

ADMINISTRATION REPORT – 2008

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Message from the CEO

At the end of year 2008, FURNAS, with almost 52 years in operation, steered efforts towards achieving its goals and guidelines set out by the Federal Government's Growth Acceleration Program (PAC), by increasing its participation in the generation and transmission of Electric Energy Market. The Company also started a new management phase.

The seven new plants under construction includes FURNAS full ownership Simplicio Hydroelectric Power Plant – HPP / Anta Small Hydroelectric Plant – SHP (333,7 MW) and Batalha (52.5 MW). The The Hydroelectric Power Plants Retiro Baixo (82 MW), Baguari (140 MW), Serra do Facão (210 MW), Foz do Chapecó (855 MW) and Santo Antônio (3,150 MW), being built in cooperation with third parties under Special Purpose Entity (*Sociedade de Propósito Específico* – SPE) associations, will guarantee an increased demand in the concession area in the Midwest, Southern, Southeastern and Northern regions of the Country.

The Company's new transmission lines (TL) which are full ownership, namely: Tijuco Preto – Itapeti – Nordeste (345 kV), Macaé – Campos (345 kV) and Bom Despacho 3 – Ouro Preto 2 (500 kV) will reinforce the supply for the greater São Paulo, the Northern of Rio de Janeiro and Espírito Santo States, as well as Serra da Mantiqueira region, in Minas Gerais, increasing reliability to the electric energy supply in these areas.

Moreover, it is worth highlighting the 24.5% participation in the SPE *Interligação Elétrica Madeira S.A.*, sanctioned the first of blocks D and F in the Aneel Auction nº 007, held in November 2008, with reference to the construction of Porto Velho – Araraquara TL (\pm 600 kV), with 2,375 km extension, situated between the States of Rondônia and São Paulo, and the construction of a Rectifier Station AC/DC, in 500/ \pm 600 kV, in the Porto Velho Substation, and a Inverter Station, DC/AC, in \pm 600/500 kV, in Araraquara 2 Substation, respectively. This transmission line will interconnect Jirau and Santo Antônio HPP to the Brazilian Interconnected System.

Over R\$ 1 billion has been invested in expansions and reinforcements of generation and transmission park, with an emphasis on the modernization of the existing Luiz Carlos Barreto de Carvalho, Furnas and Marechal Mascarenhas de Moraes HPP, all of which lie on Grande river, being in operation for over 40 years.

Generation installations were available 89.3% of the time, whereas in transmission the lines were available 99.5% of the time. Results show the high availability of the Company's generation park besides the technical quality of its assets.

In addition, following guidelines defined by the *Holding* for the institutional reformulation and reorganization of the management model of the Eletrobrás System, three new projects – Corporate Strategic Planning, ERP – Sintonia Project and SOX Project – will ensure the Company's management improvement.

It is worth highlighting that FURNAS is, on an ongoing basis, committed to the sustainable development policy by investing in social projects and cultural activities well in line with the promise to respect the environment and the communities lying in the vicinities of its installations, with the purpose of safeguarding future generations. In 2008, 203 social projects were undertaken, benefiting over 160 thousand people by generating jobs and social inclusion.

Acting as a coordinator of the Light for Everybody Program in the Southern region and in Goiás State, the Company has a large contribution to both economical and social development of the aforementioned areas. In September, the Chamber of Commerce and Industry of Rio de Janeiro awarded the Company with the Sustainability Prize for the implementation of 18 new tele-centers in the countryside of São Paulo, Rio de Janeiro, Minas Gerais, Goiás and Espírito Santo States.

Since 1993, FURNAS has ensured an energy efficiency policy, both in supply and demand, well in line with the current challenge of generating sustainable energy with a view to economic development, energy safety and maintaining a sound approach to handling environmental issues. In June, the Company received a prestigious prize in education category – Procel Efficient City in Electric Energy – by Eletrobrás and the Brazilian Institute of Municipal Administration of Rio de Janeiro.

With the conviction of having accomplished its task, FURNAS Administration confirm its engagement to the Country's development and thanks the contribution of the Federal Government, MME, Eletrobrás, shareholders, clients, employees and partners, by showing its Annual Report 2008.

Carlos Nadalutti Filho
Chief Executive Officer

Company Profile

FURNAS is a mix private/state-owned 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 energy produced by bi-national projects.

The Company's installations are placed in Southeastern and Midwestern Brazil, interconnecting eight states and the Federal District of Brasília, an area that houses half of the Brazilian population, which in turn accounts for 66% of the Country's GDP. To do so, the Company relies on a generation capacity that comprises 11 hydroelectric power plants, out of which 8 in full ownership, 3 in cooperation with private investors (2 in partnership and 1 through a SPE), besides 2 conventional thermal power plants.

FURNAS transmission system encompasses 46 substations with a transforming capacity of 101,651 MVA, and a transmission grid of 19,278 km. Included therein are the circuits of Itaipu Transmission System, in 750 kV AC and \pm 600 kV DC, and other strategic links flowing energy to the Southern, Southeastern, Midwestern and Northern regions of the Country.

I – MANAGEMENT

Company Business

Outlook of the Brazilian Economy and Market

In 2008, Brazil proved to be less vulnerable to the external crisis. In spite of the numerous uncertainties as to the effects of instability in the international market, the Country obtained an Investment Grade title in April. Since September, the crisis high proportions and the downfall in the economies of world over have affected the Brazil's economic growth as a result of worldwide credit retraction as well as the decrease in internal and external demand.

Within this international scope, in the last quarter of 2008, Brazil's industrial production interrupted the sequence of its past 20 quarters of improvement. By the end of the year the rate was 3.1%, way below the 6.4% rate up to September. GDP had also increased at 6.4 % market rate by September when there was a 3.6% downfall in the last quarter, closing the year with a 5.1% rate. It is worth mentioning that GDP investment rate improved by 19% in 2008 and it was the best since 2000. The basic interest rate – Special System for Settlement and Custody (*Sistema Especial de Liquidação e de Custódia – Selic*) – went up again, as of April 2008, and reached 13.75% *per annum* in September, remaining stable until the end of the year. Inflation, at 5.9%, measured by Amplified Consumer Price Index (*Índice de Preços ao Consumidor Amplo – IPCA*), lay below the Government's goal of 6.5%. Despite the crisis, unemployment rate, 7.9% on average, was the lowest since 2002.

International reserves balance sheets held a negative result of US\$ 28 billion. In 2008, both imports and exports presented record rates. Nevertheless, in relation to 2007, the basic product exports growth reduced the trade balance rate by 38.2%, totalizing US\$ 25 billion at the end of the year. When it comes to exports average, in comparison with 2007, the price and *quantum* rates were -2.5% and 26.3%, respectively. Direct foreign inflows rose by 30%, becoming a historical record. In 2008, international reserves reached US\$ 206.8 billion as regards liquidity. In relation to the Country risk, the Emerging Markets Bond Index Plus (EMBI+) grew due to the aggravated crisis and leveled at 428 points, by comparison with 221 points in 2007, at the end of the year.

Electricity consumption met 392.8 TWh in 2008. It grew by 3.8% over 2007, according to Energy Research Company (*Empresa de Pesquisa Energética – EPE*) data. Commercial class, which holds a 16% stake of Brazilian energy consumption market, displayed the best performance, with a 6% growth, due to the improvement in commercial sales points (especially in the Northern), the foreign tourism and the increase in ports and airports activities.

Residential class, with a 24% stake of Brazilian market, rose by 5.3% with the incorporation of 2 million new units in the energy consumption market. Furthermore, the growth average population income led to an improvement in appliances sales. Therefore, the average residential consumption totaled 148 kWh/month. On the other hand, the industrial consumption, which concentrates 46% of the total market, went up 2.4%, as a reflection of the last quarter performance and an evidence of the crisis effects in the Brazilian economy.

Electricity consumption increased in all regions of the Country, markedly in the Midwest region, responsible for 6% of the market, which in turn had an expressive 7% growth with the largest contribution coming from the commercial class that grew 10.9%, in 2008. In the Southern, which concentrates 17.1% of the Brazilian market, consumption rose by 4.2%. Northern Brazil, representing 6% of the domestic consumption, grew by 3.9 % in its electric energy market. The Northern region, with a 16.5% of participation, upped consumption by 3.8%. The Southeastern region, which holds the largest stake of Brazilian market (54.4%), displayed the lowest performance, 3.3%.

Business Overview

Business Expansion

Generation

The Company heads seven new generation installations that are part of Growth Acceleration Program (*Programa de Aceleração do Crescimento – PAC*), launched by the Federal Government in 2007, deemed of great importance to guarantee electric energy supply in Brazil.

The two installations listed below, both of which are FURNAS full ownership, present the following features:

- Simplício Hydroelectric Power Plant (HPP) (305.7 MW), and Anta Small-scale Hydroelectric Power Plant (SHP) (28 MW), are situated on the Paraíba do Sul river, on the border of Rio de Janeiro and Minas Gerais States. Simplício comprises three generating units, one forecast to start running in 2010 and two in 2011, while Anta counts on two generating units, to start running in 2010. It also contemplates the associated transmission lines involving the interconnection between Anta SHP and Simplício HPP and the connection to the SIN, through one (Transmission Line) 138 kV TL, double circuit, between Simplício and Rocha Leão Substations, with 120 km long.
- Batalha HPP (52.5 MW), placed on the São Marcos river, on the border of Minas Gerais and Goiás States, has two generating units to start running in 2011. In April 2008, Brazilian Institute of the Environment and Natural Renewable Resources (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis – Ibama*) issued the Installation License. On top of that, it contemplates the connection to the National Interconnected System (*Sistema Interligado Nacional – SIN*), through a 138 kV TL, single circuit between the Substations Paulistas and Paracatu 1 (owned by Cemig), with 75 km of extension.

Besides the installations listed above, others are being built in cooperation with third parties, under SPE associations, as shown below:

- Retiro Baixo HPP (82 MW), a partnership between FURNAS (49%) and *Orteng Equipamentos e Sistemas* (25.5%), *Logos Engenharia* (15.5%) and *Arcadis Logos Energia* (10%) in the SPE *Companhia Retiro Baixo Energética*. Lying on the Paraopeba river, in the municipal districts of Pompeu and Curvelo, State of Minas Gerais, it will have two generating units, to start running in 2009;
- Baguari HPP (140 MW), a partnership between FURNAS (30.6%) and *Cemig* (69.4%) in the SPE *Baguari Energia* (in 2008 the partnership changed due to the going out of *Neoenergia*) which holds 49% over the shareholder's agreement in SPE *Baguari Geração de Energia Elétrica S.A.* Located on Doce river, in the districts of Fernandes Tourinho, Governador Valadares, Periquito, Alpercata and Sobrália in the State of Minas Gerais, it will have four generating units, two of which are to start running in 2009 and two in 2010;
- Serra do Facão HPP (210 MW), a partnership between FURNAS (100%) in the SPE *Serra do Facão Participações* (the partnership changed due to the additive 1 of the shareholder's agreement, of 11.7.2008), which has 49.5% over the shareholder's agreement between *Alcoa Alumínio* (35%), *DME Energética* (10%) and *Camargo Corrêa Energia* (5.5%) in SPE *Serra do Facão Energia*. Lying on São Marcos river, in the districts of Catalão and Divinópolis, State of Goiás, it will have two generating units, to start running in 2010;

- Foz do Chapecó HPP (855 MW), a partnership between FURNAS (49.9%), with *Pentágono Trust* (50.1%) in the SPE *Chapecoense Geração*, which has 40% over the shareholder's agreement between *CPFL Geração de Energia* (51%) and *Companhia Estadual de Energia Elétrica* (CEEE) (9%) in SPE *Foz do Chapecó Energia*. Located on Uruguai river, on the borders of the States of Santa Catarina and Rio Grande do Sul, in the districts of Águas do Chapecó and Alpestre, it will have four generating units, three of which to start running in 2010 and the fourth one in 2011;
- Santo Antônio HPP (3,150 MW), a partnership between FURNAS (39%), *Fundo de Investimento em Participações Amazônia Energia* (20%), *Odebrecht Investimentos em Infra-Estrutura* (17.6%), *Andrade Gutierrez Participações* (12.4%), *Cemig Geração e Transmissão* (10%) and *Construtora Norberto Odebrecht* (1%) in SPE *Madeira Energia S.A. – Mesa*. Lying on the Madeira river, 10 km from Porto Velho, State of Rondônia, in the Amazon region, this HPP will have 44 generating units, to start running between 2012 and 2016. In December 2007, concession for the construction was obtained through an auction conducted by Brazilian Electricity Regulatory Agency (*Agência Nacional de Energia Elétrica – Aneel*).

According to the approval of law No. 11.651 of April 7, 2008, Eletrobrás is entitled to go into partnership with institutions which deal with electric energy production or transmission abroad. Thus, FURNAS and a private shareholder established a new SPE constitution, with the following characteristics:

- Inambari HPP (2,000 MW), a partnership of Eletrobrás (29.4%) with FURNAS (19.6%) and *Construtora OAS* (51%) in SPE *Inambari Geração de Energia*. The shareholder's agreement, signed in 2008, aims at carrying out feasibility studies for the implementation of a HPP in Peru, in the district of *Madre de Dios*, 300 km away from Brazilian border. It also aims at an integrated transmission system, including a project to export electric energy to Brazil.

Transmission

The installations listed below, which are also part of PAC, FURNAS full ownership, present the following features:

- Tijuco Preto – Itapeti and Itapeti – Nordeste TL, both operating in 345 kV, total 50 km long, will interconnect Tijuco Preto Substation, in the State of São Paulo, and Itapeti and Nordeste Substations, under the ownership of *Companhia de Transmissão de Energia Elétrica Paulista* (CTEEP) in order to back and safeguard energy supply for the São Paulo region. Construction is still pending, waiting the due licensing on the part of environmental agencies;
- Macaé – Campos TL, third circuit, 345 kV, 92 km long, which is to back and safeguard energy supply for Northern Rio de Janeiro and Espírito Santo States. Installation License was granted by Environment Engineering State Foundation (*Fundação Estadual de Engenharia do Meio Ambiente – FEEMA*) in July 2008, to start running in July 2009;
- Bom Despacho 3 – Ouro Preto 2 TL, 500 kV, single circuit, 180 km long will interconnect Ouro Preto 2 and Bom Despacho 3 Substations, both located in Minas Gerais State, under the ownership of Cemig. This installation will provide reliability in energy supply for Serra da Mantiqueira region (MG). The aforementioned installation refers to block C of Aneel Auction No. 006, of October 2009, won by FURNAS. Construction is still pending, waiting the due licensing on the part of environmental agencies. It is expected to start running in October 2010.

Besides the installations mentioned above, the construction of the transmission lines below is under way, in cooperation with third parties aforementioned, under SPE association, bearing the following features:

- 345 kV Furnas – Pimenta TL, association of FURNAS (49%) and Cemig (51%) in the SPE *Companhia de Transmissão Centroeste de Minas*. Situated in the State of Minas Gerais and expected to be 75 km long, its construction is still pending, waiting the due licensing on the part of environmental agencies;
- Porto Velho – Araraquara TL, association of FURNAS (24.5%), CTEEP (51%) and *Companhia Hidro Elétrica do São Francisco* CHESF (24.5%) in SPE *IE Madeira – Interligação Elétrica Madeira S.A*. This installation refers to block D of Aneel Auction No. 007, held in November 2008. TL is located between the States of Rondônia and São Paulo, in DC ± 600 kV and will be 2,375 km long. The energization date is due 36 months after signing of concession contract;
- Rectifier Substation AC/DC, 500/ ± 600 kV, 3,150 MW and Inverter Substation DC/AC, $\pm 600/500$ kV, 2,950 MW, association of FURNAS (24.5%), CTEEP (51%) and CHESF (24.5%), in SPE *IE Madeira – Interligação Elétrica Madeira S.A*. This installation refers to block F of Aneel Auction No. 007, held in November 2008. The Substations will be located in Porto Velho and Araraquara, respectively. The energization date is due 50 months after concession contract;
- Connection of Biomass HPP and SHP to SIN – related to Generation Centers Transmission Installations for Shared Connection (ICG) and Generation Centers for Exclusive and Individual Installations (IEG) – association of FURNAS (49%), *Delta Construção* (25.5%) and *Fuad Rassi Engenharia, Indústria e Comércio* (25.5%), in SPE *Transenergia Renovável S.A*. This installation refers to block C of Aneel Auction No. 008, held in November 2008. It consists in a transmission system in 230 and 138 kV, located in Mato Grosso do Sul and Goiás States to integrate Biomass HPP and SHP to SIN. The start running date is due 18 months after concession contract.

Besides those installations scheduled under the PAC, FURNAS has also been authorized by Aneel to conduct the following reinforcements in its units:

- in Mascarenhas de Moraes Substation, located in Minas Gerais State, in 400 MVA, expansion of transmission capacity and replacement of equipment with overcapacity, in 138 kV sector;
- in Poços de Caldas Substation, located in Minas Gerais State, in 2 x 225 MVA, expansion of transmission capacity and installation of 2 banks of series capacitors of 150 Mvar, one being in 345 kV and the other, in 138 kV;
- in Jacarepaguá Substation, located in the State of Rio de Janeiro, expansion of transmission capacity in 225 MVA;
- in Ivaiporã Substation, located in Paraná State, installation of 2 banks of reactors of 180 Mvar in the tertiary of the third pole of autotransformer 765/500/69 kV;
- in Iriri Substation, located in the State of Rio de Janeiro, construction of 138 kV Rocha Leão – Campos TL sectioning, to meet the increased demand in the concession area of Ampla, especially in what concerns Natural Gas Production Anticipation Plan (*Plano de Antecipação da Produção de Gás Natural – Plangas*), approved by Brazil's National Energy Policy Council (*Conselho Nacional de Política Energética – CNPE*), to enable Petrobras project, which is part of PAC;

- In Tijuco Preto Substation, located in São Paulo State, transfer of line-bays of Tijuco Preto – Leste 3 and Tijuco Preto – Ibiúna 2 TL and the extension of bus-bar of 345 kV sector, using rigid bars, which will enable the connection of these line-bays to the capacitors banks at the opposite side of the current bus-bar. The transfer of the course of Tijuco Preto – Ibiúna 2 TL near the Substation and the implementation of 2 banks of reactors which limit the short-circuit current, 15 ohm per phase (6 phase) and associated connections, are necessary to restore the ideal operational functioning conditions of the Tijuco Preto Substation, whose 345 kV sector will be overcome in short term. This overcoming diagnosis is aggravated with the initial operation of the transmission reinforcement under way, with a view to meeting the expansion of São Paulo area.

System Operation

In order to maintain quality control and reliability of the services rendered, in the context of the current scenario, the areas of electric studies, electric planning of operation and actual operation of SIN developed actions toward streamlining, on the one hand, maintenance needs, and operating barriers and, on the other hand, equipment profile handled by FURNAS with a view to meeting those requirements laid down by National Electricity System Operator ONS, by Aneel's Regulatory Acts and by the operating norms prevailing among the interconnected companies acting in generation, transmission and distribution.

As to the set of rules governing the sector, special attention was given to publicizing and accomplishing Aneel's Normative Resolution No. 270, of June 26, 2007, which establishes rulings safeguarding the quality of energy transmission public services associated with the installations availability that integrate the Basic Grid that constitute the SIN (variable parcel).

Generation installations were available 89.3% of the time (83.3% when considered the interruptions due to the modernization process) whereas in transmission the lines were available 99.5% of the time.

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 operation:

- In Campos TPP and Substation, repotentialization of circuits 1 and 2 of 138 kV TL, which connects the Campos TPP to Campos Substation, with an increase of 35% of energy transmission capacity. Planned by the study area and developed in urgency by the maintenance areas involved, this action enabled the full order of Mário Lago (Macaé Merchant) and North Fluminense TPP, so as to meet the Committee for Monitoring Electric System (*Comitê de Monitoramento do Setor Elétrico – CMSE*) and the ONS rules concerning the low pluvial precipitation that occurred in the Southeast region;
- In Vitória and Ouro Preto Substations, the start of operation of the monopolar automatic recloser scheme in 345 kV Vitória – Ouro Preto TL, after studies carried out by the Company, increasing reliability of supply to the State of Espírito Santo;
- In Serra da Mesa HPP and Samambaia and Gurupi Substations, the start of operation of the tripolar automatic recloser schemes of circuits 1 and 2 of 500 kV Serra da Mesa – Samambaia TL, circuit 1 of 500 kV Serra da Mesa – Gurupi TL, circuit 1 of 500 kV Gurupi – Peixe TL and circuit 1 of 500 kV Gurupi – Miracema TL after studies carried out by the Company improving its systemic performance and the reliability of the interconnection of the regions Southern – North of the SIN;
- in Mascarenhas de Moraes HPP, replacement of a transformer of 5 MVA for a 30 MVA one, responsible for the charge of 13.8 kV sector to serve the cities of Ibiraci and Delfinópolis, in Minas Gerais State, reinforcing, significantly, this connection;

- in Ouro Preto Substation (Cemig), the start of operation of the 345 kV capacitors bank 200 Mvar transferred from Itutinga Substation. This equipment reduces the need for thermal generation in Minas Gerais State to voltage control, saving expenses in fuel in the SIN.

Within the scope of the electric planning of operation there were pre-operational studies of new equipment, requirement analysis to access the SIN, studies for protection adjustments, factory acceptance tests, commissioning of protection and control systems, as well as studies at the Electric System Real Time Simulator for several different jobs, with emphasis on the following:

- automatic restart of transmission lines with a view to minimizing the drop in revenue caused by variable parcel;
- perturbation analysis in FURNAS premises in order to comply with ONS, Aneel and the Electrical Sector Monitoring Committee (*Comitê de Monitoramento do Setor Elétrico – CMSE*);
- installation of Emergency Control Schemes (*Esquemas de Controle de Emergências – ECE*), in order to improve SIN's performance and reliability.

In order to meet the complex call laid down by Aneel's Normative Resolution No. 270/2007, related to variable parcel, a new intervention analysis program has been developed.

In compliance with the policy of continuous improvement of regulation, control and protection systems of power plants, transmission lines and their related equipment, FURNAS proceeded in making intensive use of the Electric System Real Time Simulator installed at its Main Office. The simulator is an international reference, and has been coping with the requests from national and international electric energy companies.

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

In 2008, was developed the Simulator to Train Operators for Operational Centers in order to create scenarios from historical data of analog and digital values of the electric system, processed by the System of Supervision and Control (*Sistema de Supervisão e Controle – SOL*) instantly. This System has also the ability to configure the electrical grid and run an electric power flow program, considering the topologic changes inserted manually, by the instructor. The trainer simulates the maneuvers in equipment, while the analogical magnitudes are recalculated automatically. The results are presented in the SOL System environment similarly to data in real time, simulating, exactly, what occurs in the control room.

Maintenance of Installations

In order to keep equipment availability at a high rate, FURNAS seeks to couple the expertise of its technical staff with a strict maintenance philosophy.

At its premises, the Company executes faithfully the equipment maintenance planning of its generator and transmitter park and guarantees an adequate supply within the electrical system.

In accordance with this guidance, the modernization of Furnas, Luiz Carlos Barreto de Carvalho (Estreito) and Mascarenhas de Moraes HPP proceeded.

It's also worth mentioning the following maintenance activities:

- at Santa Cruz Thermoelectric Power Plant (TPP), continuation of works in the recovery of steam turbine in unit 1 and in units 3 and 4, modernization of turbine supervision system and recovery of combustion systems in units 3 and 4, besides the replacement of furnace tube parts in boiler 4;
- installation of a remote control system at Manso HPP from Itumbiara HPP.

With respect to substations, the following tasks stood out:

- general review of 20 high-voltage circuit-breakers, 31 modules and 6 circuit-breaker poles besides the acquisition of 36 rectifiers to replace others due to the end of their operating time, the modernization of 20 disconnecting switches, of 500 and 800 kV, the acquisition of circuit-breakers of 145 kV, 245 kV and 362 kV and finally 8 disconnecting switches, of 34.5 kV to replace equipment due to the end of its operating time from several different areas of the Company, in order to maintain a high operational reliability;
- repair / revitalization of 10 transformers / autotransformers / converter transformers / reactors and repair of other 17 transformers / autotransformers / reactors were started;
- revision of the project for the Supervision and Control System of 500 kV Ibiúna Substation, in accordance with the new standard by Cepel / Open System of Managing Energy (*Sistema Aberto de Gerenciamento de Energia – SAGE*);
- replacement of the Supervision and Control Digital System in Rio Verde Substation by SAGE;
- installation of a remote control system in Rocha Leão Substation, from Macaé Substation;
- installation of optical cables in the route Adrianópolis – Magé – Rocha Leão – Macaé.

Proceeding with the Recovery Plan for Transmission Lines, 6,734 insulators and 1,847 spacers-dampers were replaced, 50 towers were painted and 401 tower foundations in several circuits were recovered.

Also worth mentioning:

- emergency interventions to re-establish the transmission capacity of circuits affected by rainstorms, in 345 kV Adrianópolis – Itutinga 1 TL, after the falling number of towers due to gale-force winds;
- continuation of implementation of aluminum modular structures for emergency interventions aiming at reducing the period of recovery, in case of collapse of structures;
- installations, tests and use of a new PABX system in the Company's Main Office;
- offer of 13 training courses on live-line maintenance, mounting frame and inspection of lines for technicians from all production line departments.

Commercialization of Electric Energy

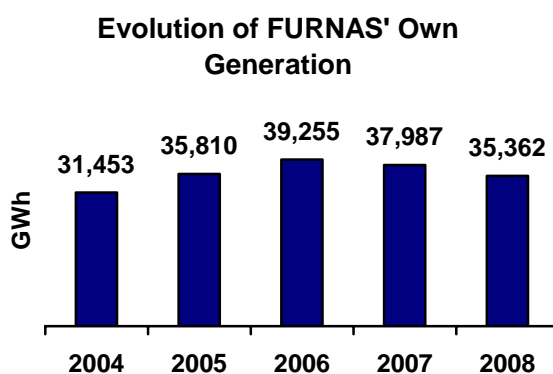
Electric energy commercialization in Brazil is ruled by Law No. 10.848, of March 15, 2004, and Decree No. 5.163, of July 30, 2004. The domestic market is organized in two different contexts instituted to make energy purchase and sale contracts:

- Context of Regulated Agreement (*Ambiente de Contratação Regulada – ACR*), open to agents of Generation and Distribution;
- Context of Free Agreement (*Ambiente de Contratação Livre – ACL*), open to agents of Generation, Traders and Free Consumers.

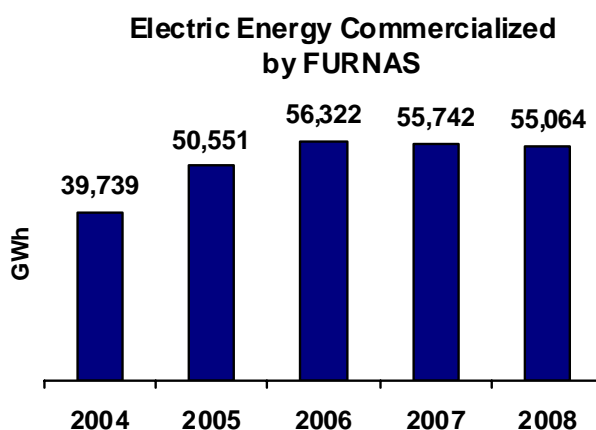
At ACR, energy commercialization takes place through public auctions, regulated by Aneel, directly coordinated by the Agency or CCEE, and leading to regulated bilateral agreements called Contracts of Electric Energy Commercialization in Regulated Context (*Contratos de Comercialização de Energia Elétrica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

At ACL, free negotiation takes place involving Independent Producers, Traders and Free Consumers. Public Service Concessionaries, under Federal control, which is the case of FURNAS, 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.

Sourcing of energy from existing installations came from plants fully owned by the Company together with energy purchased from Semesa, Proman, 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 No. 320/2004 of Ministry of Mines and Energy (MME).



Note: Adjusted data during the time given, in order to consider only the electric energy parcel fully owned by FURNAS in Serra da Mesa and Manso HPP, respectively, 48.46 and 70%.



Commercialization of Transmission Services

Commercialization of Transmission Services takes place in two contexts, namely: in public services (concession) and where the exclusive interest of agents of the electric sectors (extra concession).

Public Services (Concession) Context

The Public Electric Energy Transmission Services are characterized in the Concession Agreement by the availability of transmission installations.

- Basic Transmission Grid

Transmission installations, classified by Aneel as integrating the Basic Grid, are made available to ONS upon receipt of Allowed Annual Revenue (*Receita Anual Permitida – RAP*), as registered in the Contract of Transmission Rendering Services. RAP is adjusted yearly by Aneel specific resolution, based on General Market Price Index (*Índice Geral de Preços do Mercado – IGP-M*), and also by incorporating new installations.

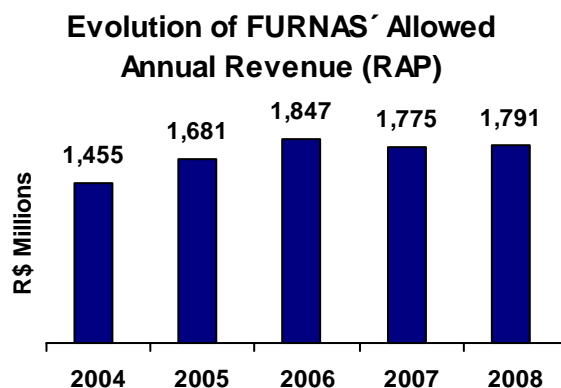
For the new transmission installations authorized to operate by Aneel from May 31, 2000 on, a tariff review process shall be made every four years, corresponding to RAP parcel.

The first tariff review, which should have taken place in 2005, was carried out in 2007 and reduced FURNAS RAP for the period 2007-2008, retroactively to 2005-2006 and 2006-2007. From the second half of 2007 on, therefore, besides the reduction of the 2007 RAP, an adjustment parcel is being discounted, concerning those sums paid in excess in the two previous periods.

In the period 2008-2009, revenue inflows stemming from the start-off of commercial operation of Basic Grid transmission installations were considered, namely:

- in Ibiúna Substation, in 345 kV, installation of filter banks for 3rd and 5th harmonics, with 59 Mvar;
- In Tijuco Preto Substation, return to operation of a mono-phase autotransformer 750/345 kV, 1,500 MVA, and its connections.

The following chart presents RAP increase in the last five years for the Basic Grid transmission installations.



- Transmission Installations Outside the Basic Grid

Other transmission installations, which do not integrate the Basic Grid, are made available to the agents of the Electric Sector directly upon receipt of the corresponding RAP, dubbed here “connection charges”, as registered in the Connection to the Transmission System Contract (*Contrato de Conexão ao Sistema de Transmissão – CCT*).

According to the rules, CCT’s are negotiated directly with the free consumers, energy generation agents and energy import/export agents. In the case of distribution agents, “connection charges” are defined and updated on a yearly basis through Aneel’s Specific Ratifying Resolution, based on the fluctuation of IGP-M.

- Sharing of Installations

In transmission public services concession, sharing of installations and infrastructure with third parties is mandatory, where revenues are guaranteed, as is the case, in a Sharing of Installations Contract (*Contrato de Compartilhamento de Instalações – CCI*) or Sharing of Right of Way Contract (*Contrato de Compartilhamento de Faixa de Passagem – CCFP*).

Revenue increase produced by these contracts is as follows:

Nature of Contract	R\$ thousands				
	2004	2005	2006	2007	2008
Connection to the Transmission System (CCT)	6,314	11,352	13,180	14,221	14,784
Sharing of Installations (CCI)	703	2,633	2,031	2,284	6,582
Sharing of Right of Way (CCFP)	519	155	-	-	-
Total	7.536	14.140	15.211	16.505	21,366

Extra Concession Context

The Concession Agreement allows development of other activities upon receipt of “other revenues”, agreed by specific contracts, which are not part of the Public Electric Energy Transmission Services regulated by Aneel. Such is the case of, among others, the following Contracts: Rendering of Operation and Maintenance Services (*Contrato de Prestação de Serviços de Operação e Manutenção – CPSOM*), Rendering of Maintenance Services (*Contrato de Prestação de Serviços de Manutenção – CPSM*), and Sharing of Infrastructure (*Contrato de Compartilhamento de Infraestrutura – CCIF*), which are made with agents outside Electrical Sector.

Revenue evolution, as produced by the above-mentioned agreements, is broken down as follows:

Nature of Contract	R\$ thousands				
	2004	2005	2006	2007	2008
Rendering of Operation and Maintenance Services (CPSOM)	-	2,717	1,563	1,684	2,461
Rendering of Maintenance Services (CPSM)	581	1,177	1,036	1,163	1,201
Sharing of Infrastructure (CCIF)	-	-	2,000	1,700	-
Total	581	3.894	4,599	547	3,662

Commercialization of Technical Support, Operational and Administrative Services

In 2008, FURNAS provided technical and managerial services in the fields of generation and transmission for public and private companies, both domestic and foreign.

MAIN SERVICES RENDERED

Client	Service
<i>Hidropastaza S.A. – Ecuador</i>	Finalization of supervision of construction of <i>San Francisco</i> HPP
Angola and Namibia Republics	Studies for the technical-economical feasibility of Baynes HPP, 360 MW on Cunene river, Angola and Namibia border, in Africa
<i>Enerpeixe S.A. – Brazil</i>	For Peixe Angical HPP: <ul style="list-style-type: none"> - issue and furnish the Operation Manual; - operation and maintenance of HPP, substation and associated transmission; - dam structural check. Continuation of hydrometric services in the Tocantins river in area affected by the reservoir
<i>Cachoeira Paulista Transmissão de Energia S.A. – Brazil</i>	Operation and maintenance of 500 kV Cachoeira Paulista – Tijuco Preto TL, single circuit, 180 km
<i>Companhia de Transmissão Centroeste de Minas – Brazil</i>	During construction of 345 kV Furnas – Pimenta II TL, single circuit, 75 km: <ul style="list-style-type: none"> - technical-administrative support to owner's activities; - technical and environmental management of execution and quality control.
<i>Operador Nacional do Sistema Elétrico (ONS) – Brazil</i>	Development of programs and procedures associated with the evolution of hardware and software resources
<i>Petrobrás – Petróleo Brasileiro S.A. – Brazil</i>	Installation of signalization spheres on several FURNAS transmission lines, on line bays over Transpetro pipelines
<i>Serra do Facão Energia S.A. – Brazil</i>	For Serra do Facão HPP: <ul style="list-style-type: none"> - Owner's Engineering services, concerning the installation of HPP, substation and associated transmission, and civil works in area affected by the reservoir; - restudy of the backwater of the reservoir.
<i>Foz do Chapecó Energia S.A. – Brazil</i>	Owner's Engineering services concerning the installation of Foz do Chapecó HPP, substation and associated transmission
<i>Votorantim Metais – Unidade de Aço (Siderúrgica Barra Mansa) – Brazil</i>	500 kV Adrianópolis – Cachoeira Paulista TL sectioning
<i>Thyssenkrupp CSA Companhia Siderúrgica (TKCSA) – Brazil</i>	Connection of Industrial Unity to the Basic Grid
<i>Telvent do Brasil S.A. – Brazil</i>	Model tests for performance evaluation of the protection system of 500 kV Marabá – Itacaiúnas TL
<i>Construtora Norberto Odebrecht S.A. – Brazil</i>	Planning analysis services and expansion studies of the Northern Angola electric system
<i>Brentech Energia S.A. – Brazil</i>	Management, monitoring and quality control of space line installation in the connection of Goiânia II TPP to Bandeirantes Substation
<i>Foz do Rio Claro Energia S.A. – Brazil</i>	For Foz do Rio Claro HPP: <ul style="list-style-type: none"> - Owner's Engineering services for implementing the plant; - hydraulic studies to be developed by means of reduced model.
<i>Ijuí Energia S.A. – Brazil</i>	Owner's Engineering services concerning the installation of São José HPP
<i>Eletrosul Centrais Elétricas S.A. – Brazil</i>	Training courses for Eletrosul technicians on the construction of substations
<i>Consórcio UHE Baguari – Brazil</i>	Quoting prices of testing models for protection system performance evaluation in 230 kV Transmission Lines that will interconnect Baguari HPP to SIN, composed of relays from Areva, using the Electric Systems Simulator
Several Clients	Services involving concrete technology and soil mechanics Personnel trainings and quality control of equipment at the Electric Systems Simulator

Evolution of Electric Installations in Operation

Generating Plant – 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	Installed Capacity (MW)	Ownership of Installation (%)	Assured Energy (Average MW)				
			2004	2005	2006	2007	2008
Hydroelectric							
Full Ownership							
Itumbiara	2,082	100.00	1,015	1,015	1,015	1,015	1,015
Marimbondo	1,440	100.00	726	726	726	726	726
Furnas *	1,216	100.00	598	598	598	598	598
Luiz Carlos B. de Carvalho (Estreito) *	1,050	100.00	495	495	495	495	495
Mascarenhas de Moraes *	476	100.00	295	295	295	295	295
Corumbá I	375	100.00	209	209	209	209	209
Porto Colômbia	320	100.00	185	185	185	185	185
Funil	216	100.00	121	121	121	121	121
Shared Ownership							
In Partnership							
Serra da Mesa	1,275	48.46	671	671	671	671	671
Manso	212	70.00	92	92	92	92	92
Special Purpose Entity (SPE)							
Peixe Angical	452	40.00	-	-	63	271	271
Thermoelectric							
Full Ownership							
Santa Cruz	766	100.00	450	547	496	496	496
Roberto Silveira (Campos)	30	100.00	21	21	21	21	21
São Gonçalo (out of service)	-	100.00	-	-	-	-	-

* in modernization process.

Note: FURNAS partnership in the installations:

- Serra da Mesa HPP: Semesa (51,54%)
- Manso HPP: Proman (30%)
- Peixe Angical HPP: EDP Brasil (60%), in SPE Enerpeixe S.A.

Substations – Voltage and Transforming Capacity

In 2008, there was no change in installed transforming capacity (MVA) of FURNAS own substations.

Voltage (kV)	MVA				
	2004	2005	2006	2007	2008
≤ 230	4,074	4,048	5,213	5,095	5,095
345	24,426	25,021	25,246	24,985	24,985
500	43,078	44,888	47,598	47,421	47,421
750	21,400	23,050	23,050	24,150	24,150
Total	92,978	97,007	101,107	101,651	101,651

Transmission Lines – Operating Voltages, Ownership and Extension

From 2006 besides the own Transmission Lines, the first lines built in association with others partners, in the form of SPE, came into operation. Thus, their extension will be informed in separate headings, as follows:

Full Ownership

There was no addition of transmission lines in full ownership, in 2008.

Voltage (kV)	km				
	2004	2005	2006	2007	2008
≤ 230	4,349	4,349	4,349	4,349	4,349
345	5,686	6,069	6,070	6,070	6,070
500	4,549	4,549	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	18,894	19,277	19,278	19,278	19,278

Shared Ownership – Special Purpose Entity (SPE)

There was no additional transmission line in partnerships, in 2008.

500 kV Peixe Angical – Gurupi TL, 92 km long, which connects the Peixe Angical HPP to SIN, was part of the installation *SPE Enerpeixe* until April 27, 2006, when Aneel signed with *Integração Transmissora de Energia S.A. (Intesa)* the Concession Agreement for interconnection of North – South III TL, which absorbed part of the TL. This sectioning led to Peixe Angical – Peixe 2 TL, 20 km long, under the property of *SPE Enerpeixe* and Peixe 2 – Gurupi TL, 72 km long, owned by Intesa, through reimbursement of R\$ 7.1 million. In April 2008, *SPE Enerpeixe* transferred the TL to Intesa, with a correspondent updated reimbursement, through IGP-M, since August 2005.

Transmission Line	Voltage (kV)	Started Operations in 2006		Started Operations in 2007	
		Total (km)	FURNAS Participation (%)	Total (km)	FURNAS Participation (%)
Irapé – Araçuaí **	230	-	-	61*	24,5
Itutinga – Juiz de Fora **	345	-	-	144*	25
Montes Claros – Irapé	345	139*	24	-	-
Peixe Angical – Peixe 2	500	20	40	-	-

* Effective length in kilometers, which, after construction, showed a slight difference as forecast in Aneel's Concession Contract.

** TL part of PAC, from Federal Government.

Note: FURNAS partnerships:

- Montes Claros – Irapé TL: *Companhia Técnica de Engenharia Elétrica – Alusa* (41%), *Cemig* (25%) and *Orteng Equipamentos e Sistemas* (10%), in *SPE Companhia Transleste de Transmissão*.
- Peixe Angical – Peixe 2 TL: *EDP Brasil* (60%) in *SPE Enerpeixe*.
- Irapé – Araçuaí TL: *Alusa* (41%) *Cemig* (24.5%) and *Orteng* (10%) in *SPE Companhia Transirapé de Transmissão*.
- Itutinga – Juiz de Fora TL: *Alusa* (41%), *Cemig* (24%) and *Orteng* (10%) in *SPE Companhia Transudeste de Transmissão*.

Supervision and Control of Generating Plants and Substations

Since 1997, FURNAS has been installing Digital Systems for Supervision and Control in every new installation of generation and transmission, as well as in the expansion of pre-existing installations. In 2008, 17 installations were fully digitalized and 19 under adaptation.

Since 2003, the Company has been participating in the Sinocon project, under the responsibility of ONS, which envisages the modernization of digital supervision equipment of several agents.

In relation to the documentation management, new equipment was purchased to make feasible digital file recovery, in specific software, from data plotting, to distribution and filing in the Technical Documentation Electronic Management System (*Sistema de Gerenciamento Eletrônico de Documentos Técnicos* – GED). In 2008, the process of bidding for acquisition of software was completed. Its implementation is awaiting approval by the Board of Executive Officers.

Telecommunication Transmission System

This system, composed by radio and optical sub-systems, encompasses 5,251 km of digitalized routes, servicing 78% of all FURNAS operating units. Out of the 60 operative units (46 substations, 13 power plants and the operation 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 2008, were installed 177 km of OPGW cable on 138 kV Adrianópolis – Magé, Magé – Rocha Leão and Rocha Leão – Campos TL, to Macaé Substation. This installation is part of an installation, with 494 km, which will connect Rio de Janeiro and Espírito Santo units, from Adrianópolis to Vitoria Substations.

Investments Included in the Pluriannual Plan (PPA)

Execution of the Budgetary Actions included in the Pluriannual Plan (PPA) 2008-2011 of the Federal Government and committed to FURNAS, required, in 2008, an investment of R\$ 1,087.2 million, budgetary values reported to the Department of Coordination and Control of Stated Enterprises (*Departamento de Coordenação e Controle das Empresas estatais* – Dest), whose projects are linked bellow:

	R\$ millions
	Accomplished
Generation	
Implementation of Simplício HPP / Anta SHP (RJ) and Associated Transmission	491.2
Implementation of Batalha HPP (MG/GO) and Associated Transmission	95.8
Modernization of Luiz Carlos Barreto de Carvalho HPP (MG)	73.2
Modernization of Furnas HPP (MG)	61.4
Maintenance of Electric Energy System	11.8
Modernization of Mascarenhas de Moraes HPP – Phase I (MG)	10.9
Implementation of Combined Cycle in Santa Cruz TPP (RJ)	3.0
Feasibility Studies for the Generation of Electric Energy Expansion	2.9
Subtotal	750.2
Transmission	
Reinforcements in the Transmission System in São Paulo and Minas Gerais States	81.8
Maintenance of Electric Energy Transmission System	68.6
Reinforcements in the Transmission System in Rio de Janeiro and Espírito Santo States	61.5
Reinforcements in the Transmission System in Goiás and Mato Grosso States and Federal District (Brasília)	24.3

	Accomplished
Implementation of Tijuco Preto – Itapeti – Nordeste TL (SP)	14.5
Implementation of Macaé – Campos TL (RJ)	5.7
Feasibility Studies for the Trasmision of Electric Energy Expansion	0.8
Subtotal	257.2
Others	
Maintenance and Adequacy of Assets of Computing, Information and Teleprocessing	36.5
Maintenance and Adequacy of Movable Property, Vehicles, Machines and Equipment	20.0
Environmental Preservation and Conservation of Generation and Transmission Electric Energy Installations	17.9
Maintenance and Adjustment of Real Estate	5.4
Subtotal	79.8
Total	1,087.2

Besides the projects Simplício HPP / Anta SHP and Batalha HPP, and its associated transmission, described in the item Business Expansion – Generation, which accounts for 54% of the investment period, the modernizations of Luiz Carlos Barreto de Carvalho, Furnas and Mascarenhas de Moraes HPP, in operation, respectively, from 1969, 1963 and 1947, were distinguished with 13.4%. The modernizations of these plants involves the rehabilitation of turbines, generators and associated systems and the implementation of new control, command, control, monitoring and protection systems. It aims at enabling the increase of operational safety and reliability of equipment and electromechanical systems, extending the working life of these plants.

Investments in reinforcements in the Transmission Systems of the States of São Paulo and Minas Gerais, Rio de Janeiro and Espírito Santo, Goiás, Mato Grosso and the Federal District and Maintenance of Electric Energy Transmission System account for about 22% of the total held in the year. The actions developed in the States are supposed to promote the implementation of reinforcements geared towards the adequacy of electricity supply in substations and transmission lines and take into consideration the information contained in the Plan of Expansions and Reinforcement (*Plano de Ampliações e Reforços na Rede Básica – PAR*), of the ONS, and the Transmission Expansion Program (*Programa de Expansão da Transmissão – PET*), of the EPE, in the period 2006-2010, of extreme importance for the performance and safety of the SIN. The Maintenance of Electric Energy Transmission System action aims at maintaining, rehabilitating and improving the transmission installations of FURNAS, with the purchase of parts and equipment needed to avoid unavailability and increase reliability. Moreover, also cover reparation payments for land liberation of transmission lines and substations, implementation and expansion of remote terminals of the System Supervisory Control and Data Acquisition (Scada) / Automatic Generation Control (*Controle Automático de Geração – CAG*) and the oscillography network of the substations.

Investments in Maintenance and Adequacy of Assets of Computing, Information and Teleprocessing account for 3.4% of the total achieved in 2008. These actions aim at the expansion of telecommunications system and adequacy of the Company's infrastructure necessary for the maintenance of technology and management with quality and reliability.

Main Relationships of FURNAS

Relationship with the Ministry of Mines and Energy and 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.

Eletrobrás System Transformation Plan

In March 2008, MME set guidelines for the entire Eletrobrás System into four different direction vectors: Corporate Governance, Reorientation of Distribution Business, Institutional Reformulation of Eletrobrás and Reorganization of Management Model. To implement these guidelines, several tasks were listed – some of them have already been accomplished – such as the publication of Law No. 11.651, of April 7, 2008, which reestablished the social object of Eletrobrás, and amendments of the subsidiaries Statutes. The set of all existing actions compose the Eletrobrás System Transformation Plan.

Under the overall coordination of Eletrobrás Management Transformation Committee (*Comitê de Gestão da Transformação da Eletrobrás – CGTE*), other actions are in the planning phase and/or conduction that, depending on the subject being treated, are requesting the formation of working groups consisted of Eletrobrás System professionals.

It is worth noting that all previous work, along with Holding, remains in place appropriate to the new reality, as described below:

Participation in Committees

Within the scope of Consize, FURNAS participates in the following Committees:

- Eletrobrás Strategic Planning Committee (*Comitê de Planejamento Estratégico – Copese*), with the objective of providing background information in order to improve the relationship between the Holding company and its controlled companies, through macro guidance that permeates the strategic planning of each company, respecting their specific characteristics;
- Operation, Planning, Engineering and Environment Committee (*Comitê de Operação, Planejamento, Engenharia e Meio Ambiente – Copem*) develops 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 System Operation and Energy Commercialization Officer. It participates, through its technical structure, in the studies already initiated about market planning and electric energy offering in specific subcommittees, as follows:
 - Energetic Studies Subcommittee, in two work groups started in 2007 and coordinated by Eletrobrás together with regional controlled companies, focusing on energy demand studies. One group heads studies on electric energy market dynamics, and the other one, on mapping and assessing economic prospective in the different Brazilian regions in order to provide information for strategic and energy market planning within the Eletrobrás System. Within this subcommittee, FURNAS participates of the following Working Groups: Water Resources and Hydroelectric Potential, focusing on issues relating to water resources and in the assessment of the country hydraulic potentiality; and Supply, in order to develop studies for the expansion of electric power supply to the country for the Eletrobrás System. In 2008, in the Working Group on Water Resources and Hydroelectric Potential it was developed a proposal for the creation of a policy regarding the Eletrobrás Water System, to gather under the same guidelines issues related to water resources that affect the subsidiaries activities;

- Transmission Studies Subcommittee, under the Transmission work group, is charged of drawing up and furnishing to the Supply work group, transmission data necessary for developing Eletrobrás System Supply Expansion Program, such as exchange limits between regional subsystems and the costs associated with transmission expansion;
- Environmental Subcommittee, in sustainable development issues regarding the environment, which rallies managers and experts active in environmental corporate issues for updating and developing a common agenda, with the following priority items: legislation and regulatory marks; greenhouse gases; environmental costs; aquatic resources; instruments for environmental management; environmental communication; and use of reservoirs edges of hydroelectric plants.
- 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;
- Sustainability Committee, which, within corporate governance, aims at aligning actions of the subsidiaries, by having them fill in questionnaires used as management tools. To give support to the Holding to reach level 2 American Depositary Receipt (ADR), at New York Stock Exchange (NYSE), FURNAS provides information required in Dow Jones Sustainability Index, and complies with the Sarbanes-Oxley Law (USGAAP and Form 20F). With the same purpose, it also participates in Corporate Sustainability Index of Bovespa.

It is also worth mentioning the rendering of information to Eletrobrás Financial Officer about FURNAS budgetary execution in addition to the presentation of Budget Proposal for 2009, together with the General Disbursements Plan (*Plano de Dispêndios Globais – PDG*).

In the scope of the international Eletrobrás System performance, the Memorandum of Understanding signed in December 2005 between the MME and the Venezuelan Ministry of Energy Mines and Petroleum, ratified in June 2008, allowed the participation in studies of the electrical interconnection between Brazil and Venezuela, in the Working Group on Energy Studies.

Participation in Government Programs

- Growth Acceleration Program (PAC)

In what refers to the participation of the Electric Sector in PAC, launched by the Federal Government, in 2007, FURNAS is a hallmark in the installation of generation and transmission projects as described in Business Expansion and Evolution of Electric Installations in Operation.

- National Electricity Conservation Program (Procel)

It is important also to highlight the Company's participation in the National Electricity Conservation Program (*Programa Nacional de Conservação de Energia Elétrica – Procel*), described in item Energy Conservation of this report.

- Light for Everybody Program

The Light for Everybody Program (*Programa Luz para Todos*), launched by the Federal Government in 2004, coordinated by MME, and executed by Eletrobrás, through its subsidiaries, in partnership with state governments, energy concessionaries, and rural electrification cooperatives, pursues to provide electric energy for rural localities with a low Human Development Index (HDI), enabling a better reach for health-related services, education, water supply and sanitation.

FURNAS was assigned to coordinate the Program in the Southeastern Region plus the state of Goiás, and until December 2008, 373 thousand families were benefited in these regions attending more than 1.8 million of people. A key to the success of the Program is the rapid demand growth, due to the regularization of possessions, families returning to the field and facilities for the agro-pastoral production.

The Program is also a vector of economic and social development. Integrated actions were created in partnership with social and productive inclusion programs, dubbed Integrated Actions, which assist benefited families in optimizing electric energy resources. Under this scope, the Community Tele-centers make available areas equipped with internet-linked computers with the purpose to ward off digital exclusion. In 2008, FURNAS opened 18 tele-centers benefiting about 16 thousand people, between the age of 8 and 65 years, in rural communities.

The Arch of Letters Program is designed for the installation of around 2,000 libraries in communities already serviced by the Light for Everybody Program, fostering and facilitating the access to book reading in indigenous communities, family agribusiness, slave-funded communities and dam-affected families. The Company's goal is to deploy 625 libraries in rural communities in the States of Minas Gerais, São Paulo, Rio de Janeiro, Goiás and Espírito Santo. In 2008, we delivered 142 libraries, with a distribution of 125 thousand books donated.

- Energetic Development Program for States and Municipal Districts (Prodeem)

The Energetic Development Program for States and Municipal Districts (*Programa de Desenvolvimento Energético dos Estados e Municípios – Prodeem*) is also worth mentioning. Started in 1994 by the National Department of Energetic Development (*Departamento Nacional de Desenvolvimento Energético – DNDE*), under the discretion of the MME, whose role is to assist populations that are not serviced by the conventional electric energy grid to resort to renewable and pollution-free energy sources. Energetic systems used by the Program are mostly photovoltaic panels that exposed to the sun light produce electric energy in DC, which can be directly used or stored in batteries for later use.

The benefits produced are countless and of fundamental importance for economic and social integration, once they settle people in their homeland, reducing migration to urban centers. Among the advantages, the foremost ones are: quality illumination that enables night schools to operate; water pumping, which boosts the improvement of health services and quality of life; and community kitchen-gardens, which diminishes food shortage.

Prodeem restructuring, dating back to 2003, which resulted from consultation with the agents involved, namely MME, CHESF, Eletronorte, Eletrosul, FURNAS and National Network of Civil Society Organizations for Renewable Energies (*Rede Nacional de Organizações da Sociedade Civil para as Energias Renováveis – Renove*) was performed through the start-off of Prodeem's Revitalization and Furbishing Program (*Programa de Revitalização e Capacitação – PRC*). The PRC provides the following activities: research, diagnosis and rehabilitation of existing systems; adjustment of the assets from the systems purchased by the MME under Prodeem; training of service providers, community and municipal technical staff responsible for the custody, operation and maintenance of systems. At the end of this process, the systems purchased are duly installed, registered and working properly, thus benefiting the communities not served by networks of conventional electricity.

The PRC includes also the dismantling and storage systems that are no longer required according to the deployment of networks of conventional electricity in the localities served by the program Light for Everybody Program or other reasons and actions determined by the MME. The disable equipment system will be allocated to other regions not served by conventional distribution networks, providing the benefits of electricity.

In 2004, by means of Technical and Financial Accord No. 012/2004, FURNAS was assigned by MME the duty of coordinating Prodeem's PRC in the States of Minas Gerais, Rio de Janeiro, São Paulo, Espírito Santo and Goiás. By year-end 2008, the Company had carried out 98% of the systems of II, III and IV phases. In the same year, it also ran, as additive term of the agreement with MME, the diagnosis of 323 photovoltaic systems of Prodeem's phase V, being 288 in Minas Gerais, 33 in Goiás and 2 in Espírito Santo.

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, transmission expansion and environment.

In 2008, the Company participated in EPE data gathering, providing information to elaborate the National Energy Balance (*Balanço Energético Nacional*) – 2008, base period 2007, which is EPE's exclusive responsibility.

Moreover, the Company was active in registering and issuing technical permits for generation installations, where it has a direct or indirect interest regarding concession or authorization to operate, in order to participate in energy auctions produced by new projects.

In 2008, FURNAS participated in the following study groups regarding transmission planning:

- attendance to the States of Rio de Janeiro and Espírito Santo;
- attendance to the States of Goiás and the Federal District;
- studies of transmission system to flow off the electric energy produced on the Madeira river plants.

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 2008, the following activities may be 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 electric operation planning of SIN for 2008, and of PAR, for the triennium 2009-2011;
- participation in the following work groups under ONS coordination: Survey of Equipment that have its nominal characteristics exceeded; SIN Reliability; and Regional Interconnection Analysis, in the scope of Extensions and Reinforcements Office.

Relationship with the Brazilian Electricity Regulatory Agency (Aneel)

FURNAS works with Aneel regarding the matters related to the Brazilian 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.

Relationship with Environmental Issues

The Company liaises with several environmental agencies, markedly Ibama, Brazilian Institute of Historic and Artistic Patrimony (*Instituto do Patrimônio Histórico e Artístico Nacional* – IPHAN) and the National Indian Foundation of Brazil (*Fundação Nacional do Índio* – Funai), as a direct consequence of having several installations spread in great part of the national territory.

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)	Semesa	48.46	51.54
Contract for sharing of Manso HPP concession (February 10, 2000)	Proman	70.00	30.00

Special Purpose Entity (SPE)

As a subsidiary of Eletrobrás, the possibility of FURNAS having a shareholder participation in SPE for electric energy projects became viable since July 2003, with the changes introduced in its Corporate By-Laws. The following partnerships, whose partners and characteristics are described, respectively, in items Business Expansion and Evolution of Electric Installations in Operation, were allowed:

Company	Installation	FURNAS Equity Participation (%)
Generation		
<i>Enerpeixe S.A. *</i>	Peixe Angical HPP	40
<i>Companhia Retiro Baixo Energética</i>	Retiro Baixo HPP	49
<i>Baguari Geração de Energia Elétrica S.A.</i>	Baguari HPP	**
<i>Foz do Chapecó Energia S.A. **</i>	Foz do Chapecó HPP	***
<i>Serra do Facão Energia S.A. ****</i>	Serra do Facão HPP	49.5
<i>Madeira Energia S.A.</i>	Santo Antônio HPP	39
<i>Inambari Geração de Energia S.A.</i>	Inambari HPP	19.6
Transmission		
<i>Companhia de Transmissão Centroeste de Minas</i>	Furnas – Pimenta TL	49
<i>Companhia Transudeste de Transmissão *</i>	Itutinga – Juiz de Fora TL	25
<i>Companhia Transirapé de Transmissão *</i>	Irapé – Araçuaí TL	24.5
<i>Companhia Transleste de Transmissão *</i>	Montes Claros – Irapé TL	24
<i>Transenergia Renovável S.A.</i>	Connection of Biomass HPP and SHP to SIN	49
<i>Interligação Elétrica do Madeira S.A.</i>	Porto Velho – Araraquara TL, Rectifier 500/±600 kV and Inverter ±600/500 kV Substations	24.5

* Installation in operation.

** FURNAS has 30.6% of *SPE Baguari Energia S.A.*, which owns 49% of *SPE Baguari Geração de Energia S.A.*

*** FURNAS has 49.9% of *SPE Chapecoense Geração S.A.*, which holds 40% in *SPE Foz do Chapecó Energia S.A.*

**** FURNAS has 100% of *SPE Serra do Facão Participações S.A.* (social participation amended by Additive 1 to the Shareholders' Meeting of November 07, 2008), which holds 49.5% in *SPE Serra do Facão Energia S.A.*

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, headquartered in London, England, 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 2008, CBCME organized coordinated the following seminars: Latin America and Caribbean Energetic Scenarios until 2050, in Bogota (Colombia); "Energy Situation in the Southern Cone," in Light's headquarters, in Rio de Janeiro (Brazil); "Automobile International Federation" (*Fédération Internationale de l'Automobile – FIA*), in the United Nations; "*Foundation Fuel Economy Symposium*", in Paris, France; "*The 2nd Global Energy Forum*", in Daegu, Korea; and the "Bi-Regional Forum Africa, Latin America and Caribbean", on energy cooperation, in Foz do Iguaçu (Brazil). In addition, edited the report "Brazilian Energy Statistics" No. 53.

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

CIGRÉ is a worldwide organization, founded in 1921, dedicated to the development, use and dissemination of knowledge relating to the electricity transmitted at high voltage – 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.

In 2008, 12 technicians from FURNAS attended in the Biennial Session of CIGRÉ in Paris, an important event which brought together about 3,000 worldwide technicians, enabling fruitful exchanges of experience.

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

Created in 1961, CBDB is a non-governmental organization, aimed at exchanging information and experience in dams planning, design, construction and operation. In Brazil, it represents ICOLD, set up in 1928, and which has committees in 88 member-countries. CBDB's headquarters are installed in a place made available by FURNAS, in its Central Office, in Rio de Janeiro. Nowadays, CBDB has approximately 1,000 individual associates, 25 corporate associates, and 18 collective members throughout Brazil. One of its core activities is to issue books and reports that are ultimately an impressive array of technical publications.

In 2008, CBDB promoted the VI Brazilian Symposium on Small and Medium Hydroelectric Plants (*VI Simpósio Brasileiro sobre Pequenas e Médias Centrais Hidrelétricas*), in Belo Horizonte, Minas Gerais, which congregated 660 technicians, and 49 projects were presented. The main themes were: Political, Legal and Institutional Aspects, Planning and Management; Environmental and Quality Aspects; Project, Construction and Assembly; Listening, Maintenance and Safety of Dams; and Operation, Refurbishment and Decommissioning. In the same year, the III Symposium on Dams Safety (*III Simpósio de Segurança de Barragens*) was held, in Salvador (Bahia), Brazil. The activities were stepped up in order to achieve the 23rd International Congress on Dams (*23^o Congresso Internacional de Barragens*), the largest event of ICOLD's responsibility to be held in Brasília in May of 2009, expecting participation of 1,500 delegates. CBDB is also sponsoring the Symposium on Rockfill Dams (*Simpósio sobre Barragens de Enrocamento*), in China, partnership with the Chinese National Committee on Large Dams (Chincold), scheduled for October 2009.

International Hydropower Association (IHA)

The IHA was founded in 1995 under the sponsorship of the International Union for Education, Science and Culture (Unesco) and is headquartered in Sutton, England, with associates in over 80 countries. Its core activity is to cater to the ever-increasing world needs for energy by raising power plants that run in line with social sustainability and the due care for the environment, working on three main themes: sustainability, investment and market and climate changes.

Since October 2007, the Company participates in the drafting of the "Assessment of the Greenhouse Gas (GHG) Status of Freshwater Reservoirs" document, which will provide guidelines for the emissions of greenhouse gases by hydroelectric reservoirs, and it will also subsidize the Intergovernmental Panel on Climate Change (IPPC), notably as regards the criteria for projects of the Clean Development Mechanism.

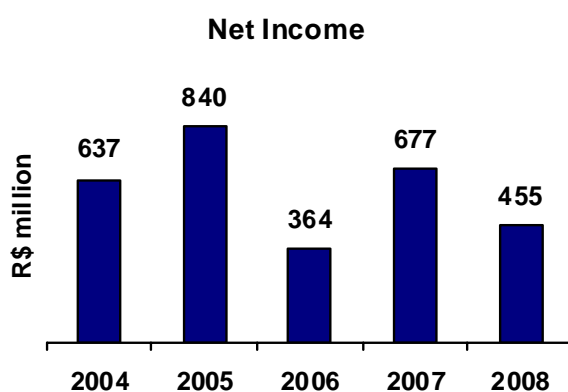
CORPORATE PERFORMANCE

With the institution of Brazilian Law No. 11.638, of December 28, 2007, and the Provisional Measure No. 449 of December 03, 2008, there were changes in the Law No. 6.404/1976, causing significant reflections in the presentation of Financial Statements, including the year 2007.

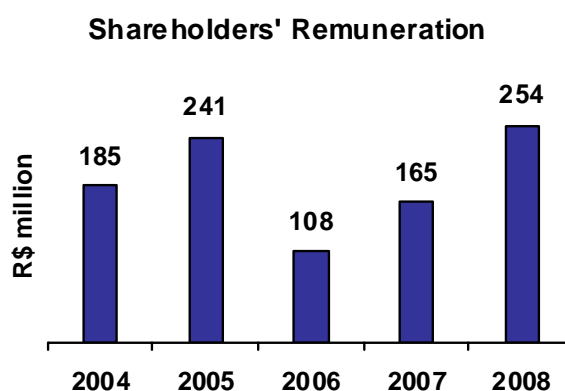
The following indicators show corporate performance evolution, in the period 2004-2008.

Results

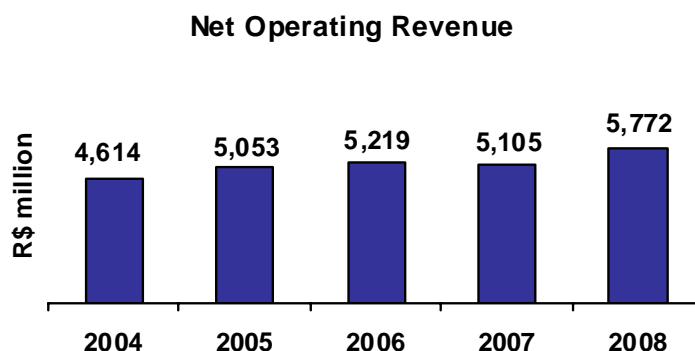
Net Income reduction, in 2008, is a result of increased expenses, due to the exchange rate variation in the year and the registration of new provisions.



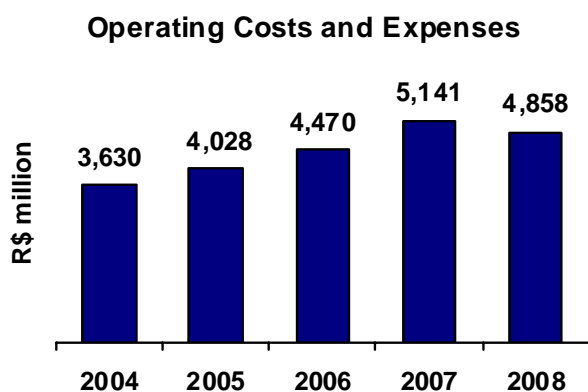
In compliance with the legal and statutory dispositions, FURNAS reserves to its shareholders, as interest on net equity, the amount of 25% of adjusted net income. In 2008, it was proposed a 50% distribution of adjusted net income.



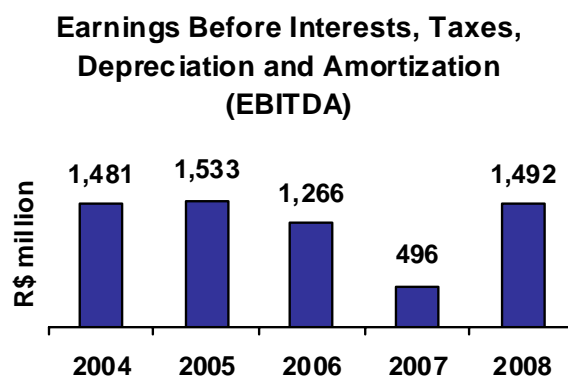
Net Operating Revenue, in 2008, was 13% higher than the previous year, a result of the effects from the Periodic Tariff Revision of transmission activity recognized in 2007, as well as the development of new revenues generated by the transmission installations and, also, by contractual adjustments occurred in 2008.



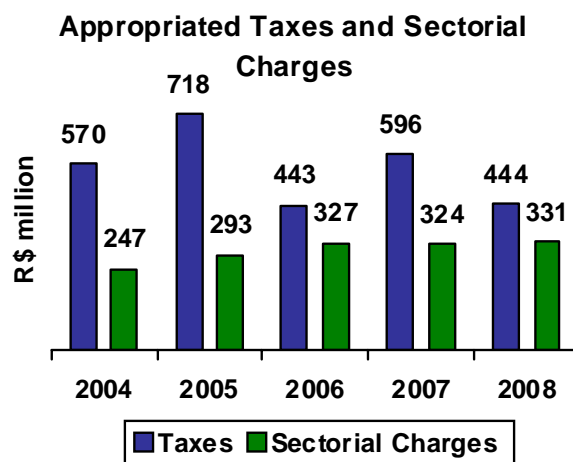
The reduction of 5.5% in costs and operating expenses, in 2008, reflects the Company engagement in the optimization of its disbursements, in line with the accounting conservatism related to risk provisions for probable losses.



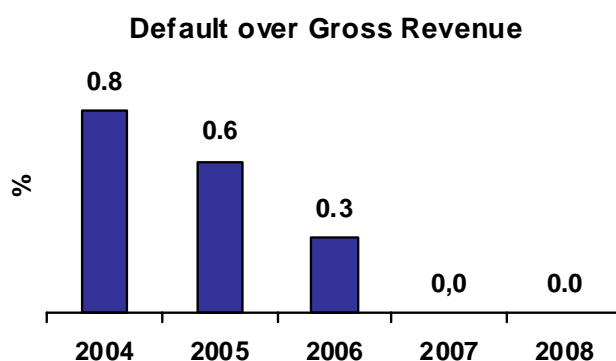
EBITDA, in 2008, presented again results consistent with those seen in previous years, except the year 2007, which reflected on the Periodic Tariff Revision from transmission activities, as well as from the decrease of constitution and provisions for doubtful debts concerning receivables from Extraordinary Tariff Recomposition, and credits from CCEE pending non-performing status, since 2003.



Taxes and charges appropriation, in 2008, which represented 12% of the gross revenue, decreased approximately by 16% when compared to the previous fiscal year. This is a consequence of the decreased net income and the improvement in tributary tax management practices.

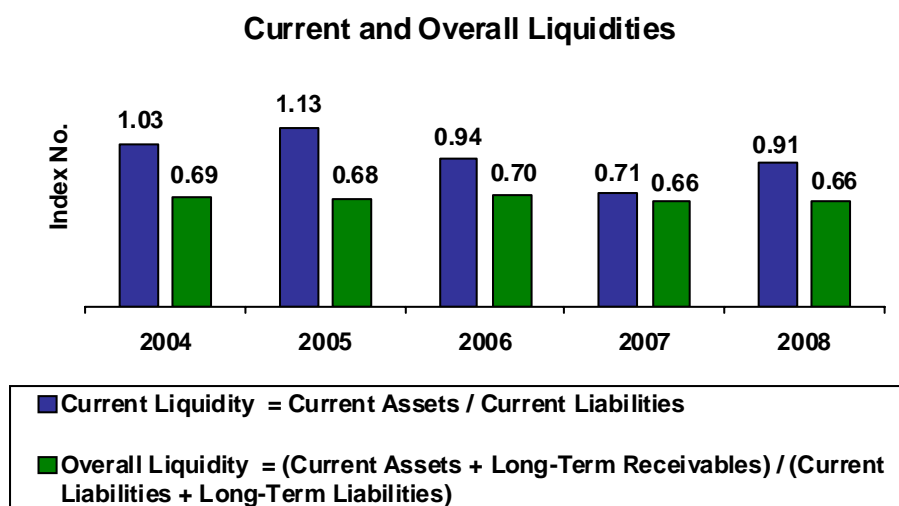


Default is being maintained at low rates, almost zero, for the last two years, due to management and efficient control practices.



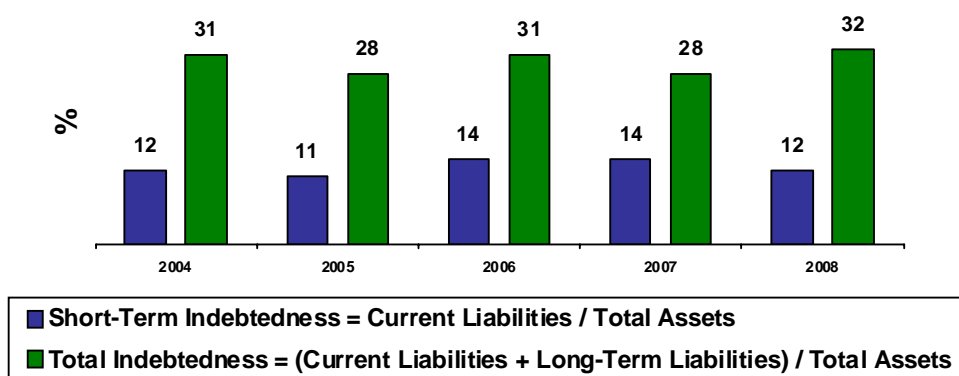
Economic and Financial Indicators

The current and overall liquidities remained near the average of recent years.



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

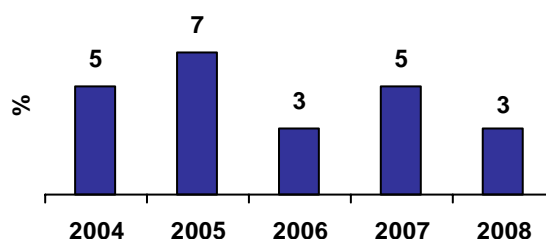
Short-Term and Total Indebtedness



Reduced profitability levels, in 2008, were caused by the exchange variation results and establishment of provisions that affected the exercise outcome.

Profitability for the Period

Profitability for the Period =
Net Income / Net Equity



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 System, in an effort to reduce operational costs. In parallel, coordinates the Technology and Innovation Management task force.

As established by Laws No. 9.991/2000 and 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) and an additional 0.4%, to the development of R&D internal projects, according to procedures established by Aneel. In addition, contributes institutionally for 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 equipment); and experimental hydraulic and alternative energy sources.

As per Aneel ruling, since the beginning of the R&D program, 194 fully owned projects were benefited by R\$ 125 million, out of which 79 projects have been concluded. Of the total volume invested, R\$ 111.33 million were contracted, R\$ 87.12 million of which have already been concluded.

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, for innovations with a 20-years validity term; and Utility Model, for provision or new form developed or introduced for known objects, with a 15-years validity term, counting from the filing date.

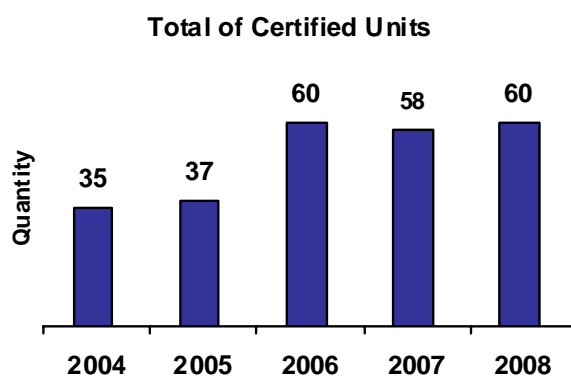
Until 2008, a total of 9 patent letters were issued (including 3 international ones); an international patent application (Canada) awaits examination; three patent applications await examination in the Country, by the INPI; a patent referring to the “Unconventional Displacement Magnetic Controller Device” felt into public domain.

Development of Management Excellence

The Company began its Management Excellence trajectory when it built, in 1957, Furnas HPP, the first large-scale HPP in Brazil, aiming at accelerating the Country’s urbanization process. Along its trajectory, FURNAS set up its Quality Management System, counting on the participation of its technical staff and control teams who helped the Company set breakthroughs in the Quality area. In 2003, it was approved by the Board of Executive Officers as the guiding model of management, the criteria of excellence of the National Quality Foundation (*Fundação Nacional da Qualidade – FNQ*) and standards certification of management systems ISO series. The management technologies were, little by little, being incorporated into the daily management and the organization was to modernize and adapt to the new rules of business.

Units with Certified Management Systems

Currently, the Company has 60 units with certified management systems, involving approximately 1,800 employees, in norms NBR ISO 9001:2000 (Quality), NBR ISO 14001:2004 (Environmental), and OHSAS 18001:2007 (Safety and Occupational Health) as shown below. Note that from 2007 to 2008 five units did not reinstate their Management System certifications, while other seven did.

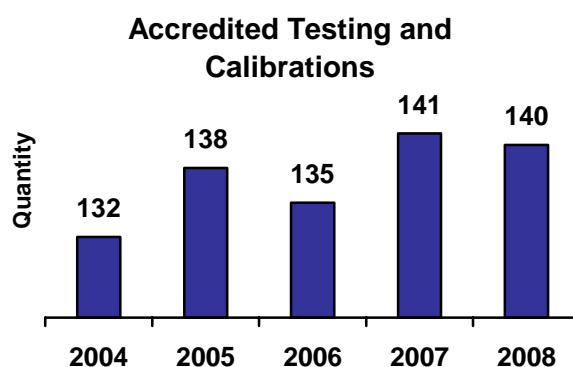


Accredited Laboratories

Accreditation 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 3 laboratories accredited by National Institute of Metrology, Normalization and Industrial Quality (*Instituto Nacional de Metrologia, Normalização e Qualidade Industrial – Inmetro*) 1 that participates in the Brazilian Network of Test Laboratories (*Rede Brasileira de Laboratórios de Ensaio – RBLE*) and 2 in the Brazilian Calibration Network (*Rede Brasileira de Calibração – RBC*), corresponding to 9 accreditation areas, namely: dimensional; force, torque and hardness; mass; pressure; time and frequency; temperature; electricity; soil; and concrete, which are able to carry out 140 types of accredited services (60 types in calibration and 80 types of testing).

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



Relationship with Quality Management Entities

FURNAS maintains partnerships in the management area, as a member of FNQ, where it partakes in annual general meetings and in the Competitive Brazil Movement (*Movimento Brasil Competitivo – MBC*), where it is an active member of the Interested Parties Committee, setting guidelines for MBC to stimulate organizations to search a better competitiveness level.

Within National Program of Public Management and Debureaucratization (*Programa Nacional de Gestão Pública e Desburocratização – Gespública*), under the Ministry of Planning, Budget and Management discretion, the Company partakes in the Supervising Committee of the National Public Planning Award (*Prêmio Nacional da Gestão Pública*) which analyzes implemented action-taking and defines related policies for future cycles, besides lending volunteering employees to work as examiners of reports issued by management organizations.

The Brazilian Association for Technical Standards (*Associação Brasileira de Normas Técnicas – ABNT*) is the sponsor of the Brazilian Committee on Quality (*Comitê Brasileiro da Qualidade – CB 25*), participating actively in meetings with its Management and Consulting Councils and in the ISO (Committee for Conformity Assessment – CASCO and Technical Committee – TC 176), and in Study Commissions and Work Groups, which draw and revise foreign and domestic technical documents on standardization. In 2008, the Company participated in drawing and revising the following documents on standardization: ISO 9000, 9004 e 10004; ISO/IEC 17021-2, 17024 e 17043; e ABNT NBR ISO 9001 and 10014.

CORPORATE GOVERNANCE

In 2008, in addition to match the guidelines set by the Holding Company for institutional reform and reorganization of the Eletrobrás System business management model, described in the item Relationship with the Ministry of Mines and Energy and the Holding Eletrobrás, three new projects – Corporate Strategic Planning, ERP – Sintonia Project and SOX Project – will ensure the Company's management improvement and, consequently, its Corporate Governance. They are:

- FURNAS Corporate Strategic Planning, approved in December 2008, by the Board of Directors, after the evaluation of the Eletrobrás Management Transformation Committee (*Comitê Gestor da Transformação da Eletrobrás – CGTE*), is in deployment process. It includes 9 initiatives focused on improving the management, namely: institutional, projects, processes and systems, purchasing, risk, knowledge, people, change and strategy of sustainable growth. Each initiative is based on strategic actions, indicators and targets set by working groups consisting by representatives of each Company Executive Office;
- ERP – Sintonia Project, implemented in October, will congregate in 18 months all business processes of the Company in a single database, with information in real time, using the instrument ERP 6.0. This system will allow better control of management processes projects, finance, controlling, corporate finance, maintenance of assets, human resources and supplies;
- SOX Project, continuing the lifting of internal controls for financial reporting aligned to the guidelines of the SOX Law, so the Holding can continue to trade shares on the Stock Exchange Market in New York. The first Eletrobrás System certification will be regarding to 2009. It will be renewed every year.

Corporate Structure

The Federal Government holds 54% of common and 15.7% of the preferred shares of Eletrobrás, a public held company, with shares negotiated at Bovespa, Madrid Stock Exchange, in Spain (Latibex index, a market segment that gathers the shares of Latin American companies negotiated in Euros), and in New York, United States.

As a subsidiary of Eletrobrás, FURNAS, a mix private/state owned company complies with SOX requisites, and provides information to back its Holding company stock listing at the ISE, of Bovespa, and at the DJSI, of NYSE.

In 2008, the Capital of FURNAS rose from R\$ 3,194,000,000.00 (three billion, one hundred and ninety-four million Reais) to R\$ 6,000,000,000.00 (six billion Reais), without changing the amount of shares, with the following composition:

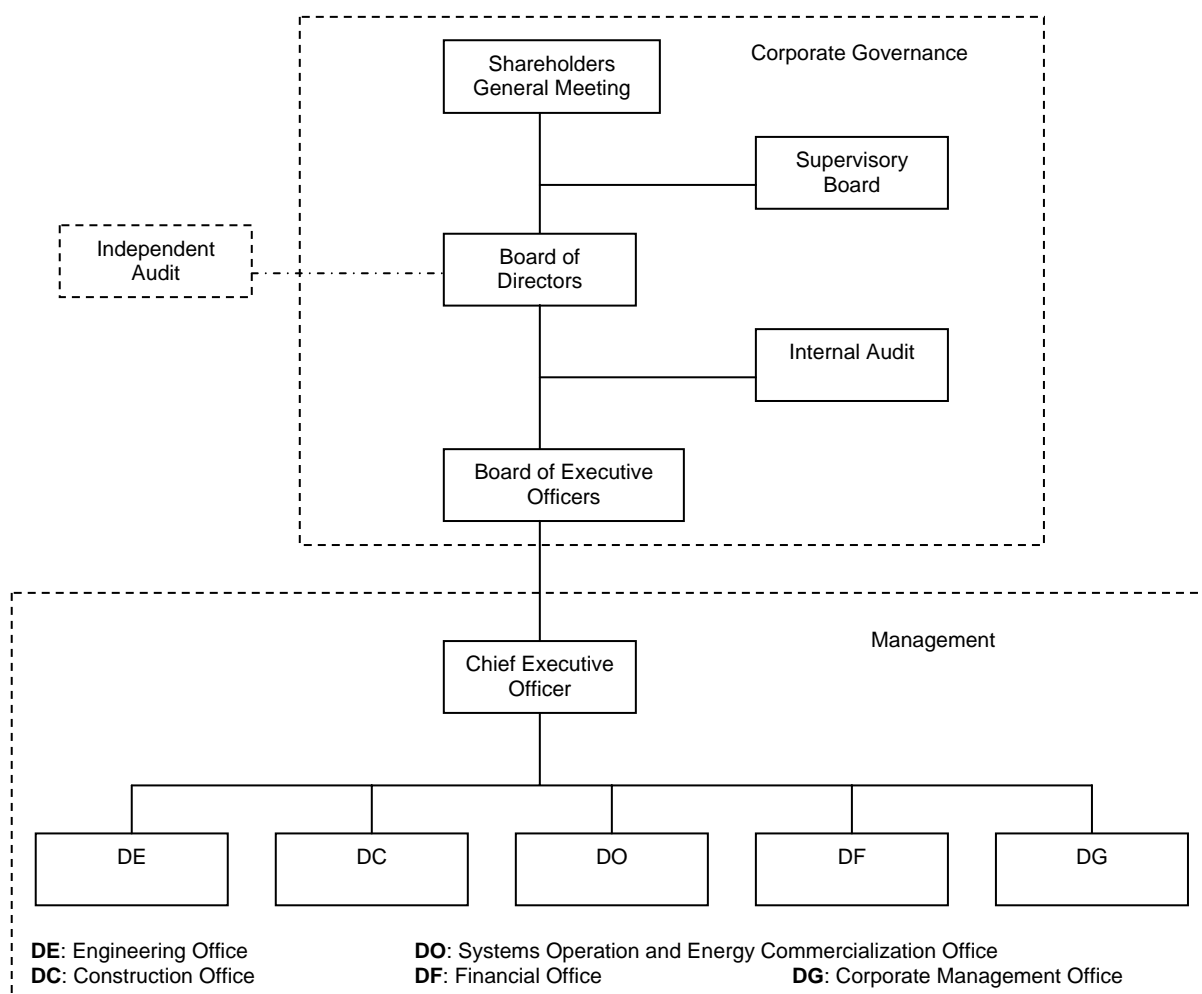
Shareholder	Common Share		Preferred Share	
	Quantity	%	Quantity	%
Eletrobrás	50,618,949,528	99.82	14,088,223,014	98.56
Others	91,699,472	0.18	205,174,986	1.44
Total	50,710,649,000	100.00	14,293,398,000	100.00

Corporate Governance Structure

The Company, since 2003, enhances the process of adherence to corporate governance practices, required or recommended by federal agencies of the government, civil society and the market, expressed in the following documents, all published in the Manual of Organization, and available at intranet: Bylaws and Internal Rules of the Company, of the Board of Directors, of the Supervisory Board, 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.

The Corporate Governance practices are represented by the relationship between the Upper Management, constituted by the Shareholders General Meeting, the Board of Directors, the Board of Executive Officers, the Supervisory Board and the Internal Audit, counting also with the External Independent Audit, as shown below:



Shareholders General Meeting

In addition to the cases anticipated by the Brazilian laws, the Shareholders General Meeting will be held extraordinarily whenever the Board of Directors deems necessary, and specially to: alienate the Corporate Capital shares; proceed to go public; increase the Corporate Capital; issue debentures, titles or securities; promote capital spin-off, mergers or incorporation; and trade shares or other securities.

In 2008, OGM took place on April 25. Five EGM were held to deliberate on capital stock transference, election of the Board of Directors members and remuneration of Executive Officers and boards members.

Board of Directors

The highest instance of Administration in FURNAS, it is a joint committee, composed by 1 Chairman and 5 Directors, all of whom are shareholders, with a three-year period mandate, elected by the OGM, and able to be reelected. One representative is appointed by Ministry of Planning, Budget and Management, and the remaining ones by MME; one of them is chosen to be the Chairman, upon previous approval by the President of the Republic of all the names indicated. This collegiate met in 21 occasions during fiscal year to deliberate on strategic planning, expansion projects, new assets acquisition, among other issues.

Board of Executive Officers

It is composed by a Chief Executive Officer and 5 Executive Officers, elected by the Board of Directors, with a three-year period mandate, to exercise management activities in the following areas, besides the CEO: Corporate Management; Finance; Engineering; Construction; and Systems Operation and Energy Commercialization. Regulatory and statutory decisions enacted by the Board of Executive Officers are made at weekly meetings and are the basis of the deliberative process regulating issues under the discretion of each executive area. In 2008, 53 meetings were held.

Supervisory Board

It is composed by 3 effective members and their respective substitutes, with a one-year mandate, elected by the OGM, and able to be reelected. One of its effective members and his respective substitute are appointed by the Ministry of Finance, as the National Treasury representative, and the remaining ones by MME, with previous approval by the President of the Republic. This collegiate met 11 times to supervise the acts of the Upper Management and verify compliance with their legal and statutory duties.

Internal Audit

It examines the management of the activities performed by the Company organizational units, with a view to analyzing their management actions and verifying their procedures, controls, computerized systems, registers, data and document files, along with their compliance with guidelines, internal regulatory acts and precepts of the legislation in effect.

Corporate Governance Practices

Support to Decision-Making Process

The following support structures to the Decision-Making Process are communicated through General Circular and are made available on 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: created by a Board of Executive Officers decision, to analyze and define actions related to the matters in which may exist conflicts of interest;
- management corporate policies: used as reference tools of the decision-making process by the Board of Executive Officers;
- permanent committees: composed by representatives of each Executive Office to give support to the Board of Executive Officers in fulfilling the management corporate policies.

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;
- market risk: a control kept by the Systems Operation and Energy Commercialization Office, 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.

Official Corporate Reports Process

The process of Rendering Accounts is comprised by the following practices:

- structuring of the contents 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 supervisory bodies by the Government, fostering and capital market development organizations;
- Annual Report issuance, in Portuguese, English and Spanish, with the same content of the Administration Report, as a rendering of accounts to the society;
- emission of Monthly Report for the Board of Directors and the Supervisory Board, as a support tool to their monthly meetings;
- issuance of Monthly Report to the Board of Executive Officers, with the objective 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: shareholders; 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.

In 2008, the site registered 78,751 visitors, or an average 215 visitors per day. One hundred and eighty seven updates or changes occurred, along with the disclosure of 332 corporate news.

FURNAS Magazine

Monthly publication of subjects related to the Company, with 10,000 magazines distributed freely. Its internal public is composed of all the employees, and externally it is distributed to all the federal, state, and municipal authorities, journalists, universities, research centers, companies of the electric sector, and registered individuals. It is available at the Company visiting areas, fairs, congresses and seminars.

Institutional and Legal Advertising

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 Secretariat of the Brazilian Presidency of Republic (*Secretaria de Comunicação Social da Presidência da República – Secom*). In 2008, institutional campaigns addressed issues such as: Environment, Social Responsibility, Generation and Transmission, New Enterprises and Regional Action.

As for the Public Utility, the Burning Campaign (*Campanha de Queimadas*) was performed in public and paid TV channels, radio and explanatory booklets, warning about risks of fire close to transmission lines.

The Advertising Legal acts as a service provider for other organs of the Company, publishing the accountabilities, meeting minutes, notices to tenders and changes, edicts, statements, public calls, etc.

Corporate Videos

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 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 patrimony;
- prevent and manage conflict of interest situations;

- preserve the Company image and reputation;
- contribute to smooth the climate in internal and external relationships.

FURNAS Ethics Commission is responsible for publicizing and enforcing the ruling laid down by the Code of Ethics, acting as a consulting reference for the Executive Board, issuing recommendations for their appreciation of supposedly unethical practices reported.

In addition to the powers established by Decree No. 6.029 of February 01, 2007, that established the Management System Executive Ethics of Federal Government (*Sistema de Gestão da Ética do Poder Executivo Federal*), the participants of the Ethics Committee, in the form of Decree No. 1.171/1994, are the link between FURNAS and the Commission of Public Ethics, including the Network on Ethics of the Federal Executive Power (*Rede de Ética do Poder Executivo Federal*).

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

In order to extend the benefits brought on by electric energy generation, transmission and commercialization, an essential input for the development of nations, FURNAS is actively pursuing the commitment to social welfare and the due respect and care for the environment and the communities it services.

Statement of Value Added

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

	R\$ millions				
	2004	2005	2006	2007	2008
1. Generation of Value Added					
Revenue from Energy Sales and Services	4,952	5,486	5,738	5,563	6,314
Other Operating Revenue	0	0	0	0	6
Non-Operating Revenue	1	3	3	5	0
Less:					
Inputs					
Cost of Electric Energy Purchased	(1,981)	(2,099)	(2,111)	(2,248)	(2,136)
Material	(45)	(49)	(47)	(47)	(53)
Third Party Services	(329)	(376)	(389)	(435)	(485)
Other Operating Costs	(428)	(560)	(671)	(833)	(994)
Other Non-Operating Costs	(11)	(30)	(14)	(10)	0
2. Gross Value Added	2,159	2,375	2,509	1,995	2,652
Reintegration Quotas	(496)	(509)	(517)	(532)	(578)
Provision Posted / Reversed	(28)	(8)	(235)	(446)	34
3. Net Value Added Generated	1,635	1,858	1,757	1,017	2,108
Financial Revenues (Transfers)	477	649	354	1,325	431
Equity	0	0	0	0	54
Adjustments in Law No 11.638/2007	0	0	0	0	60
4. Value Added to be Distributed	2,112	2,507	2,111	2,342	2,653

	2004	2005	2006	2007	2008
5. Distribution of Value Added					
Work Remuneration	323	427	488	592	639
Government (Taxes and Contributions)	436	585	374	495	444
Financial Charges and Monetary Variation	538	447	544	270	750
Employee's Share on Profits	41	48	55	62	70
Shareholder's Remuneration	185	241	108	165	254
Others	137	140	285	247	236
Retained Earnings	452	619	257	511	260
Total	2,112	2,507	2,111	2,342	2,653

Human Resources

Human Resources Policy

FURNAS shares with its employees the same principles on ethics, social responsibility and quality within its organization scope and counts on their partnership in obtaining better results and maximizing them through an ongoing commitment with their work and diligence towards dully accomplishing the Company's mission, with the desired excellence standard.

Freedom to Join Unions

The Company enforces a freedom-to-join-union policy, through which employees may choose the union of their preference on the basis of their union base or occupation. Nowadays, the Company deals with 14 different unions, represented by 2 entities (*Intersindical FURNAS* and *União Intersindical FURNAS*). Agreements stemming from the dealings negotiated abide 100% of the workforce.

In the negotiations for the Collective Bargaining Agreement 2008/2009 were highlighted the work conducted by Eletrobrás and its subsidiaries for the unification of benefits and advantages of Eletrobrás System, including their salary tables which, from January 2009 will present inter-levels of 3%, and their respective Positions, Careers and Remunerations Plan.

Employees' Profit Sharing

The policy regarding the participation of employees in profits, after the close of each financial year, supposes that those entitled to participate reached the goals set in the Terms of Agreement. The amount to be distributed to the employees may not exceed 25% of the dividends paid to shareholders, limited to the equivalent of two sheets of wages regarding the last acting year. The guidelines for the distribution of participation are negotiated with the representative bodies of employees and meet the provisions in the Resolution No. 10/1995 of the Council of Coordination and State Enterprises Control (*Conselho de Coordenação e Controle das Empresas Estatais – CCE*) and Law No. 10.101/2000.

Effective Workforce

The increase observed in 2008, of 190 employees, was due to the difference between the 250 admissions (Official Examination No. 01/2002) and 60 dismissals.

Level	Quantity				
	2004	2005	2006	2007	2008
Managerial	327	350	359	362	379
Graduate	1,132	1,329	1,314	1,302	1,378
Technical and Operational *	1,845	-	-	-	-
Technical	-	1,777	1,781	1,828	1,888
Administrative Support *	933	-	-	-	-
Medium Support	-	772	744	710	750
Basic	-	353	327	332	329
Total	4,237	4,581	4,525	4,534	4,724

* From January 2005 on, positions denomination changed due to the new Positions, Careers and Remunerations Plan.

Personnel Training and Development

In 2008, the “Developing You” program went on aiming at providing opportunities to employees in the appropriate paths and processes defined in the Positions, Careers and Remunerations Plan, focusing on abilities, technical qualifications and general knowledges required. In this sense, were conducted several courses, which were taught by internal instructors and external institutions, counting with the participation of 7,136 employees. The most important were the following: Projects Management; Customer Service; Business Etiquette; Participation and Conduction of Meetings; Team Development; Interpersonal Relations; Planning and Organization of Work; Risk Management; Communication and Technical Training Instructors; Informatic Technology; Advanced Life Support; Regulatory Standard Security in Facilities and Services in Electricity (NR10); Defensive Driving; Introduction to Project Management; Strategic Decision Making; Negotiation Techniques, among others.

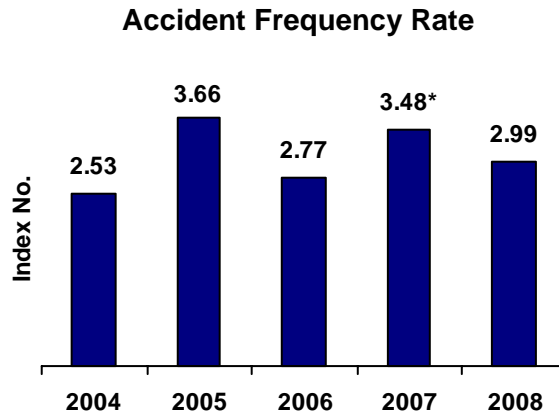
In order to provide recycling, sedimentation and settling themes to the management team, emphasizing the application of concepts, methodologies and management techniques as a tool for development of the organization business, the following courses began, starting from April: Advanced Business Management Program, with specialization of 120 hours workload, in partnership with the Brazilian Institute of Business Management (*Instituto Brasileiro de Gestão de Negócios – Ibgem*) for 70 participants, and the Basic Business Management Program, with 480 hours workload of post-graduate classes, for the preparation of potential management successors, counting with 139 participants.

The training of Advanced Management – APG Amana-Key continued, aiming the improvement of their own managerial functions competences, especially those concerning the strategic direction, anticipation and adapt to changes with 41 participants. In addition, the post-graduate courses in Project Management benefited 75 employees, the Public Policy, 29, and Business Management Program, 33.

Accident Frequency Rate

The following chart shows the Accident Frequency Rate in the last five years.

This indicator is obtained dividing the number of accidents, with removal, for the total of a million person-hours on exposure to risky situation.



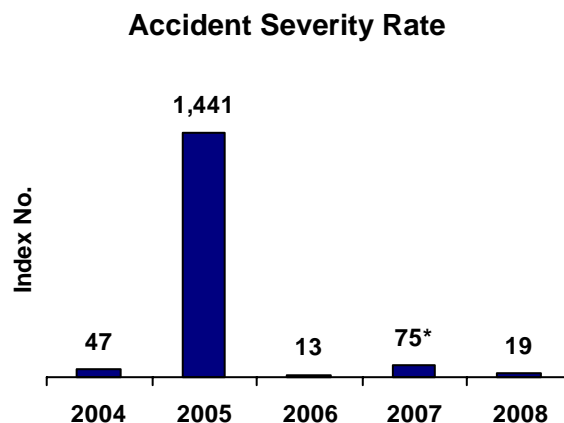
* The rate informed in 2007 report was of 3.59. The change occurred because the information was not available at the closure of the year's report.

Accident Severity Rate

The Company has been seeking to establish a management methodology in its operating areas to improve safety measures in the workplace and industrial hygiene standards, thereby strengthening accident prevention and reduction, markedly in severe cases.

The Accident Severity Rate in FURNAS had been presenting low values until 2004. In 2005, there was a significant increase due to two accidents with death casualties.

This index results from dividing the number of non-worked days, plus debited days, by the total of million person-hours exposed to risky situations.



* The rate informed in 2007 report was of 68. The change in numbers for 75 occurred because the information was not available at the closure of that year's report.

Social Responsibility

Corporate Citizenship and Social Responsibility Policy

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 Government, around initiatives that promote citizenship and human development, aiming at a more fair sustainable and helpful society, in harmony with nature.

Commitments and Partnerships

The Company participates in Committee of Organizations Against Hunger Pro Life (*Comitê de Entidades no Combate à Fome e pela Vida – Coep*), which it helped found in 1993. Coep congregates public and private organizations, developing an active role in social mobilization and articulation, fostering initiatives towards sustainable human and social development. Coep's members are over one thousand state-owned and private companies, organized in 27 state and 29 municipal committees.

Coep joined two important initiatives started by the United Nations Organization towards social responsibility and sustainability: the Global Pact and the Eight Objectives of the Millennium. Since 2001, it has been a member of the Global Pact and several of the documents produced by the Company are on this program site to reassure its commitment with the ten principles of the Pact. The Objectives of the Millennium are FURNAS landmark for action-taking within the communities in the vicinities of its installations.

The commitment with promoting equal rights for men and women alike made the Company adhere to the "Gender Pro-Equity Program", an initiative of the Special Secretary for Policy-Fostering on Women's Rights of the Brazilian Presidency, which counts on a partnership with The United Nations Development Fund for Women and the World Trade Organization. The Gender Pro-Equity seal, awarded by the Special Secretary for Policy-Fostering on Women's Rights to organizations successful in innovative initiatives towards gender equity, crowns such commitment. In 2008, it joined the second edition of that program in order to implement actions in the areas of managing people and organizational culture.

The Company also partakes actively in the "Dialogue Process for the Sustainable Development of Furnas HPP Lake Outskirts" (*Diálogo de Concertação para o Desenvolvimento Sustentável no Entorno do Lago da UHE Furnas*), an initiative of the General and the Economic and Social Development Secretaries, both under the discretion of the Brazilian Presidency. This dialogue process envisages integrated action-taking to revitalize Furnas HPP reservoir and its vicinities, covering 52 municipalities. In addition, financially supported the diagnosis of Basic Sanitation of them, and enable the implementation of the Master Plan of Participation in 50 districts, through the signing of the Technical Cooperation Terms. The first, signed by FURNAS, the Ministry of Cities and the Foundation of Support to Teaching, Research and Extension linked to the University of Lavras – MG (Brazil); the second between FURNAS, the Ministry of Cities and the Furnas Lake Association of Municipalities (*Associação dos Municípios do Lago de Furnas – Alago*).

Ainda em 2008, com objetivo de dar continuidade aos trabalhos já referidos, a Alago pleiteou a FURNAS, a assinatura de novo Termo de Cooperação Técnica para viabilizar a elaboração dos Projetos Executivos para as obras de saneamento básico

compreendendo, prioritariamente, o sistema de esgotamento sanitário de todos os 52 municípios. Esse novo pleito, envolvendo recursos da ordem de R\$ 4 milhões, resultou na formalização de novo instrumento contratual, firmado em abril de 2008, tendo, também, como signatários FURNAS, o Ministério das Cidades e a Alago.

Also in 2008, aiming to continue the work already mentioned, Alago pleaded to FURNAS, the signature of new Statement of Technical Cooperation to facilitate the preparation of Executive Projects for the Basic Sanitation works including, primarily, the sanitary sewers system of all 52 municipalities. This new request, involving resources of about R\$ 4 million, resulted in the formalization of new instrument contract, signed in April 2008, once more, by FURNAS, the Ministry of Cities and Alago as signatories.

Social Investment

The Company social investment seeks to provide opportunities for social inclusion, prioritizing the realization of sustainable projects and action-taking towards and independent life that may contribute to the autonomous development of communities and to the strengthening of partnerships.

In 2008, 203 social projects were brought into effect, all of which were based on: Schooling and Education, Promotion of Citizenship, Health and Nutrition, and Work and Income, benefiting over 160 thousand people, by promoting new opportunities for social inclusion, as outlined below:

Program	Benefited People					Quantity				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
Schooling and Education (Educação e Formação)	6,510	16,769	31,185	24,230	10,695	39	50	53	41	28
Promotion of Citizenship (Promoção da Cidadania)	29,681	53,306	82,626	57,532	116,949	10	37	37	43	128
Health and Nutrition (Saúde e Nutrição)	19,203	17,949	19,875	33,632	32,837	18	12	22	20	39
Work and Income (Trabalho e Renda)	175	2,924	406	1,658	1,239	4	9	5	14	8
Total	55,569	90,948	134,092	117,052	161,720	71	108	117	118	203

FURNAS believes that the best way to contribute to local development is through the participation of local institutions and communities as actors of a transformation process, directing the path desired and assuming responsibilities. With this purpose, the Company hold a development program for the surrounding communities of their installations, with the main guidelines of the Eight Objectives of the Millennium.

In 2008, 9 communities were involved in the formation of local groups of articulation and presentation of reference projects, especially: projects Depulping; Flour Factory; Cutting and Sewing Cooperative; construction of the Rural Women Workers Association; and creation of Community Tele-centers. The projects were developed in the Brazilian communities of: João Carro, Mamede Roder and PA Quilombo, located in the Chapada dos Guimarães (MT); Jardim Gramacho, in Duque de Caxias (RJ); Quilombolas, in Araçatiba and Retiro, respectively, in Viana and Leopoldina (ES); Vila Santa Tereza, in Belford Roxo (RJ); Vila Primavera in Pedregulho (SP) and Turma 26, in Cachoeira Paulista (SP).

By means of a systematized institutional support, FURNAS has contributed with financial resources or material for actions towards the improvement of the quality of life in the communities in its vicinities. In order to safeguard a transparent support process, the Company's intranet page contains information on the criteria, procedures, and terms for addressing requests as well as the benefited institutions.

Cultural Projects

FURNAS understands that culture is an agent of social inclusion, so it has therefore developed the program "FURNAS Social and Cultural – Lightning on What is New" (*FURNAS Sociocultural – Iluminando o Novo*), to foster visual arts and social and cultural projects in the several areas where it acts. The five initiatives are as listed below:

- Cultural Sponsorship Projects

The focus is to build the Brazilian cultural identity, and to valorize popular culture and social inclusion. In 2008, the Company sponsored 27 cultural projects, under the benefit of *Rouanet* Law, which subsidizes cultural projects. The projects were reviewed by an assessment commission of experts. The Company's internet page provides information on the sponsored projects.

Cultural Area	Quantity				
	2004	2005	2006	2007	2008
Scenic Arts	3	7	3	9	11
Integrated Arts	1	3	1	-	3
Fine Arts	1	3	2	3	-
Audiovisual / Movie Industry	4	9	13	6	4
Humanities	-	6	6	5	2
Music	3	4	9	4	7
Cultural Heritage	2	5	4	3	-
Total	14	37	38	30	27

- FURNAS Cultural Space

Located in the Company's Central Office, in Rio de Janeiro, this cultural space houses paint, engraving and photography exhibits, as well as video events, and sculptures of artists new to the market, public and media alike, revealing new talents. In 2008, 15 exhibits took place, out of which 7 of the artists were previously selected by experts and 8 by guest artists attracting 7,000 people.

- FURNAS Musical Generation

FURNAS Musical Generation Program, 2008 version, in its third edition, had 173 entries for groups (duos, trios or quartets), involving 474 musicians in the categories of concert music (classical music) and popular music (instrumental Brazilian music), in states where the Company operates, namely: Espírito Santo, Minas Gerais, Mato Grosso, Goiás, São Paulo, Paraná, Rio de Janeiro and Distrito Federal. Featured groups are awarded with: 24 lessons, each lasting 2 hours given by the Brazilian Conservatory of Music and the Ian Guest Music Improvement Center (*Centro Ian Guest de Aperfeiçoamento Musical – CIGAM*), a CD recording in MEC Radio symphonic studio; and a tour of outdoor public shows in cities where the program is held.

- FURNAS Social and Cultural Breeding Program

This program was established in order to provide education for artists from low-income communities, and from public art schools, as well as to give support to cultural organization projects. The Breeding Program for artists lasts twelve months or four months in the case of cultural organization projects. In this meantime, artists are given theoretical and practical experience in top educational partners' institutions. At the end of the breeding term, innovative artistic products are to be made feasible, with the financial support from FURNAS.

In December 2008, the young talents found their work to be exhibited, collectively, in early 2009. In the category of cultural organizations program, 6 out of the 10 selected projects were able to obtain sponsorship.

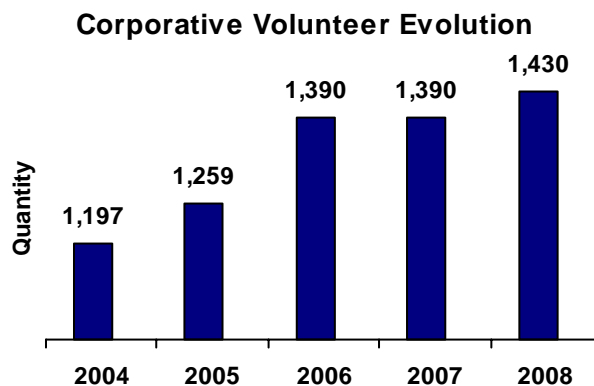
- Partnerships in Social and Cultural Projects

With the intention to promote cultural activities in the vicinities of the Company's installations, 5 social and cultural projects have been developed, rallying in over 750 people, 80% of whom children and youngsters, in 9 municipalities in the states of Mato Grosso, Minas Gerais, Rio de Janeiro and São Paulo.

Corporate Volunteering

Volunteering is deemed strategic for the Company as it not only strengthens action-taking within Social Responsibility, but also gives importance to the partnerships it holds with its employees and society as a whole. It has been organizing and fostering the FURNAS Volunteer Work Program since 2002, helping to develop autonomous and responsible citizenship with its employees and fight poverty and social exclusion.

In 2008, the Company launched the VII Social Projects Competition to mobilize volunteers and employees to develop projects and social actions toward one of the Eight Objectives of the Millennium, benefiting low-income communities close to their areas. During the year, 126 projects and actions entered the Competition, out of which 91 were approved, 63 volunteers and 3 mobilizers rewarded, benefiting more than 45,000 people.



Awards

The following awards were granted for commitment social actions:

- “Citizen Corporation Certificate” (*Certificado de Empresa Cidadã*), granted to the companies that elaborate the Social Balance Sheet in compliance with the rules laid down by Rio de Janeiro State Accounting Regional Council, State of Rio de Janeiro Industries Federation, and State of Rio de Janeiro Trade;

- “Rio de Janeiro Chamber of Commerce and Industry 2008 – Sustainable Attitude” (*Câmara de Comércio e Indústria do Estado do Rio de Janeiro – Atitude Sustentável*), granted to companies, government agencies, nongovernmental organizations, personalities, vehicles of communication, advertising agencies and other institutions that out-topped in programs of social responsibility throughout the Brazilian territory. The Company received the Sustainable Attitude Trophy with the “Digital FURNAS Project”.

Environmental Responsibility

Environmental Policy

In March 1998, the Board of Executive Officers approved the Company’s Environmental Policy. As an electric energy generation and transmission company, which is a basic input for economic and social development, FURNAS acknowledges that its activities may interfere with the environment, so it is committed to an environmentally-friendly action-taking policy.

The implementation of this policy brought benefits regarding sustainable development, not only due to the Board of Executive Officers formal commitment, but also because of the awareness raised in the Company towards working with the due care for the environment, the disclosure of such policy, the compliance with NBR ISO 14001:2004 rules, the adherence to Eletrobrás System Environmental Policy, and society demands.

Water Resource Policy

This policy safeguarding corporate sustainability has been effective since March 2007 and seeks to establish guiding principles for the Company to choose the best criteria towards the usage of water resources in accordance with Brazilian Policy on Water Resources (*Política Nacional de Recursos Hídricos*) and FURNAS related policies.

Policy of Forest Resources

The Politics of Forest Resources of FURNAS, with effect in April 2008, aim to establish management criteria, leading and conservation of forest resources.

The Company recognizes as inherent to their activity-aim to environmental conservation and all actions involving the use of natural resources in a sustainable way, the conservation of biological diversity and the processes associated with forest ecosystems, core of such policy.

The development of this policy is based on the consideration of legal aspects, practices and experiences and, especially, in the search for harmonious integration of the Company installations with the environment.

Main Actions

FURNAS joined the program in Brazil Greenhouse Gas Protocol, as a founding member. This program aims to promote voluntary actions to manage emissions of greenhouse gases by organizations.

In 2008, there were obtained Installation Licenses for the Santo Antônio and Batalha HPP, and Macaé – Campos III TL.

The following actions were also remarked:

- in Santa Cruz TPP: acquired air monitoring station, in the calibration phase for start of operation, accomplishing the conditions of the Installation License issued by FEEMA / RJ;
- in Serra da Mesa HPP: two areas were bought to make the protection of the rivers headwaters; initiated the Program for Recovery of Degraded Areas (*Programa de Recuperação de Áreas Degradadas – PRAD*); the adjustment of the agreement with the Brazilian Indian Foundation (*Fundação Nacional do Índio – Funai*) for the Program Support to Avá-Canoeiro group is ongoing;
- in Manso HPP: acquisition of the Morro Pontudo farm, in Alto Paraguay (MT), for resettlement of the population; progress in the negotiations for the purchase of two other farms and actions in the Brazilian Institute of Colonization and Agrarian Reform (*Instituto Nacional de Colonização e Reforma Agrária – INCRA*) and the Secretary of State for the Environment of Mato Grosso Government, seeking to regulate areas of resettlement; the agreement with the organism responsible for environmental licensing is in process of redrafting, in attendance to the Conservation Units Consolidation Program; continuity of the actions of public health in partnership with the Federal University of Mato Grosso;
- in Serra da Mesa and Corumbá HPP, Santa Cruz TPP and Foz do Iguaçu – Ivaiporã – Itaberá – Tijuco Preto III and Cachoeira Paulista – Adrianópolis III TL: continuation of activities related to monitoring and management of environmental programs;
- in Luiz Carlos Barreto de Carvalho, Marimondo, Furnas, Mascarenhas de Moraes, Corumbá, Itumbiara and Porto Colombia HPP: proceeding the environmental recovery of remaining areas;
- in Santa Cruz TPP, Ouro Preto 2 – Vitória, Cachoeira Paulista – Adrianópolis III, Bateias – Ibiúna, Foz – Ivaiporã III, Itaberá – Tijuco Preto III, Serra da Mesa – Samambaia I Norte – Sul (complement) TL, and Viana Substation: in progress the negotiations of contracts for environmental compensation with the environmental licensors organisms;
- in Ouro Preto 2 – Vitória TL: implementation of activities related to cases of expropriation and environmental monitoring activities;
- in Itaberá – Tijuco Preto III TL: ongoing actions defined in the Adjustment of Conduct Statement of Commitment for native indian communities;
- in Viana Substation: concluded the agreement with the Viana city hall, with the participation of the Espírito Santo State Institute, involving acquisition of land to enlarge the natural park of Rota das Garças (ES).

Environmental Indicators

The five indicators presented below show the complexity associated with allocation, deployment and operation of generation and transmission of electric energy installations, and monitoring the evolution of the Company performance, as per the environmental issue. The information presented consider the cumulative period since 2004, and from then until the year 2008.

Area of Monitored Water Surface

It is the reservoirs areas concerning the 11 hydropower plants in operation, which are monitored in terms of limnological parameters and water quality, as well as the composition of the ichthyofauna. This area is 5,695 km² water surface, periodically monitored. As there was no water filling of the reservoir in 2008, there was no change in the monitored water face area in relation to the year 2007.

Extension of Protected Areas

The Brazilian environmental legislation, related to the compensation for environmental projects has been in force since 1987. FURNAS was one of the pioneers in its performance, when the deployment of Serra da Mesa and Corumbá HPP, whose construction began in the mid-80's. Since then, the Company has contributed to environmental conservation.

As compensation for the their installations deployment, FURNAS has invested in the consolidation of conservation units established by the Government, such as national, state and municipal parks, biological reserves, ecological stations and areas of environmental protection, and on native Indian reserves. It is a significant investment for biodiversity conservation in Brazilian ecosystems, in which the Company has acted (Mata Atlântica and Cerrado), covering an area of approximately 1,260 hectares (ha). The addition of 77 ha, in 2008, is the result of inclusion of protected areas belonging to the Private Reserve of Natural Heritage of Baú Farm (*Reserva Particular do Patrimônio Natural Fazenda do Baú*), in Pompeu (MG), regarding Retiro Baixo HPP, and the Municipal Natural Crater of Colônia Park (*Parque Natural Municipal da Cratera de Colônia*), in São Paulo (SP) for 750 kV Itaberá – Tijuco Preto III TL.

Accumulated until the Year	Protected Area (ha)
2004	1,193,232
2005	1,226,577
2006	1,226,577
2007	1,257,029
2008	1,257,106

Environmental Education Actions

Since 2000, FURNAS has invested, 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 2004-2008, 200,195 students were given the chance to attend environmental educational programs distributed in 136 municipal districts. The increase recorded in 2008 relates to the inclusion of Simplício and Batalha HPP, Itumbiara – Brasília Sul TL and Municipal Environmental Protection Area Capivari-Monos, as shown in the table below:

Accumulated until the Year	Student Educated	Quantity
		Municipal District
2004	61,266	92
2005	109,857	122
2006	110,337	122
2007	126,062	126
2008	200,195	136

Waste Treatment

- Ascarel (Polychlorinated Biphenyls – PCB)

FURNAS maintains its commitment to eradicate from their installations the equipment using PCB. For such, it hires specialized companies and holders of environmental licenses for the activities for decontamination of transformers and incineration of contaminated waste. Parallel to that, it also develops projects for replacement of such equipment.

The following table presents historical summary of these activities.

Year	Net Weight (kg)
2003/2004	13,207
2005/2006	14,040
2007/2008	196,200

- Mineral Insulating and Hydraulic Oil

The Company regenerates the mineral insulating oil of transformers by means of physical-chemical treatment. When this recovery becomes technically not feasible, it is sold in public auctions, restrictedly, to re-refiners accredited by the National Petroleum Agency (*Agência Nacional do Petróleo – ANP*), as Regulation No. 127 of July 30, 1999, and No. 128 of August 28, 2001.

As for the hydraulic oil, whose quantities are expressionless, the disposal of their waste is held together with the non-regenerative mineral insulating oil.

The quantities sold in the last five years are given below:

Year	Quantity (thousand liters)
2004	127
2005	415
2006	281
2007	429
2008	552

Atmospheric Emissions

- Sulfur Hexafluoride Gas (SF₆)

The SF₆ gas is applied in the Company circuit breakers, in order to extinguish the electric arch in armored substations. This gas has a global warming potential approximately 23 thousand times higher than the carbon dioxide (CO₂).

Since 2007, the Company maintains a program of reducing emissions of SF₆ through rehabilitation and treatment at the maintenance performed on circuit breakers.

Year	Quantity Recovered (kg)
2007	45
2008	523
Total	568

Awards

The Company was incorporated with the Brazilian Prize for the Environment, in the category: Environmental Education, by the project developed in Itaberá – Tijuco Preto III TL.

Energy Conservation

In relation to energy conservation studies and programs, 58 projects were presented with their respective indicators and goals, developed in the States of Rio de Janeiro, São Paulo, Paraná, Minas Gerais, Goiás, Espírito Santo, and Federal District, in partnerships with Eletrobrás, secretariats of education, energy, environment, and culture, civil defense bodies, public parks, electric energy concessionaries, 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 electric energy and water, involving about 900 thousand people, out of which the following projects are worth mentioning:

- “FURNAS / Procel in Schools – Earth versus Waste” (*FURNAS / Procel nas Escolas – A Terra contra o Desperdício*), 58,710 teens and adults received training;
- “The Nature of the Landscape – Energy: a Life Resource” (*A Natureza da Paisagem – Energia: Recurso da Vida*), qualifying 2,646 teachers and 260 thousand students of 90 municipal districts affected by FURNAS’ projects, on the issue of fighting energy waste;
- performance of 99 events to motivate students and the general public, involving 200 thousand people, which have participated in activities, such as: ludic-pedagogical activities, drama and 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 8,812 students and counted with the participation of 500 teachers, aiming to guide students to develop concepts of electric energy and its rational use, in a ludic approach, based on interactive and diversified experiences;
- advertisement of the subject “Conservation of Energy” (*Conservação de Energia*), with 57 insertions in internal bulletins and 31 insertions in the external media – such as radio, television, internet and newspapers;
- “Conservation of Energy Olympics” (*Olimpíada de Conservação de Energia*), held the first olympic of knowledge, in partnership with the Brazilian Society of Astronomy. This event aims at the empowerment of teachers and students in the subjects: astronomy, astronautics and energy. Attended the event, in the energy conservation theme, 5.5 thousand teachers and more than 400 thousand students from several municipalities.

Additionally, the following technical activities were developed:

- performance of 55 studies on energy efficiency in public schools and buildings, in the states where the Company has installations, with a potential economy of 1 GWh/year;
- completion of 7 energetic diagnosis in internal installations and energy optimizations in Brasília Sul, Brasília Geral, Bandeirantes Substations and the Technical Center for Tests and Measurements workshops;

It is also worth mentioning that the awareness drive towards fighting water waste continued being developed in several of FURNAS installations.

Social and Environmental Information

	2008			2007		
1. WEALTH GENERATION AND DISTRIBUTION	R\$ thousands			R\$ thousands		
Total Value Added	2,653,327			2,342,559		
Distribution of Value Added The Value Added Demonstrative (DVA) is fully presented in the Financial Statements	16.7 government 9.6% shareholders	27.9% employees 47% financiers		21.1% government 7.1% shareholders	27.9% employees 43.9% financiers	
2. HUMAN RESOURCES	2008			2007		
2.1. REMUNERATION						
Gross Payroll (GP) (R\$ thousands)	820,101			676,315		
- Employees (R\$ thousands)	816,273			763,844		
- Managers (R\$ thousands)	3,828			3,471		
Higher and lower remuneration ratio (%):						
- Employees	17			18.8		
- Managers	1			1		
2.2. Benefit Granted	R\$ thousands	% over GP	% over NR	R\$ thousands	% over GP	% over NR
Payroll charges	160,953	19.63	2.79	148,087	19.30	2.90
Food	37,558	4.58	0.65	33,532	4.37	0.66
Transportation	995	0.12	0.02	2,114	0.28	0.04
Private social security	76,633	9.34	1.33	67,557	8.80	1.32
Health	82,287	10.03	1.44	70,185	9.15	1.38
Safety and industrial health	6,287	0.77	0.11	5,268	0.69	0.10
Education	1,860	0.23	0.03	1,717	0.22	0.03
Culture	3,274	0.40	0.06	2,832	0.37	0.06
Training and professional development	21,452	2.62	0.37	21,357	2.78	0.42
Day-care centers or day-care assistance	683	0.08	0.01	697	0.09	0.01
Profit or results sharing	70,479	8.59	1.22	61,574	8.02	1.21
Total	462,461	56.39	8.03	414,920	54.07	8.13
2.3. Staff Indicators	2008			2007		
Total number of employees	4,724			4,534		
Number of admissions	250			59		
Number of dismissals	60			50		
Number of trainees	632			694		
Number of employees with special needs	255*			251 *		
Number of outsourced employees	1,723			1,857		
Number of employees according to sex:						
- Men	4,066			3,929		
- Women	658			605		
Number of employees according to age:						
- Under 18 years old	0			0		
- From 18 to 35	748			789		
- From 36 to 60	3,732			3,618		
- Above 60	244			127		
Number of employees according to educational level:						
- Illiterate	0			0		
- Basic Level	346			362		
- Medium Level	675			671		
- Technical Level	1,303			1,210		
- Graduate Level	1,501			1,574		
- Post graduate Level	899			717		
Managerial positions according to sex (%):						
- Men	87.86			88.95		
- Women	12.14			11.05		

2.4. Contingencies and Labor Liabilities	2008	2007
No. of labor lawsuits brought against the Company **	587	543
No. of labor lawsuits considered valid ***	5	3
No. of labor lawsuits considered invalid ****	12	34
Total amount of compensations and fines paid due to legal decisions (R\$ thousands) *****	25,628	25,052

3. Interaction with Society	R\$ thousands	% over OR	% over NR	R\$ thousands	% over OR	% over NR
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3.1. Relationship with the Community

Total investments in:

Education	5,735	0.87	0.10	6,972	0.68	0.14
Culture	7,166	1.09	0.12	5,179	0.51	0.10
Health and infrastructure	6,685	1.02	0.12	6,321	0.62	0.12
Sports and leisure	21	0.00	0.00	271	0.03	0.01
Food	3,126	0.48	0.05	3,079	0.30	0.06
Work and revenue generation	133	0.02	0.00	573	0.06	0.01
Families resettlement	0	0.00	0.00	4,024	0.39	0.08
Total Investments	22,866	3.48	0.39	26,419	2.59	0.52
Taxes (without payroll charges)	443,732	67.68	7.69	494,922	48.52	9.69
Financial compensation for the use of hydric resources	152,954	23.32	2.65	159,404	15.62	3.12
Total – Relationship with the Community	619,552	94.48	10.73	680,745	66.73	13.33

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.

3.2. Interaction with Suppliers

4. Interaction with the Environment	R\$ thousands	% over OR	% over NR	R\$ thousands	% over OR	% over NR
Investments and expenditures with maintenance in the operational processes to improve the environment	12,260	1.87	0.21	11,287	1.11	0.22
Investments and expenditures with preserving and/or recovering degraded environments	25,864	3.94	0.45	18,576	1.82	0.36
Investments and expenditures with environmental education to the Company employees, outsourced and free lance personnel, and managers	1	0.00	0.00	1	0.00	0.00
Investments and expenditures with environmental education to the community	3,055	0.47	0.05	2,421	0.24	0.05
Investments and expenditures with other environmental projects	3,568	0.53	0.06	2,605	0.25	0.05
Number of environmental, administrative and legal suits brought against the Company	0	0.00	0.00	0	0.00	0.00
Amount of penalties and compensations related to environmental issues, defined in the administrative and/or judicial spheres	0	0.00	0.00	0	0.00	0.00
Environmental liabilities and contingencies	0	0.00	0.00	0	0.00	0.00
Total Interaction with the Environment	44,748	6.81	0.77	34,890	3.42	0.68

5. Other Information

	2008	2007
Net Operating Revenue (NR)	5,771,647	5,105,173
Operating Results (OR)	655,640	1,020,110

* Refers to 22 effective employees and 233 professionals contractually bound to the Brazilian Institute for the Rights of the Disabled Person (*Instituto Brasileiro de Defesa dos Direitos da Pessoa Portadora de Deficiência – Ibdd*).

** Number of lawsuits initiated between 2007 and 2008.

*** Number of valid lawsuits no matter when legal action was initiated.

**** Number of invalid lawsuits no matter when legal action was initiated.

***** Amounts concerning compensation and fines paid between 2007 and 2008, no matter when legal action was initiated.

II – INTERNAL CONTROL

The Internal Control in Public Administration, according to the concept used by TCU/CGU, 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 2008, 67 procedures were carried out abiding by the Internal Audit Activities Annual Plan (*Plano Anual de Atividades de Auditoria Interna – Paint*), providing, among other advantages, the improvement of internal regulations, and consequently, the strengthening of internal controls as well as the compliance with the legislation in force and the recovery of values.

Paint is developed from the risk matrix, which identifies 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.

In 2008, the Company gave continuity to supporting the compliance to the SOX Law. The Internal Audit worked with the independent auditor, PriceWaterhouseCoopers, in issuing a Report on the Study and Evaluation of Accounting Systems and Internal Controls (*Relatório sobre o Estudo e Avaliação dos Sistemas Contábil e de Controles Internos*), released to managers to identify areas of improvements to be implemented by them. Later, PriceWaterhouseCoopers monitored the implementation of action plans arising from this report, and followed the upgrade of all documentation relating to key business processes of the Company.

The issues concerning audit works in 2008 were reported to the respective managers for due diligence and action-taking towards streamlining processes and improvements.

Additionally, the Internal Audit took part actively in activities supporting the compliance to the SOX Law by prompting employees to follow up the activities conducted by the consulting agency and by the independent auditor.

In its attempt to adopt the best market practices, the Internal Audit participated in seminars, congresses, specialization courses and interchange (benchmarking) with other internal audits, risk areas, and other areas of interest.

Opinion of Supervisory Board

The Supervisory Board, in compliance with its legal and statutory attributions, has issued three opinions in the year of 2008, as follows: the first one, after analyzing the Administration Report and the Financial Statements of the 2007 Fiscal Year; the second one, referring to the Company's budget for the 2008 Fiscal year; and the third, regarding the proposal to increase the Social Capital of FURNAS. All opinions were favorable, with the recommendation of approval to the shareholders.