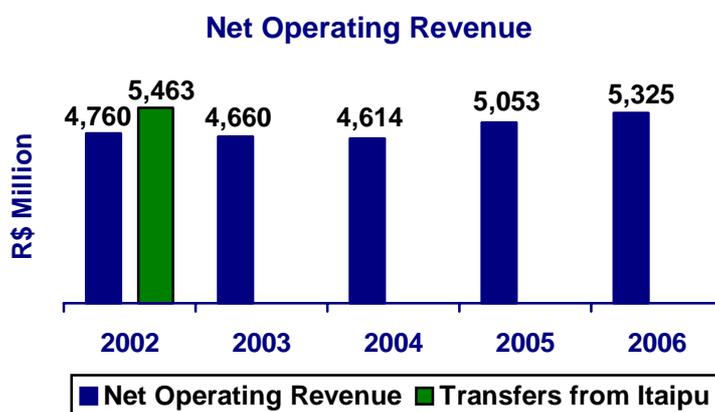
The net income in 2006 represented a 57% decrease when compared to the previous year result. This result is a consequence of non recurring events, such as the credit provision for bad debit, constituted in this fiscal year.



In compliance with the legal and statutory dispositions, FURNAS reserves to its shareholders, as interest on net equity, the amount of 25% of the adjusted net income (refers to Note 23 of the Financial Statements).

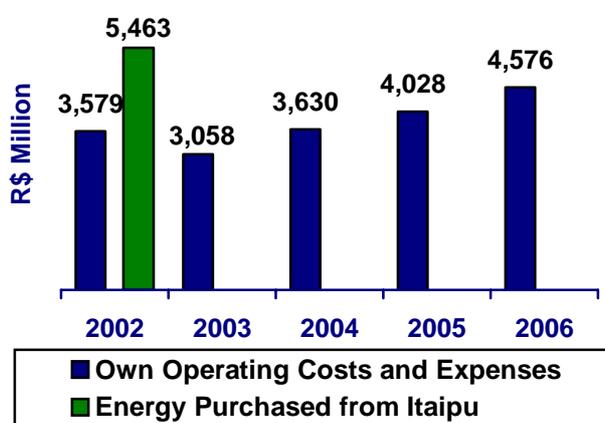


The net operating revenue in 2006 was 5.4% higher than the previous fiscal year, a result verified at the beginning of the signed contracts validity of the Energy Auction from Existing Capacity occurred in December 2004.



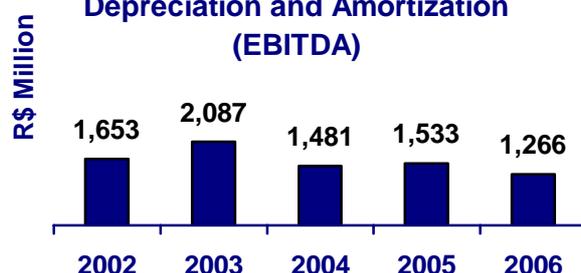
The 14% variation in operating costs and expenses in 2006 was mainly characterized by the constitution of credit provisions for bad debit, in the amount of R\$ 205 million, and by the increase in non manageable expenses, such as: charges on the utilization of the electric grid, in a total of R\$ 112 million, and the expense associated to the R&D program, which increased approximately R\$ 85 million when compared to the previous fiscal year.

Operating Costs and Expenses



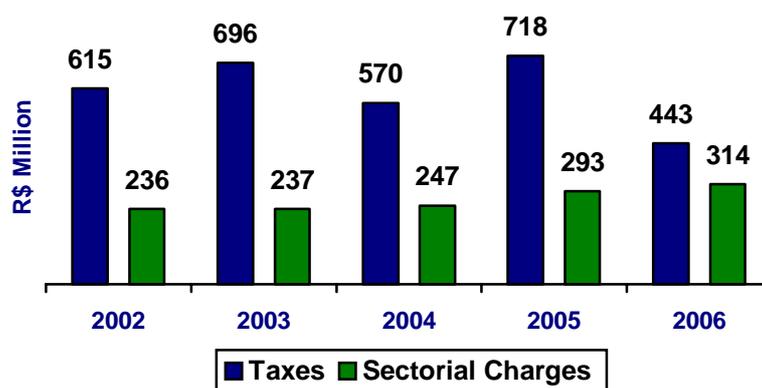
EBITDA, in 2006, decreased 21%, when compared to the previous fiscal year. This result was influenced by non recurring events related to the operating costs and expenses, as previously mentioned.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)



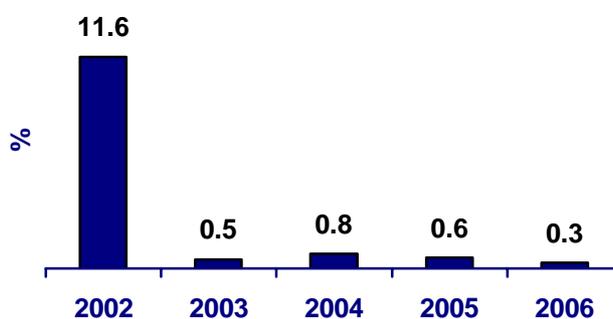
The taxes and charges appropriation in 2006, which represented 13% of the gross revenue, generated a reduction of approximately 30% when compared to the previous fiscal year. This result is a consequence of the improvement in the tax management practices and the net income reduction.

Apropriated Taxes and Sectorial Charges



The default is being kept under satisfactory levels and with a reduction trend in the last four years.

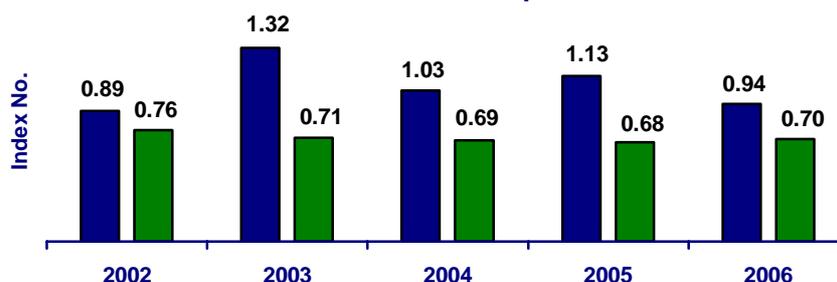
Default over Gross Revenue



Economic and Financial Indicators

The behavior of the current and overall liquidities indexes was kept close to last years' average.

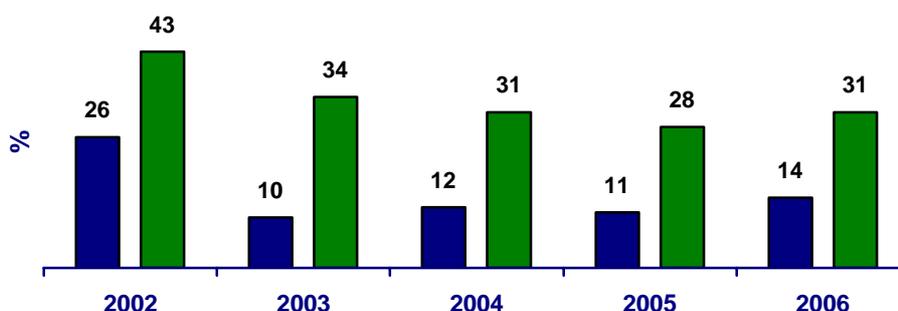
Current and Overall Liquidities



■ Current Liquidity = $\text{Current Assets} / \text{Current Liabilities}$
■ Overall Liquidity = $(\text{Current Assets} + \text{Long-Term Receivables}) / (\text{Current Liabilities} + \text{Long-Term Liabilities})$

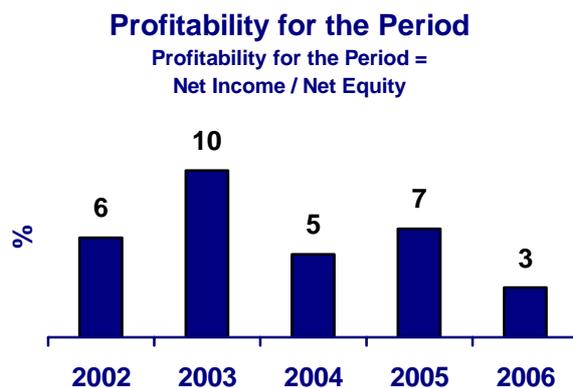
The reduced short term and long term indebtedness levels translate into opportunities for the Company additional leverage in order to face eventual requirements in its investment programs.

Short Term Indebtedness and Total Indebtedness



■ Short Term Indebtedness = $\text{Current Liabilities} / \text{Total Assets}$
■ Total Indebtedness = $(\text{Current Liabilities} + \text{Long Term Liabilities}) / \text{Total Assets}$

The profitability decrease in 2006 was motivated by exceptional events that impacted the fiscal year result.



Continuous Improvement and Innovation

Research and Development (R&D)

The R&D program aims at implementing a broader technological innovation policy related to product, process and management. In this manner, the Company contributes to building an interchange network among the different agents of the Brazilian Electric Sector, universities, research institutes, Government and suppliers, in order to assure the sustainability of the Sector. Therefore, it promotes the strengthening of national research and industry and the development of Brazilian educational institutions. In parallel fulfills a commitment to social responsibility and citizenship, by providing energy at lower price and higher quality.

FURNAS as a member of Cicop, contributes to the sharing of experiences among the companies of Eletrobrás Group, in an effort to reduce operational costs. In parallel, participates in the Technology and Innovation Management task force.

As established by Laws No. 9.991/2000 and No. 10.848/2004, the Company annually provides 0.4% of its net operating revenue to the National Fund for Scientific and Technological Development (*Fundo Nacional de Desenvolvimento Científico e Tecnológico – FNDCT/CT-Energ*) and an additional 0.4%, to the development of R&D internal projects, according to procedures established by Aneel. It addition, contributes institutionally for Electric Energy Research Center (*Centro de Pesquisas de Energia Elétrica – Cepel*) maintenance, and in return receives the right to participate in its research projects portfolio.

The research areas considered as strategic were: environmental management (carbon balance within the reservoirs), reliability assurance of generation and transmission installations, engineering technology (concrete, soils and equipments), experimental hydraulic and alternative energy sources.

In the last six years, approximately R\$ 130 million were invested in 191 R&D projects, in addition to six cooperative projects with Eletrobrás Group subsidiaries, in compliance with Aneel regulation, out of which 66 were concluded.

FURNAS' R&D Projects – Aneel Program

Cycle	Project (Quantity)				Investment (R\$ million)
	New	Concluded	Cancelled	On Going	
2000/2001	36	35	1	0	10,56
2001/2002	31	22	0	9	22,67
2002/2003	36	8	3	25	29,73
2003/2004	19	1	1	17	20,96
2004/2005	30	0	2	28	20,11
2005/2006 *	39	-	-	-	26,10
Total	191				130,13

* Estimated projects, under evaluation.

Note: The Transmission Segment of the 2001/2002 Cycle was considered an integral part of the FURNAS R&D Program – 2002/2003 Cycle.

Patents, Utilization Licenses and Technology Transfers

Innovations and Patents

The Company inventions, individual or through partnerships, are filed at the National Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial – INPI*), under two modalities: Invention Patent (PI), for innovations with a 20-years validity term; and Utility Model (MU), for provision or new form developed or introduced for known objects, with a 15-years validity term, counting from the filing date.

Up to 2006, a total of 9 patent letters were issued (including 2 international ones); 3 patent requests are currently under analysis by INPI.

Development of Management Excellence

State and Federal Awards

In order to stimulate the use of modern management technologies, the Company has been participating for many years in several external evaluation processes. Those actions contribute to the extension and sustainability of its business results. The following table presents the number of awards won.

Award	2002	2003	2004	2005	2006
Rio Quality (PQRio)	3	3	3	*	*
São Paulo Management Quality (PPQG)	3	2	3	*	0
Minas Gerais Quality (PMQ) **	-	*	1	1	*
Espírito Santo Quality (PQES) ***	-	-	1	*	*
National of Public Management (PQGF)	1	*	1	1	*
Federal District Quality (PQDF) ***	-	-	*	1	*

* There was no participation of FURNAS units.

** The first awards cycle occurred in 2003.

*** The first awards cycle occurred in 2004.

Performance in Quality Management Program Awards

The following table presents the average of scores obtained by different units in each scoring cycle of awards in percentage terms of the maximum score achievable:

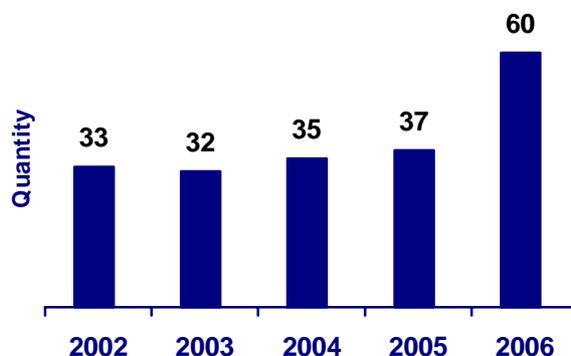
Management Award (%)	2002	2003	2004	2005	2006
State Awards	56	49	57	68	53
Excellence Sector Project in Technological Research	35	50	50	**	**
National Award of Public Management	*	**	*	55	**
National Quality Award	**	**	**	45	**

* Information is not available.

** FURNAS did not participate.

Units with Certified Management Systems

Currently, the Company has 60 units with certified management systems, involving 1.654 employees, in norms NBR ISO 9001:2000 (Quality), NBR ISO 14001:2004 (Environmental) and OHSAS 18001:1999 (Safety and Occupational Health), as shown in the following graphic. The growth verified, compared to the previous year, clearly shows the Company commitment to a continuous improvement process.

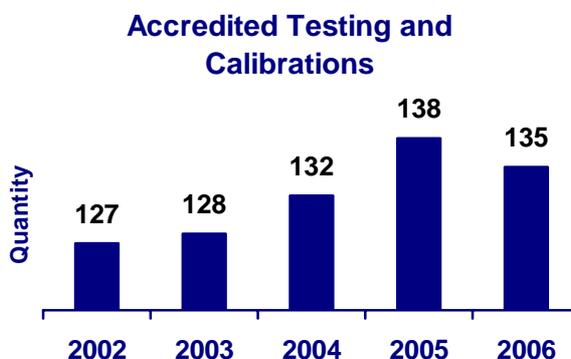


Accredited Laboratories

The term Accreditation was adopted by the National Institute of Metrology, Normalization and Industrial Quality (*Instituto de Metrologia, Normalização e Qualidade Industrial – Inmetro*), replacing Licensing. It grants the formal recognition regarding the competency of a laboratory or organization to develop specific tasks, according to the requisites established in NBR ISO/IEC 17025:2005 Norm – General Requisites for Test Laboratories and Calibration.

The Company has laboratories participating of the Brazilian Network of Test Laboratories (*Rede Brasileira de Laboratórios de Ensaio – RBLE*) and the Brazilian Calibration Network (*Rede Brasileira de Calibração – RBC*), belonging to Inmetro, amounting to a total of eight competency recognitions, which correspond to nine accreditation areas (dimensional; force, torque and hardness; mass; pressure; time and frequency; temperature; electricity; soil; and concrete), able to carry out 135 types of accredited services (48 types in calibration and 87 types of testing).

We present below the evolution in the numbers of accredited testing and calibration.



Relationship with Quality Management Entities

FURNAS holds partnerships in the management area with the following entities:

- Development and External Commerce Counseling (*Assessoria de Desenvolvimento e Comércio Exterior – Adeceex*) – Quality Program of the Federal District (*Programa de Qualidade do Distrito Federal – PQDF*);
- Brazilian Association of Technical Norms (*Associação Brasileira de Normas Técnicas – ABNT*) / Brazilian Quality Committee (*Comitê Brasileiro de Qualidade – CB25*);
- Center for Innovation and Competitiveness (*Centro para Inovação e Competitividade – CIC*);
- Industry Federation of the State of Rio de Janeiro (*Federação das Indústrias do Estado do Rio de Janeiro – Firjan*);
- National Quality Foundation (*Fundação Nacional da Qualidade – FNQ*);
- Quality Executive Group (*Grupo Executivo de Qualidade – Gequal*);
- National Institute of Development and Excellence (*Instituto Nacional de Desenvolvimento e Excelência – INDE*);
- São Paulo Institute of Management Excellence (*Instituto Paulista de Excelência da Gestão – IPEG*) – São Paulo Quality Management Award (*Prêmio Paulista de Qualidade da Gestão – PPQG*);
- Minas Gerais Quality Institute (*Instituto Qualidade Minas – IQM*) – Minas Gerais Quality and Productivity Program (*Programa Mineiro de Qualidade e Produtividade – PMQP*);
- Competitive Brazil Movement (*Movimento Brasil Competitivo – MBC*);
- Planning Ministry – Management Secretariat – National Program for Public Management and Debureaucratization (*Ministério do Planejamento – Secretaria de Gestão – Programa Nacional de Gestão Pública e Desburocratização – Gespublica*) – National Award of Public Management (*Prêmio Nacional de Gestão Pública – PNGP*);
- Espírito Santo State Secretariat for Development and Tourism (*Secretaria de Estado de Desenvolvimento e Turismo do Espírito Santo – Sedetur*) – Espírito Santo Quality Award (*Prêmio Qualidade Espírito Santo – PQES*);
- State Secretariat for Energy, Naval Industry and Oil (*Secretaria de Estado de Energia, da Indústria Naval e do Petróleo – Seinpe*) – Rio Quality Program (*Programa Qualidade Rio – PQR*);
- Brazilian Union for Quality (*União Brasileira para a Qualidade – UBQ*).

CORPORATE GOVERNANCE

Corporate Structure

Corporate Interest in Capital Stock

The Federal Government holds 52.45% of common and preferred shares of Eletrobrás, a public held company, with shares negotiated at São Paulo Stock Exchange (Bovespa), Madrid, in Spain (*Latibex* index, a market segment that gathers the shares of Latin American companies negotiated in Euros), and in New York, United States (ADR programs, level 1).

FURNAS, a federal joint stock, quasi-public, closed capital company, as an Eletrobrás subsidiary, complies with the SOX requisites and gives information to the list of holding shares in ISE – Bovespa and DJSI, of the New York Stock Exchange.

FURNAS Corporate Capital is of R\$ 3,194,000,000.00 (three billion, hundred and ninety four million reais), with the following composition:

Shareholder	Common Share		Preferred Share	
	Quantity	%	Quantity	%
Eletrobrás	50,618,949,529	99.82	14,088,223,014	98.56
Others	91,699,471	0.18	205,174,986	1.44
Total	50,710,649,000	100.00	14,293,398,000	100.00

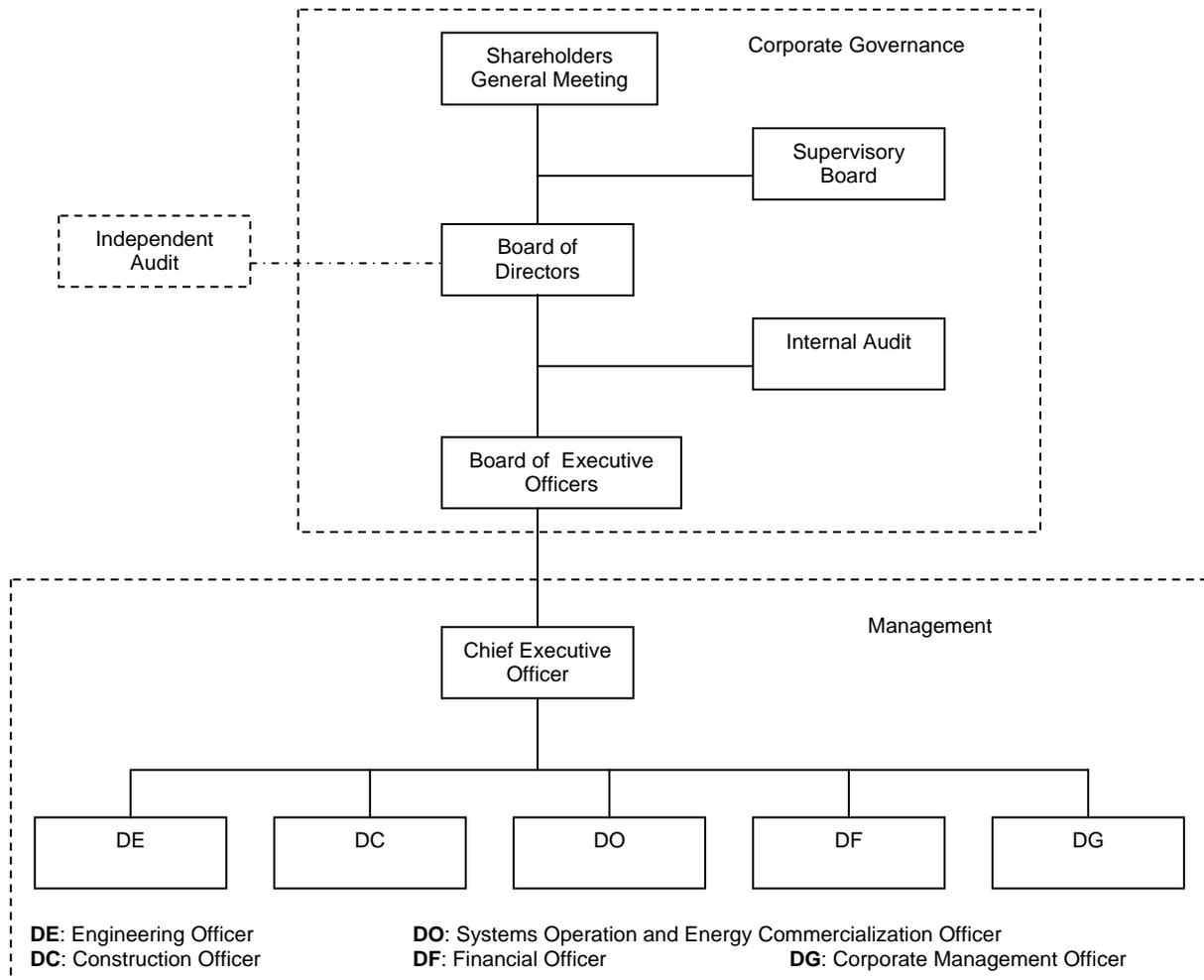
Corporate Governance System

Since 2003, the Company has been improving its process of adhering to the corporate governance practices, required or recommended by the Federal Public Authorities, by external organizations and the market, expressed in the following documents, all of them published in the FURNAS' Organization Manual and available at the Intranet: By-Laws and Internal Regulations of the Company, of the Board of Directors, of the Supervisory Board and of the Board of Executive Officers, as well as the management policies.

At the beginning of each mandate, the Board of Executive Officers, the Board of Directors and the Supervisory Board members receive the Disclosure and Relevant Information Utilization Manual and the Securities Negotiation Policy Manual, issued by Eletrobrás, together with the agreement term, by which they are committed to direct their actions always abiding by such rules.

Corporate Governance Structure

It is represented by the relationships with Upper Management, composed by the Shareholders General Meeting, the Board of Directors, the Board of Executive Officers, the Supervisory Board and the Internal Audit, with an External Independent Audit, according to the following organization chart:



Shareholders General Meeting

In addition to the cases anticipated by the law, the General Meeting will be held extraordinarily whenever the Board of Directors deem necessary, and specially to: alienate, totally or partially, the Corporate Capital shares; proceed to go public; increase the corporate capital through subscription of new shares; issue convertible debentures into shares or sell them, when in treasury; or issue any other titles or securities, in the Country or abroad; promote capital spin-off, consolidation or incorporation; and trade shares or other securities.

Board of Directors

The highest instance of Administration in FURNAS, it is a joint committee, composed by one Chairman and five Directors, all of whom are shareholders, with a three-year period mandate, elected by the Annual General Meeting, and able to be reelected. One representative is indicated by Ministry of Planning, Budget and Management, and the remaining ones by MME; one of them is chosen to be the committee chairman, upon previous approval by the President of the Republic of all the names indicated.

Board of Executive Officers

Composed by a Chief Executive Officer and five Executive Officers, all of them of Brazilian nationality, elected by the Board of Directors, with a three-year period mandate, performing their duties on a full time basis.

The CEO and the remaining Executive Officers, in addition to their own duties and responsibilities, are the managers in their respective activity areas designated to them by the Board of Directors. The organizational structure of the Company is established based on the following areas of activity, besides the CEO: Corporate Management; Financial; Engineering; Construction; and Systems Operation and Energy Commercialization.

Supervisory Board

It is composed by three effective members and their respective substitutes, with a one year mandate, elected by the Ordinary General Meeting (OGM), and able to be reelected. One of its effective members and his respective substitute are indicated by the Ministry of Finance, as National Treasury representatives, with previous approval by the President of the Republic.

Internal Audit

It examines the management of the activities performed by the Company organizational units, with full freedom of access, in compliance with the procedures, controls, informatics systems, registers, data and document files, as well as with the due fulfillment of the guidance, internal regulatory acts and precepts of the legislation in effect.

Corporate Governance Practices

Decision Process

The regular and statutory decisions of the Board of Executive Officers are taken in a weekly meeting and constitute the Decision Process, where the subjects of interest to each Office are submitted for the committee approval.

The following support structures to the Decision Process are communicated through a General Circular and are available at the intranet:

- Internal rules: defined as a consequence of the work of the ruling representatives, assigned by each Executive Officer and approved by the Board of Executive Officers;

- Temporary work groups and acting permanent Committees: created by a Board of Executive Officers decision, they analyze and define the actions related to the matter in which there may exist conflicts of interest;
- Management Corporate Policies: used as reference tools of the decision taking process by the Board of Executive Officers. They are: Environmental Policy; Human Resources; Safety and Occupational Health; Corporate Citizenship and Social Responsibility; Informatics; Information Security; Corporate Safety; Assets Security; Transportation; and Inventory.
- Permanent Committees: composed by representatives of each Executive Officer, they support the Board of Executive Officers in fulfilling the management corporate policies. They are constituted by: the Planning Coordination Committee; Quality and Productivity; Informatics; Technical Regulation; Human Resources; Register of FURNAS' History (*Pró-Memória de FURNAS*); R&D; Insurance; Energy Commercialization; Information Security; Workplace Safety and Occupational Health; Corporate Partnerships Coordination and Control; and Ethics Committee.

Regarding risk controls, the Company applies the practices below:

- Credit Risk: a control kept by the Financial Officer, that tracks the Company evaluation by the risk classifying agencies, including the Investment Fund in Credit Rights (*Fundo de Investimentos em Direitos Creditórios – FIDC*) rating pegged by FURNAS receivable assets;
- Market Risk: a control kept by the Office of Systems Operation and Energy Commercialization, by the Energy Commercialization Committee;
- Operational Risk: control of relevant risks, mitigated by insurance contracts or by self-insurance, according to the criteria defined by the Insurance Committee, based on losses probability, according to FURNAS contingency history and the economic and market viability of these two alternative modalities of asset protection. Regarding the specific cases of installations, processes and people from the information technology corporate function, the contingency plan is under elaboration.

A formal Risk Management system is under implementation, based on the mandatory requirements made by the Eletrobrás SOX Project, aligned with the qualification process for Eletrobrás list of shares at the New York Stock Exchange.

Official Corporate Reports Process

The process of Rendering Accounts of 2006 base year, is comprised by the following practices:

- simultaneous approval, by the Upper Office, of the Rendering of Accounts Reports submitted to the Shareholders and to the Union;
- sharing of the same reporting structure by the Administration Report, as part of the rendering of accounts to the shareholders, and by the Management Activities Report to General Federal Controllers' Department (*Controladoria-Geral da União – CGU*), as a part of the rendering of accounts to the Union;

- structuring of the contents of both the Administration Report and the Management Activities Report to CGU, in accordance with the information prerequisites referred to in the regulatory mark of the Electric Energy Sector and the main regulations pertaining to the shareholders, external audit organization, by Public Authorities, organizations that foster development and capital market. We point out the Company internal controls compliance process to SOX Law, to Eletrobrás requirements;
- Annual Report issuance, in Portuguese, English and Spanish, with the same content of the Administration Report, as a rendering of accounts to the society;
- issuance of the Monthly Report for the Board of Directors and the Supervisory Board, as a support tool to their monthly meetings;
- issuance of the Monthly Report to the Board of Executive Officers (*Relatório Mensal da Diretoria Executiva – RMDE*) as a content reference of all the official corporate reports. Its objective is to support Upper Management in the monthly communication of the planning and evaluation of the Company corporate performance evolution, through an analysis of the main indicators variation, within the following perspectives: financial, customers and market, sustainable development, internal processes and learning.

Corporate Information Disclosure Process

Internet Page

Includes the Annual Report (in Portuguese, English and Spanish) and the Administration Report (in Portuguese and English) – and institutional publications such as: Statistical Annual Report, Electric Energy Market Reviews, Market and Economy Management Information, Social Balance and FURNAS Magazine. Among the new features, that increased 352%, when compared to the previous year, stands out the Denunciation Channel.

The implementation of the Access Management tool resulted in a reduction of 53% in the questioning issues, when compared to 2005.

FURNAS Magazine

Monthly publication of themes related to the Company activities, with 10.000 magazines distributed freely. Its internal public is composed by all the employees, and externally it is distributed to all the federal, state and municipal authorities, newspapermen, universities, research centers, electric sector companies and registered individuals. It is available at the Company places of visiting, fairs, conferences and seminars.

Institutional Advertising

In 2006, with the objective of making FURNAS brand visible and strengthen its image throughout the society and opinion makers' spheres, the Company has invested in institutional advertising, in newspapers and magazines of high circulation and radio stations of the main Brazilian cities. All the advertising pieces were previously approved by the Institutional Communication Sub Secretariat of the General Secretariat of the President Office (*Subsecretaria de Comunicação Institucional da Secretaria-Geral da Presidência da República – Secom/SG-PR*).

Corporate Video Devices

The Company has a collection of 1,500 institutional video devices, which show its foundation, actions in the generation, transmission, environment and social responsibility areas, aiming at divulging its corporate image.

Code of Ethics

The Company Code of Ethics and Standards of Professional Behavior, approved in July 2005, aim at affirming the principles and values that guide its actions and ensuring the correctness and transparency in the conduction of institutional activities. The Code was also devised to:

- protect FURNAS physical and intellectual asset;
- prevent and manage conflict of interest situations;
- preserve the Company image and reputation;
- contribute to smooth the climate in internal and external relationships;
- serve as a basis for the Permanent Ethics Committee actions.

The Ethics Committee is responsible for safeguarding and reviewing the Ethics Code, counseling the Board of Executive Officers and issuing recommendations for their appreciation. Since its Internal Regulation approval in January 2006, it receives and collects the denunciations received, with reference to the likely ethical deviations. It also acts in the sphere of the Federal Public Administration, as a link between FURNAS and the Public Ethics Committee.

In 2006, the Company promoted the disclosure and distribution of the Ethics Code to all its collaborators.

Awards

The awards listed below represent the recognition of FURNAS Administration actions, in its Corporate Governance practices:

- winner of the Transparency Trophy, in the closed capital category, awarded by National Association of Finance, Administration and Accounting Executives (*Associação Nacional dos Executivos de Finanças, Administração e Contabilidade – Anefac*), Foundation Institute for Accounting, Actuarial and Financial Researches (*Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras – Fipecafi*) and Serasa, for its Rendering of Accounts (Financial Statements and Administration Report) related to fiscal year of 2005;
- classified in the TOP3 iBest 2006 Award, which contemplates the best sites in Brazil, in the Industry – Mining and Energy category;
- winner of the 2006 Marketing Award, in the Energy Industry category, granted by the Marketing and Business Brazilian Association, due to the communication and disclosure work with the State of Espírito Santo population, related to the investments made for the energy supply in that region, bringing a better life quality and opportunity for all.

SUSTAINABLE DEVELOPMENT

Statement of Added Value

It constitutes an important source of information since it presents the elements that allow an analysis of the company economic performance, pointing out the wealth generation, as well as the social effects produced by its distribution.

	R\$ Million				
	2002	2003	2004	2005	2006
1. Generation of Added Value					
Revenue from Energy Sales and Services	10,771	4,973	4,952	5,486	5,738
Non-Operating Revenue	3	2	1	3	3
Less:					
Inputs					
Cost of Electric Energy Purchased	(7,366)	(1,926)	(1,981)	(2,099)	(2,111)
Material	(30)	(36)	(45)	(49)	(47)
Third Party Services	(237)	(303)	(329)	(376)	(389)
Other Operating Costs	(282)	(321)	(428)	(560)	(789)
Other Non-Operating Costs	(23)	(18)	(11)	(30)	(15)
2. Gross Added Value	2,836	2,371	2,159	2,375	2,391
Reintegration Quotas	(472)	(484)	(496)	(509)	(517)
Provision Posted / Reversed	(269)	275	(28)	(8)	(235)
3. Net Added Value Generated	2,095	2,162	1,635	1,858	1,639
Financial Revenues (Transfers)	1,048	539	477	649	354
4. Added Value to be Distributed	3,143	2,701	2,112	2,507	1,993
5. Distribution of Added Value					
Work Remuneration	386	263	323	427	487
Government (Taxes and Contributions)	456	552	436	585	362
Financial Charges and Currency Variation	1,563	600	538	447	544
Employees' Share on Profits	31	34	41	48	55
Shareholders' Remuneration	158	334	185	241	108
Others	167	133	137	140	162
Retained Earnings	382	785	452	619	275
Total	3,143	2,701	2,112	2,507	1,993

Relationship with Employees, Communities and the Environment

Employees' Profit Sharing

This policy foresees that employees are entitled to a share of the profits when they reach 6% of the fully-paid capital stock. The Board of Executive Officers establishes guidelines for the sharing of the participations, which cannot exceed 50% of the employee's annual remuneration. These guidelines take into account such factors as salary, time of service, assiduity, responsibility, family salary, efficiency, interest and diligence for the service.

Corporate Citizenship and Social Responsibility Policy

This policy, based on 12 principles, aims to confirm the concept of excellence of the Company within the business citizenship field, engaged in the fight against poverty and promotion of citizenship, as well as to incorporate the new concept of Corporate Responsibility into FURNAS' organizational culture.

FURNAS' social commitment is to contribute, in an innovative way, to the improvement of the human condition through the articulation among employees, consumers, communities, shareholders, suppliers, Electric Sector and Authorities, around actions and initiatives that promote citizenship and human development, aiming at a more fair sustainable and solidary society, in harmony with nature.

Environmental Policy

FURNAS recognizes that its activities may lead to environmental interference, and is committed to carry out actions protecting the environment, based on the following principles: integration of the environmental policy, approved in 1998, to other policies of the Company; incorporation of the environmental component to the stages of planning, design, construction and operation of its projects; compliance with environmental legislation and adopted environmental engagements; dialogue with employees, communities and others interested parties in view of the exchange of information and search for participative solutions; promotion of training and participation in environmental education actions concerning Company's activities; improvement of processes and incorporation of new technologies aiming at the continuous improvement of the environmental performance; rationalization of the use of natural resources and fight against electric energy waste.

The implementation of this Policy brought benefits in relation to the sustainable development by the internalization of the environmental issue in the Company activities, by the external plan disclosure, by the compliance with the NBR ISO 14001:2004 rules and by the adequacy to the environmental Policy of Eletrobrás Group and to the society requirements.

Social Commitment

Relevant Information to the Exercise of Corporate Citizenship

FURNAS believes in the development that has as objectives people valuation, social inclusion and life quality in the Country communities. It invests in alternatives of territorial intervention that aim at promoting education, citizenship and culture, improvement in health conditions and revenue generation, with the participation of the local communities and corporate voluntary work.

With the objective of fostering social projects that are sustainable under the economic, socio-cultural and environmental views, the Company prioritizes the implementation of those which promote development that is:

- politically horizontal, respecting the communities and their realities;
- economically distributive, with revenue generating initiatives;
- socially inclusive, promoting citizenship for thousands of Brazilian people.

In 2006, 117 social projects were accomplished, with approximately 134 thousand beneficiaries.

In an innovative manner, the Company included in its site the social and cultural actions supported, aiming at giving transparency to its social responsibility actions.

Among the activities developed during this period, the following stood out: establishment of the “Guidance to Women” (*Diretrizes para Mulheres*); creation of the “Gender Group” (*Grupo Gênero*); launching of “FURNAS Musical Generation II” (*FURNAS Geração Musical II*); edition of “Social FURNAS Collection” (*Coleção FURNAS Social*), with the thematic notebooks “Building a Collective View about the Woman in FURNAS” (*Construindo em FURNAS um Olhar Coletivo sobre a Mulher*) and “FURNAS Volunteers in Action Creating Citizenship” (*Voluntários FURNAS em Ação Gerando Cidadania*); and the executive game “FURNAS and the Millennium Communities” (*FURNAS e as Comunidades do Milênio*), previously named “FURNAS and the Challenges of the Millennium” (*FURNAS e os Desafios do Milênio*), created to expand and value the employees voluntary actions, which had the participation of over 450 volunteers, during 11 months.

The following actions may also be highlighted:

- follow-on of the “FURNAS Project and the Communities of the Millennium”, with the objective of identifying potentialities and build a socio-economic and cultural development process in communities located around the Company 44 geographic acting bases. In 2006, the project was developed in 16 bases;
- participation in the Rio Madeira Project (RO), through training initiatives at Embaúba and Cachoeira do Teotônio communities and through work and revenue generation for the communities by the river, as part of the participation strategy in new projects;
- proceeding with the Cooperation Agreement, signed by FURNAS and the Ministry of Education, which guaranteed the alphabetization of more than five thousand youngsters and adults;
- articulation, while responsible for the Executive Secretariat of Committee of Organizations Against Hunger Pro Life (*Comitê de Entidades no Combate à Fome e pela Vida – Coep*), with more than thousand associate entities, distributed in 27 state committees and 25 municipal committees throughout Brazil, to mobilize and support the human and social development projects;
- participation in the Coep Executive Secretariat at the National Council of Food Safety (*Conselho Nacional de Segurança Alimentar – Consea*).

Social Programs Developed

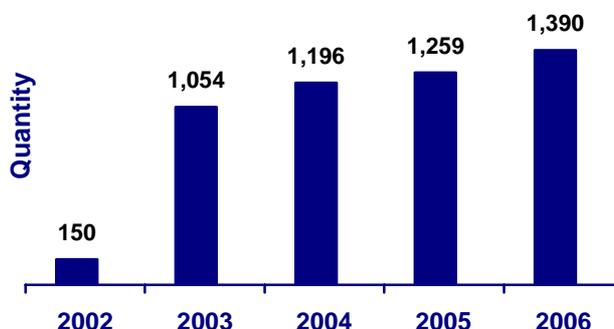
The indicators for 2006 reflect a substantial growth in the number of the beneficiary public.

Program	Quantity							
	Beneficiary Public				Project by Program			
	2003	2004	2005	2006	2003	2004	2005	2006
FURNAS Education and Formation (<i>FURNAS Educação e Formação</i>)	1,808	6,510	16,769	31,185	20	39	50	53
FURNAS Citizenship and Rights (<i>FURNAS Cidadania e Direitos</i>)	2,690	29,681	53,306	82,626	2	10	37	37
FURNAS Health and Nutrition (<i>FURNAS Saúde e Nutrição</i>)	819	19,203	17,949	19,875	1	18	12	22
FURNAS Work and Income (<i>FURNAS Trabalho e Renda</i>)	1,600	175	2,924	406	2	4	9	5
Total	6,917	55,569	90,948	134,092	25	71	108	117

Internal Mobilization Program – Volunteer Work

The indicator “Registered Volunteers” considers the number of employees registered as volunteers, representing around 20% of the Company workforce. In 2006, a 10.4% growth occurred, when compared to the previous year, which reflects an increase in mobilization. The employees registered in FURNAS Volunteer Work Program (*Programa de Ação Voluntária de FURNAS*) participate in the Coep Social Network, with access to various training, communication and integration resources available.

Evolution of Registered Volunteers



Cultural Patronage Projects

In 2006, the Company sponsored 38 projects under patronage of *Rouanet* Law. The projects, reviewed by an assessment commission comprised by experts, represent social and cultural practices put at the service of Society.

Cultural Area	Quantity		
	2004	2005	2006
Scenic Arts	3	7	3
Integrated Arts	1	3	1
Fine Arts	1	3	2
Audiovisual	4	9	13
Humanities	-	6	6
Music	3	4	9
Cultural Heritage	2	5	4
Total	14	37	38

FURNAS Cultural Space

With the aim of promoting new talents and approximation with the community, FURNAS Cultural Space attracted audiences of about 12 thousand visitors, in the 16 exhibitions held and in projects aimed at cultural inclusion.

The second edition of the project “FURNAS Musical Generation I” (*FURNAS Geração Musical I*) proceeded, with improvement course to selected youngsters. A CD was produced, to be launched in 2007, with the participation of 19 young musicians, in celebration to the Company 50 years anniversary.

Awards

The following awards were granted commitment social actions:

- “Gender Pro Equity Program” (*Programa Pró-Eqüidade de Gênero*) Stamp, granted by the Federal Government, through the Special Secretariat for Women Policies, for its performance in committing to promote equity between men and women;
- “2006 *Exame Magazine* Guide of Good Corporate Citizenship” (*Guia Exame da Boa Cidadania Corporativa 2006*) highlighted three practices: “A Collective Look over the Woman under a Gender Perspective” (*Um Olhar sobre a Mulher numa Perspectiva de Gênero*), “FURNAS and the Millennium Communities” (*FURNAS e as Comunidades do Milênio*) and “Integration Nucleus – A Proposal for Community Development” (*Núcleo de Integração – Uma Proposta para o Desenvolvimento Comunitário*);
- “Social Balance Sheet Award – Industry Sector” (*Prêmio Balanço Social – Setor Indústria*), classified among the five best balance sheets issued by Brazilian companies. The award is granted by the Brazilian Association of Corporate Communication (*Associação Brasileira de Comunicação Empresarial – Aberje*), Association of Investment Analysts and Professionals of the Stock Market (*Associação dos Analistas e Profissionais de Investimentos do Mercado de Capitais – Apimec*), Ethos Institute (*Instituto Ethos*), Corporate and Social Development Institute Foundation (*Fundação Instituto de Desenvolvimento Empresarial e Social – FIDES*) and the Brazilian Institute of Social and Economic Analysis (*Instituto Brasileiro de Análises Sociais e Econômicas – Ibase*);
- “Citizen Corporation Certificate” (*Certificado de Empresa Cidadã*), granted to the companies that elaborate the Social Balance Sheet in compliance with the rules established by Rio de Janeiro State Accounting Regional Council (*Conselho Regional de Contabilidade do Estado do Rio de Janeiro – CRC-RJ*), State of Rio de Janeiro Industries Federation (*Federação das Indústrias do Estado do Rio de Janeiro – Firjan*) and State of Rio de Janeiro Trade Federation (*Federação do Comércio do Estado do Rio de Janeiro – Fecomércio-RJ*).

Rational Use of Energy and Water

Energy Conservation

In relation to the energy conservation studies and programs, 60 projects were presented with their respective indicators and goals, developed in the states of Rio de Janeiro, São Paulo, Minas Gerais, Goiás, Espírito Santo and in the Federal District.

With this objective in mind, partnerships were carried out with Eletrobrás, secretariat of education, energy, environment and culture, civil defense bodies, public parks, electric energy concessionaires, major newspapers, commercial and industrial associations, zoological societies and universities, involving federal, state and municipal spheres.

Educational activities were carried out on the rational use of the electric energy and water, involving about 267 thousand people, out of which the following projects are worth mentioning:

- “FURNAS / Procel in Schools – The Mônica Gang and the Electric Energy” (*FURNAS / Procel nas Escolas – A Turma da Mônica e a Energia Elétrica*), promoted the training of 42,309 youngsters and adults;
- “The Nature of the Landscape – Energy: a Life Resource” (*A Natureza da Paisagem – Energia: Recurso da Vida*), qualifying 1,236 teachers and 112 thousand students of 46 municipal districts affected by FURNAS’ projects, on the issue of fighting energy waste;
- “Education for Conservation” (*Educação para Conservação*), mobilizing, through partnerships with public parks, 7,968 people for the rational use of electric energy and water, through lectures and ecological tracking;
- performance of 62 events to motivate students and the general public, involving 156 thousand people, which have participated in activities, such as: ludic-pedagogical activities, drama, games, showing how the individual and collective actions can influence and mobilize society, referring to the issues regarding fighting against energy and water waste;
- “Energy Circuit” (*Circuito da Energia*), reached 22,386 students and counted with the participation of 751 teachers, aiming to guide students to develop concepts of electric energy and its rational use, in a ludic manner, based on interactive and diversified experiences;
- advertisement of the subject “Conservation of Energy” (*Conservação de Energia*), with 53 insertions in internal bulletins and 37 insertions in the external media – such as radio, television, internet and newspapers.

Additionally, the following technical activities were developed:

- performance of 85 studies on energy efficiency in public schools and buildings, in the states where the Company has its installations, with a potential economy of 20.21 GWh/year;
- implementation of illumination projects at the *Villa-Lobos* Theater and at the Republic Museum, in Rio de Janeiro (RJ).

It is also worth mentioning that the awareness work carried out in order to fight water waste continued to be developed in several of FURNAS installations.

Environment

With the purpose of summarizing the environmental complexity associated with the regularization, implementation and operation of the FURNAS electric energy generation and transmission installations, five environmental indicators were selected, allowing the checking of the evolution of the Company’s performance, in the period from 2002 to 2006.

Environmental Licensing

The criteria for considering a given project as “licensed” was that it had received at least one of the three modes of environmental licenses established by Sisnama: previous, installation, or operation license.

The indicator represents the installed nominal capacity in the licensed hydroelectric and thermoelectric power plants (4,960 MW) and the natural power of the Company’s transmission lines, also licensed (15,274 MW), with the tension varying from 138 to 750 kV, resulting in an accumulated total amount of 20,234 MW by the end of 2006. The increase in the installed nominal capacity resulted from the awarding of previous licenses of HPP’s Serra do Facão, Foz do Chapecó, Retiro Baixo and Baguari, which are being built in association with private investors.

Accumulated until the Year	Licensed MW	
	Generation (G)	Transmission (T)
2002	2,490	14,322
2003	2,490	14,732
2004	3,292	15,146
2005	3,673	15,274
2006	4,960	15,274
Total (G + T)		20,234

Area of Monitored Water Surface

This area encompasses 5,695 km² of water surface of the reservoirs of 11 hydroelectric plants in operation, which are monitored periodically in terms of limnological parameters and water quality, as well as the composition of the ichthyofauna.

The increase of 294 km² in the monitored area is due to the beginning of operation of Peixe Angical HPP, built in association with private investors.

Extension of Protected Areas

As an environmental compensation for the implementation of its projects, FURNAS has invested in the consolidation of conservation units instituted by the Public Administration, such as national, state and municipal parks, biological reservations, ecological stations and environmental protection areas, as well as in indigenous reserves. This is a significant investment for the conservation of biodiversity of the Brazilian ecosystems, in which the Company has performed (the Atlantic Rain Forest and Cerrado), comprising an area of 1,230 thousand hectares (ha).

Accumulated Until the Year	Protected Area (ha)
2002	1,193,179
2003	1,193,179
2004	1,193,232
2005	1,226,577
2006	1,226,577

Brazilian environmental legislation related to environmental compensation of industrial projects is in force since 1987, with FURNAS being one of the national pioneer companies to abide by legislation, upon the implementation of the HPP’s Serra da Mesa and Corumbá, whose construction began in the mid-80’s. Since then, the Company has contributed significantly towards environmental conservation. In 2006, it negotiated with Ibama to establish a new standard contractual mechanism, aiming at applying financial resources coming from environmental compensation, as well as the eventual adhesion to the environmental Compensation fund, managed by *Caixa Economica Federal*.

Environmental Education Actions

Since the year 2000, FURNAS has started to invest, not only in terms of social communication with the populations affected by its projects, but also, formally, in environmental education, in partnerships through state and municipal departments of education and with non-governmental organizations. In the period 2002-2006, 110,337 students were awarded with environmental educational programs, distributed in 122 municipal districts located in the areas under influence of the Company's transmission lines and by Manso HPP, as follows:

Accumulated until the Year	Student Educated	Quantity
		Municipal District
2002	4,280	13
2003	38,247	52
2004	61,266	92
2005	109,857	122
2006	110,337	122

Archeological Sites Identified and Studied

The number of pre-historic and historic archeological sites, which have been identified / prospected / mapped and studied / recovered / researched during the construction of FURNAS generation and transmission projects reached a total of 1,292 sites.

In 2006, no new sites were identified. As a result from previous years, 12 sites are under study.

Accumulated until the Year	Sites Identified	Quantity
		Sites Studied
2002	584	523
2003	602	556
2004	657	580
2005	674	606
2006	674 (1)	618 (2)
Total (1)+(2)	1,292	

Staff

Plan of Positions, Careers and Remunerations (PCCR)

In 2006, a review was initiated for the criteria and concepts of the PCCR, enforced in 2005, as a consequence of improvement opportunities identified in its application during the Company daily operation.

The process of performance evaluation, which has as the main objective to identify the Company professionals' development needs and aims at facilitating and supporting People Management, had its 1st cycle ended in 2006, with the feedback and results validation phases made by managers and employees.

Permanent Personnel Distribution

The decrease of 56 employees observed in 2006 was a consequence of the difference between 156 admissions (151 through public contests and 5 engagements of external consultants) and 212 dismissals. No retirement was granted during the year.

Position	2002	2003	2004	2005 *	2006
Managerial	190	309	327	350	359
Graduate Level	941	821	1,132	1,329	1,314
Technical and Operational Level	1,601	1,584	1,845	-	-
Technical Level	-	-	-	1,777	1,781
Administrative Support Level	721	711	933	-	-
Medium Support Level	-	-	-	772	744
Basic Level	-	-	-	353	327
Total	3,453	3,425	4,237	4,581	4,525

* From January 2005 onwards, the denomination of the positions changed as a consequence of the New Plan of Positions, Careers and Remunerations.

Personnel Training and Development

In 2006, the development and training actions allowed an average *per capita* hourly load of 17 hours of training per year, for 69% of the Company workforce.

It prioritized internal training driven to basic competencies, using its own team of instructors, in order to reach the largest possible number of employees. The following courses were given: Time Management, Meetings Participation and Leading, Public Attendance, Teams Development, Interpersonal Relationship, Process Analysis and Improvement and Basic Informatics (Word, Excel and Power Point).

Courses of English and Spanish were given to employees of professional and basic levels benefiting around 950 employees per month, distributed in 109 classes, in 11 areas of the Company.

In the Reading and Re-Reading Program (*Programa Leitura e Releitura*), nine conferences were held at the Head Office auditorium, with simultaneous transmission, via Intranet, to several areas of the Company, in order to cover the largest number of employees.

The Company invested in the development of managerial trainings of 120 employees, through a Master of Business Administration (MBA) of the Managerial Development Program (*Programa de Desenvolvimento Gerencial – PGE*), resulted from partnerships with *Candido Mendes* University and the Institute DataBrasil, whose main objective is to encourage and support qualification in the latest management techniques.

FURNAS sponsored APG-Amana-Key training to approximately 50 managers, with the objective of improving their own competencies, especially in what relates to Strategic Orientation and to Change Anticipation and Adaptation.

Additionally, in partnership with the State University of Rio de Janeiro (*Universidade do Estado do Rio de Janeiro – UERJ*), it initiated the MBA in Public Policies and Project Management, allowing the training of 70 employees.

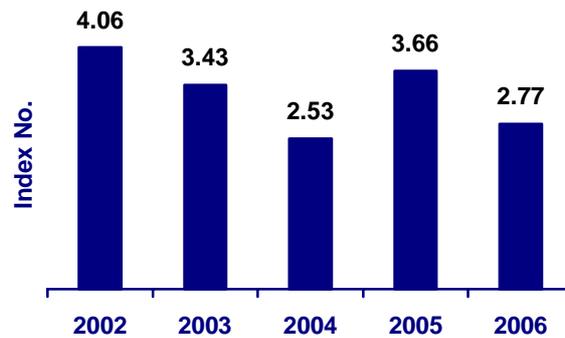
Also of great evidence was the Company action on training managers and technicians from the Mozambique Electricity Company (*Electricidade de Moçambique – EDM*), held in Maputo.

The Company presented, in Madrid, at the Head Office of Electrical Industry Spanish Association (*Asociación Española de la Industria Eléctrica – Unesa*), the project “Prisma – FURNAS Corporate University” (*Prisma - Universidade Corporativa de FURNAS*), which obtained in 2005 the prize *Fundação Coge*, in the category “Personnel Qualification and Development”.

Accident Frequency Rate

As a result from the actions of the Labor Safety and Industrial Hygiene, in the last years, the Company has been accomplishing a systematic decrease in the Accident Frequency Rate, as shown by the following chart. In 2006, there was a 24% decrease, due to the emphasis given to preventive actions in several operational areas.

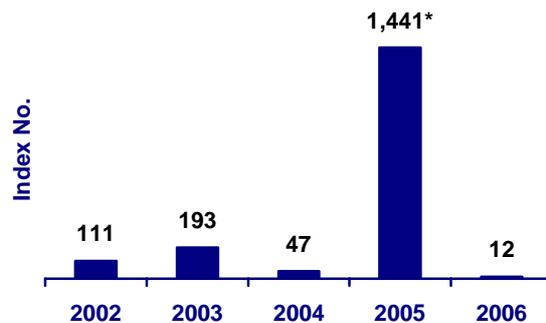
This index results from the division of the number of accidents by the total of million person-hours exposed to risky situations.



Accident Severity Rate

The Severity Rate of Labor Accidents in FURNAS had been presenting low values until 2004. In 2005, there was a significant increase due to two accidents with death casualties. In 2006 occurred an expressive decrease of the index.

This index results from the division of the number of not labored days by the total of million person-hours exposed to risky situations.



* The rate informed in 2005 report was of 1.420. The change occurred because the definitive information was not available at the time of that report closing.

Social and Environmental Information

	2006	2005				
1. Wealth Generation and Distribution						
Total Added Value (R\$ Thousand)	1,993,257	2,507,234				
Distribution of Added Value (%)	18.2 government 5.4 shareholders	27.2 collaborators 49.2 financiers				
The Added Value Demonstrative (DVA) is fully presented in the Financial Statements.	23 government 10 shareholders	19 collaborators 48 financiers				
2. HUMAN RESOURCES						
2.1. Remuneration	R\$ Thousand	R\$ Thousand				
Gross payroll (GP)	617,371	532,723				
- Collaborators	613,770	530,316				
- Managers	3,601	2,407				
Higher and lower remuneration relation:						
- Collaborators	17.10	17.99				
- Managers	1	1				
2.2. Benefit Granted	R\$ Thousand	% Over GP	% Over NR	R\$ Thousand	% Over GP	% Over NR
Payroll charges	182,665	29.59	3.43	165,257	31.02	3.27
Food	31,982	5.18	0.60	29,548	5.55	0.58
Transportation	2,960	0.48	0.06	2,252	0.42	0.04
Private social security	62,014	10.04	1.16	49,939	9.37	0.99
Health	64,052	10.37	1.20	58,228	10.93	1.15
Safety and industrial health	14,946	2.42	0.28	9,976	1.87	0.20
Education	1,325	0.21	0.02	1,635	0.31	0.03
Culture	2,032	0.33	0.04	2,870	0.54	0.06
Training and professional development	17,300	2.80	0.32	17,265	3.24	0.34
Day-care centers or day-care assistance	675	0.11	0.01	603	0.11	0.01
Profit or results sharing	55,289	8.96	1.04	48,587	9.12	0.96
Total	435,240	70.50	8.17	386,160	72.49	7.64
2.3. Staff Indicators	2006	2005				
Total No. of employees at the end of the year	4,525	4,581				
No. of people contracted during the year	156	446				
No. of dismissals	212	103				
No. of trainees at the end of the year	519	435				
No. of employees with special needs at the end of the year	230	134				
No. of outsourced employees at the end of the year	1,923	2,010				
No. of employees by gender:						
- Male	3,925	3,972				
- Female	600	609				
No. of employees by age:						
- Under 18 years old	0	0				
- From 18 to 35	855	884				
- From 36 to 60	3,573	3,622				
- Above 60	97	75				
No. of employees by scholar level :						
- Illiterate	0	0				
- Basic level	327	353				
- Medium level	755	779				
- Technical level	1,791	1,781				
- Graduated	956	1,011				
- Post graduated	696	657				
Percentage in management positions by gender:						
- Male	88.90	89.43				
- Female	11.10	10.57				

2.4. Contingencies and Labor Liabilities	2006	2005
No. of labor lawsuits against the Company *	907	995
No. of labor lawsuits considered valid **	1	3
No. of labor lawsuits considered invalid ***	73	80
Total value of compensations and fines paid due to legal sentence (R\$ Thousand) ****	15,223	28,088

3. Integration with the External Environment	R\$ Thousand	% Over OR	% Over NR	R\$ Thousand	% Over OR	% over NR
3.1. Relationship with the Community						
Total investments in:						
Education	6,464	1.16	0.12	10,159	0.83	0.20
Culture	11,170	2.00	0.21	3,974	0.32	0.08
Health and infrastructure	12,047	2.15	0.23	31,163	2.54	0.62
Sports and entertainment	-	0.00	0.00	344	0.03	0.01
Food	2,023	0.36	0.04	3,736	0.30	0.07
Work and revenue generation	269	0.05	0.01	-	0.00	0.00
Families resettlement	669	0.12	0.01	-	0.00	0.00
Total of Investments	32,642	5.83	0.61	49,376	4.03	0.98
Taxes (without payroll charges)	368,536	65.87	6.92	607,046	49.50	12.01
Financial compensation for the use of hydric resources	158,849	28.39	2.98	136,106	11.10	2.69
Total – Relationship with the Community	560,027	100.10	10.52	792,528	64.61	15.69

3.2. Interaction with Suppliers It is mandatory that the suppliers declare not to use personnel under 18 years old for night shifts, hazardous or unhealthy work and that they do not hire people under 16 years old. And it is also required that they mention in case they have people 14 years old and above as apprentices.

4. Interaction with the Environment	R\$ Thousand	% Over OR	% Over NR	R\$ Thousand	% Over OR	% Over NR
Investments and expenses with maintenance in the operational processes to improve the environment	5,154	0.92	0.10	4,599	0.37	0.09
Investments and expenses with the preservation and/or recovery of the degraded environment	17,374	3.11	0.33	18,528	1.51	0.37
Investments and expenses with environmental education to the Company employees, outsourced and free lance personnel and managers	15	0.00	0.00	-	0.00	0.00
Investments and expenses with environmental education to the community	1,347	0.24	0.03	1,881	0.15	0.04
Investments and expenses with other environmental projects	1,018	0.18	0.02	144	0.01	0.00
Number of environmental, administrative and legal suits against the Company	-	0.00	0.00	-	0.00	0.00
Amount of penalties and compensations related to the environmental issue, defined in the administrative and/or judicial spheres	-	0.00	0.00	-	0.00	0.00
Environmental liabilities and contingencies	-	0.00	0.00	-	0.00	0.00
Total Interaction with the Environment	24,908	4.45	0.47	25,152	2.05	0.50

5. Other Information	2006	2005
Net Operating Revenue (NR)	5,324,565	5,052,559
Operating Results (OR)	559,448	1,226,610

Note: Elaborated according to Eletrobrás guidance, based on Resolution No. 1.003/2004 from the Federal Accounting Council. As a consequence of the adoption of the new disclosure model, the information related to 2005 base year was changed in the following lines: Social Security, change in the amount; Health and Sanitation, changes in amount and title, which turned into Health and Infrastructure; Taxes (excluded payroll charges), change in the percentage over OR; and Others, suppressed line.

* Number of suits initiated in 2005 e 2006.

** Number of suits considered valid regardless the year in which they were initiated.

*** Number of suits considered invalid regardless the year in which they were initiated.

**** Amounts related to compensations and fines paid in 2005 and 2006, regardless of the year in which the suits were initiated.

II – INTERNAL CONTROL

The Internal Control in Public Administration, according to the concept used by TCU, is composed by a set of interrelated plans, activities, methods, indicators and procedures, used to ensure the compliance with the administrative acts and to achieve the objectives and targets established.

The Process of Rendering Accounts follows the normative instructions issued by TCU/CGU, showing the mitigation of possible risks to which the Company may be submitted, the identification of the materiality of the objective elements related to its assets and goods, and the transparency of its acts and performance, in accordance with FURNAS relevance as a leading actor in the Electric Sector.

EVALUATION OF CONTROLS AND PROCEDURES BY THE INTERNAL AUDIT

The Internal Audit, directly subordinated to the Board of Directors, acts preventively in matters related to internal controls, with the support of the Board of Directors and Supervisory Board monthly meetings, and by the Board of Executive Officers weekly meetings.

In the year 2006, 107 procedures were carried out abiding by the Internal Audit Activities Annual Plan (*Plano Anual de Atividades da Auditoria Interna – PAINT*) providing, among other gains, the improvement of the internal regulations, and consequently, the strengthening of internal controls as well as the compliance with the legislation in force and the recovery of values.

The PAINT is developed from the risk matrix, which identifies the processes requiring continuous monitoring and analysis of associated internal controls.

In the elaboration of the risk matrix, the operational characteristics of FURNAS are considered, with emphasis on the following indicators: materiality, relevance, vulnerability, risk, previous critical occurrences, legislation and image.

Furthermore, as provided by the PAINT, the Internal Audit has actively participated in the process aligning to the requirements of the SOX Law, by availing employees on a full time basis. It acted as a facilitator in developing the consulting and external audit work, mediating the requests to the Company areas and clarifying the issues between the two parties. Those interactions aim at allowing Eletrobrás to negotiate its American Depositary Receipts (ADR), in level 2. Thirty-nine processes were mapped and selected as the most relevant for the FURNAS' Financial Statements and for Eletrobrás' Consolidated Balance Sheet.

Additionally, the Internal Audit took part in working groups for reviewing and developing internal rules related to pensioning, taxation and corporate safety subjects.

In the search to adopt the best market practices, Internal Audit participated in seminars and conferences related to risk management, corporate governance, including SOX, sustainability, controls and other subjects inherent to the performance and trend of auditing activities.

The Internal Audit also promoted the strengthening of relationship with other companies, through meetings sponsored by Coge Foundation (*Fundação Coge*), which organizes internal seminars within the Electric Sector, and in conferences sponsored by the Brazilian Internal Auditors Institute (*Instituto dos Auditores Internos do Brasil – Audibra*).

OPINION OF SUPERVISORY BOARD

The Supervisory Board, in compliance with its legal and statutory attributions, have issued four opinions in the year of 2006, as follows: the first one, after analyzing the Administration Report and the Financial Statements of the 2005 Fiscal Year; the second one, referring to the Company's budget for the 2006 Fiscal year; the third, related to the increase of the Corporate Capital, through the partial incorporation of Earnings Reserves and the fourth, related to fund raising in the modality "Firm Guarantee". All opinions were favorable, with recommendations of approval to the shareholders in the corresponding General Meetings.