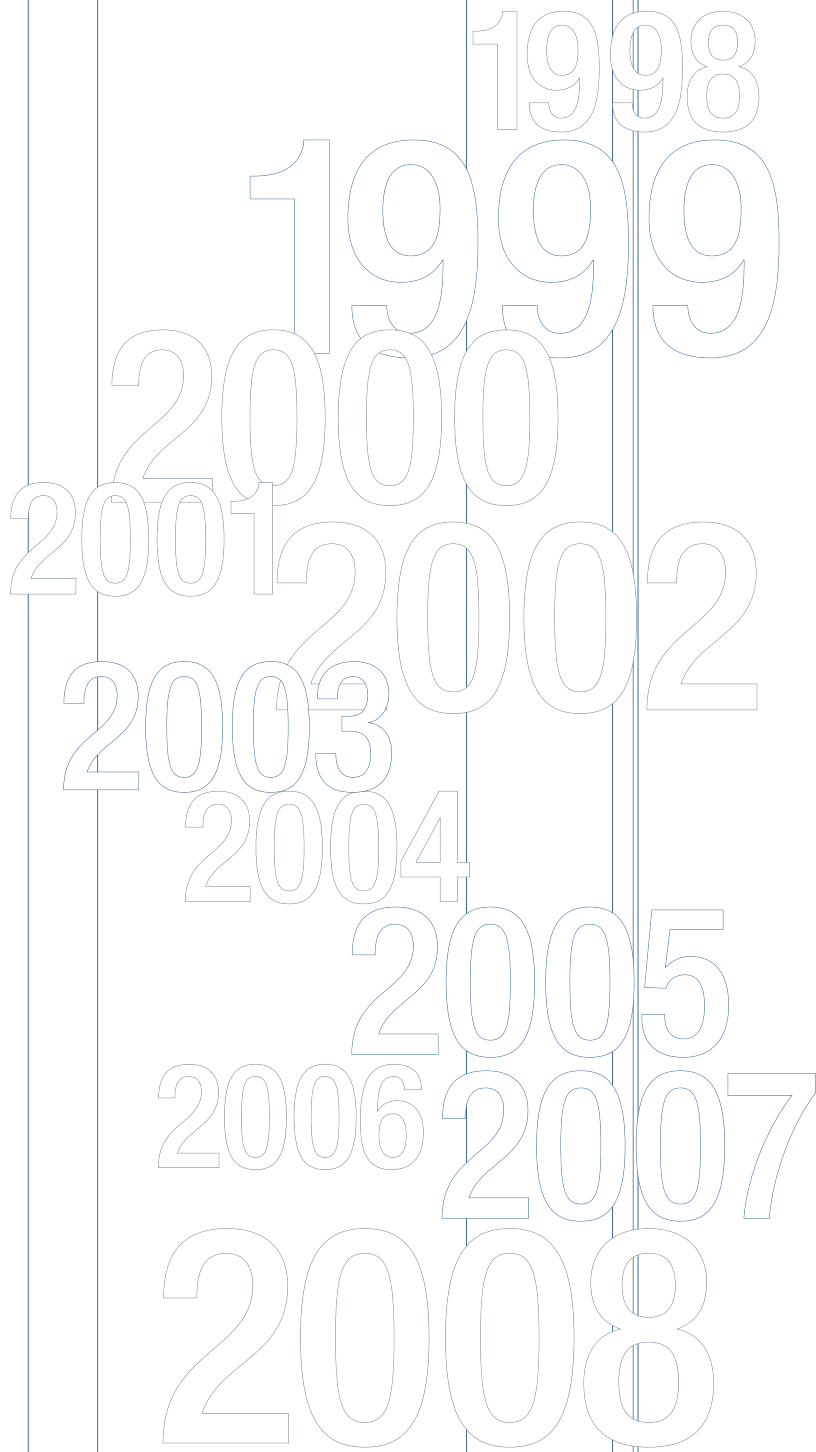




“We urgently need a shared vision of basic values to provide an ethical foundation for the emerging world community”,  
The Earth Charter (declaration of fundamental principles for building a sustainable society, approved by UNESCO in 2000).

“Companies make decisions on environmental and social topics because it makes good business sense. As such, the most efficient pressures are those driven by cost-benefits, business opportunities and brand reputation”, Björn Stigson, President of the World Business Council for Sustainable Development (WBCSD).



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Elektro has the best operating management in the electric energy sector, according to the Brazilian Association of Electric Energy Distributors - Abradee. Currently Elektro is rated brAA+, the best in the national electric sector.

# HIGHLIGHTS





**Elektro is:**

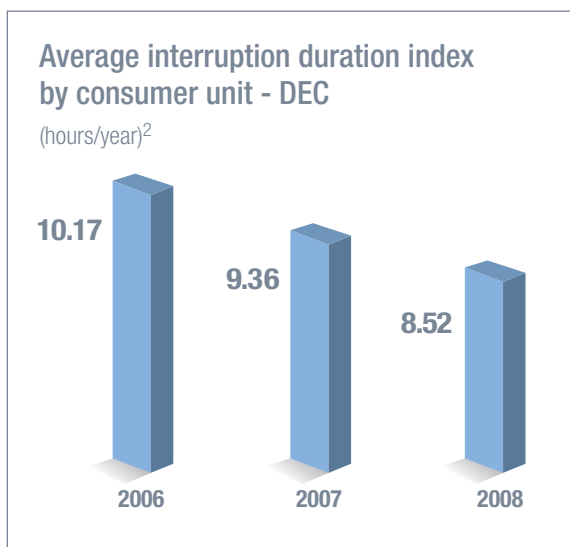
The 8<sup>th</sup> largest power distribution in Brazil with 2.1 million customers in 228 towns in the States of São Paulo and Mato Grosso do Sul, covering an area of 120 thousand km<sup>2</sup>. The company serves approximately 5.5 million people, with a 102 thousand km of distribution grid and 1.4 thousand km of transmission lines.

**In 2008, Elektro achieved:**

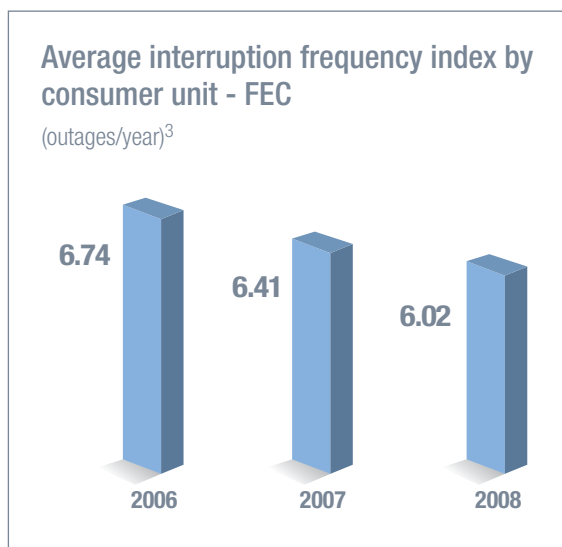
- The upgrade of its corporate rating<sup>1</sup> from brAA- to brAA by the risk classification agency Standard & Poor's. In May 2009, the rating was upgraded to brAA+, the best in the national electric sector.

- A reduction in DEC (Average interruption duration index by consumer unit) and FEC (Average interruption frequency index by consumer unit), the lowest rates in the company's ten-year history.
- An improvement in employee accident rates with no fatalities.
- The Funcoge award in the category "Training and Development of Personnel".

<sup>1</sup>Risk score attributed by a risk classification agency.



<sup>2</sup>The indicators do not consider critical days, associated with emergency situations, as defined in Aneel Resolution 024/2000. Had they been considered, the DEC indicator in 2006 would have been 12.81; in 2007, 10.97; and in 2008, 10.44.



<sup>3</sup>The indicators do not consider critical days, associated with emergency situations, as defined in Aneel Resolution 024/2000. Had they been considered, the FEC indicator in 2006 would have been 7.98; in 2007, 7.15; and in 2008, 6.89.

**Elektro has:**

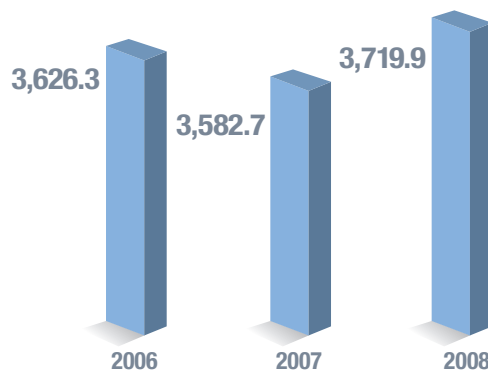
- The best operational management in the electric sector according to the Brazilian Association of Electric Energy Distributors (Abradee).
- Efficiency in operating cash flow generation measured by the EBITDA margin, which registered an average of 35.2% over the last three years.
- Excellence in customer service with a satisfaction level above 80%, according to the Abradee survey.

**In 2008, Elektro accomplished:**

- The construction of its own new Distribution Center in Sumaré (SP), with an area of over 30 thousand m<sup>2</sup>.
- The implementation of a new Information Technology infrastructure with the conception of the modern Data Center at the Campinas (SP) corporate headquarters.
- The Lineman's School Project in Tatuí (SP).
- The printing of electricity bills on recycled paper.
- The distribution of electricity bills in Braille.

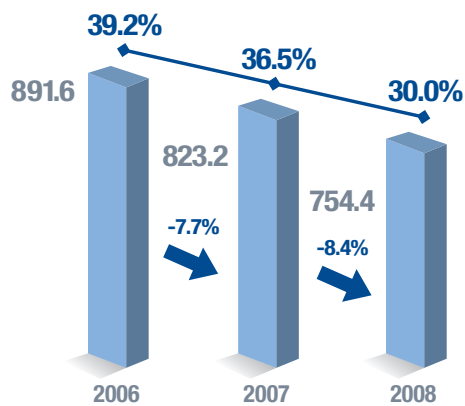
**Gross Operating Revenue**

(R\$ millions)



**EBITDA**

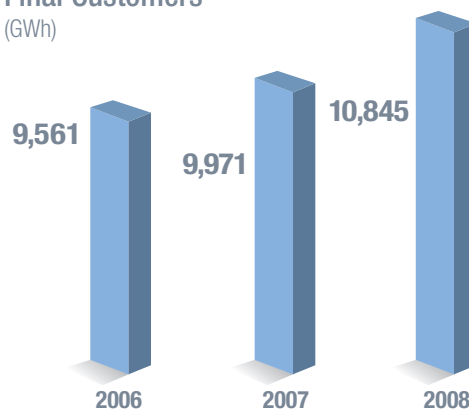
(R\$ millions)

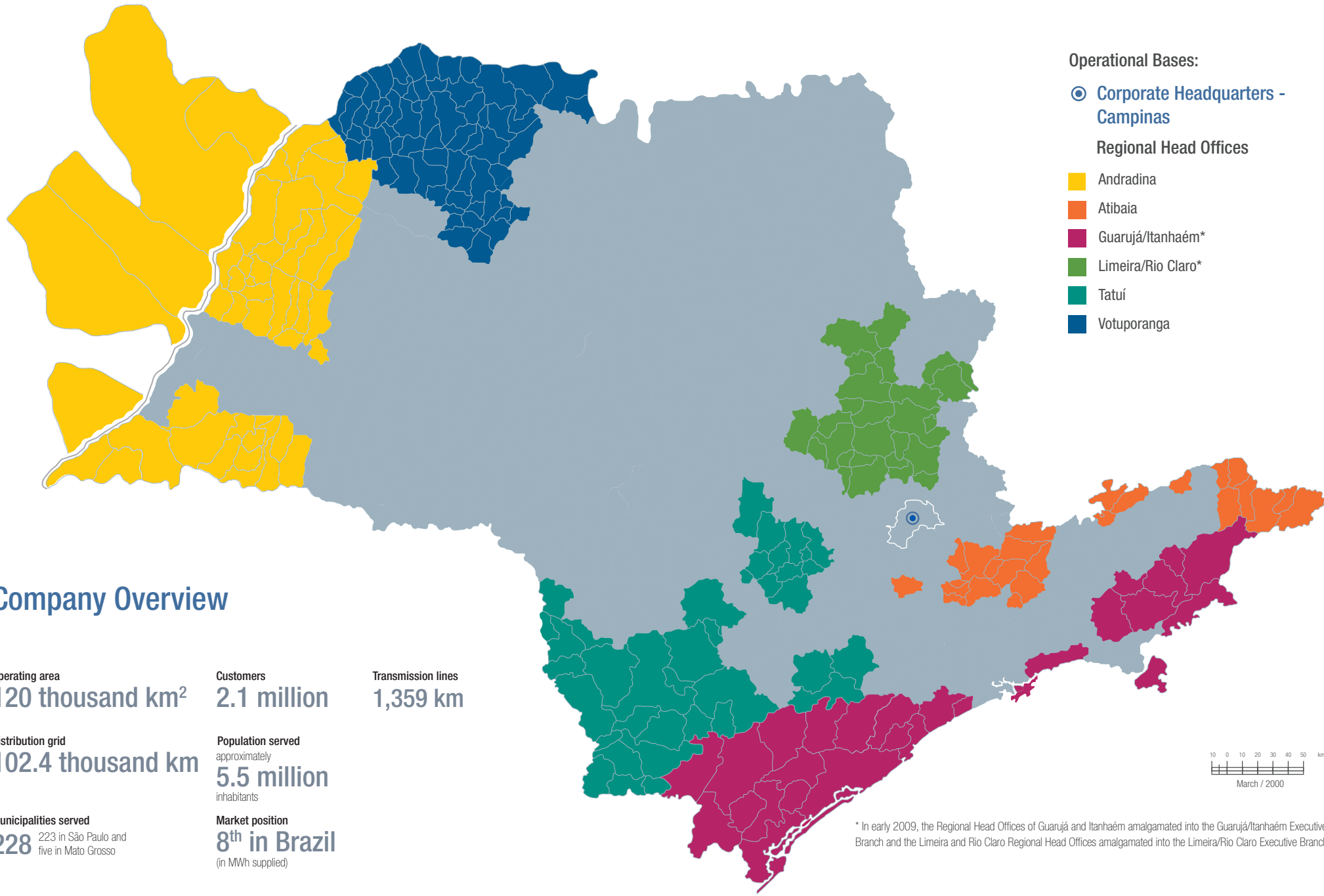


■ EBITDA    ■ Margin EBITDA (%) = EBITDA / Net Operating Revenue

**Electric Energy Distributed to Final Customers**

(GWh)





Operational Bases:

⊙ Corporate Headquarters - Campinas

Regional Head Offices

- Andradina
- Atibaia
- Guarujá/Itanhaém\*
- Limeira/Rio Claro\*
- Tatuí
- Votuporanga

## Company Overview

Operating area <b>120 thousand km<sup>2</sup></b>	Customers <b>2.1 million</b>	Transmission lines <b>1,359 km</b>
Distribution grid <b>102.4 thousand km</b>	Population served approximately <b>5.5 million</b> inhabitants	
Municipalities served <b>228</b> <small>223 in São Paulo and five in Mato Grosso</small>	Market position <b>8<sup>th</sup> in Brazil</b> <small>(in MWh supplied)</small>	

\* In early 2009, the Regional Head Offices of Guarujá and Itanhaém amalgamated into the Guarujá/Itanhaém Executive Branch and the Limeira and Rio Claro Regional Head Offices amalgamated into the Limeira/Rio Claro Executive Branch.



Elektro lineman replaces a public lighting lamp in Limeira (SP)

## Introduction

Elektro presents to the market and to society its 2008 Sustainability Report. More than a communiqué, this document is a management tool. Its content gathers important information dealing with the day-to-day activities of the company and offers the stakeholders something to reflect on. Now is the time to analyze commitments made, evaluate results and contemplate the sustainability initiatives.

The production of the document involved teams from various sectors, who identified and analyzed the main facts, figures and results obtained in 2008. This year especially, the publication has an extra reason to be memorable: the celebration of the company's tenth anniversary.

The following chapters show the company's economic, operational, social and environmental results during the period between January and December 2008, together with the financial statements for the fiscal year and relevant events from the first half-year 2009. For the third consecutive year the Global Reporting Initiative (GRI) guidelines were adopted. The GRI is an international organization which establishes the standards for the communication and management of company sustainability. Due to its characteristics, this publication attained level B (self-declared) in the application of the third version of GRI indicators (G3).

As a joint-stock company, Elektro is subject to the laws governing publicly-held companies and the instructions and norms of the Securities and Exchange Commission (CVM) and seeks to adopt the best practices suggested by the Brazilian Association of publicly-held companies (Abrasca) in the elaboration of Sustainability Reports. As part of the document construction we have also added contributions which appear in the Socio-Environmental Report of the National Electric Energy Agency (Aneel). The full financial statements at the end of this document were audited by the independent auditors Deloitte Touche Tohmatsu.

This report is available in electronic format in Portuguese and can also be accessed on the company website.

During the course of the document there will be indications on additional information which can be found on the website [www.elektro.com.br](http://www.elektro.com.br). To contact our team please use the e-mail [ri@elektro.com.br](mailto:ri@elektro.com.br).

**Please read on!**

In its ten-year existence, Elektro has moved on from being simply the distribution arm of the *Companhia Energética de São Paulo* (Cesp) to become one of the best publicly-held companies in the Brazilian electric energy sector. Throughout this decade, even with the diverse obstacles encountered along the way, the company has continued on its road to success.

# MESSAGE FROM THE CEO

## Message from the CEO

### Ten remarkable years

For Elektro, the year 2008 means more than just a transient moment in time in which we celebrate the first decade. It is the mark of a successful trajectory, replete with great challenges and conquests. We have received the Abradee (Brazilian Association of Electric Energy Distributors) Award, three times, as the best energy distributor in the country and we also won awards in the categories: Best Operational Management, Customer Satisfaction, Economic-Financial performance and Social Responsibility. During the last four years we have been elected one of the 20 model companies in sustainability by the *Exame* Guide (*Exame* Magazine). All these acknowledgements reflect our commitment to quality and the continual improvement of our processes.

The awards and acknowledgements are directly linked to our management model which considers the continuous pursuit of operational excellence and the efforts of our staff as fundamental to this success. In a pioneering fashion, Elektro invests in new technologies, distribution system automation, qualification and preparation of field personnel, operational quality and, most importantly, employee safety - the number one priority.

In 2008, Elektro obtained an excellent operating and economic-financial result, even taking into account the impact of the international financial crisis over the last four months of the year. We closed the year with operating cash generation of R\$ 754.4 million, resulting in an EBITDA margin of 30%, one of the best in

the electric sector. These results also contributed to the fact that in May 2009, Elektro's corporate credit rating, attributed by the risk classification agency Standard & Poor's, was upgraded from brAA to brAA+, the best in the national electric sector.

This rating reflects Elektro's solid financial situation, a consequence of consistent results, low level of financial debt and management austerity with regard to spending.

The operational quality indexes DEC (Average interruption duration index by consumer unit) and FEC (Average interruption frequency index by consumer unit), reached the best levels in the company's history.

In 2008, R\$ 249 million was invested in maintenance, expansion and automation of the power distribution system which reaffirms our commitment to customer satisfaction.

Unlike the tendencies for growth seen during the first eight months of 2008, the international economic-financial scenario since the fourth quarter, points to doubts and uncertainties. Elektro is prepared for this scenario and is already taking proactive action to mitigate eventual effects on its performance from the global crisis. We understand that now, more than ever, the quest for efficiency, through continuous improvements in processes and technological innovation is crucial to the business.



**Carlos Marcio Ferreira,**  
CEO at Elektro

In the electric energy sector, safety is a fundamental value. At Elektro, it assumes leading position in our chain of values and stimulates us to continuously improve processes and methodologies through technological innovation and a change in the attitudes of employees and partners in relation to life. As such, we seek to eliminate exposure to the risk of accidents.

In 2008, we implemented a series of programs such as "Behavior for Life" based on observations and the reinforcement of BBS (Behavior Based Safety), in the pursuit of our target of zero accidents.

And finally, let me take the opportunity to celebrate with our employees, partner companies, customers, shareholders and all other stakeholders, our success story. Thank you for the support and commitment which is turning Elektro into a company more and more admired in the Brazilian electric sector.

**Carlos Marcio Ferreira**  
Chief Executive Officer



For ten years Elektro's operations have been focused on increasing operational efficiency. The company's 2.1 million customers recognize the quality of services rendered in the 228 towns within the concession area, supplied through a modern infrastructure that guarantees full cover and service reliability.

ELEKTRO 10 YEARS ON



## Distribution efficiency

Elektro *Eletricidade e Serviços* S.A. distributes electric energy to around 5.5 million people in 223 towns and cities in the State of São Paulo and five in the State of Mato Grosso do Sul. The consumption of energy by the company's 2.1 million customers is distributed in seven categories: residential, industrial, commercial, rural, public authorities, public lighting and public services. A modern infrastructure ensures cover and service reliability in an area of 120 thousand km<sup>2</sup>, with the support of six regional offices, strategically situated in the State of São Paulo - Andradina (which also serves the Mato Grosso do Sul municipalities), Atibaia, Guarujá/Itanhaém, Limeira/Rio Claro, Tatuí and Votuporanga - a position consolidated in early 2009.

**Today, Elektro is the eighth largest power distribution among the 64 companies in the Brazilian sector.**

The Distribution Operational Center (COD) at the Corporate Headquarters in Campinas (SP) guarantees the coordinated action of the teams, together with the material delivery logistics to the regional offices. The company is signatory to a concession contract which ends on August 27, 2028, when a request for renewal can be made to the National Electric Energy Agency (Aneel) for a further 30 years.

The company's history began during the National Privatization Program carried out between 1995 and 2000. The initiative covered diverse sectors of the economy, and in the electric sector 22 companies were privatized, of which four were generators and 18 distributors. Controlled by the São Paulo State government, Elektro was an integral part of the *Companhia Energética de São Paulo* (Cesp). In 1998, the privatization split Cesp into five companies: the generating plants of the Tietê River became the responsibility of AES Tietê; the Paranapanema River generation plants went to Duke Energy; the *Companhia de Transmissão de Energia Elétrica Paulista* (CTEEP) inherited the transmission grid; and Elektro took over the power distribution activities. The generation plants of Ilha Solteira, Jupia, Porto Primavera, Três Irmãos, Paraibuna and Jaguari remain in the states hands under the management of Cesp. This division was constituted during a Cesp Extraordinary General Meeting on January 6, 1998.

Following this process, on July 17, 1998, an auction was held which resulted in the North American company Enron gaining control of the concessionaire with almost 100% of the company stock, thus establishing the official date of the company's foundation. In 2004, the North American group transferred its indirect shareholding to Prisma Energy International Inc. (Prisma Energy), a company which merged with the AEI group in 2006 (current denomination of Ashmore Energy International).

At this time, the holding companies EPC - *Empresa Paranaense Comercializadora Ltda.*, ETB - *Energia Total do Brasil Ltda.*, AEI *Investimentos Energéticos Ltda.* and AEI Brazil Finance Ltd. hold control of the concessionaire with 99.68% of total stock and 99.97% of voting stock. These holding companies are controlled directly and indirectly by AEI.

The company distributes energy to around 5.5 million people in the States of São Paulo and Mato Grosso do Sul.

## Scenarios and perspectives

The electric energy available in 2008 was sufficient to fulfill national demand. With the advent of the international financial crisis, the expectation is that most sectors of the economy will undergo a reduction in consumption. Elektro is working within this scenario and will remain focused on increasing operating efficiency, seeking to maintain its tradition of positive results. In the long-term, the company considers it essential that the new electric power generating units now under construction go into operation within the timescale established by the federal government.

With regard to the regulation of the power distribution service, in November 2008, Aneel defined the methodology for the second cycle of distributor tariff revisions after 11 months of analysis from the agents contributions received during the public hearing process initiated in 2007.

As a result of the claim presented to Aneel at the end of the 2007 tariff revision, in 2008 Elektro obtained a correction in the value of plant, property and equipment and an increase in the amount reserved to cover losses caused by payment delinquency.

### Aneel is the sector regulating agency

Elektro is a power distribution company, regulated within the sphere of the federal government by the National Electric Energy Agency (Aneel). The agency is charged with regulating and overseeing the purchase of electric power, the tariff composition, consistency in supply, safety and the quality standards of customer services.

The concessionaire is also regulated by State authorities in the regions in which it operates: the São Paulo State Regulatory Agency for Sanitation and Energy (Arseps) and the State Agency for the Regulation of Public Services (Agepan).



## The first decade

The year 2008 was a historic benchmark for Elektro, culminating in ten years of existence, underscored by the pursuit of excellence, which will enable the fulfillment of its greater objectives, as expressed in its Vision, Mission and Values.

During this period, in order to achieve quality in services rendered and improvements in management, Elektro implemented a wide-ranging program of investments in technology to improve its operational efficiency indicators, its economic-financial management and to promote sustainability. Always with a view to surpass the expectations

of its stakeholders, such as customers, employees, investors, suppliers, partners, professional classes, regulatory bodies and the community.

During its ten years of activity, the company has supplied energy to millions of consumers with increasingly higher quality and safety and customers are recognizing this evolution: during the decade, the level of satisfaction has risen from 60% to 82.7%, according to residential customer surveys carried out by Abradee in 2008.

## Time Line

- 1998** - Elektro is founded. The power distribution segment of the *Companhia Energética de São Paulo (Cesp)* is privatized and control of the new company is transferred to the North American group Enron. The concessionaire is certified in accordance with the standard NBR ISO 9001:2000 in "Customer Telephone Service". The start-up of the environmental educational project *Meninos Ecológicos*.
- 1999** - The SAP system is introduced into company operations. The start-up of the Elektro energy efficiency project, pioneer among power distributions.
- 2000** - The Distribution Management System (SGD) goes into operation, a tool with which Elektro manages in real time the operation and maintenance of its distribution network, by integrating grid operational areas, planning, projects and engineering. Creation of the Ombudsman.
- 2001** - Inauguration of the new Corporate Headquarters in Campinas. The Distribution and Operations Center (COD) and the Customer Service Call Center begin centralized operations. The creation of the Elektro Center of Excellence (Elektro Corporate University). The federal government decrees energy rationing throughout the country. Elektro wins the Abradee award for the Southeastern region.
- 2002** - Elektro is elected the best large scale distributor by the Aneel Customer Satisfaction Rating (Iasc). Outsourcing of materials operational logistics services at the Distribution Center in Sumaré (SP). Start of the low-income electricity regularization project.
- 2003** - The Customer Service Center is certified in accordance with standard NBR ISO 9001:2000 and also for "Verification, Handling and Release of Technical and Commercial Indicators". Creation of the Elektro Institute to promote the company's social responsibility actions.
- 2004** - Elektro wins the Abradee Award for Best Operational Management and is chosen as the best energy distributor in the country. Prisma Energy International Inc. becomes indirect shareholder of Elektro. Start of certification in accordance with standard NBR ISO 14001:2004 for energy substations Cabreúva 02, Caieiras, Bertoga 03 and Igaratá. The start-up of radio Elektro, which offer services and broadcast information on safety and the best use of electric energy.
- 2005** - Elektro climbs four levels in the corporate ratings due to the financial restructuring process, which eliminated the company's foreign exchange exposure and allowed the capitalization of debt. Once again the concessionaire is chosen as best power distribution in the country. Start of Service Management System (SGS), which integrates field teams in real time - communication between teams becomes more efficient with the adoption of the Personal Digital Assistant (PDA) facilitation the handling of occurrences. The Corporate Headquarters and Regional Offices receive the Occupational Health and Safety Management System Certificate in compliance with the standard OHSAS 18001:1999. In addition, the Institute Elektro is certificated under the standard NBR ISO 9001:2000 for "Development, implementation and management of social programs and projects".



**2006** - Elektro wins the Abradee awards for Best Financial Management and Best Operational Management. Ashmore Energy International (now AEI) acquires 100% stock of Elektro's indirect controller, Prisma Energy. Start of substation digitalization and the installation of digital reconnectors, which can be activated remotely, permitting the re-connection of power supply from the Distribution Operational Center (COD), in case of accidental interruption.

**2007** - Elektro reaches the mark of two million consumer units connected to the distribution grid. The company wins the Abradee awards in the categories: Best Power Distribution in Brazil, Best Operational Management, Best Social Responsibility and Best Customer Evaluation. The concessionaire's power distribution, including the network expansion projects, received certification of compliance with standard NBR ISO 9001:2000.

**2008** - For the fourth time, the company wins the Abradee Best Operational Management Award. Upgrading of corporate rating from brAA- to brAA by the risk classification agency Standard & Poor's. Inauguration of the new Distribution Center in Sumaré (SP). Start of the printing of bills on recycled paper and in Braille.

These are the main facts that have marked Elektro's trajectory, from its foundation to the recognition of the company as an outstanding power distribution in Brazil.

## Awards and acknowledgments in 2008

- The 2008 Abradee Award for Best Operational Management. The company was won this award four times including the last three years running.
- Ranked second by Aneel in Consumer Satisfaction (Iasc) in the category "Southeastern Region, over 400 thousand consumer units".
- The *Exame* Guide to Sustainability. The magazine *Exame* acknowledged Elektro for the fourth consecutive time as one of the 20 best companies in sustainable activities.
- Fourth place in the Abrasca Awards for Best Annual Report and honorary mention in the category "Socio-Environmental Dimension".
- Most admired companies in Brazil Guide, sponsored by the magazine *Carta Capital*. Elektro ranked 4<sup>th</sup> in energy suppliers.
- Inclusion in the list of ten best companies in the survey "The 100 best companies in the Human and Organizational Development Index - IDHO", sponsored by publisher *Gestão & RH*.
- Human Resources Talents Award by the publisher *Gestão & RH*.
- Inclusion in the list of ten Best Companies in Corporate Citizenship by the publisher *Gestão & RH*.
- The 2008 Ampro Globes Award for the Communication Plan of the Guarujá Elektro Community Energy Program (*Programa Energia Comunitária*, efficiency program for lower income clients) and the Cine Elektro Project. The award is sponsored by the Marketing Agencies Association (MAA).
- The Funcoge Award in the category "Qualification and Development of People". Elektro came in at first place with the Project, Values and Knowledge Management Systems.
- The Abracopel (Brazilian Association for Raising Awareness on the Dangers of Electricity) Journalism Award in the category "Company/ Institutional Journalism", for the program Radio Elektro.
- The Trophy Fumagalli, in the category "Social Responsibility" for the development of the project, Census of the Disabled in Limeira.



Elektro CEO, Carlos Marcio Ferreira (right), receiving the trophy for Best Operating Management at the Abradee Awards 2008

In 2008, Elektro distributed 10,845 GWh of electric energy, achieving revenues of R\$ 3.7 billion. Investment over the year amounted R\$ 249 million, boosting the quality of its distribution services even more.

# MAIN INDICATORS



## Economic-Financial Indicators

	2006	2007	2008
Gross Operating Revenue (R\$ millions)	3,626.3	3,582.7	3,719.9
Net Operating Revenue (R\$ millions)	2,276.9	2,256.0	2,512.5
EBIT (R\$ millions)	772.3	701.9	630.1
EBIT Margin <sup>1</sup> (%)	33.9	31.1	25.1
EBITDA (R\$ millions)	891.6	823.2	754.4
EBITDA Margin <sup>1</sup> (%)	39.2	36.5	30.0
Net Income (R\$ millions)	501.7	466.9	391.8
Net Income Margin <sup>1</sup> (%)	22.0	20.7	15.6
Dividends and Interest on Declared Equity (R\$ millions)	476.6	443.6	371.2
Investments <sup>2</sup> (R\$ millions)	248.4	252.8	249.0

<sup>1</sup>Margins calculated relative to Net Operating Revenue.

<sup>2</sup>Does not include investments with customer's resources.

Note: As clarified in the Chapter, Economic-Financial Development in "New market regulations", there was a restatement of the December 31 financial statement in relation to the figures published the previous year, in compliance with Law 11.638 of 2007.

## Operating Indicators

	2006	2007	2008
Average interruption duration index by consumer unit - DEC (hours)	10.17	9.36	8.52
Average interruption frequency index by consumer unit - FEC (outages)	6.74	6.41	6.02
Energy losses (%)	6.86	6.86	6.71

## Commercial Indicators

	2006	2007	2008
Purchase of electric energy (GWh)	11,124	11,545	12,283
Electric energy distributed to final customers <sup>3</sup> (GWh)	9,561	9,971	10,845
Revenue from energy supply to final customers (R\$ millions)	3,347.5	3,327.9	3,404.8
Revenue from the use of the distribution system <sup>4</sup> (R\$ millions)	287.4	300.4	252.4

## Environmental Indicators

	2006	2007	2008
Number of transformer thefts	103	225	288
Transformer oil leakages (liters)	8,498	16,062	16,770
Waste contaminated with co-processed oil (tons)	115.6	179.9	423.7
Regeneration of energized transformer oil (liters)	350,451	292,404	342,675
Lamp recycling (units)	29,434	70,106	39,942
Water consumption (m <sup>3</sup> )	45,557.0	45,518.0	42,287.0
Own consumption of electric energy (MWh)	7,137	8,217	8,773
Installation of compact lines (km installed)	41	94	50

<sup>3</sup>Volume of energy distributed to the concessionaire's captive market.

<sup>4</sup>Revenue from the use of the distribution system by free consumers within the concession area.

## Safety

Elektro	2006	2007	2008
Fatalities	1	2	0
Lost-Time Incident Frequency	1	9	7

Partner Companies	2006	2007	2008
Fatalities	1	3	1
Lost-Time Incident Frequency	11	14	12

Population	2006	2007	2008
Fatalities	12	13	3
Injuries	48	24	33

Internal Social Indicators <sup>5</sup>	2006	2007	2008
Health (R\$ millions)	9.1	8.6	9.3
Occupational health and safety (R\$ millions)	4.2	6.8	5.6
Education <sup>6</sup> (R\$ thousands)	389	344	662
Culture (R\$ thousands)	17	110	150
Professional qualification and development <sup>7</sup> (R\$ millions)	6.3	5.2	5.1
Day care or day care assistance (R\$ thousands)	286	320	319
Profit sharing (R\$ millions)	14.6	12.4	12.9
Private pension fund (R\$ millions)	4.0	3.9	3.9
Compulsory social charges (R\$ millions)	41.7	42.4	43.5
Food (R\$ millions)	11.0	12.6	13.7

External Social Indicators <sup>5</sup>	2006	2007	2008
Education (R\$ millions)	2.5	3.6	2.2
Culture (R\$ millions)	3.4	3.1	2.8
Others (R\$ millions)	2.9	5.8	4.9
Clothing donations (units)	153,735	221,244	172,507

<sup>5</sup>The indicators represent investments on each item.

<sup>6</sup>Funds invested in educational grants, scholarships and spending on education.

<sup>7</sup>Funds invested in training, courses and spending specifically directed to qualification related to activities developed employees.

Elektro's management structure is organized in a way that guarantees compliance with its strategic objectives: the rendering of quality service, gains in efficiency and the generation of wealth. Commitment to business ethics and relations with its stakeholders are part of the concessionaire's daily routine, which maintains steps of control to ensure compliance with these principles.

# CORPORATE GOVERNANCE

## Strategy based management

Elektro supports its operational management in a structure designed to ensure efficiency gains which will guarantee business sustainability and the generation of wealth for society. As a publicly-held company trading shares on the Stock Exchange, according to the definitions of the "Special Obligations of the Controlling Block Holder",

item 4.3 of the Privatization Bid, the concessionaire must comply with rigid financial management standards. Its jurisdiction decisions are integrated in the control mechanisms, compliance and the committees, which guarantee that daily business operations are conducted at the highest ethical standards.

The concessionaire's management seeks operational efficiency, customer satisfaction and the generation of wealth for society.

## Ethical commitment

Elektro maintains control structures and whistleblower channels, which guarantee compliance with ethical conduct guidelines, standardize its internal processes and ensure the observance the law, principles and values that guide its business dealings.

The **Ethics Committee** is responsible for ensuring compliance with the company's Code of Conduct. The group is made up of six representatives from different areas, which, besides its regular attributes, also analyzes ethical matters proposed to it and receives and investigates eventual allegations of non-compliance with the Code of Conduct or presupposed deviation of conduct. All the cases are duly dealt with by the members of the committee, following the principles of the Code of Conduct and observing the prerequisite confidentiality. For more information on the Code of Conduct visit Elektro website.

Elektro can also count on the **Internal Processes and Controls Evaluation Committee**, formed by the CEO, the Company Officers, the Controller and the Audit and Internal Controls Executive Manager. The Committee's objective is to ensure that the internal auditor's activities are aligned with the objectives of management through the definition of political guidelines of action and the approval of the audit plan. The Committee is also responsible for the revision of the Internal Control deficiencies identified in the Audit Reports and the analysis of the corrective measures adopted, as well as overseeing and partaking in the regularization of the audit items.



Lineman installs grid phase spacers

### Sarbanes-Oxley Act

The North American Law is a mechanism adopted to mitigate risks that impact financial statements and internal controls. Elektro has mapped out its internal controls and divided them into business processes, which are annually tested and revised. The annual tests serve to strengthen the company's control environment, as well as disseminating a working culture focused on ethics and transparency.

## Corporate management

As detailed in the Company By-Laws, available for consultation on the concessionaire's website ([www.elektro.com.br](http://www.elektro.com.br)), Elektro's strategic decisions are defined by three entities: the **Shareholder's Meeting**, the **Board of Directors** and the **Executive Officers**. The shareholders meet ordinarily within the first four months after the end of the fiscal year, in accordance with the law, and extraordinarily whenever the interests of

the company so require, in order to: approve the administrators' accounts relative to the fiscal year; evaluate, discuss and vote on the financial statements; determine the allocation of net income and the distribution of dividends; elect members of the board; establish the remuneration of the Board members and the Board of Officers.

Among other attributes, the **Board of Directors** is judicially responsible to determine the general guidelines of the company, select and dismiss Executive Officers, call the Shareholder's General Meeting and recommend the approval of the yearly budget and the accounts of the previous year. The Board of Directors is composed of at least four and at most seven effective members, with the same number of alternates, of which one effective member and one alternate are representatives of company employees. Currently one effective member and two alternates are Company Officers. The mandate for Board Members is three years, with the possibility of re-election. In 2008, the Board of Directors held seven meetings.

### Composition of the Board of Directors as at 12/31/2008<sup>1</sup>

**João Carlos Ribeiro de Albuquerque**  
Chairman

**Antonio Mario Celia Martínez-Aparício**  
Effective Member

**Carlos Marcio Ferreira**  
Effective Member

**Claudinei Donizeti Ceccato**  
Effective Member (employee representative)

**James Alton Hughes**  
Effective Member

<sup>1</sup>The professional background of the Board Members is available for consultation on the Elektro website.

The **Board of Officers** holds the direct responsibility to carry out all the necessary actions for the regular operations of the company, as well as ensuring that they are aligned with the deliberations adopted at the Shareholder Meeting, the determinations of the Board of Directors and the decisions made at its own meetings.

### Composition of the Board of Officers<sup>2</sup>

**Carlos Marcio Ferreira**  
Chief Executive Officer

**Francisco Alfredo Fernandes**  
Executive Operations Officer

**Luiz Sergio Assad**  
Executive Officer for Regulatory and Institutional Affairs

**Max Xavier Lins**  
Commercial and Energy Supply Executive Officer

**Rodrigo Ferreira Medeiros da Silva**  
Chief Financial and Investor Relations Officer

**Adriana Elias Chaves**  
Human Resources and Infrastructure Officer

**Cinthia Maria Ambrogi Alonso**  
Legal and Compliance Officer

**Márcio Henrique Fernandes**  
Information Technology, Supplies and Logistics Officer

<sup>2</sup>The professional background of the Officers is available for consultation on the Elektro website.

In order to ensure transparency, free access to data and agility in the release of relevant information, Elektro maintains a link on its website dedicated to investor relations. Annual and quarterly reports can be found there, together with relevant company matters, the director's professional background and other information of interest to the shareholders.

## Shareholder composition

On March 31, 2008, a reverse stock split process was approved at a Shareholder Meeting in the proportion of two thousand existing shares for one new one of the same type. The aim of the operation was to make adjustments to the trading of shares issued by the company under the guidance of *BM&FBovespa S.A. - Bolsa de Valores, Mercadorias e Futuros* (São Paulo Stock Exchange and Futures Market) and as a result, Article 4 of the company's By-Laws was modified and divulged to the

market with the publication of the Relevant Matter on March 4, 2008, in the newspapers *Valor Econômico* and *Diário Oficial do Estado de São Paulo*. After the reverse stock split the capital stock of Elektro comprised 193,759,265 shares, of which 91,880,972 were ordinary and 101,878,293 were preferred. The current shareholding composition has the following configuration:

Shareholders	Ordinary Shares	Preferred Shares	Share Total
EPC - Empresa Paranaense Comercializadora Ltda.	64.55%	0.00%	30.61%
ETB - Energia Total do Brasil Ltda.	28.26%	33.90%	31.22%
AEI Investimentos Energéticos Ltda.	7.16%	0.00%	3.40%
AEI Brazil Finance Ltd.	0.00%	65.51%	34.45%
Other Shareholders <sup>1</sup>	0.03%	0.59%	0.32%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Percentage of total shares	47.42%	52.58%	100.00%

<sup>1</sup>According to current legislation, energy distribution companies must be publicly held companies.



Corporate Headquarters in Campinas (SP)

Elektro draws up its strategy in an integrated manner and its objectives are known throughout the organization. The concessionaire monitors its processes and activities in order to guarantee the fulfillment of its objectives.

# STRATEGY AND OBJECTIVES



# Strategic Positioning

Elektro is committed to quality in its services through the application of continual improvements in its processes, technologies and management systems.

The activity of power distribution is characterized as a monopoly inasmuch as it performs a public service in a captive market within a concession area. As such, a regulatory agency must be appointed to ensure that the concessionaire is operating efficiently and with stability from an economic-financial standpoint together with a fair tariff.

The company's strategic positioning is in line with the restrictions imposed by the nature of the regulated power distribution sector. The company is only allowed to invest in its concession area and any investment is always analyzed by the regulator, in order to guarantee prudence in the use of company funds.

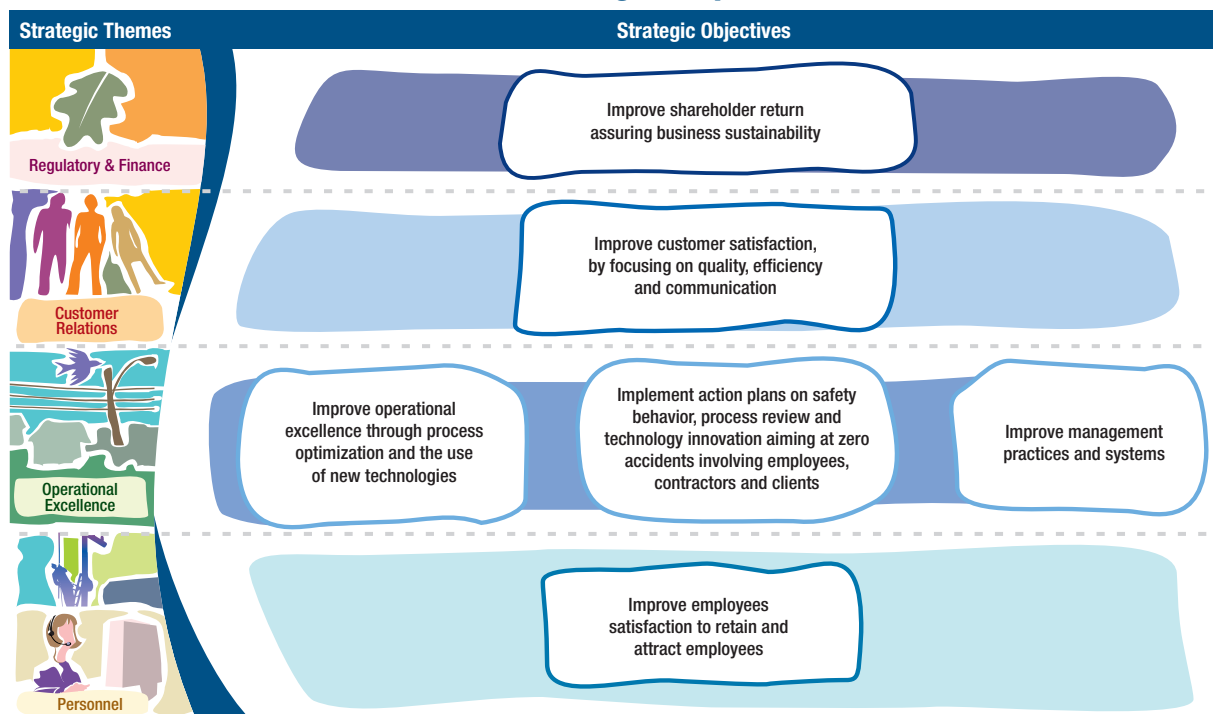
Apart from the financial aspect, the distributor strengthens its credibility with the regulatory agency and society by supplying a service focused

on operational excellence, safety, customer satisfaction and the wellbeing of the communities. As a consequence, the maximization of shareholder return is necessarily linked to the optimal allocation of resources and efficiency in costs and investments that, according to the issuer's view, can be achieved by adopting continuous improvement and technological innovation which constitute one of the pillars of the company's management policy.

**The Strategic Map guarantees alignment of employees and processes with company objectives.**

To align the organization with its strategy, Elektro has developed a map of its objectives, which unfolds into the themes of Regulatory & Finance, Customer Relations, Operational Excellence and Personnel. There is a strong cause-and-effect relationship among these themes. Each theme has its specific strategic objectives and their statuses are tracked by monitoring the performance indicators. By means of the Strategic Map, the concessionaire monitors and informs all employees on the company's performance.

## Strategic Map



## Regulatory & Finance

The theme Regulatory & Finance contains the strategic objectives related to the creation of value for the shareholder. In this theme financial performance indicators are monitored with the purpose of evaluating Elektro's efficiency evolution over the course of time.

The strategy encompasses the generation of value for the shareholder, which means the guarantee of sustainability for the company, enabling the remuneration of shareholders in a continuous and solid manner. The financial results are presented on pages 48 to 58 of this report.



Close relationship with the customer

## Customer Relations

The strategic objective of the Customer Relations theme highlights the Company Vision of being the most Admired Electric Energy Distribution Company in the country. For this reason Elektro monitors the indicators that gauge customer satisfaction by means of sector surveys on customer satisfaction from different sources. In these surveys different aspects of the business are assessed, such as the performance of customer service channels, electricity bills, and the image of the concessionaire in the community. The performance of the concessionaire regarding this theme can be found on pages 45 to 47 and 70 to 74.

Elektro's corporate structure is designed to promote the increase in operational efficiency.

## Operational Excellence

The progress of continual improvement in internal processes combined with the introduction of new technologies has proved to be an extremely efficient way to attain operational excellence, by improving safety conditions, increasing the quality of services, and reducing operating costs through increased productivity. Its objectives are related to improvements in management systems and practices. Some of the indicators seen through this theme, such as DEC, FEC and losses, have experienced significant evolution over 2008, according to the information on pages 39 to 44.

The company's commitment with the safety of everyone involved in its processes is part of the strategy of this theme. The safety indicators supply the necessary information to take preventive action to avoid accidents with employees, contractors and the general population. The results can be consulted in the chapter dedicated to safety on pages 35 to 38.

## Personnel

The objective of this theme is constituted in a way that expresses the commitment to the development of Human Capital and all other factors necessary to the success of the strategic objectives present in the other themes. The indicators for training, internal recruitment and organizational climate aim to keep track with the development and working environment of the employees. The results of the perspective can be consulted on pages 64 to 69.

### Guiding Principles

#### Mission

To distribute electric energy with safety and quality, for the development and the wellbeing of the communities served, creating growing value for customers, employees and shareholders.

#### Vision

To be the most admired power distribution in the country.

#### Values

- Safety
- Respect
- Integrity
- Communication
- Excellence



## Strategic Planning

Strategic Planning is an annual process in which analysis of content becomes a systematic process carried out by Executive Officers, monitored on a monthly basis by the organization. Strategic planning occurs after the analysis of the internal factors and the economic, political, regulatory, technological and marketing scenarios, resulting in the definition of the main initiatives and projects for the conducting of business aligned with the company's strategic vision over a period of five years. This planning unfolds into a Business Plan, a document which determines annual targets and the necessary resources for the implementation of the strategy.

The great strategic objectives and the indicators that monitor their development consolidate the Strategic Map. Follow up of the results using the available tools such as KPIs dashboards published on the intranet and officer's meetings, are part of the entire company routine. At these meetings, the objectives are discussed and proactive and corrective action is determined, should the case arise. Currently, one of the great challenges is to guarantee the availability of information, allowing prompt revisions of monitoring and speedy implementation of defined actions in order to enhance the company's performance.



**Elektro Meeting 2008:  
annual meeting with employees**

To guarantee alignment of everyday activities with the medium and long-term targets and to ensure that the company is being run in harmony with its vision for the future, Elektro has a structured Management Policy, which defines the business guidelines.

## Elektro Corporate System - SEE

In order to guarantee standards of sustainable management in all areas of the company, in 2004 Elektro adopted the Elektro Corporate System (SEE). This is a management tool which unites a series of guidelines divided into three major groups: Business, Organizational and Management Models. The Business Model of the SEE defines the major strategic planning processes and their articulation with the stakeholders.

The objective of the Organizational Model is to assure that the company's corporate structure is in line with its strategy, seeking the maximum synergy of

actions among different departments to facilitate operations. The Management Model is composed of 13 committees which are divided into three groups: Strategic, Tactical-operational and Sustainability.

In 2008, the concessionaire held the certification in accordance with the standard NBR ISO 9001:2000 for power distribution processes and integrated the remaining certificates which it holds within its scope. For further information, access Company Management Policy on the Elektro website.

### Sustainability is part of the strategy

The Sustainability Matrix can be verified in the appendix with all Elektro's projects, initiatives and programs which express the company's commitment to sustainability.

The identification and prevention of risks are fundamental aspects in the company's day-to-day activities. This strict control guarantees the continuity of services rendered, always in accordance with the highest standards of quality and safety.

# RISK MANAGEMENT

## Permanent observation of processes

Elektro acts preventively and implements in its day-to-day operations a policy of risk anticipation.

- **Crisis Management Committee:** coordinated by the company Chief Executive Officer, and composed of all the other officers, the committee meets in crisis situations to assess and create contingency plans to avoid the proliferation of incidents and avert damage to the company's image and reputation. When called on, the committee determines the formation of the team to manage the crisis/incident, establishes a plan of action to deal with the situation and proposes initiatives to avoid the recurrence of the situation.
- **Contingencies:** to deal with the unforeseen and emergency situations representing any type of risk to the continuity of essential services, the company has created a Business Continuity Plan (PCN), which covers the management of crises with a view to minimize and counter more serious consequences. On its intranet, the company publishes standardized instructions regarding PCN, with annual updates. Simulations of crisis situations were carried out during 2008. All employees involved in the plan are aware of the PCN manual, which offers guidelines on how to react and who to call in situations of risk.
- **Regulatory Radar:** As a regulated company, Elektro closely follows the changes in the electric sector regulations, and to facilitate this, the company created the Regulatory Radar, an instrument that contributes to the daily monitoring

Elektro carries out systematic verifications to prevent situations of risk and to mitigate their effects.

of regulatory movements that involve the sector. The topics captured on the Radar, by reading the *Diário Oficial* and from the analysis of documents issued by Aneel, among other sources, are evaluated by company specialists, who, depending on the case, also have the function of proposing a plan of action to attend to the new requirements. In an effort to avoid any nonconformity, the company informs the affected area and plans and details the means of implementing the new rules as soon as they come into force. In addition, the company acts preemptively with the opinion makers before the initiatives become Law.

- **Business ethics:** Elektro obeys the rigid rules established by the Foreign Corrupt Practices Act (FCPA) to inhibit corruption practices. This North American federal law which establishes anticorruption rules of conduct and accountancy transparency, prohibits any act of bribery to government authorities, guides the company controller, AEI, as well as the subsidiaries. During the course of 2008, the company developed various initiatives to disseminate the standards among employees and partners. The concessionaire also has a whistleblower channel designed to impede abuses and deviations of conduct by both employees and management. The Code of Conduct establishes standards for the conduction of business and is common knowledge to all in the company.
- **Work in the field:** in order to continuously reduce the risk of accidents, Elektro, together with the regular training, has incorporated a new program into the daily routine called

The Crisis Management Committee is coordinated by the CEO with the participation of representatives from all areas of the company.

the Behavior for Life Program, aimed at reinforcing the practice of safe behavior based on respect for life. The initiative is supported by a work group who received specific training to observe and give feedback to employees during their activities.

**- Policy on the use of Derivative Financial Instruments:** currently Elektro does not hold derivatives and, over the course of 2008, did not operate with these financial instruments. In accordance with the concessionaire's policy, the use of derivatives has the objective of protecting the company from eventual exposure to exchange rate fluctuations and changes in interest rates. The only operations considered relevant in this aspect are the exchange rate variations of the US dollar-pegged energy purchases from Itaipu. At 2008 closing, these variations had not had any impact on the company statements, inasmuch as they were considered at the annual tariff readjustment, in accordance with the CVA mechanism. Similarly, on December 31, 2008, the company also had a natural hedge in relation to inflationary indexed debt (IGP-M), also due to the tariff readjustment.

**- Service quality:** a monitoring system that operates 24/7 guarantees excellence in services. Utilizing online tracking, the concessionaire can monitor in real time, climatic factors most likely to present risks to its operations enabling immediate intervention. This is possible due to the alignment of services on the same platform, which combines the activities of the Distribution Operations Center (COD) and the Customer

Service Center (CAC). This arrangement permits that about 80% of interventions in the company's electric grid are made preventively. Some of the repairs are carried out from the COD itself, which is connected to the substations responsible for the distribution of energy. In the case of CAC, the operators receive the customer's call and transfer the request directly to the COD, where necessary action is immediately taken.

**- Safety with the population:** the company raises awareness on power line safety among the communities it serves by means of socio-cultural activities. The Elektro Cultural Circuit raises awareness among its audiences during presentations of music, theater and cinema. Radio Elektro, which has 96% coverage in its concession area and reaches 99% of its customers, broadcasts tips and information regarding the safe and efficient use of electric Energy.

**- Insurance:** the distributor has insurance cover compatible with its activities, as shown in the table below:

Risks	Amount insured (millions)
Operational risks/multi risk	R\$ 451.2
Third parties liability	US\$ 25.0
Directors and Officers liability (D&O)	US\$ 15.0

For more information regarding the concessionaire's risk exposure, please consult Explanatory Note No. 41 in the Financial Statement.

Safety concerns are an obligation for all, and must be present in people's everyday lives, whether at, or outside work.

This thinking was one of Elektro's principal slogans in 2008. Safety is the Top Priority at the concessionaire and has inspired a series of initiatives over the last year.

# SAFETY



## Respect for life

Safety is the Top Priority of the company, the evidence of which can be seen in all documentation related to the system of corporate management. To maintain a safe and healthy working environment, Elektro runs continual qualification and training activities for the workers, invests in the standardization of internal processes and incorporates new Technologies in its operations. In parallel, the company seeks to develop the behavioral aspects of the personnel, in which safety should be understood as higher value which goes beyond the company limits and begins in the employees own home. This concept has been one of the main flags of the company during 2008.

### Safety Observation Program

This program was started in 2007 and has gained force over the last year. It is a tool that stimulates the employees to identify risks in the workplace and encourages them to suggest improvements and solutions, and the program can now be considered a success. The 2008 target of 7,034 safety observations established by the Bird\* Pyramid was surpassed: between January and December, the urn that was set up to receive the observations registered about 8.8 thousand suggestions.

Due to its relationship to an absolutely strategic matter for the company, in 2008 the initiative was included as part of the indicators that define the amounts paid to employees in the profit sharing scheme. Over the next years, Elektro has established targets even more ambitious and hope to receive an even larger volume of safety observations.

Among the improvement initiatives implemented from the Safety Observations, the highlights are: containment boxes for the transport of transformers on trucks; installation of a hydraulic winch for loading and offloading materials on trucks; improvements on the access ramp at the corporate headquarters' main entrance and better roadway markings for vehicle transit.

\*Frank Bird's pyramid is the result of statistical study that shows a probable relationship between serious accidents, minor accidents, incidents and unsafe behavior. The more the base of the pyramid is worked on, (incidents and unsafe behavior), the less the probability of serious accidents.

Employees are constantly trained to evaluate situations of danger, identify risks and minimize them through preventive action.





Elektro employee uses the *motopoda* (motor pruner) to carry out preventive maintenance on the grid

#### Identification of Danger and the Evaluation of Risk (IPAR)

A tool that permits, in a structured form, the screening and classification of accident risks, thus facilitating the definition of actions required to combat them. These actions may include training, investments and the adoption of new procedures.

#### Lessons learned

In the aftermath of an accident, a multidisciplinary team analyzes the occurrence in order to understand the failings. From this, lessons can be learned which can be applied to the entire organization.

#### Attitude to Life Program

The goal of this program is to raise the employees' awareness on the importance of a change in attitude on safety topics. By means of specific training, the Attitude to Life Program encourages employees to approach their colleagues when they feel that there is some unsafe action in the safety procedure.

#### Recertification of OHSAS 18001

The recertification obtained in 2008, is evidence of Elektro's constant concern about risk prevention, the utilization of suitable equipment and the permanent qualification of its employees, and is also an acknowledgement of the maturity of the company's Occupational Health and Safety Management.

#### Investments in technology

Elektro invests in new technologies and acquires equipment to improve both safety conditions in its processes and productivity in its operations. One improvement that stands out is the *Motopoda*, which permits the pruning of vegetation, without requiring the disconnection of the electric supply. More investment details can be found on page 54 in the chapter on Economic-Financial Performance.

#### Elektro Seal

The Elektro Seal is an initiative designed to reduce risks involving suppliers and partner companies. The distributor's objective is to guarantee compliance with safety requirements from third parties, who will be rewarded for their efforts with the Elektro Seal. To implement the project, the company created a management system divided into stages, from the verification of legal aspects to the Management System audit. In 2008, Elektro concluded the audit of the first stage of all the companies associated with the PGO (General Works Plan) and the PGM (General Maintenance Plan).

Safety is the Top Priority of the company  
and is part of its daily priorities.

Company Employees	2006	2007	2008
Total work accidents (with or without absence) - including accidents with vehicles	154	148	126
Total work accidents with involving absence	1	9	7
Total work accidents not involving absence	27	18	19
Annual average of work-related accidents by employee	0.058	0.055	0.047
Accident frequency rate (LTIF)	0.38	1.87	1.45
Accident severity rate (TG)	1,194.00	2,536.21	198.17
Injury rate	0.95	0.75	0.02
Fatal accidents	1	2	0

Partner Company Employees	2006	2007	2008
Total work accidents (with or without absence) - including accidents with vehicles	74	195	249
Annual average of work accidents per employee	0.022	0.045	0.056
Accident frequency rate (LTIF)	2.05	1.90	1.83
Accident severity rate (TG)	1,160.00	2,385.23	963.57
Fatal accidents	1	3	1

Population	2006	2007	2008
Accident severity rate (TG) from electric shock within the concession network	15,921	12,117	2,746
Total accidents (including light and severe injuries)	48	24	33
Number of improvements made with the purpose of offering safer products and services	2	5	7 <sup>1</sup>

<sup>1</sup>The following improvements were made by group with an impact on safety: 1) Digitalization of reconnectors; 2) Digitalization of substations; 3) Substitution of lightning conductors; 4) Power line substitution; 5) Line removal; 6) Line adjustment; 7) Network expansion.

In 2008, Elektro obtained its best ever DEC ratings (Average interruption duration index by consumer unit) and FEC (Average interruption frequency index by consumer unit), both lower than the levels required by Aneel. The company has the best operational management in the Brazilian electric sector, according to Abradee and registers one of the lowest global loss rates in the segment.

# OPERATING PERFORMANCE

Elektro has the **best operating management** in the electric sector.

## Quality and efficiency

The company has been awarded the Best Operating Management prize by ABRADÉE for the fourth time (2004, 2006, 2007 and 2008). This reflects the rendering of efficient and quality service to customers, chiefly through the use of the Distribution Management System (SGD) in which modern equipment is interconnected to the control and execution of services, and, with regard to the electric energy sector, it is also due to the Quality Management System (SGQ), which monitors the main processes.

In 2008, the company centered its efforts on preventive maintenance, technology, engineering and the review of working processes related to field operations. Investments in the expansion of the electric system and modernization of equipment and in new logistical solutions to increase safety, efficiency and quality of the services totaled R\$ 194 million in this period, 4% higher than the previous year's investments.



Lineman in process of restoring electric energy

Investments in the distribution network	2006	2007	2008
Expansion and modernization of the electric system	178	187	194
Number of new connections	70	66	55
Total investments <sup>1</sup> (R\$ millions)	248	253	249

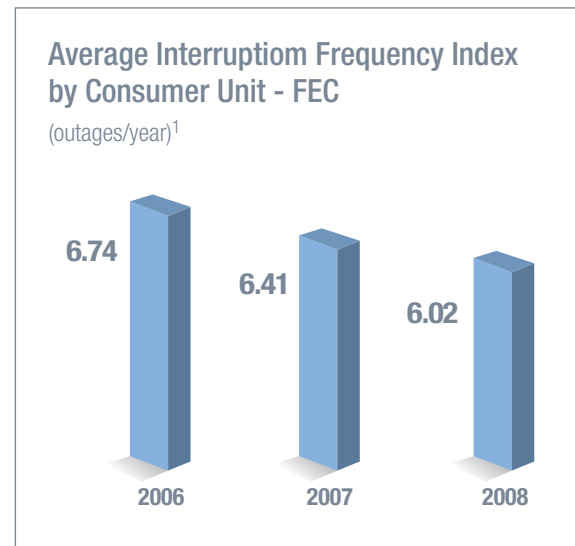
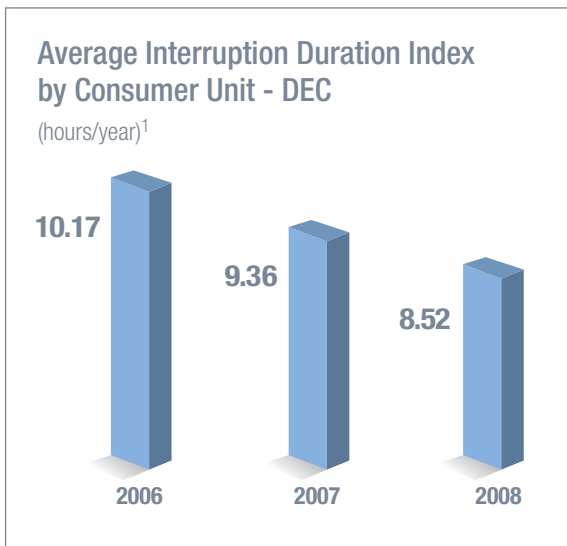
<sup>1</sup>Does not include investments with customer's own resources.

Elektro's technical indicators - Average Interruption Duration Index by consumer unit (DEC) and Average Interruption Frequency Index by consumer unit (FEC) are better than the standards required by ANEEL. In 2008, the company reported the best FEC, 6.02 outages/year and DEC in its history, less than 9 hours/year. This result was due to company employees' efforts and investments it has made in the electric system, particularly in the preventive maintenance and preservation of assets, which have guaranteed the soundness of the grid. But also to capital expenditures on

digitalization, automation and systems, which have boosted the efficiency of grid monitoring and control, thereby improving the quality of supply.

**Operating efficiency is perceived in the quality of energy supply and excellence of customer services.**

**Evolution of Indicators**



<sup>1</sup>The indicators do not take into account critical days, associated with emergency situations, as per ANEEL Resolution 024/2000. Had they been, DEC and FEC indicators for 2006 would have been 12.81 and 7.98, respectively; for 2007, 10.97 and 7.15, respectively; and for 2008, 10.44 and 6.89, respectively.

**DEC and FEC indicators are the best in Elektro's history.**



Lineman receives real time information via PDA (Personal Digital Assistant)

## Main initiatives

### Digitalization of substations

With an investment of more than R\$ 4 million, the program to replace analog controls with digital ones was implemented in 12 substations. Currently, 46 of the 119 substations are equipped with digital controls. The new technology enables a reduction in the number of times customers' power is cut off. The task is carried out from the Dispatch Center (COD), located at Elektro's headquarters, without any need to dispatch linemen to the site. The goal is to complete the digitalization of all substations by 2017.

### Reconnector automation

This technology enables the company to re-establish power in the shortest time possible, thus increasing customer satisfaction. Automated operation of this equipment makes it possible for the company to re-establish power from the COD. Currently, 234 reconnectors have been automated, and another 208 will be in operation by 2010, when every reconnector will be automated.

### New Data Center

Inaugurated in 2008, the new platform has increased the security of the company's businesses and will pave the way for possible equipment, server and service enhancements without any need for stoppages. The structure comprises state-of-the-art machinery, robust processing systems and a substation designed to generate power for its own use, when required. The studies conducted on the execution of this project took into account the company's strategy, and included the building of a data vault. This is a facility based on cutting edge technology, which is fully protected against fire and other external threats, and more commonly used by financial institutions. The former Data Center was transformed into a contingency ambient, further adding to the security of the business, as established in the PCN guidelines.

### Installation of lightning rods

As part of its prevention policy, in 2008 the company installed 9,900 lightning rods in rural areas with a view to avoiding power outages. The objective of this step was to lend greater efficiency to the services and reduce the number of disconnections due to atmospheric discharges.

**Loss recovery**

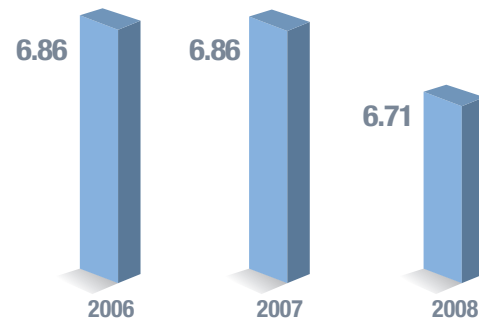
Elektro has one of the lowest energy loss rates caused by theft and irregular procedures in the power distribution sector. In 2008, the company attained a global loss rate of 6.71%, which is also the lowest recorded during the last three years. This result was achieved through the policy of investing in new sources of energy (substations and feeders) and by the systematic inspection and control of fraud in consumer units.

**New Distribution Center**

The company inaugurated its new Distribution Center (CD) in 2008. Located in Sumaré (in the central region of the state of São Paulo), this facility is built on a company-owned area measuring 30 thousand m<sup>2</sup>. Its infrastructure is equipped with latest technology and includes a quality laboratory that conducts tests on the materials used by the company; a storage area for special equipment (transformers, voltage regulators, etc.), which is fully compliant with applicable environmental laws; loading dock with platform levelers, a covered areas for transformers among others. Furthermore, the new CD has enhanced the efficiency of company logistics and improved customer services. Due to the fact that the equipment used at the CD is more modern and lighter, about 30% of the workforce at the Center is female.

**Overall System Losses<sup>1</sup>**

(%)



<sup>1</sup>The criteria for calculating losses are based on total electric energy purchased by Elektro. The loss indicator does not compute losses referring to the provisional change in metering at the transfer point of the Capão Bonito – Itapeva – Itararé 138 KV transmission line, as determined by CCEE. This loss will be eliminated when the LT Jaguariáva – Itararé II (230 KV) goes into operation, scheduled for late 2009. Had they been included, the indicator would have been 6.95% in 2008.



Internal facilities of the Elektro Distribution Center in Sumaré (SP)



**Compact Network**

Elektro has introduced the compact network technology, and is using insulated cables, which offer better protection against power interruptions or fire in the event of accidental contact with vegetation. The compact network is 70% more efficient than the conventional one. In 2008, 50 km of compact network were installed, making up a total 847 km of compact network in the entire concession area.

**New equipment**

The presence of trees close to the energy grid always poses a threat. With this in mind, the company purchased a *motopoda*, a pruning machine that can be used without disconnecting the power since the distance between operators and the power line is increased, ensuring their safety.

**Summer/Winter Plan**

Elektro is responsible for distributing electric energy to some of São Paulo State's main tourist centers, such as Campos do Jordão, in the winter, and eleven cities representing 80% of the state's coastal towns (which include Cananeia, Ilha Comprida, Iguape, Peruíbe, Itanhaém, Mongaguá, Praia Grande - a part of the municipality -, Guarujá, Bertioga, Ilhabela and Ubatuba) in summer, all within its concession area. These centers report an increase in energy consumption during the holiday season. To meet this demand, the company invested R\$ 52 million in system maintenance and improvements; in transmission line inspections; and in the replacement of lightning rods. In addition, under the Summer Plan, it assigned two mobile substations and deployed 117 operational teams to the sites, as shown on the table below.

Scenario	Employees (11 coastal towns)	Operating teams/service vehicles or technical support (11 coastal towns)	Operation Center Handlers	Call Center Attendants
Normal	38	19	15	83
Holiday season/New Year at the coastal towns	288	117	28	103

**Elektro's 1<sup>st</sup> Research and Development (R&D) Workshop**

At the workshop held in June, 2008 the company presented the results of its R&D projects completed in 2007. The projects featured themes from knowledge management to ecological cross-arms, and even fraud identification methods. The event was held with a view to disseminating knowledge and disclosing results. In 2008, the company invested R\$ 4 million in twenty research and development initiatives. The source

of these investment funds, which are managed by the concessionaire, is a portion of the tariff paid by consumers earmarked on their electricity bills for use in benefit of society. Financed by FINEP (Project and Study Financer) the company has forged partnerships with the academic community and technology institutions to aid the P&D project.



During the last fiscal year, Elektro supplied 10,845 GWh of energy to its final customers, 8.8% more than the previous year. The concessionaire registered an increase in consumption in practically all consumer classes.

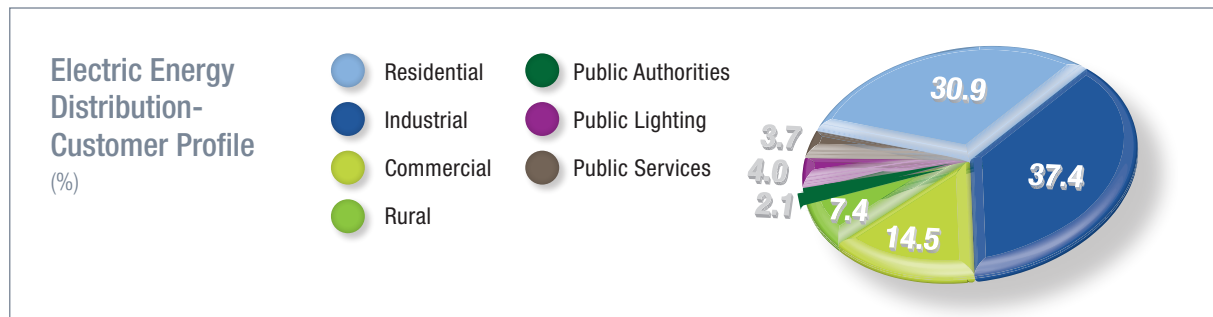
# COMMERCIAL PERFORMANCE

## The electric energy market

In 2008, energy supply to final customers grew by 8.8% over the previous year to 10,845 GWh. Increased consumption by industrial consumers was largely responsible for this rise, specifically the bustling civil construction industry during the first half of the year. Supply to residential and commercial consumers was up 5.1% and 6%, respectively, also a reflection of an economic up-turn in this same period. Consumption registered by consumers in the rural category remained unchanged due to the expansion of sugarcane plantations in place of other more energy-intensive crops. In the categories of public authorities, public lighting and public services, which account for 9.8% of Elektro's market, consumption rose by 3.4% in 2008. Individually, the expansion indicators were affected by the reclassification of the consumer categories.

Main results of the past three years broken down by consumer category:

Market Growth (%)	2006	2007	2008
Residential	3.3	4.0	5.1
Industrial	1.8	3.5	17.0
Commercial	5.5	8.1	6.0
Rural	3.8	5.1	-0.2
Public Authorities	8.5	5.0	-12.6
Public Lighting	6.1	2.4	8.7
Public Services	-9.4	-0.5	9.1
<b>Total</b>	<b>2.7</b>	<b>4.3</b>	<b>8.8</b>



## Purchase and distribution of electric energy

Elektro contracted the purchase of energy to meet the needs of its final consumers in 2008. It participated in regulated auctions and public invitations to purchase energy from generation, in order to fulfill its estimated requirements forecast for the next few years.

In the two operations conducted in 2008, the concessionaire contracted its energy requirements at the lowest available cost and guaranteed the least impact on the final consumer's tariffs. This energy is part of the supply contracted for 2009.

Purchased Energy (GWh)	2006	2007	2008
Itaipu	3,147	3,148	3,175
Bilateral agreements and purchases on the spot market	190	176	231
Auction (including federal generating plants in 2002)	88	88	88
Proinfa	44	116	192
Energy purchase and sale agreements on the regulated market	7,655	8,017	8,597
<b>Total purchased energy</b>	<b>11,124</b>	<b>11,545</b>	<b>12,283</b>

Electric Energy Distributed to Final Customers (GWh)	2006	2007	2008
Residential	3,060	3,184	3,347
Industrial	3,348	3,464	4,052
Commercial	1,379	1,490	1,580
Rural	770	809	807
Public Authorities	250	262	230
Public Lighting	386	395	429
Public Services	368	367	400
<b>Total energy distributed<sup>1</sup></b>	<b>9,561</b>	<b>9,971</b>	<b>10,845</b>

<sup>1</sup>The difference between purchased energy and supplied energy is mainly due to basic grid energy losses and technical and commercial losses within Elektro's concession area, considering also free and captive customers.

Elektro has stood out by maintaining its efficiency and profitability indexes among the best in power distribution sector. In 2008, operating cash flow generation measured by EBTIDA was R\$ 754.4 million, with net income standing at R\$ 391.8 million. Due to its low level of financial leverage, the concessionaire is guaranteed a comfortable situation of liquidity. In addition, investments in modernization have ensured reliability and quality in its services.

## ECONOMIC AND FINANCIAL PERFORMANCE

## Economic Environment

Brazil's economy experienced two very different situations during 2008. In the first eight months, the scenario showed strong economic growth signs with an expansion in demand; upward inflationary pressure due to rising food and commodity prices; increase in the basic interest rate (SELIC), following several months of stability; appreciation of the Real against the dollar; Brazil was given an investment grading by two rating agencies and the São Paulo Stock Exchange (Bovespa) index (Ibovespa) reached a peak 73,500 points on May 20, 2008.

After September 2008, the crisis that assailed the United States, triggered by the subprime mortgage crisis, worsened and the Brazilian economy was adversely affected by the tension on the world financial markets. During the third and fourth quarters, low liquidity levels on the market due to undermined confidence in the institutions, the credit crunch, falling commodity prices worldwide, economic contraction, declining inflation rates and the free-fall of Ibovespa to 29,400 points (on October 27, 2008), caused a strong impact on the Brazilian economy. Brazil's currency, the real, was also hurt by the scarcity of foreign funds (financial and commercial) and credit lines. In 2008, the real registered a devaluation of almost 32% over the dollar.

As a result of the strong accumulated rise in commodity prices in 2008, the inflation rate, measured by the General Market Price Index (IGP-M), closed the year at 9.81%, up 2.06 percentage points in relation to 2007. The Consumer Price Index (IPCA) also closed the year at a higher level than in 2007: 5.9% as compared to 4.46% in 2007. In April 2008, after maintaining the rate unchanged for seven months, the Monetary Policy Committee (Copom) started to gradually raise the basic interest rate (Selic), which by September had climbed to 13.75% per year. In January 2009, in response to worldwide financial instability and to the lifting of the pressure of inflation, Copom reduced the Selic rate by one percentage point to 12.75% per year. Conversely, the long-term interest rate (TJLP) has remained unchanged since July 2007 at 6.25% per year, the lowest since it was created back in 1984.

**Gross operating revenue  
in 2008 was R\$ 3.7 billion,  
3.8% higher than the previous year.**

According to the Brazilian Geography and Statistics Institute (IBGE), domestic industrial output decreased by 14.5% at the end of 2008, as compared to the previous year. The accumulated twelve-monthly trade balance in 2008 was down 38.2% in relation to 2007 (US\$ 24.7 billion as compared to US\$ 40 billion). Exports and imports, which continue to register record highs, grew 23.3% (to US\$ 197.9 billion) and 43.6% (to US\$ 173.2 billion), respectively.

Indexes	2007	2008
Foreign Exchange Rate R\$/US\$ <sup>1</sup>	1.7713	2.3370
Foreign exchange devaluation/ appreciation (%)	17.15	-31.94
Basic interest rate (SELIC) (%)	11.88	12.48
Interbank Certificate of Deposit (CDI) (%)	11.82	12.33
Long-Term Interest Rate (TJLP) (%)	6.37	6.25
General Price Index (IGP-M) (%)	7.75	9.81
General Price Index - Internal Availability (IGP-DI) (%)	7.89	9.10
Consumer Price Index (IPCA) (%)	4.46	5.90

<sup>1</sup>As of December 31.

### New market regulations

Law 11638, dated December 28, 2007, amended, revoked and introduced new provisions to Corporate Law, especially in the section that provides for the fiscal year and financial statements, having included new criteria for recognizing and assessing assets and liabilities, and for disclosing and preparing financial statements. In force since January 1, 2008, the new regulations were designed to bring Brazilian accounting practices into line with International Financial Reporting Standards (IFRS).

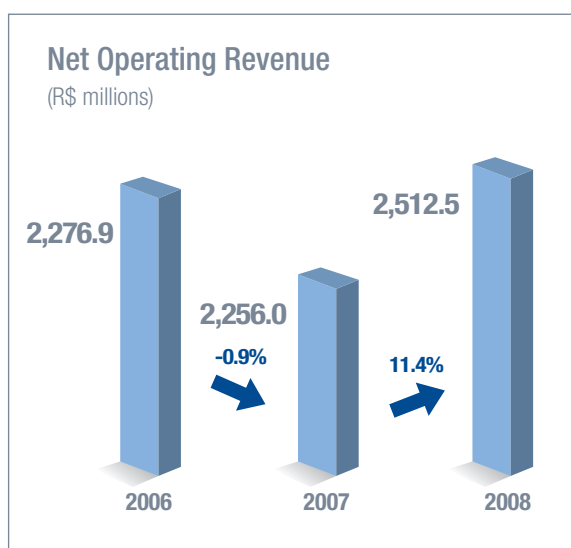
As a result, the reported 2007 results were restated based on the changes in Corporate Law so that they could be compared with those of 2008. A detailed explanation of this reclassification may be found in Explanatory Note 2 of the Financial Statements attached to the Management Report.

## Main results

In 2008, Elektro reported R\$ 3.7 billion in gross operating revenue, up 3.8% over 2007. Of the total revenue, 98.3% was derived from energy sales to final customers and use of its distribution system. Net operating revenue totaled R\$ 2.5 billion, representing an 11.4% increase in relation to the twelve-monthly figure for 2007. This was mainly due to an increase in consumption in Elektro's concession area and to a 10.91% adjustment in the September to December 2008 tariffs. This was partially offset by the negative effects of the tariff review in August 2007, which reduced the tariffs by an average of 18.59% over the period between January and August 2008.

The cost of energy purchased for resale rose by 24.1% in relation to the previous year, due to an increase in the volume of purchased energy made by the company to meet rising sales; contractual adjustments; higher volumes purchased from thermal plants through regulated auctions; and spot market purchases.

Operating expenditures (the sum of operating expenses and cost of operation) were reported at R\$ 553.8 million as compared to R\$ 483.3 million in 2007. This was due to a reverse entry of the provision of ICMS, due on demand in the amount of R\$ 37.9 million in 2007, as well as to a change in bookkeeping entries of PIS/COFINS due on fixed assets in 2008.



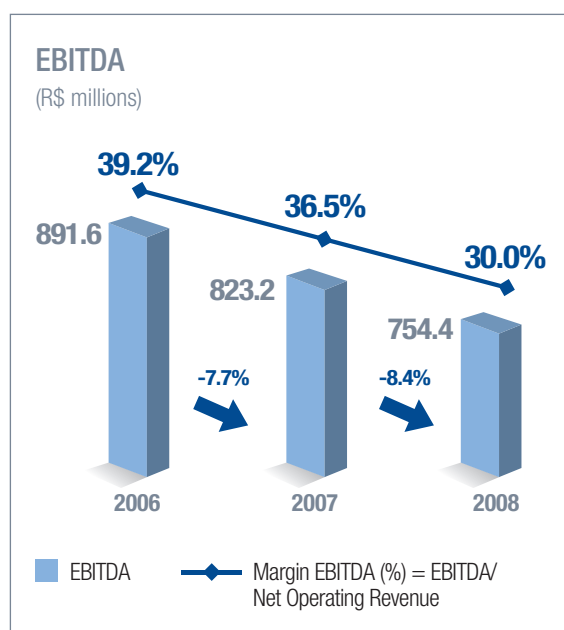
Elektro closed the year with an operational cash flow, as measured by EBITDA, of R\$ 754.4 million, 8.4% less than in 2007. EBIT was R\$ 630.1 million, down 10.2% in relation to the previous year's figure.

The negative financial result in 2008 (financial revenues minus financial expenses) was R\$ 140.2 million, but 4.9% less than the year before. This reduction was mainly due to lower interest-related expenses, due to the early redemption of the debentures in 2007, and to the extinction of CPMF charges (Provisional Charge on Financial Transactions).

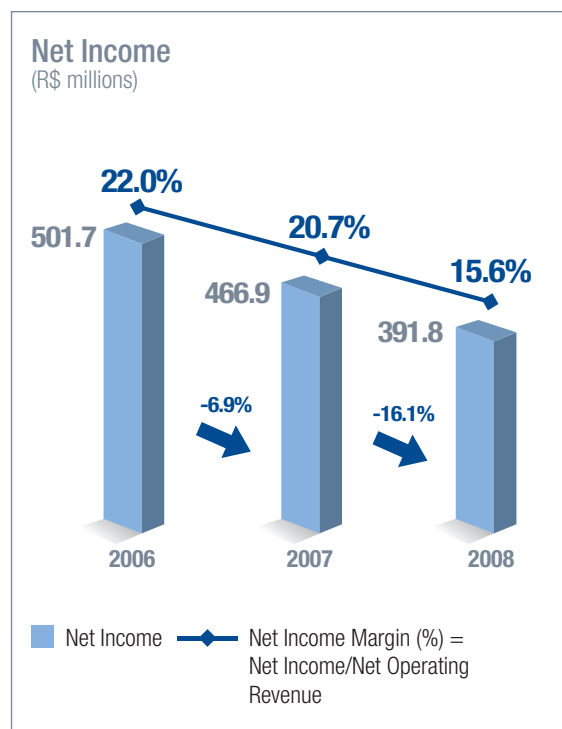
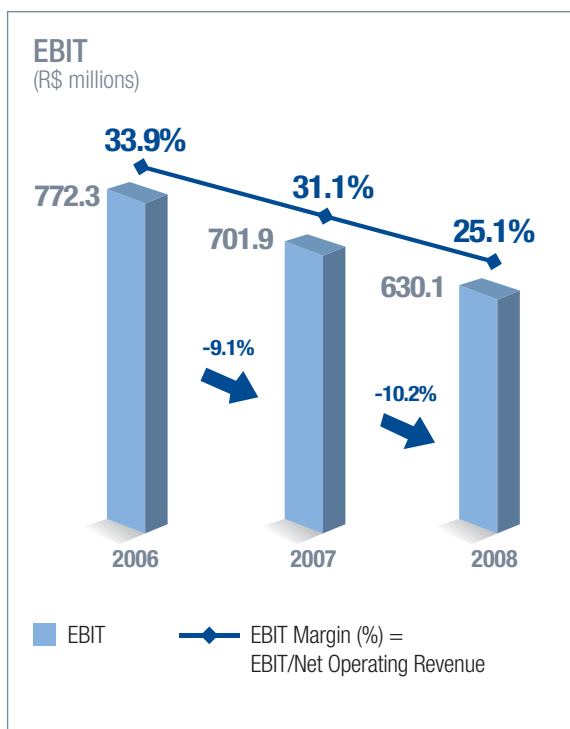
At the end of the year, Elektro registered net income of R\$ 391.8 million, as compared to R\$ 466.9 million the previous year. The company results were based on the Price Cap<sup>1</sup> method, which was also used for the August 2007 tariff review (with the effects described in the 2007 Annual Report, available on its website).

<sup>1</sup> An economic regulatory regime which, in this case, defines the tariffs to be charged by the company.

The following charts show Elektro's operating performance in the past three years.



The company's results are mostly due to the effects of the August 2007 tariff review affecting the year 2008.



**Main Results**

Amounts in R\$ millions

	2008	2007	Variation	
			R\$ millions	%
Energy supply to final customers	3,404.8	3,327.9	76.9	2.3%
Tariff revision	-	(93.4)	(93.4)	N/A
Revenue from the use of the distribution system	252.4	300.4	(48.0)	-16.0%
Other revenues	62.6	47.8	14.8	31.0%
<b>Operating revenue</b>	<b>3,719.9</b>	<b>3,582.7</b>	<b>137.2</b>	<b>3.8%</b>
Operating revenue deductions	(1,207.4)	(1,326.7)	(119.3)	-9.0%
<b>Net operating revenue</b>	<b>2,512.5</b>	<b>2,256.0</b>	<b>256.5</b>	<b>11.4%</b>
Energy purchased for resale <sup>1</sup>	(1,328.6)	(1,070.8)	257.8	24.1%
Operating expenses	(553.8)	(483.3)	70.5	14.6%
<b>EBIT</b>	<b>630.1</b>	<b>701.9</b>	<b>(71.8)</b>	<b>-10.2%</b>
<b>EBITDA<sup>2</sup></b>	<b>754.4</b>	<b>823.2</b>	<b>(68.8)</b>	<b>-8.4%</b>
<b>Financial results</b>	<b>(140.2)</b>	<b>(147.5)</b>	<b>(7.3)</b>	<b>-4.9%</b>
<b>Net income</b>	<b>391.8</b>	<b>466.9</b>	<b>(75.1)</b>	<b>-16.1%</b>

<sup>1</sup> Net of PIS/COFINS credit.

<sup>2</sup> EBIT + Goodwill Amortization + Depreciation and Other Amortizations.

Note: As explained under the title "New market regulations" and in Explanatory Note 2, some accounts in the financial statements ended at December 31, 2007 have been restated from the positions they were published in the previous year.



## Elektro's tariffs were adjusted by an average 10.91%.

### 2007 Tariff review

The 2007 tariff review, as stipulated in Confirmatory Resolution No. 535, dated August 21, 2007, is currently on a provisional footing with regard to operating costs, albeit the definitive tariff review should be published together with the 2008 tariff review. During this period, the tariff component allocated for the management of payment delinquency was raised from 0.5% to 0.6% of gross billing. Other items such as the operating costs calculation model, unavailable at Elektro's readjustment date on August 27, 2008, continue to be provisional under the terms of Confirmatory Resolution No. 700 of August 26, 2008.

On September 10, 2007, Elektro filed an administrative appeal with Aneel, regarding the Regulatory Remuneration Base used in the August 2007 tariff review. In the tariff readjustment of August 2008, Aneel included some assets in the Remuneration Base and revised the calculation of additional costs and financial components, according to Elektro's appeal, resulting in the inclusion of a R\$ 15.5 million financial component in Elektro's tariff, which will be amortized by August 2009.

On November 25, 2008, with a view to define the tariffs, Aneel published Normative Resolution No. 338, which ruled on the methodology to be applied on certain items which were provisionally determined during the second cycle of distributor tariff reviews. Among the alterations introduced, the most significant referred to efficient operating costs,

"model company", Factor X, regional price databank, the values of which served to price the assets of the RAB (Regulatory Asset Base), the activities of the "model company" and the methodology for non-technical loss verification.

The readjustment of Elektro's second tariff review, resulting from this ruling, will be implemented at the August 2009 tariff review, with the exception of the price databank, which will be applied at the third tariff review cycle in 2011.

### Tariff Adjustment

On August 28, 2008, Aneel approved Confirmatory Resolution No. 701, granting Elektro an average final-consumer readjustment of 10.91%. This increase is composed of 5.76% which refers to the annual tariff review as provided for in the concession contract, and 5.15% financial compensation relative to CVA (tracking account for the variation in distributor non-manageable costs, among the annual tariff readjustments) low-income residential tariff subsidies and other subsidized tariffs, difference in the 2007 tariff review (see above), among others.

Factor X, which is deducted from inflation for tariff readjustment purposes and aimed at sharing the concessionaire's productivity gains with the consumers, worked out at 4.36%.

### Special Tariff Recovery - Presidente Prudente Region

In February 2008, the preliminary injunction granted by the Federal Court was revoked. This injunction impeded the billing in 26 municipalities within Elektro's concession area in the Presidente Prudente region (the West of São Paulo State) of the RTE - Special Tariff Recovery, the objective of which was to recover company distribution losses during the Electricity Rationing Program.

Aneel decided to charge the additional tariff provided for in Law No. 10,438/02 in those 26 municipalities for 52 months, equivalent to the residual period originally prescribed for the charge during which the injunction was in effect. The charge will take effect as from the August 2008 tariff readjustment.

## Cash Flow

In 2008, cash flow was R\$ 47.7 million, up R\$ 374.0 million in comparison to a net cash consumption of R\$ 326.3 million registered in 2007. This difference was mainly due to:

- A reduction of R\$ 359.8 million in amortization of the loan principal and interest due to early redemption of debentures in 2007;
- A reduction of R\$ 495.4 million in payments of dividends and interest on equity, due to the accumulation of dividends in 2007, the first year in which the company paid out interim dividends, and to the effects of the 2007 tariff review on 2008 dividends;
- The above mentioned effects were partially offset by a R\$ 452.5 million reduction in operating cash flow after income tax, social insurance contribution and interest payments, specifically due to the effects of the August 2007 tariff review, which reduced tariffs by an average 18.59%, and greater outlays related to Parcel A tariff items (nonmanageable items) that suffered increases, in particular the energy purchased from Itaipu, given that these purchases are pegged to the US dollar. These amounts are entered to regulatory assets (CVA), which will be amortized in twelve months as from the 2009 tariff adjustment. More details in Explanatory Note No. 12 of the financial statements.

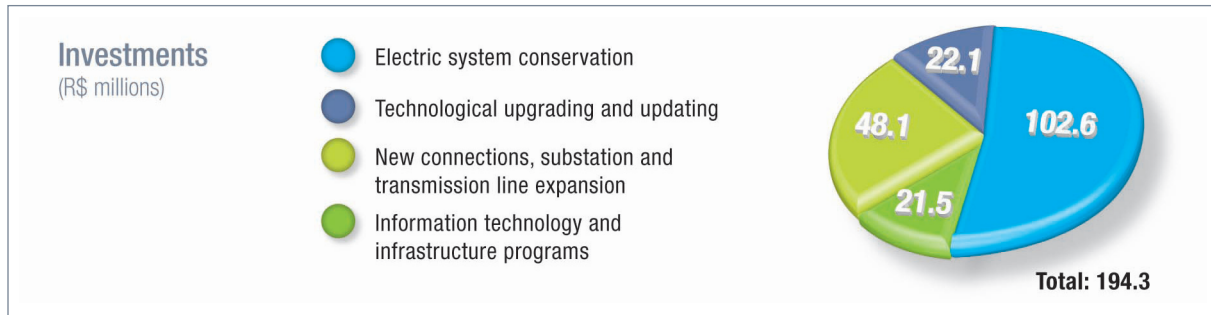
Cash Flow	Amounts in R\$ millions		Variation R\$ millions
	2008	2007	
<b>Net income for the period</b>	<b>391.8</b>	<b>466.9</b>	<b>(75.1)</b>
Depreciation and other amortizations	124.3	121.2	3.1
Amortization and deferred taxes	63.6	45.9	17.8
Interest and monetary adjustments	137.7	159.9	(22.2)
Others	40.4	(23.9)	64.3
<b>Expenses not affecting cash flow</b>	<b>366.1</b>	<b>303.1</b>	<b>63.0</b>
<b>Adjusted net income</b>	<b>757.9</b>	<b>770.0</b>	<b>(12.1)</b>
Variation of operating working capital	(143.7)	296.7	(440.4)
<b>Operational generation of cash after Income Tax, Social Security and interest payable</b>	<b>614.2</b>	<b>1,066.7</b>	<b>(452.5)</b>
Acquisitions and property, plant and equipment	(267.9)	(264.9)	3.0
Others	(7.6)	15.8	(23.4)
<b>Investment activities</b>	<b>(275.5)</b>	<b>(249.1)</b>	<b>26.4</b>
Amortization of principal and interest	(139.7)	(501.5)	361.8
New funding and commercial leasing	128.7	133.1	(4.3)
<b>Financing activities before dividend payment</b>	<b>(10.9)</b>	<b>(368.4)</b>	<b>357.4</b>
Dividends and interest on equity payment	(280.1)	(775.5)	495.4
<b>Financing activities after dividend payment</b>	<b>(291.0)</b>	<b>(1,143.9)</b>	<b>852.8</b>
<b>Net cash generation/(Consumption)</b>	<b>47.7</b>	<b>(326.3)</b>	<b>374.0</b>
Initial balance for the period	157.3	483.6	(326.3)
<b>Cash flow balance for the period</b>	<b>205.0</b>	<b>157.3</b>	<b>47.7</b>

Note: As explained under the title "New market regulations" and in Explanatory Note 2, some accounts in the financial statements ended at December 31, 2007 have been restated from the positions they were published in the previous year.

## Investments

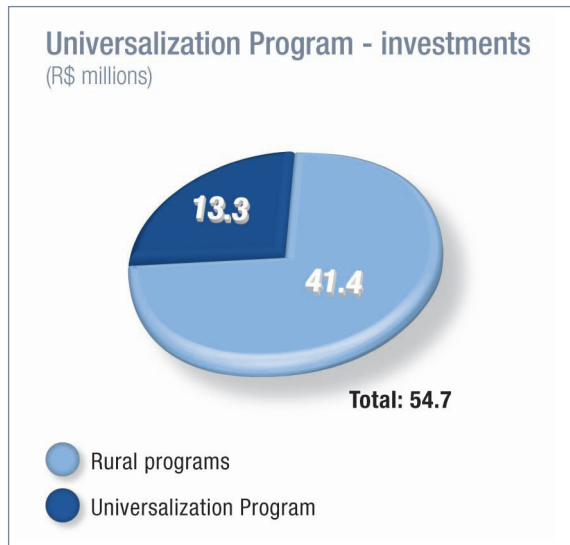
Investments in 2008 remained at the same historical level registered by the company, and were allocated to the planning of the company's grid maintenance and modernization, with a view to enhancing operating efficiency and the quality of customer services.

Overall capital expenditures amounted to R\$ 267.9 million in the period, R\$ 18.9 million of which used customer's own funds. Investments in the expansion, improvement and conservation of the electric system and operational support totaled R\$ 194.3 million, the breakdown of which is shown in the chart:

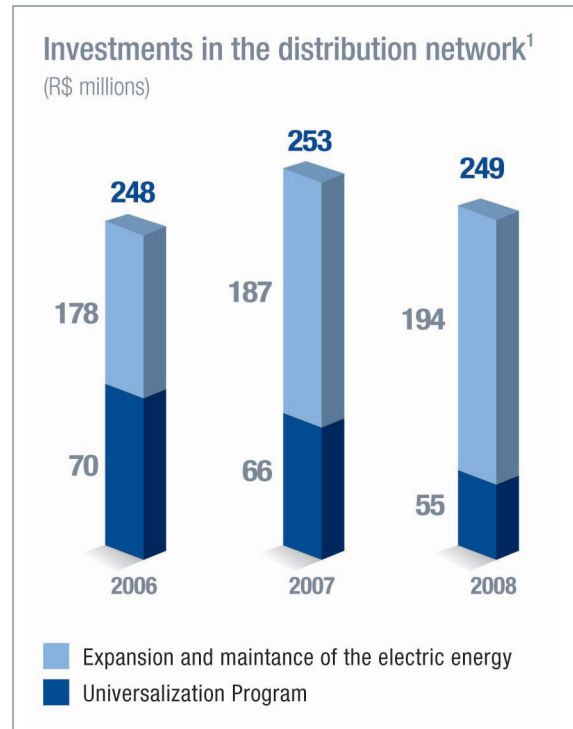


In compliance with Law 10438, of April 2002, the company invested R\$ 54.7 million in the Universalization Program, segmented as follows:

especially under the *Luz para Todos* Program (R\$ 11 million). However, investments in the expansion, improvement and conservation of the electric system increased (R\$ 7 million, mainly due to programmed maintenance and the expansion of work on the substations, transmission lines and new feeders).



Under the rural program, investments are made in the electrification of rural areas. This has brought energy to 7,590 new customers, via Federal Government's *Luz para Todos* Program. Under the Universalization Program, new connections were made and loads increased without any charge to customers with capacity less 50 KVA. In 2008, expenditures on universalization were less than those made the year before, due to the smaller number of customer connections,



¹ Excluding investments using customer's own funds.

# Capital Structure

Elektro closed the year with a net debt of R\$ 668 million, as a result of total debt of R\$ 879.7 million less cash balance, financial investments and pledged funds of R\$ 211.7 million. Long-term debt represents 69%

of total debt, representing an adequate debt profile. Because it is entirely denominated in Brazilian currency, Elektro's debt is not subject to foreign exchange rate fluctuations.

	12/31/2008			
	Short Term	Long Term	Total	
			R\$ millions	%
<b>Third Party Loans</b>	<b>269.1</b>	<b>610.6</b>	<b>879.7</b>	<b>100.0%</b>
Debentures	203.8	368.6	572.4	65.1%
BNDES Finem/Finame	60.7	170.9	231.6	26.3%
Eletrobrás	4.6	61.9	66.5	7.6%
Finep	-	9.2	9.2	1.0%
<b>Total Debt</b>	<b>269.1</b>	<b>610.6</b>	<b>879.7</b>	<b>100.0%</b>
Debt Profile	31%	69%	100%	
<b>Cash, Financial Investments and Pledge of Funds<sup>1</sup></b>			(211.7)	
<b>Net Debt</b>			<b>668.0</b>	

<sup>1</sup>Excluding funds pledged for energy purchase contracts.

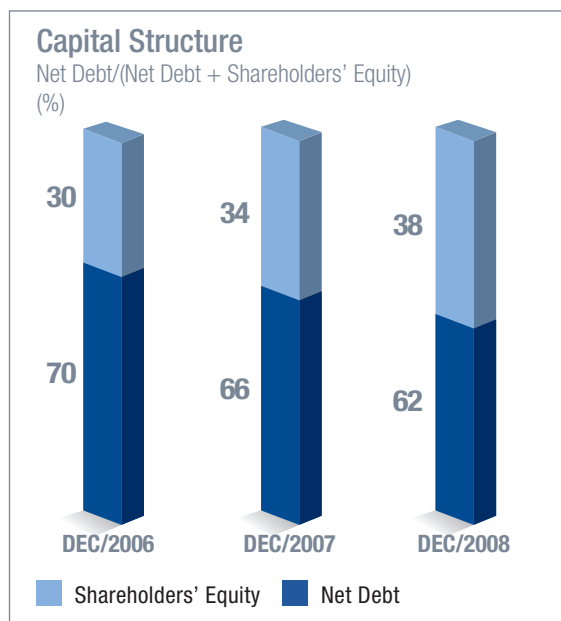
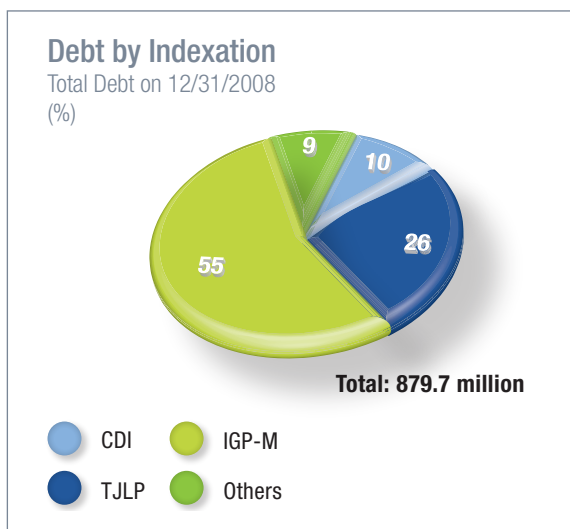
In 2008, the company raised a total R\$ 70.7 million in funds, as shown on the chart below:



<sup>2</sup>Funding for the rural electrification program *Luz para Todos*.

In order to fund its new investment programs, the company has raised a total of R\$ 58.5 million through new lines of credit with BNDES (R\$ 49.3 million) and with Eletrobrás (R\$ 9.2 million). At year's end, Elektro reported a 38% degree of leverage<sup>3</sup>, a level that has remained stable over the past few years and guarantees its comfortable liquidity situation.

<sup>3</sup>Net Debt/(Net Debt plus Shareholders' Equity) or Debt to Capital Ratio.



## Dividends and Interest on Equity

Elektro has been paying out dividends regularly since 2006. According to the Brazilian Corporate Law, publicly-held companies must pay at least 25% and at most 95% of net income by way of dividends to its shareholders. Due to its financial soundness, the company always pays the maximum amount. Payment terms and dates of dividend payments are conditioned to cash availability and approval at the Shareholder's Meeting. With regard to interim payments, at a meeting held on August 12, 2008, the Board of Directors approved a payment in the amount of R\$ 135.4 million in two installments: R\$ 115.3 million on August 26, 2008 and R\$ 20.1 million on October 22, 2008.

On November 11, 2008, the Board of Directors approved payment of interest on equity in the amount of R\$ 67.7 million related to 2008, which was paid on January 28, 2009. Elektro's management also proposed a dividend distribution of R\$ 168.1 million related to 2008 (deducted payment of interim dividends and interest on equity), submitted for approval by the Ordinary General Meeting held on April 2, 2009.

## Risk Classification

On March 20, 2008, the risk rating agency, Standard & Poor's, upgraded the corporate rating of Elektro from brAA- to brAA. In May 2009, the company obtained another rating upgrade to brAA+, the best in the national electric sector.

## Pension Plan

Elektro has a supplementary pension plan for its employees through the CESP Foundation (FUNCESP), a combination of a defined benefit plan (70%) and defined contribution plan (30%). Under this plan, the company matches the contribution paid by the employee in relation to the defined benefit and up to 2.5% of the defined contribution. Pension plan funds are managed by FUNCESP, and approved by the Management Committee, which has representatives both from the company and from the employees.

Another option offered to those occupying management positions only, is the supplementary Retirement Plan managed by Unibanco AIG. It is an open and a 100% defined contribution plan. The employee stipulates what percentage of his or her salary he or she will be contributing, which may vary from 1% to 6%, and Elektro matches the contribution.

Supplementary Pension Plan	2006	2007	2008
Investments (R\$ millions)	4.0	3.9	3.9
Employees benefited	2,116	2,208	2,274

## Financial contribution to sustainability

Wealth Generation (R\$ millions)	2006	2007	2008
Operating revenue (gross revenue from energy supply and provision of services)	3,626.4	3,582.8	3,719.9
Energy supply	3,347.3	3,327.9	3,404.8
Residential	1,205.7	1,248.0	1,289.0
Residential (low-income)	140.2	123.5	105.8
Industrial	968.6	912.7	1,076.5
Commercial	557.9	575.7	555.9
Rural	174.3	175.1	158.1
Public Authorities	100.2	104.7	77.3
Public Lighting	94.7	92.3	88.1
Public Services	105.9	95.9	110.3
Short-term energy	28.7	13.5	12.8
Services	250.3	241.4	302.2
(-) INPUTS (Supplies from third parties: purchased energy, materials, contractors' services, etc.)	(1,356.7)	(1,400.4) <sup>1</sup>	(1,718.6)
Non-operating income	(14.6)	(12.3)	(18.5)
(=) Gross added value	2,255.1	2,170.0	1,982.8
(-) Reintegration quotas (depreciation, amortization)	(119.2)	(119.4)	(123.2)
(=) Net added value	2,135.9	2,050.7	1,859.6
(+) Transferred added value (financial revenue resulting from equity adjustment)	194.6	129.7	102.3
(=) Added value to be distributed	2,330.5	2,180.3	1,961.9

<sup>1</sup>Supplier agreements turned over approximately R\$ 203.2 million in service agreements and R\$ 156 million in purchases of supplies.

### Wealth Distribution

Stakeholders	2006		2007		2008	
	R\$ millions	(%)	R\$ millions	(%)	R\$ millions	(%)
Employees	163.7	7	172.7	8	176.9	9
Government (taxes, levies, contributions and sector charges)	1,462.1	63	1,352.3	62	1,221.0	62
Funding agencies	203.0	9	189.6	9	171.9	9
Shareholders	501.7	21	466.9	21	391.8	20
(=) Added value distributed	2,330.5	100	2,181.5	100	1,961.6	100



Lineman installs grid phase spacers

A constant concern for Elektro is the management of its impacts on the environment. In 2008, the company invested R\$ 26.2 million in environmental initiatives which included the installation of compact power lines, energy efficiency projects, waste disposal and vegetation management, among others.

# ENVIRONMENTAL PERFORMANCE



## Concern to nature

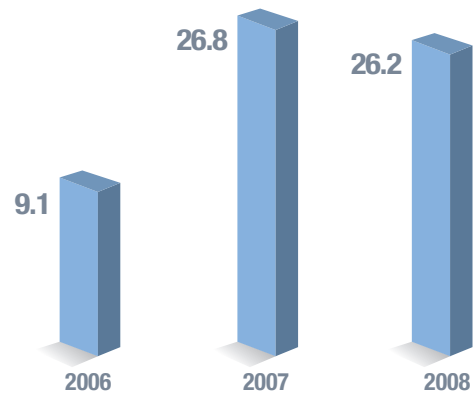
Elektro takes special care when it comes to the environment and follows environmental legislation, interfering minimally with the local ecosystem. With R\$ 26.2 million invested in 2008, the company has taken the following actions: installation of the compact grid with insulated and pre-splices cables, energy efficient projects, regeneration of energized transformer oil, co-processing of waste, decontamination of lamps, tree planting, vegetation control, tree pruning, research and development (R&D) on the environment and projects to heighten environmental awareness, such as *Meninas Ecológicas* (Ecological Boys) and *Jovens ECOscientes* (Conscientious Youth).

Although the distribution of energy is not an activity with great environmental impact, the company is active on various fronts to avoid irregularities, and its activities in this area are certified under the ISO 14001 in four substations. The company also works with the Environmental management system (SGA), an internal management tool which establishes guidelines and organizes its activities in the area. Coherent in its posture, the concessionaire makes no interventions in the environment without authorization from the authorities or the conservation unit management. The main projects and processes conducted during 2008 are described below.

The concessionaire's renewal policy of the vehicle fleet contributed to the reduction of CO<sub>2</sub> by 9%.

### Investments in protection and environmental management

(R\$ millions)



Renewal of the vehicle fleet

In 2008, R\$ 26.2 million was invested in protection projects and environmental management.

## Ecological cross-arms

Ecological cross-arms developed through the Research and Development program (R&D) in partnership with institutes of technology and academic sectors, are manufactured from reforested wood, polymers and other recyclable materials. In its pursuit of sustainability, the company believes that the use of wood should be restricted and controlled.

## Carbon neutralization

Another R&D project is the result of a partnership with the Rio de Janeiro State University (Uerj) and the Institute of Nuclear Power Research (Ipen). In 2008, the teaching institute began studies on the emission of greenhouse gases for Elektro. From this framework, the company will outline its own plan for the neutralization of carbon.

## Waste destination

One of the materials that could provoke an environmental impact is transformer oil, from the risk of leakages and soil contamination. Although the equipment is safe, accidents occur when transformers are stolen for their copper and the oil is drained into the environment. The concessionaire takes responsibility for the treatment of the residue generated, transporting it for co-processing. The differential in this treatment is in the re-utilization of the residue as a potential energy source or a raw material substitute in the cement industry, thus eliminating the generating of environmental liabilities.

Other waste materials resulting from company activities are lamps, scrap metal, wooden posts and cross-arms, as well as gases that cause the



Ecological cross-arms produced with wood from reforestation

greenhouse effect, emission of CFC gases from substations, company office air conditioning and CO<sub>2</sub> emissions from cars. To reduce the last item, Elektro is counting on its policy of fleet renewal in order to maintain vehicles that pollute less and also by encouraging the use of ethanol fuel. With this measure, in 2008, CO<sub>2</sub> emissions were reduced by approximately 9%.

The company edited the Waste Guide, a publication which describes the treatment procedures carried out by the company. The guide is distributed to partner companies and institutions and is available on the company's website.

Waste treatment and destination		2006	2007	2008
Waste contaminated with oil (tons)	Used as fuel in industrial kilns (soil, rags and cotton waste, contaminated with oil or grease - from leakages resulting from equipment theft or maintenance, as well as oily sediment)	115.6	179.9	423.7
Isolating oil (in liters)	Retrieved and separated for transfer to specialized recovery companies	350,451	269,404	342,675
Scrap metal (in tons)	Recycled	664,291	881,678	1,023,468
Lamps (in tons)	Passes through a decontamination process, with the separation of glass, aluminum, and mercury. Each material is sent separately for recycling	29.4 thousand	70.1 thousand	30.9 thousand
Batteries (in tons)	Lead and plastic is sent for recycling. The acid solution is neutralized and reutilized	NA	10.4	6.5



## Meninos Ecológicos Project (Ecological boys)

The project is developed in the São Paulo State municipalities of Campos do Jordão, Votuporanga and Araras. The plan's proposition, created in 1998, is to contribute to the education of youths, who receive professional training as nurserymen and to promote the cultivation of seedlings which are donated to the municipalities

within the concession area to recover degraded areas. One of the main objectives of the project is to stimulate the development of plant nurseries, making them self-sustainable. Since its inception, the project has produced 2.5 million seedlings and has been attended by about 500 boys.

Environmental indicators <sup>1</sup>	2006	2007	2008
Energy consumption (in MWh)	7,137	8,217	8,773
Total water consumption (in m <sup>3</sup> )	45.5 thousand	45.5 thousand	42.3 thousand
Public water supply (in m <sup>3</sup> )	41.0 thousand	41.4 thousand	39.5 thousand
Subterranean sources (wells) (in m <sup>3</sup> )	4.5 thousand	4.1 thousand	2.8 thousand
Fuel consumption (own fleet)			
- gasoline and diesel (liters)	1,628,867	2,123,826	1,969,850
- ethanol (liters)	NA	392,290	687,717
Total greenhouse gas emissions (in tons of CO <sub>2</sub> )	4,350	5,509	5,168
Volume of ozone layer destroying gas emissions <sup>2</sup> (in kg of CFC)	78	65	195
Total number and volume of significant leakages <sup>3</sup> (in liters)	120 leakages/ 8.5 thousand	233 leakages/ 16 thousand	304 leakages/ 16.7 thousand

<sup>1</sup> These indicators refer to Elektro operations.

<sup>2</sup> Refers to the gas freon 22, used in refrigeration systems.

<sup>3</sup> Oil spills resulting from equipment theft.

Elektro invests in its relationships with all its stakeholders, focusing on valuing its personnel and the professional growth of its employees and the communities in which it operates. Throughout 2008, Elektro developed important initiatives in this area.

# RELATIONS WITH STRATEGIC STAKEHOLDERS

## EMPLOYEES

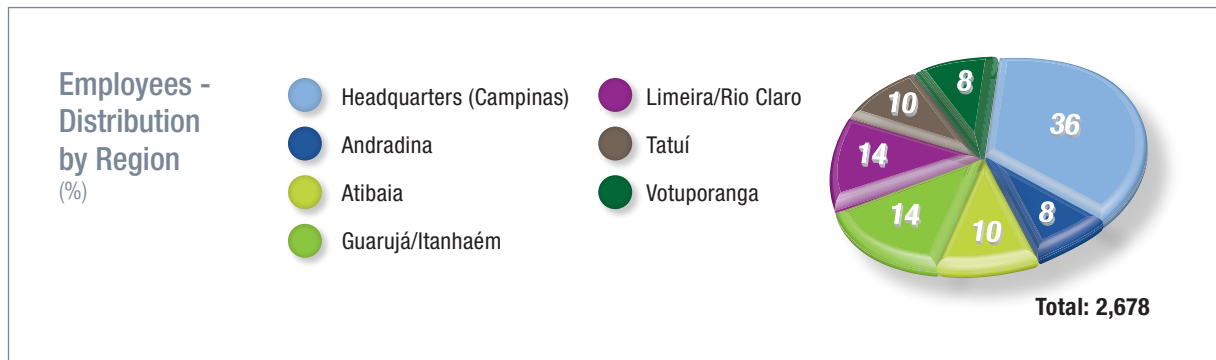
### Model of people management

The model is based on organizational competencies (relationships, extraction of value and sustainability), which unfold into professional competencies (distributed in groups: structural, leadership, general techniques and specific techniques). The Human Resource processes, such as training and personnel development, performance management, remuneration, dismissal and recruitment and selection are linked to the

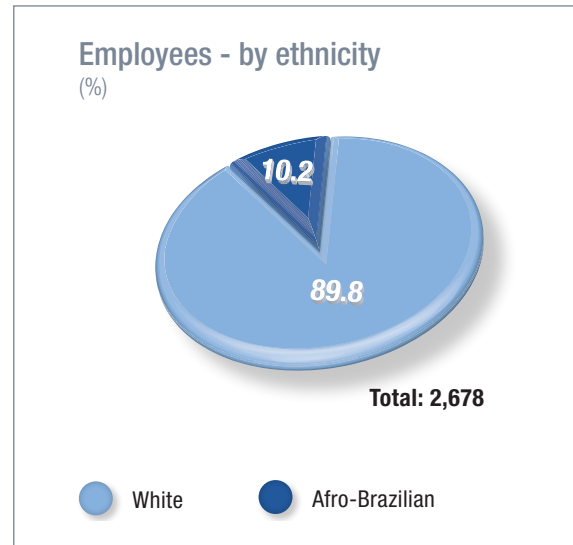
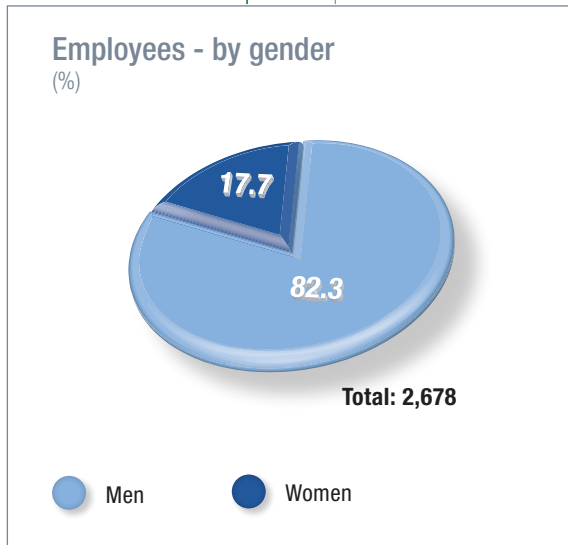
model. By means of this organization, Elektro seeks to comply with, within the ambit of human resources, its strategic objectives. The expected results from the model are a higher retention of talent, professional motivation and improved organizational climate; elements that when combined to the other management dimensions, contribute to the gains in efficiency desired by the company.

### Employee profile

Elektro seeks to constantly develop personnel.



The company maintains a motivational working environment that favors professional growth of the employees.



## Remuneration

The concessionaire adopts a remuneration system based on the HAY Methodology, a scoring system that determines salary equivalencies of work posts in relation to the market.

The Hay Group is the company that developed this methodology, now used in the majority of Brazilian companies and in the largest energy sector companies. The Hay method utilizes the job

description activities of the position to quantify the importance and complexity relative to the results expected from their occupants, taking into consideration four elements: knowledge, mental process, responsibility for results and profile. After the contribution of these four factors the position is given a score, which defines its level in the salary structure, based on the value of the position on the job market.

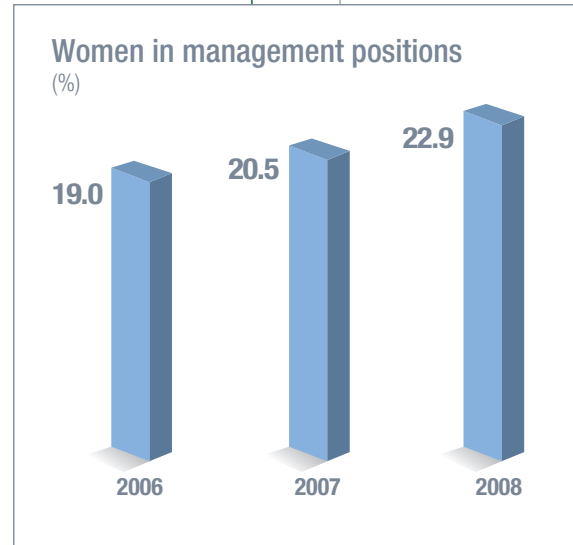
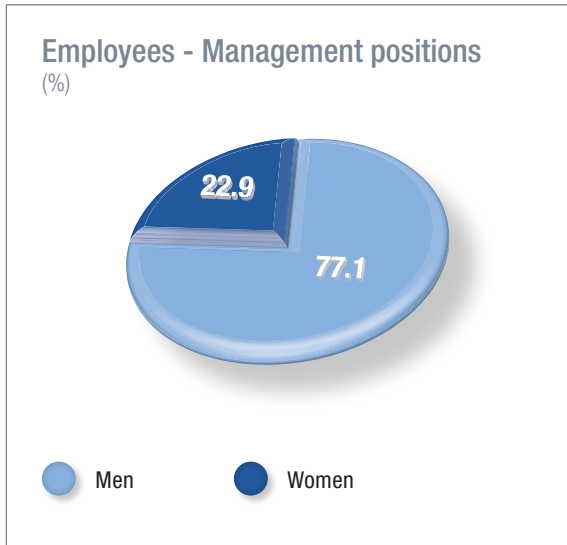
## Remuneration by category

Considering 1.00 as the average male salary, the female salary represents:

### Average salary - proportion between males and females by functional category

Position	2006	2007	2008
Consultant	0.96	0.97	0.93
Management level	0.71	0.82	0.88
Operational level	0.35	0.35	0.36
Technical level - administrative	0.49	0.53	0.59
University level	0.79	0.86	0.94

Male presence in the electric sector is still predominant, however over the last few years women have been gaining ground, albeit on starting salaries proportionally less than men who have been at the company longer. Nevertheless, in recent years, the company has been registering their upward professional progress in the workforce: currently, almost 23% of the management positions are occupied by women and the tendency is for further growth.



## Personnel Development Cycle

In 2008, Elektro implemented a development cycle with the intention of emphasizing the Idea of an annual cycle which begins with the unfolding of the company strategy into individual and collective targets, the continuous follow up and development, the evaluation and the formal feedback and the planning and training for the following year.

Over the years, the company has carried through development actions in a consistent manner and the Elektro Corporate Education (ECE)

programs take into consideration the skills established by Management by Competencies Model in force since 2004. This model contemplates the identification of organizational competencies aligned with the Vision, Mission, Values and Company Strategy, and reveals professional competencies which are exposed to the employees.

All the training and development initiatives comply with ISO 9001 and ISO 10015 standards.



See below the company's investments in the training and development for its own employees and partner company employees:

Own employees	2006	2007	2008
Investments in technical operational training (R\$ millions)	2.8	2.5	2.9
Investments in development programs (R\$ millions)	2.0	1.1	1.9
Technical-operational man-hours training (Thousands)	314.6	205.7	248.5
Development program man-hours training (Thousands)	45.4	25.0	33.9

Partner company employees (contracted)	2006	2007	2008
Investments in technical operational training (R\$ millions)	1.3	0.9	0.8
Technical-operational man-hours training (thousands)	181	162	121

### Career paths and apprenticeships

The objectives of the Career Path and Apprenticeships Program are: self-development and support and guidance for the employee on his career; help outline the best strategies to attain his or her professional objectives. In 2008 approximately 850 employees started the training.

### More Energy Program

The *Mais Energia* Program (More Energy) is aimed at the development of potential young talents in the organization and the objective is to guarantee business sustainability through organizational renewal. The program covers trainees and young talents. The development course includes training in the structural competencies of leadership, as well as technical tools and business orientated topics.

### E-learning

All employees have access to the distance learning system, called the Learning Center, which offers courses online with the same content as Elektro Corporate Education and the Learning and Practice Communities (CAPs). The use of the distance learning tool has been growing by the year, by its practicality and reduction of risks inherent in transporting the teams. In 2008, highlights were: reviewing the code of conduct, Management Quality System training (SGQ), Occupational Health and Safety training (OHSAS 18001), new leaders and relationship excellence.





Gymnastic academy at the Campinas Corporate Headquarters (SP)

### Scholarships

Currently the scholarship program aids 139 people, of which 20% are intensive courses, 40% technical and 40% graduate. The post-graduate and specialization courses benefit 18 students and languages, 34.

### Average number of training hours by functional category

Functional category	2006	2007	2008
Manager	207	59	124
Specialist	95	27	67
Administrative	146	99	93
Operational	139	88	119
<b>Average</b>	<b>137</b>	<b>88</b>	<b>106</b>

## Organizational Climate Study

The Organizational Climate Study is carried out among all employees every two years and during the interval between one study and another, a sample survey is performed, as occurred in 2008. The findings were very similar to the previous year. In general terms the employees continue feeling proud of working for the company and cite comradeship as one of the workplace qualities. In 2008, Elektro obtained a 71% favorability rating in the comradeship index, against 70% the previous year.

Due to the impartiality of the survey, one item that merits constant attention is the query relating to the Profit Sharing Scheme (PLR). In previous years these questions were motivated by the large number of targets, by the amount effectively paid and by the difficulty in understanding the method of calculation, which considered a fixed amount and a percentage of the salary associated with adherence to targets.

In 2008, after negotiations with the unions, the calculation method was altered. The amount to be distributed became linked to EBIT - measured by the difference between net operating revenue and the sum of operating expenses, cost of electric energy service and operating costs - plus only four indicators, (DEC, effectiveness of the average time of connection, Customer Call Center availability and quality of safety compliance.

The new simpler and more transparent calculation system facilitated understanding for all and should result in improvements in the company's organizational climate. The message is clear and direct: the amount to be distributed by means of the PLR is directly dependent on the company's results. Furthermore, the distributor adopted a communication guideline permanently maintaining the employee informed on the progress of the indicators during the course of the year.

#### Result of the Organizational Climate Study

Elektro Vision	2007	2008
Comradeship (%)	70	71
Credibility (%)	65	67
Impartiality (%)	62	63
Pride (%)	81	81
Respect (%)	69	69

#### Coffee with HR

As of March, the Office of Human Resources and Infrastructure initiated a program with the purpose of creating a space to learn, discuss and clear up doubts on matters related to HR, such as projects, processes, products and services. The HR team administers the program at the Corporate Headquarters in Campinas and at all the Regional offices.

## Union relations

Elektro has relations with four unions: the São Paulo State Engineering Union, the Electric Power Industry Workers Union of Campinas, the Electric Power Industry Workers Union of the State of São Paulo, and the Electric Power Industry Workers Union of Itanhaém, Bertioga, Guarujá, Litoral Sul and Vale do Ribeira.

## Health and Quality of Life at Work

#### The Take Care Program

This initiative takes a closer look at the employees' health, with a view to preventive action. Beyond just outlining a health profile by means of laboratory examinations, the program carries out a thorough check-up on the general conditions of the person and proposes differentiated action to suit the reality of each one, such as nutritionist and medical support as well as the offer of a gymnastics academy.

Occupational health indicators	2006	2007	2008
Lost days	11,489	15,768	8,009
Absenteeism (days)	5,618	6,861	6,562
Occupational illnesses	-	1	1
Obesity (%)	14	13	14
Overweight (%)	42	42	36
Cholesterol (abnormal levels) (%)	22	17	NA <sup>1</sup>
Triglycerides (abnormal levels) (%)	25	23	29
Hypertension (%)	4	38 <sup>2</sup>	27

<sup>1</sup>The test results carried out in 2008 were flawed due to problems that occurred during the blood sample gathering process, preventing comparability with previous years.

<sup>2</sup>Reflects the alteration in parameters utilized to characterize hypertension. In 2007, the Brazilian Society of Cardiology and the World Health Organization (WHO) lowered the normal limit from 140 x 90 mmHg to 130 x 80 mmHg.

## CUSTOMERS

Elektro's commitment is to distribute electric energy with safety and quality to its 2.1 million customers. The relationship with the customers is guided by the commercial guidelines and by the Principles of Customer Relations:

**Communication** - to be clear and objective when responding to the customer's request.

**Honesty** - impart information only on what is certain, honor commitments assumed and promise only what can be fulfilled.

**Integrity** - act in a correct, impartial and fair manner in daily activities.

**Education** - be respectful and courteous with everyone.

**Orientation** - give guidance on the business and on the risks and dangers inherent in electric energy.

**Transparency** - be clear in offering information, building trust in customer relations.

**Excellence** - provide the service with excellence and quality and be committed to making the company the most admired distributor in Brazil.

In order to comply with these determinations, the company is constantly investing in initiatives to improve customer service, with a view to be the most admired distributor of electric energy in the country.



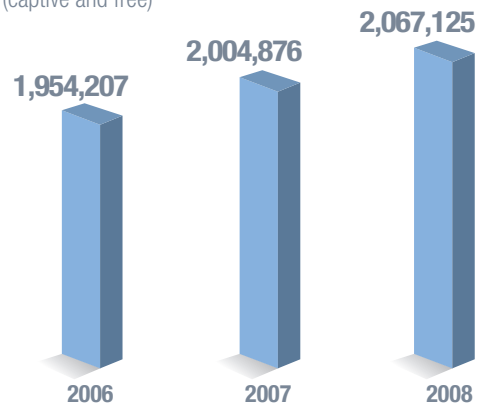
Employee in the Customer Service Center

### Commercial Guidelines and Customer Relations

Elektro is committed to customer satisfaction, presenting solutions by market segment, acting in a proactive manner, ensuring balance and fairness in relations and guaranteeing sustainability and credibility in its business dealings in accordance with legal and regulatory precepts. Elektro is obligated to comply with commitments assumed with its customers or those resulting from information, communications and notifications originating from their representatives.

### Customers served by Elektro

(captive and free)<sup>1</sup>



<sup>1</sup>Consumer units connected to Elektro's distribution system.

# Customer relations

The Abradee customer satisfaction survey in 2008 showed a quality index of 82.7%, with an oscillation compared to the previous year within the margin of error defined for the survey. Both the survey by Abradee

and that by Aneel serve as a gauge to assess the quality of the services provided and indicate guidelines for new initiatives. The challenge is permanent. See the survey results below.

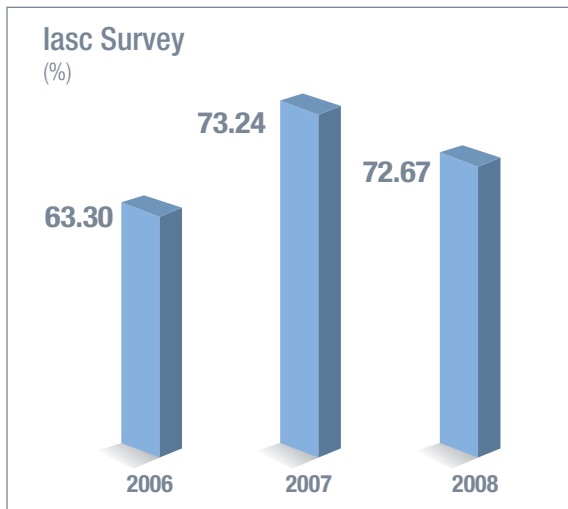
## Abradee Survey

The table below shows the result of the 2008 survey on Residential Customer Satisfaction, compared to previous years.

Elektro Evaluation	2006	2007	2008
Energy supply (%)	86.2	87.6	88.6
Information and communication with the client (%)	63.0	78.1	74.9
Electricity bill (%)	85.1	91.2	88.1
Customer service (%)	79.5	85.1	80.9
Company image (%)	80.5	88.2	80.4
<b>Index of Satisfaction with Perceived Quality (%)</b>	<b>79.0</b>	<b>86.3</b>	<b>82.7</b>

## Aneel Survey

In 2008, Elektro came second in the Aneel Consumer Satisfaction Survey (Iasc). The previous year, the company was chosen the best distributing company in the Southeastern Region in the category above 400 thousand consumers, achieving the best score in this segment.



Customer service is based on respect and transparency.

## Ombudsman

The Ombudsman was created in January 2000, and its main function is to find opportunities to improve internal processes based on customer's opinions and criticisms relating to a request or a customer service provided.

	2006		2007		2008	
Invalid	1,715	69%	1,673	75%	1,730	83%
Valid	771	31%	558	25%	354	17%
<b>Total</b>	<b>2,486</b>	<b>100%</b>	<b>2,231</b>	<b>100%</b>	<b>2,084</b>	<b>100%</b>

## Excellence Training in Customer Relations

Throughout 2007 and 2008 over 2,600 company and partner-company employees were trained in Excellence in Customer Relations. With the

objective of disseminating the culture of service excellence within the organization, Elektro launched training online with the goal of training 100% of company employees in good customer relations practices.



Elektro customer being served at the Post Office

## New service channels

The company seeks proximity with its customers and communicates with them in a respectful and transparent manner. To facilitate contact and to make things more convenient for the consumer, the company invests in innovative channels of communication:

**SMS:** Short Message Service sent to customers' cell phones. If the customer's request cannot be attended to, due to non-compliance in the electrical installation itself, and the customer must take the necessary action, the system automatically sends a message notifying the person previously authorized.

**Specialized service:** corporate and large customers have access to the exclusive service of an account manager specialized in their segment. These customers also have special services available to them with an exclusive space on the company website, bills with invoices grouped and consolidated and demand compatibility studies.

**Electronic portal on the Internet:** the company has been encouraging the use of the Internet as an easy, user-friendly and quick channel. Through the portal, the customer can request services such as consultation of debits, a copy of the bill, registration for automatic debit, alteration of the due date, alteration of address for bill delivery, and tree pruning, among others.

In addition to requesting services, the company also has available on the electronic portal information on the conscientious use of electric energy, tips on safety technical norms and values of tariffs and services, among others. Of all the service requests received, 55% came via the website in 2008, against 50% in 2007.

**Chat room:** through the electronic Internet portal, the customer has the option of exchanging messages in real time, with the concessionaire's service personnel, facilitating guidance on website navigation and expediting problem solving and the dispensing of information.

**Mail:** through a partnership with the Brazilian Mail Service, the company offers services in authorized branches in all municipalities of its concession area and also in other municipalities. In all, ten different kinds of services are offered to customers: immediate reconnection, consultation of debits, alteration of registered details, change of name on the bill, automatic debit, alternative delivery, self-metering and conferring of documentation on new connections, as well as bill payment. This applies in all the municipalities in the concession area and also outside the concession area.



Image of the Elektro website

## New rules for Customer Service Call Centers

The Customer Service Call Center is made up of company employees and provides a quality service, with transparency in information and agility in the provision of the requested service. In 2008, these premises continued to be upgraded, in accordance with company guidelines and the stipulations of Decree 6523, of July 31, 2008, which set out new rules for customer services via telephone at government regulated companies, in effect since December 1, 2008. It should be noted that, based on the Decree, Aneel may still decide on alterations to the regulations. As the company has always provided a service based on excellence, it already complied with some of the new rules, such as:

- option of speaking to the operator in the first menu of the Audio Response Unit;
- year round free and uninterrupted service 24/7;
- service via chat for all customers, including those with auditory or speech impairments;
- recording of all calls and responses;
- training of call center operators. The operators undergo a training period of 30 days with periodic recycling every six months, in which they are given all the technical and commercial information required for the job.

In some cases, however, the company has needed to adapt to new government rules, such as:

- installation of the support service for customer with auditory or speech impairment via the 0800 701 01 55 number;
- supply of protocol number at the start of the service (previously, this was given at the end of the call);

- option for cancellation or complaint in the first menu, from which the customer is directed to the operator;
- alteration to the commercial and technical system for the automated forwarding of the demand history.

In addition to these improvements, Elektro, on its own initiative, implemented new options in the Audio Response Unit such as reconnection after being disconnected, consultation of the date of disconnection, meter reading of energy consumption by the customer and consultation of accounts due.



<sup>1</sup>Includes telephone calls directed to the Call Center which were blocked by restrictions from the telephone service carrier.

Complaints - main reasons (%)	2006	2007	2008
Referring to time taken carrying out services	1.8	2.0	2.0
Referring to inadequate electric energy supply	3.8	4.0	4.0
Referring to service interruptions	70.0	67.0	70.0
Referring to emergencies	5.0	7.0	5.0
Referring to consumption and metering	0.4	0.2	0.2
Referring to unjustified disconnection	0.2	0.1	0.2
Referring to undelivered bills	0.8	1.0	1.0
Referring to electrical damage	1.0	1.0	1.0
Referring to irregularities in metering consumption (fraud, diversion of energy)	2.0	1.0	0.9
Others	15.0	16.7	15.3

## Time for the Customer program

This is an in-company work program undertaken in the Regional Offices, the Call Centers and at Corporate Headquarters to disseminate the customer satisfaction results and discuss relevant matters related to customer relations. It also acts to strengthen the Commercial Guidelines and the Principles of Customer Relations. At each meeting, ideas and topics arise that serve to improve customers relations. In 2008, 1,700 employees took part in the initiative.

## Billing on recycled paper

Electricity bills printed on recycled paper began to be distributed in February. Through this initiative, the company contributed to averting the annual felling of about 2,800 trees.

## Grouped bills and new Group A billing

Implemented in June 2008, grouped bills are easier to manage for customers with more than one consumer unit. The customer who chooses this billing option receives a grouped bank payment slip with information on their units. The measure facilitates control of payments and data regarding consumption. In the case of customers in the Public Authorities category, such as city halls, for example, the grouping facilitates the issuance of a single document only.

Since May, Group A customers have also received a billing model that facilitates the reading of the data and presents greater detail on relevant points, making it easier to understand the information presented.

## Bills in Braille

A pioneering service among power distributions in the States of São Paulo and Mato Grosso do Sul, enabling the registration of visual impaired customers who can read in Braille. Registration, available since July, can be made at the Customer Support Center or on the company website: [www.elektro.com.br](http://www.elektro.com.br).



Sight-impaired customer in the municipality of Limeira (SP) consults her Elektro bill in Braille

## PARTNERS

Committed to the development of the constituencies with which it has relations, the company makes safety the principal theme of its relationships with partner companies.

### Elektro Supplier Award

The conception of the award had the objective of recognizing and disseminating best practices in the important relationship between the company and its suppliers, as well as encouraging them to improve their processes so as to continually evolve in serving the company's requirements. Suppliers that have conducted business with the company for a period of six months compete in five categories and for four merit awards (safety, innovation, evolution and social responsibility). The evaluations are carried out by the contract managers according to the following criteria: Service, Infrastructure, Logistics and Performance during the contract.

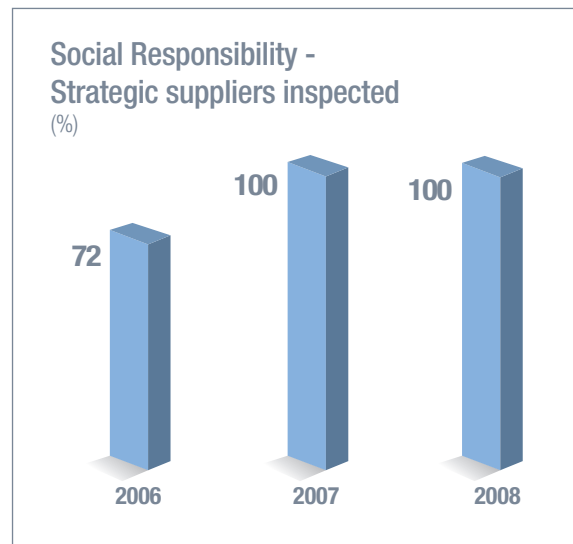
### Guide for Excellence in Contract Management

To ensure a homogenous and consolidated vision of the entire contracting and management process, with a view to the best cost-benefit ratio in the negotiation of contracts, the company



Meter reading by an Elektro partner company

has developed the Guide for Excellence in Contract Management. Supported by a robust procedure that details all stages, premises and good practices, the Guide is a key tool for real effectiveness in contract management. With its focus on sustainability throughout the entire supply chain, the application of the Guide guarantees significant results for both Elektro and the contracted companies, in which transparency in the process, detailed planning and the assertive definition of the company's real needs are essential to the negotiation's success, cost reduction and consequently, excellence in the management of contracts.





## COMMUNITY

### Energy Efficiency

The company allocates an annual 0.5% of its net operating revenue to actions aimed at improving energy efficiency in deprived communities, schools, hospitals, charitable institutions, government bodies and public systems. The investment is compulsory and is foreseen in the concession contract, although the company decides on which initiative it will invest in. The objective is to return to society, in the form of benefits, the resources received through the electricity bill. The company focuses its action on deprived communities, through the Elektro Community Energy project (*Projeto Energia Comunitária Elektro*), with the upgrading of electrical installations and the donation of light bulbs, solar heaters and low-energy refrigerators, as well as local development activities utilizing company funds. Another equally important project is that of Energy Efficiency in Public Buildings, the resources for which are allocated to ensure efficient energy use in public buildings. In 2008, investments in these two projects totaled R\$ 12.6 million.

#### Elektro Community Energy Project (*Projeto Energia Comunitária Elektro*)

Started in 2006, the program seeks to stimulate electric energy savings in deprived communities through the recovery, improvement and adaptation of the electric systems inside and outside residences. In addition, the company also replaces electrical appliances in poor state with new low-energy models. In various municipalities within its concession area, there is also a project to replace incandescent with fluorescent light bulbs, which taken together permitted savings in consumption of 12,800 MWh/year. This project received funding of R\$ 10.9 million for the regularization and modernization of electrical installations in the communities served.

As well as the actions directly linked to safe and efficient energy consumption, the company was also active in the professional qualification of local residents and in the recovery of citizenship rights in the communities served, where residents were able, for example, to obtain documentation of proof of residence in order to make credit



**Customer benefited by the Elektro Community Energy Program (*Projeto Energia Comunitária Elektro*) in Franco da Rocha (SP)**

purchases. In all, 1,477 people took part in basic courses, such as residential electrician, plumber, handicrafts and computer skills, among others. In addition to these courses, the company invested in the training of residents in the Jardim Bela Vista neighborhood in Santo Antônio de Posse (SP), to assemble and install 30 low-cost solar heaters. Elektro also developed initiatives to improve the quality of residents' lives, such as the renovation of daycare centers and soccer pitches and the installation of playgrounds and street name signs.

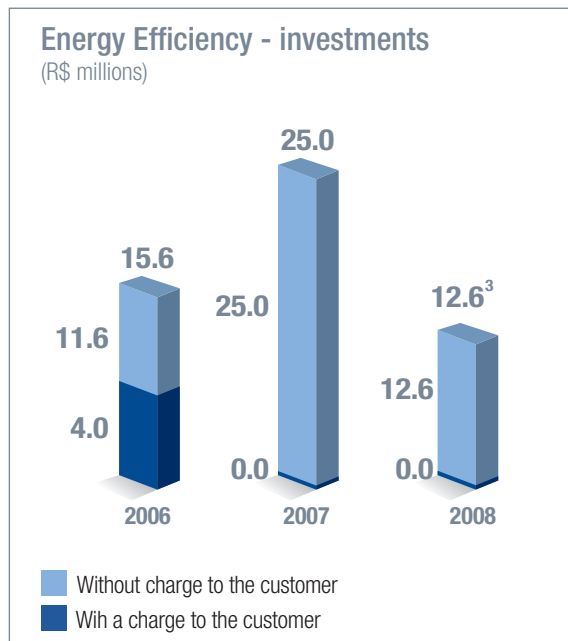
Efficiency in numbers

Community Energy Project (*Projeto Energia Comunitária Elektro*)

	2007 <sup>1</sup>	2008
Low-income households served by the program	96,452	57,678
Households where interior electrical installations were upgraded	12,861	6,468
Efficient appliance donations <sup>2</sup>	325,056	182,311
Professional electricians trained through the program	130	201

<sup>1</sup>In 2007, actions were developed from the 2006/07 and 2007/08 cycles. The 2007 data published previously were revised because the 2007 cycle was not consolidated at the date of publication of the 2007 Sustainability Report.

<sup>2</sup>Includes donation of light bulbs



<sup>3</sup>The total amount includes R\$ 0.7 million from the 2007/08 cycle and R\$ 11.7 million from 2008.

Energy efficiency - savings

(R\$ millions)

	Low-income residential	2008 Public Authorities	Total
Energy saved per year (MWh)	12,817	1,407	14,224
Reduction of demand at point of origin (kW)	3,180	304	3,484
Cost savings to the customer (R\$ millions) <sup>4</sup>	1.69	0.17	1.86

<sup>4</sup>Whenever there is investment in more efficient components, such as light bulbs, reactors and lamps, customers tend to spend less on their electricity bill, without reducing the level of illumination.

**Public Buildings Project:** this benefited 113 buildings with the replacement of light bulbs and the installation of reflector lamps, with an investment of R\$ 1.7 million (R\$ 1.5 million in 2008 and R\$ 0.2 million in investments begun in 2007 and completed in 2008). Included were municipal city halls, schools, hospitals, retirement homes, daycare centers and the facilities of APAE - the Association of Parents and Friends of Special Needs Children. With this initiative, consumption in the lighting system fell on average by 45% in 2008, which was reflected in a 15% reduction in the amount of the electricity bill, resources that can now be passed on by the public administrations to other community needs.



Quilombo Community (descendants of enslaved Africans) in Eldorado (SP)

## Universalization Program

The *Luz para Todos* Program (Light for All), a commitment prescribed in law, has the objective of making electric energy available to communities in rural areas, including indigenous peoples, *quilombos* (communities of descendants of enslaved Africans) and agricultural resettlements. The program is financed in part by the federal government - with resources from energy sector funds -

the Energy Development Account (CDE) and the Global Reversion Reserve (RGR). The other part is invested by Elektro, as a way of bringing forward universal access to properties distant from the energy grid. The company has already made 41,000 connections since the program started in 2004. In 2008, 7,600 connections were made within the program.

<i>Luz para Todos</i> Program	2006	2007	2008
Connections carried out in the <i>Luz para Todos</i> Program	14,179	9,474	7,590

Urban Universalization Program	2006	2007	2008
Total municipalities with universal access	218	218	218
Municipalities with universal access	95.6%	95.6%	95.6%
Connections made	70,707	62,005	68,691
Urban Universal Access - investment by Elektro (R\$ millions)	14.4	11.4	12.6



Residence benefited by the *Luz para Todos* (Light for All) Program

The *Instituto Elektro* (Elektro Institute) completes five years of activity in promoting sustainable development in the communities within its concession area.

## *Instituto Elektro* (The Elektro Institute)

In 2008, the *Instituto Elektro*, one of the main channels of relationship between the company and the community, celebrated five years of activity. The institution was created in 2003, committed to enabling the development of adolescents and young people in the deprived communities located in the company's concession area. In 2008, the institute's Quality Management System was recertified in compliance with the ISO 9001 standard, attesting compliance to the standard's requirements in the management of social programs and projects undertaken with stakeholders. These initiatives are grouped according to three lines of action:

**Educare** - education for life, through the programs *Fazer Acontecer* (Make it Happen) and *Elektro Escola Formare* (Formare School);

**Voluntas** - promotion of voluntary work and social responsibility, with the programs *Abrace* and *Prêmio Empreendedor Social* (Social Entrepreneur Prize);

**Preservare** - education for sustainability, promoted by the program *Jovens ECOncientes* (Conscientious Youth).

### *Educare*

**Escola Formare Elektro (Formare School)** - in a partnership with the Lochpe Foundation since 2004, offers a free career training course as an Administrative Services Agent to adolescents between 14 and 15, contributing to the job market entry process and motivating college entrance. 2008 saw the graduation of its fifth class, with 20 young people, making a total of 94 successful graduates headed for the job market.



Instituto Elektro: students of the *Fazer Acontecer* (Make It Happen) Program in Tatuí (SP)

The educators are volunteers from the company and deal with topics such as the exercise of citizenship, the basic tenets of administration and human resources, English, IT and accounting. The course also enables practical training of the students with employees within the company's working environment.

**Fazer Acontecer (Make it Happen)** - the program's goal is to strengthen the leadership potential among young people and adolescents and contribute to the sustainable development of the community. In partnership with Regional Labor Offices, the Instituto Elektro organizes groups of young people who are given theoretical training in the creation of socio-environmental projects to be implemented in their communities. Up to 2008, the program had trained 21 classes, with 416 young people and the participation of volunteers from the company and partner institutions.

### *Voluntas*

**Prêmio Empreendedor Social (Social Entrepreneur Prize)** - selects and finances the best social projects drawn up by employees, their families and partner companies, with the goal of undertaking social actions in the community, as well as encouraging voluntary work and social enterprise.

**Programa Abrace (Embrace Program)** - encourages voluntary work and the development of social projects among employees. In 2008, 16 projects were implemented in 11 municipalities, with the participation of 154 volunteers, to the benefit of approximately 8,900 people.

### *Preservare*

**Jovens ECOncientes** - the program's goal is to train multiplier agents for the dissemination of the concepts of sustainability within their communities. The program trains young people to take up practices that contribute to sustainable development. The program is currently located in two municipalities, Pariquera-Açu (in the Vale do Ribeira region) and Teodoro Sampaio (in the Pontal do Paranapanema region), benefiting 25 young people and promoting education for sustainability in communities located in socially and environmentally complex regions.

The company feels that its role is only complete when it is also contributing to the development of society.

## Elektro Cultural Circuit

The project invested R\$ 1.8 million in resources from the Rouanet tax incentive law. This is a cultural caravan developing a series of activities in music, theater, cinema and the energy museum in municipalities where leisure options are non-existent. Associated with the program's objective, the company disseminates the importance of the safe and efficient use of electric energy. In all, 62 public presentations were made in 48 towns in the concession area, to around 80 thousand spectators.



Theater presentation in the Elektro Cultural Circuit

## Radio Elektro

A communication tool used by the company since 2004, aimed at awakening concepts of citizenship rights among the public through daily programs dealing with topics of public interest, including health, consumer rights and obligations, domestic economy, the environment and safe and correct use of electric energy, among others. This activity is carried out in partnership with 50 radio stations, covering 96% of the concession area and 99% of its customers.

## Querô Workshop Project

In partnership with the *Gullane Filmes* film producing company, Elektro trained 40 young people from 20 communities benefited by the Community Energy Project (*Projeto Energia Comunitária Elektro*) in Guarujá to develop a spirit of enterprise through movies. With one-year duration, the course was taught by well-known professionals from the Brazilian movie industry. Participants were given practical and theoretical classes on audiovisual production, with the basics of IT, scriptwriting, project development, directing, producing, marketing, costumes, make-up, sound and cinematography, among other topics. The initiative is aimed at broadening the cultural knowledge and horizons of these young people, who can then be multipliers of learning throughout their communities.



Young people of the Elektro Querô Workshops Project during filming of a documentary in Guarujá (SP)

## Vitória Corte Project

An initiative developed in partnership with the *Mundaréu* Association, a non-profit organization whose mission is the generation of income for communities excluded from the formal job market. The objective of the *Vitória Corte* is to create conditions for the development of initiatives able to generate income and a dignified life for seamstresses in the communities neighboring Vila Zilda, benefited by the Community Energy

Program (*Projeto Energia Comunitária Elektro*), in Guarujá. In this context, the Project offers support to women seeking to transform their manual skills into ways of earning an income. The program combines training for product development with support in its marketing. Currently, the women produce re-usable handcrafted shopping bags, sold in the community and in regional businesses.

## Biblioteca da 1ª Infância (Childhood Library)

Implemented in partnership with the *Instituto Brasil Leitor* (Brazil Reader Institute) (IBL) in the towns of Itanhaém and Peruibe, the *Bibliotecas da 1ª Infância* are aimed at awakening the habit of reading in children aged 0 to 6 years. The facilities favor interaction between the children and between the contents of books, so that they can relate their everyday life

to subjects like mathematics, science, geography and nutrition, among others, always with an approach suited to the age group. The IBL also trains teachers and monitors so that the resources of the library can be better utilized with the children.



Activity in the *Biblioteca da 1ª Infância* (First Childhood Library) in Itanhaém (SP)

The building of a fairer **society** is achieved with  
the **engagement** of all its members.

## National Electric Energy Safety Week

For the third year running, the company carried out a campaign to inform the population in its concession area about risks associated with the use of electric energy, in partnership with Abradee. In 2008, four topics were broached: installation of TV aerial, kite-flying, civil construction and electric energy theft. With the slogan "*A gente avisa, mas você precisa fazer a sua parte* - We warn, but you must do your part", the campaign featured four basic safety tips, related to the chosen topics.

The company held educational talks in schools and work sites, published advertisements in newspapers in its concession area and included campaign activities in the Elektro Cultural Circuit.

**The company believes in development  
built in partnership with society and  
the public authorities.**

## Allocation of resources for the Municipal Funds for the Rights of Children and Adolescents

Elektro prepared and disseminated a new procedure for the allocation of resources for the Municipal Funds for the Rights of Children and Adolescents (FMDCAs), taking into account the population size and the Child Development Index (IDI) of each municipality. The company requests FMDCAs to provide their budget and planning for the following

year, presenting the projects to be implemented during the period in order to receive funding. Each year, the company allocates to the funds up to 1% of Income Tax owed, which in 2008 amounted to R\$ 450,000, distributed among 134 municipalities.

## Electricians School

Elektro, in partnership with the Technology Faculty of São Paulo (Fatec), the City Hall of Tatuí and the company FM Rodrigues, developed a free course in Electrical Installations Training. The goal is to increase speed and efficiency in training electricians, guaranteeing the market greater availability of qualified manpower, which can be used by either the company itself or by companies and sectors recruiting these professionals. At the same time as training more qualified personnel, the company offers a

professional training opportunity to members of the communities in which it operates. In 2008, the company offered places to 40 candidates in residential electricity and 16 participants were selected to continue the course and train as distribution linemen. The training course lasts for four months (432 hours). The classes were taught by teachers from Fatec and instructors from the company itself. The first class from this pilot project set up in the Tatuí Regional Office will graduate in 2009.



# Annual Social Report

1 - Basis of Calculation	2008 Value (R\$ thousand)			2007 Value (R\$ thousand)		
Net Revenue (NR)	2,512,477			2,256,073		
Operating Result (OR)	508,342			566,774		
Gross Payroll (GP)	219,356			215,228		
2 - Internal Social Indicators	Amount (thousand)	% of GP	% of NR	Amount (thousand)	% of GP	% of NR
Food	13,660	6.23%	0.54%	12,547	5.83%	0.56%
Transportation	600	0.27%	0.02%	506	0.24%	0.02%
Compulsory payroll charges	43,445	19.81%	1.73%	42,346	19.67%	1.88%
Private pension	3,869	1.76%	0.15%	3,832	1.78%	0.17%
Health	9,338	4.26%	0.37%	8,564	3.98%	0.38%
Occupational safety	5,599	2.55%	0.22%	6,782	3.15%	0.30%
Education	662	0.30%	0.03%	344	0.16%	0.02%
Culture	150	0.07%	0.01%	110	0.05%	0.00%
Professional training and development	5,097	2.32%	0.20%	5,224	2.43%	0.23%
Day care or day care assistance	319	0.15%	0.01%	320	0.15%	0.01%
Profit sharing	12,865	5.86%	0.51%	12,372	5.75%	0.55%
<b>Total - Internal Social Indicators</b>	<b>95,604</b>	<b>43.58%</b>	<b>3.81%</b>	<b>92,947</b>	<b>43.19%</b>	<b>4.12%</b>
3 - External Social Indicators	Amount (thousand)	% of OR	% of NR	Amount (thousand)	% of OR	% of NR
Education	2,237	0.44%	0.09%	3,572	0.63%	0.16%
Culture	2,785	0.55%	0.11%	3,121	0.55%	0.14%
Others	4,848	0.95%	0.19%	5,333	0.94%	0.24%
Total contributions to society	<b>9,870</b>	<b>1.94%</b>	<b>0.39%</b>	<b>12,026</b>	<b>2.12%</b>	<b>0.53%</b>
Taxation (excluding payroll charges)	1,221,280	240.25%	48.61%	1,352,310	238.60%	59.94%
<b>Total - External Social Indicators</b>	<b>1,231,150</b>	<b>242.19%</b>	<b>49.00%</b>	<b>1,364,336</b>	<b>240.72%</b>	<b>60.47%</b>
4 - Environmental Indicators	Amount (thousand)	% of OR	% of NR	Amount (thousand)	% of OR	% of NR
Investments related to company production/operation	12,976	2.55%	0.52%	26,484	4.67%	1.17%
Investments in external programs or projects	13,192	2.60%	0.53%	657	0.12%	0.03%
<b>Total environmental investments</b>	<b>26,168</b>	<b>5.15%</b>	<b>1.04%</b>	<b>27,141</b>	<b>4.79%</b>	<b>1.20%</b>
Regarding the establishment of "annual targets" to minimize waste, reduce operational and production consumption in general and the better use of natural resources, the company:	( ) no set targets ( ) 0 to 50% compliance		( ) 51 to 75% compliance (X) 76 to 100% compliance	( ) no set targets ( ) 0 to 50% compliance		( ) 51 to 75% compliance (X) 76 to 100% compliance
5 - Functioning Body Indicators	2008			2007		
Number of employees at the end of the period	2,678			2,690		
Number of admissions during the period	319			280		
Number of dismissals during the period	331			258		
Number of outsourced employees	3,508			4,382		
Number of trainees	20			17		
Number of employees over 45 years of age	610			557		
Number of women employed by the company	474			471		
% of supervisory positions occupied by women	18.18%			17.17%		
Number of Afro-Brazilians employed by the company	274			259		
% supervisory positions occupied by Afro-Brazilians	0.77%			1.01%		
Number of disabled or special needs employees	42			42		
6 - Information relevant to the exercising of corporate responsibility	2008			2007		
Ratio between the highest and lowest salaries paid by the company:	54			52		
Total number of accidents in the workplace:	65			63		
Social and environmental projects developed by the company were defined by:	( ) officers	(X) officers and management	( ) all employees	( ) officers	(X) officers and management	( ) all employees
Standards for safety and cleanliness in the workplace were defined by:	( ) officers and management	( ) all employees	(X) all + Cipa (Accid. Prev. Com.)	( ) officers and management	( ) all employees	(X) all + Cipa (Accid. Prev. Com.)
Regarding union freedom, the right to collective bargaining and the internal representation of employees, the company:	( ) is not involved	( ) follow ILO regulations	(X) encourages and follows ILO regulations	( ) is not involved	( ) follow ILO regulations	(X) encourages and follows ILO regulations
Private pension fund gives coverage to:	( ) officers	( ) officers and management	(X) all employees	( ) officers	( ) officers and management	(X) all employees
Profit sharing involves:	( ) officers	( ) officers and management	(X) all employees	( ) officers	( ) officers and management	(X) all employees
In the selection of suppliers, the same standards of the ethics and social and environmental responsibility as the company:	( ) are not considered	( ) are suggested	(X) are required	( ) are not considered	( ) are suggested	(X) are required
Regarding employees' involvement in voluntary work programs, the company:	( ) is not involved	( ) gives support	(X) organizes and encourages	( ) is not involved	( ) gives support	(X) organizes and encourages
Total number of consumer complaints and criticisms:	in company 316,956	at Procon 1,454	in the judicial system - 1,019	in company 334,933	at Procon 2,287	in the judicial system - 1,558
Total percentage of complaints and criticisms attended to or resolved:	in company 100%	at Procon 100%	in the judicial system - 13%	in company 100%	at Procon 100%	in the judicial system - 14%
Total added value to be distributed (R\$ thousands):	1,961,620			2,181,528		
Distribution of Added Value (DVA):	62.25% government 18.92% shareholders	9.02% employees 8.76% outsourced	1.05% withheld	61.99% government 20.33% shareholders	7.92% employees 8.69% outsourced	1.07% withheld
7 - Other Information	2008			2007		
1 - Number of non-profit organizations benefited by a discount on the electricity bill:	322			316		
2 - Discount on the electricity bill of non-profit organizations (R\$ thousands):	4,103.0			4,762.9		



## Comments

Highlights of the Elektro Social Scorecard for 2008, drawn up in accordance with the model provided by the Brazilian Institute of Social and Economic Analyses (IBASE) were cultural initiatives aimed at the community, investments in the environment, training and development, on-the-job safety, and prevention of work-related accidents.

For the last fiscal year, the total reduction in social investments aimed at the community was due to the delay in approval of the company's cultural projects by the Program of Cultural Support of the State of São Paulo (PAC), and from the unification of the *Estação Elektro* (Elektro Station) and *Elektro Cine* projects into a single program - the *Circuito Cultural Elektro* (Elektro Cultural Circuit). The purpose of the Circuit is to visit the municipalities within the company's concession area to promote activities focusing on music, theater, cinema, and the museum of energy, as well as disseminating the importance of the safe and efficient use of electric energy.

In regard to investments in workplace safety, the reduction was due to the acquisition, in 2007, of new uniforms for the linemen. The uniforms are made of flame retardant material with reflective stripes in compliance with regulatory standard NR 10 (which deals with electrical installations and services) and NR 16 (individual protection equipment).

In 2008, the company continued with its safety promoting actions such as Weekly Safety Dialogues, the "Lessons Learned" newsletter, the Safety Observance Program, monthly meetings of the Internal Accident Prevention Commissions (CIPA), and the Internal Occupational Accident Prevention Week (SIPAT). The actions also included the creation of the Behavior for Life Program which, by means of training, aims to encourage employees to approach their colleagues when they feel that there may be some unsafe aspect in the safety procedures. The purpose of this program is to reduce the occurrence of accidents.

As to environmental investments, amounts are invested in accordance with the company's programs and projects. Investments related to company production and operations include the installation of compact isolated networks, and pre-spliced cables, recycling of regenerated energized transformer oil, co-processing of waste, decontamination of bulbs, re-forestation, vegetation management, and tree pruning.

Investments in external programs and/or projects include energy efficiency projects, environmental research and development (R&D), and environmental awareness such as *Meninas Ecológicas* and *Jovens ECOncientes*. The amount related to investments in private pension plans in 2007 (internal social indicators) was adjusted from R\$ 2,614 thousand to R\$ 3,832 thousand to enable comparison with the amount invested in 2008, which included administrative charges for the pension plans offered by the company.

Among Elektro's principal assets are its brand, recognized as a symbol of quality and efficiency; its employees, whose skills and competencies are continually evolving; and its commitment to sustainability, totally integrated with its business strategy.

# INTANGIBLE ASSETS

The search for sustainability is based on respect for the company's stakeholders.

## Synonym of quality

### Concession

Elektro, by means of a concession contract signed with the Federal Government (Granting Authority) and intermediated by Aneel, has the right to commercially explore the service of power distribution within its concession area. The contract is valid for 30 years and can be renewed for, at maximum, a further 30 years at the request of the concessionaire and at the exclusive criterion of the regulatory body. The contract stipulates that all assets linked to the provision of the power distribution service, belonging to the company, are considered revertible and are an integral part of the concession's assets.

### A respected brand

Elektro is a benchmark for quality in the power distribution sector in Brazil, a position achieved thanks to the company's commitment to its Management Policy, its Values and its Mission. For the concessionaire, safety, quality in services provided, continual improvement and innovation in management processes and systems are part of the routine. The construction of a solid brand is the result of constant pursuit of excellence in the relationship with its stakeholders, investments in technology and the focus on the wellbeing of the communities in which it operates.

### Employees of value

The quality of its workforce is one of the company's principal foundations, and part of its success is in the ability to attract and retain talent. For this, the company invests heavily in training and has the tools to promote the circulation of strategic ideas and information. The Knowledge Management System (SGC) aims at developing and maintaining an organizational climate that encourages and facilitates the mapping, generation, dissemination, utilization and the retention of knowledge. In addition, the concessionaire has adopted a remuneration and benefits policy compatible with market best practices.

### Sustainability

The concessionaire's commitment to sustainability is part of its Mission, is integrated in its Values and is expressed in its Management Policy, which regulates the entire relationship of the company with its stakeholders. Sustainable practices can be seen in four key areas: environmental, social, occupational health and safety, and quality management.



The writer Augusto Cury teaches a master class to students and voluntary educators as part of the Elektro Formare School project

### Customers/Relations

As a company providing services, Elektro's main objective is to distribute electric energy with quality and safety to all its customers. The company invests in the relationship with its stakeholders, and has won deserved recognition, a fact proven by the high levels of satisfaction obtained by the company.

### Ethics and transparency

The company's commitment to good practices of Corporate Governance is based on ethics and transparency. The Ethics Committee is independent and responsible for applying and updating the company's Code of Conduct. See the other management practices focused on ethics on pages 22 to 26 and page 33.

### Innovation

The concessionaire seeks the continuous fine-tuning of its processes and services, by encouraging innovative initiatives, incorporating new tools and opening space for the free circulation of knowledge which can be turned into gains in efficiency for the company.



### Technology

The company continually invests in the most advanced methods, systems and equipment to ensure excellence in its provision of services and the constant upgrading of its processes.

#### *Project Neo*

The project seeks to identify improvements in processes and systems, to fine-tune operating efficiency and to make maximum use of the potential of the new version of the SAP information tool, an important technological management platform. The advantages proposed by the project are to integrate SAP with Elektro's other corporate systems; to automate processes with the elimination of manual work and redundancies; and to enable employees to focus on target activities with greater agility, quality and safety.

#### *Project Zeus*

This is an initiative that targets the development and implementation of a new version of the Distribution Management System (SGD). After its completion, forecast for 2010, this innovative and robust platform will lend greater efficiency to distribution network operation and maintenance management, and integrate all network operational areas, planning, design and engineering, which will all work in total synergy with environmental management.

#### *Services Management System (SGS)*

The SGS is the system that enables the company to coordinate all its fieldwork teams and transmit instructions to the teams closest to the emergency incident sites. As all the teams have been equipped with palm-tops - the Personal Digital Assistant (PDA), which boasts mobile phone, Internet and other communications features, information arrives in real time and services are then provided with greater speed and efficiency.

#### *Quality Management System (SGQ)*

The Quality Management System enables the company to manage the quality of the services provided, as well as the results of the power distribution processes. Certified under NBR ISO 9001:2000, the SGQ encompasses corporate headquarters, the regional offices and all other units in the concession area. The system provides Elektro with management tools that provide prompt, efficient and integrated management of the company's processes in order to achieve better results, increase customer satisfaction and foster its ongoing development.

**Elektro has built a solid brand based on the excellence of its services.**

# GRI SUMMARY AND ANNEXES

# GRI Summary and Annexes

This report contains information regarding the economic, social and environmental performance of Elektro in the period from January to December 2008, with some information regarding the first quarter of 2009, as made explicit throughout the text. The topics dealt with are of interest to the constituencies with which the company interacts, namely: customers, employees, shareholders, partners, community, labor associations and government. In-company tests, undertaken by the teams responsible for the report, have verified the relevance of the information presented herein.

The scope maintains the same criteria used in the report's 2007 edition. All the parameters for measurement and investigation of data therefore remain the same, and, when this is not the case, this information is clearly identified throughout the text.

Pursuant to the guidelines of the Global Reporting Initiative, this report has attained level B in its application.



Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosures <b>OUTPUT</b>	Report on: 1.1 2.1 - 2.10 3.1 - 3.8, 3.10 - 3.12 4.1 - 4.4, 4.14 - 4.15.	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 - 4.13, 4.16 - 4.17	Report Externally Assured	Same as requirement for Level B.	Report Externally Assured
	G3 Management Approach Disclosures <b>OUTPUT</b>	Not Required.		Management Approach Disclosures for each Indicator Category.		Management Approach Disclosures for each Indicator Category.	
	G3 Performance Indicators & Sector Supplement Performance Indicators <b>OUTPUT</b>	Report on a minimum of 10 Performance Indicators, including at least one from each of: Economic, Social and Environmental.	Report on a minimum of 20 Performance Indicators, at least one from each of Economic, Environmental, Human Rights, Labor, Society, Product Reponsibility.	Report on each core G3 and Sector Supplement* Indicator with due regard to the Materiality Principle by either: a) reporting on the Indicator or b) explaining the reason for its omission.			

\*Sector supplement in final version.

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4.17. Principal topics and concerns raised by the stakeholders	63 - 84



## Performance Indicators

### Economic Performance

EC1. Direct economic value generated and distributed	48 - 58
EC3. Coverage of the obligations in the pension plan benefit	56
EC4. Significant financial help from the government	80 - 82

### Market Presence

EC5. Variation in the proportion of the lowest salary compared to the local minimum salary in important operating facilities	The lowest salary in the company is 1.82 times higher than the minimum salary.
EC7. Procedures for local hiring and proportion of members of upper management recruited locally	64 - 69 - Note: There are no specific policies on local hiring, although the organization maintains career development plans to ensure the full use of in-company talent.

### Indirect Economic Impacts

EC8. Investment in infrastructure and services	39 - 44, 54
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## Environmental Performance

### Materials

EN1. Materials used	Posts, cables, connectors, reactors, lamps, EPI'S for electrical maintenance (Individual Protection Equipment; safety glasses, hardhat, gloves), cross-arms, energy meters, transformers, lamps, distribution network accessories, lightning rods, insulators, regulators, re-connectors, switches.
EN2. Percentage of materials used from recycled material	22.3% - equivalent to reformed transformers and meter.

### Energy

EN3. Direct energy consumption	62
EN6. Initiatives to supply low energy consumption products and services, or which use energy generated from renewable sources and the reduction in energy needed as a result of these initiatives	76 - 78

### Water

EN8. Total water usage	62
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**Biodiversity**

EN11. Area within, or adjacent to, protected areas and areas of high biodiversity outside the protected areas	Information on the company website.
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**Emissions, Effluent and Waste**

EN16. Total direct and indirect emission of gasses causing the greenhouse effect	62
EN19. Emission of substances destructive to the ozone layer	62
EN21. Total discharge of water, by quality and destination	Elektro does not discharge water outside the public drainage network.
EN22. Total weight of waste, by type and method of disposal	62
EN23. Total number and volume of significant spills	62

**Products and Services**

EN26. Initiatives to mitigate environmental impact of products and services	59 - 62
EN27. Percentage of products and their packaging recovered in relation to total products sold	Elektro does not use packaging.

**Compliance**

EN28. Significant fines and total number of non-monetary sanctions resulting from non-compliance with environmental laws and regulations	No significant fines were registered.
EN30. Total investment and expenditure on environmental protection	60, 83

**Social Performance - labor practices and decent working conditions**

**Employment**

LA1. Total workers by type of job, work contract and region	64
LA2. Total number and turnover rate of employees	In 2008, the rate of turnover was 12.0% with the movement of 331 professional.

**Relations between Workers and the Governance**

LA4. Percentage of employees covered by collective bargaining agreements	100%
LA5. Minimum time for notification of operational changes	There is no set time limit.

**Health and Safety in the Workplace**

LA7. Rates for injuries, occupational diseases, days lost, absenteeism and deaths	38
LA8. Programs for education, training, counseling, prevention and control of risk to employees, their families or members of the community in terms of severe illness	35 - 38
LA9. Issues regarding health and safety covered by formal agreements with unions	35 - 38

**Training and Education**

LA10. Average hours of training	67 - 68
LA11. Programs for management of competencies and continued education supporting the continued employability of employees and for administering end of career	64 - 69
LA12. Percentage of employees receiving analyses of performance and career development on a regular basis	100%

**Diversity and Equality of Opportunities**

LA13. Composition of groups responsible for corporate governance and of the other employees	25
LA14. Ratio of basic salary between men and women	65

**Social Performance - Human Rights**

**Practices in Investment and the Purchasing Process**

HR1. Significant investment with clauses referring to human rights	100% of contracted
HR2. Contracted companies and critical suppliers subjected to human rights evaluations	75

**Non-discrimination**

HR4. Total number of discrimination cases	No cases of discrimination were registered.
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**Freedom of association and collective bargaining**

HR5. Operations in which the right to exercise freedom of association and collective bargaining could be at risk	The right to association and representation is guaranteed throughout the operation.
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**Child Labor**

HR6. Operations with risk of occurrence of child labor	No operations at risk were identified.
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**Forced Labor or that Analogous to Slavery**

HR7. Operations with risk of occurrence of forced labor or that analogous to slavery	No operations at risk were identified.
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**Rights of indigenous peoples**

HR9. Total number of cases of violation of rights of indigenous peoples and measures taken	No violations of rights of indigenous peoples were registered.
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**Social Performance - Society**

**Community**

S01. Programs and practices to assess and manage impacts of operations on the communities	76 - 84, 97
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**Corruption**

S02. Business units analyzed for risks related to corruption	23 - 24, 33
S03. Employees trained in anticorruption policies and procedures	23 - 24, 33
S04. Actions taken in response to incidents of corruption	23 - 24, 33

**Public Policies**

S05. Public policy positions and participation in public policy development and lobbying	80 - 82
S06. Total value of financial or cash contributions to political parties, politicians or related institutions	Elektro makes no political contributions.

**Compliance**

S07. Total number of court cases for unfair competitive practices, trust or monopoly practices and their outcomes	Not applicable. Elektro has no competitors within its area of operation, defined in the concession contract with the Federal Government. Tariff rates are set by the regulatory agency (Aneel)
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**Compliance**

S08. Fines and non-monetary sanctions resulting from non-compliance with laws and regulations	No fines were registered.
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Social Performance - Responsibility for the product

Total number of non-compliance cases Customer Health and Safety

<p>PR1. Assessment of the impacts on health and safety in the life cycle of the products and services</p> <p>PR2. Total number of cases of non-compliance with regulations and voluntary codes regarding impacts caused by products and services in health and safety during the life-cycle, itemized by type of result</p>	<p>This type of assessment is not possible with the service provided by the company.</p> <p>No cases of non-compliance were registered.</p> <p>Given that Safety is the company's Top Priority, it continually publishes safety messages on the electricity bill, on Radio Elektro and in the Cultural Circuit, among other programs.</p>
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Labeling on products and services

<p>PR3. Labeling procedures</p> <p>PR4. Total number of cases of non-compliance with regulations and voluntary codes regarding information and labeling of products and services, itemized by type of result</p> <p>PR5. Practices related to customer satisfaction, including results of surveys measuring this satisfaction</p>	<p>Due to the nature of the business, there are no labeling procedures.</p> <p>No cases of non-compliance were registered.</p> <p>70 - 74</p>
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Communication and Marketing

<p>PR7. Total number of cases of non-compliance with regulations and voluntary codes regarding marketing communications, including advertising, promotion and sponsorship, itemized by result</p>	<p>No cases of non-compliance were registered.</p>
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Compliance

<p>PR8. Total number of proven complaints regarding invasion of privacy and loss of customer data</p> <p>PR9. Fines for non-compliance with legislation and regulations regarding the supply and use of products and services</p>	<p>No cases of non-compliance were registered.</p> <p>No cases of non-compliance were registered.</p>
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# Annex

## Elektro Sustainability Framework

Program/Project/Action	Principles of the Global Compact	Goals of the Millennium Development Project	Commitments of the Child-Friendly Company (Abrinq Foundation)
Ecological Cross-arms	7, 8 and 9	7	-
Carbon Neutralization	7, 8 and 9	7	-
Disposal of Waste	7, 8 and 9	7	-
Ecological Boys	7, 8 and 9	7 and 8	9
Tree Census	7, 8 and 9	7	-
More Energy Interns	4, 5 and 6	2, 8	2 and 9
<i>Cuide-se</i> (Take care) Program	1	3, 4, 5, 6 and 7	6 and 7
Billing in Braille	1 and 2	7	-
Billing on recycled paper	7, 8 and 9	7	-
Elektro Community Energy ( <i>Projeto Energia Comunitária Elektro</i> )	7, 8 and 9	7 and 8	-
Public Buildings Project	7, 8 and 9	7 and 8	-
Universalization Program	1	1, 7 and 8	9
Elektro Seal	-	7 and 8	-
Elektro Formare School ( <i>Educare</i> )	4, 5 and 6	2, 7 and 8	9
<i>Fazer acontecer</i> (Make it happen) ( <i>Educare</i> )	7, 8 and 9	2, 7 and 8	9
Social Entrepreneur Prize ( <i>Voluntas</i> )	3, 7, 8 and 9	7 and 8	-
<i>Abrace</i> Program ( <i>Voluntas</i> )	3	8	-
<i>Jovens ECOnciente</i> (Conscientious youth)	4, 5, 7, 8 and 9	2, 7 and 8	9
Radio Elektro	-	8	-
Elektro Cultural Circuit	-	7 and 8	-
<i>Querô</i> Workshops Project	-	7 and 8	9
<i>Vitória Corte</i> Project	3, 4, 5 and 6	3, 7 and 8	-
<i>Biblioteca da 1ª Infância</i> (First Childhood Library)	1	2, 7 and 8	9
National Electric Energy Safety Week	-	8	-
School for Electricians	5 and 6	1 and 2	9
Ethics Committee	1, 2, 3, 4, 5, 6 and 10	3, 7 and 8	1, 2 and 3
Behavior for Life	-	7 and 8	-
Observing Safety	-	7	-
Investigation of Dangers and Evaluation of Risk (IPAR)	-	7	-
Knowledge Management System	1	7	-
Organizational Climate Study	3, 4, 5 and 6	3, 7 and 8	1, 2 and 3
Study Grants	1	2	-
Personnel Development Cycle	1, 2, 3, 4, 5 and 6	2, 3, 7 and 8	1, 2 and 3
<i>Hora do Cliente</i> (Time for the Customer)	-	8	-
Elektro Supplier Award	-	8	3



Employees participate in the *Guia Exame* for Sustainability 2008 awards ceremony

Find out more about the principles and guidelines shown in the above table:

**Global Compact** - United Nations (UN) action to inspire social responsibility in companies through adherence to ten universal principles, related to human rights, labor, the environment and ethics.



**Commitments of the Child-friendly Company (Fundação Abrinq)** - Companies approach the Abrinq Foundation in order to be granted the status of "Child-Friendly Company", assuming commitments in benefit of children and adolescents, through social actions for the company employees and the community.



**Agenda 21** - Promotes a model for development supported by institutional, sector and regional actions prioritizing the conservation of water resources. Elektro holds the vice-presidency for protection of the headwaters of the Inter-municipal Consortium for the basins of the rivers Piracicaba, Capivari and Jundiá, comprising 40 municipalities and 38 companies.

**Millennium Project Development Goals** - Document signed by 191 UN member countries setting targets for 2015 for actions in eight areas: hunger and poverty; basic education; equality between the sexes and respect for women; infant and maternal mortality; the fight against infectious-contagious diseases; quality of life; the environment and the focus on work for development.









Night view of the ocean shore in Itanhaém (SP)

**Investor Relations**

*BM&FBovespa S.A.* - Securities, Commodities and Futures  
Exchange Share codes: EKTR3 and EKTR4

**Trustee Institution**

*Banco Itaú S.A.*

**Independent Auditors**

*Deloitte Touche Tohmatsu*

**Divulging Newspapers**

*Valor Econômico* and *Diário Oficial do Estado de São Paulo*

**Contact**

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Rua Ary Antenor de Souza, 321

Jd. Nova América - Campinas - SP

13053-024

Tel. (55 19) 2122-1487

Over the last ten years, operating results, cash generation, and the satisfactory management of financial commitments, has enabled the fulfillment of investment programs and targets for the company's distribution grid. An irrefutable attestation to the company's bill of health was the upgrade of its risk classification through eight levels, between July 2005 and May 2009, by the risk classification agency Standard & Poor's, reaching brAA+, the best in the national electric sector.

# FINANCIAL STATEMENTS

## Balance Sheets

As of December 31, 2008 and 2007 (in thousands of Brazilian Reals)

Assets	Notes	12/31/2008	12/31/2007
<b>Current Assets</b>		<b>856,105</b>	<b>Re-representation 772,102</b>
<b>Cash and cash equivalents</b>		<b>205,020</b>	<b>157,328</b>
Banks		3,359	25,815
Financial investments	5	201,661	131,513
<b>Receivables and recoverable assets</b>		<b>651,085</b>	<b>614,774</b>
Consumers, debt installments and suppliers	6	499,216	467,591
Allowance for doubtful accounts	7	(43,656)	(44,258)
Pledge of funds and restricted deposits	8	15,737	44,036
Revenue loss recovery and free energy	9	5,336	-
Regulatory assets - transmitters	10	6,293	10,789
TUSD-G	11	13,722	-
Tracking account for "Parcel A" item variations - CVA	12	7,856	-
PIS and COFINS recovery	13	2,268	6,201
Deferred and recoverable tax	15	105,135	92,669
Inventories		4,153	3,973
Other Credits		35,025	33,773
<b>Non-current assets</b>		<b>2,098,898</b>	<b>1,910,045</b>
<b>Long-term</b>		<b>516,780</b>	<b>481,497</b>
<b>Receivables and recoverable assets</b>		<b>516,780</b>	<b>481,497</b>
Debt installments	6	41,281	41,974
Pledge of funds and restricted deposits	8	11,711	10,722
Revenue loss recovery and free energy	9	12,419	15,960
Regulatory assets - transmitters	10	-	6,293
TUSD-G	11	31,713	-
Tracking account for variations in Parcel A - CVA	12	99,130	8,234
PIS and COFINS recovery	13	-	3,263
Deferred and recoverable tax	15	310,194	388,921
Other credits		10,332	6,130
<b>Investments</b>	16	4,334	4,343
<b>Property, plant and equipment (PP&amp;E)</b>	17	1,537,888	1,387,251
<b>Intangible assets</b>	18	39,896	36,954
<b>Total Assets</b>		<b>2,955,003</b>	<b>2,682,147</b>
<b>Liabilities</b>			
			<b>Re-representation</b>
<b>Current</b>		<b>1,005,483</b>	<b>719,390</b>
Loans and financing	19	65,325	48,099
Debentures	20	203,755	18,618
Lease Agreements	21	7,744	2,956
Power suppliers and providers	22	239,856	217,503
Taxes payable	23	112,098	86,198
Consumer charges	24	24,729	18,617
Dividends and interest on equity	25	223,178	143,663
Salaries and social contributions		35,116	32,954
Energy efficiency program	26	35,071	36,840
Free energy	9	5,473	8,817
Regulatory liabilities - transmitters	10	6,293	10,789
TUSD-G	11	12,839	-
Tracking account for Parcel A item variations - CVA	12	-	11,293
Reimbursement of Benefit to Low Income Customers	28	944	37,723
Other current liabilities		33,062	45,320
<b>Non-current</b>		<b>846,488</b>	<b>880,352</b>
<b>Long-term</b>		<b>846,488</b>	<b>880,352</b>
Loans and financing	19	241,980	177,247
Debentures	20	368,606	508,332
Lease Agreements	21	22,284	10,290
Energy efficiency program	26	14,401	7,872
Provision and contingencies	27,1	81,701	83,189
Free energy	9	15,484	-
Regulatory liabilities, transmitters	10	-	6,293
TUSD-G	11	31,713	-
Reimbursement of Benefit to Low Income Customers	28	41,890	54,637
Pension plan	39	23,496	31,846
Other liabilities		4,933	646
<b>Shareholders equity</b>	<b>29</b>	<b>1,103,032</b>	<b>1,082,405</b>
Capital		952,492	952,492
Capital reserve		50,539	50,539
Legal reserve		100,001	80,466
Accumulated losses		-	(1,092)
<b>Total liabilities and shareholders equity</b>		<b>2,955,003</b>	<b>2,682,147</b>

The foot notes are an integral part of these Financial Statements.

## Income Statement

For the Fiscal Years ended on December 31, 2008 and 2007 (in thousands of Brazilian Reais, except for net income per shares)

	Notes	12/31/2008	12/31/2007
<b>Operating revenue</b>		<b>3,719,874</b>	<b>Re-presentation 3,582,762</b>
<b>Operating revenue deductions</b>		<b>(1,207,397)</b>	<b>(1,326,689)</b>
<b>Net operating revenue</b>	30	<b>2,512,477</b>	<b>2,256,073</b>
<b>Cost of electric energy services</b>		<b>(1,328,595)</b>	<b>(1,070,771)</b>
Energy purchased for resale	31	(1,461,478)	(1,181,576)
PIS and COFINS tax credits related to purchased energy		132,883	110,805
<b>Operation costs</b>		<b>(397,676)</b>	<b>(337,050)</b>
Personnel	32	(135,884)	(129,277)
Materials	33	(24,955)	(23,659)
Outside services cost	34	(71,819)	(66,735)
Depreciation and other amortizations		(116,981)	(113,851)
Other net operating costs	35	(52,086)	(19,044)
PIS and COFINS credits on operating costs		4,049	15,516
<b>Gross profit</b>		<b>786,206</b>	<b>848,252</b>
<b>Operating expenses</b>		<b>(156,154)</b>	<b>(146,256)</b>
Sales expenses		(15,058)	(13,089)
General administrative expenses		(63,543)	(64,495)
Goodwill amortization		(7,348)	(7,348)
Other net operating expenses	35	(70,205)	(61,324)
<b>Service result</b>		<b>630,052</b>	<b>701,996</b>
<b>Financial result</b>	36	<b>(140,232)</b>	<b>(147,508)</b>
Financial revenues		66,841	103,117
Financial expenses		(110,973)	(152,860)
Net foreign exchange and monetary variance		(28,386)	(30,180)
Interest on equity		(67,714)	(67,585)
<b>Operating income</b>		<b>489,820</b>	<b>554,488</b>
<b>Income before tax and social contribution</b>		<b>489,820</b>	<b>554,488</b>
Income tax	37	(74,867)	(79,288)
Social contribution	37	(25,754)	(30,641)
Deferred income tax	37	(47,633)	(34,536)
Deferred social contribution	37	(17,493)	(10,751)
Reversal of interest on equity		67,714	67,585
<b>Net income</b>		<b>391,787</b>	<b>466,857</b>
<b>Net income per share - R\$</b>		<b>2.02</b>	<b>2.41</b>

The foot notes are an integral part of these Financial Statements.

## Statements of Changes in Shareholders' Equity

For the Fiscal Years ended on December 31, 2008 and 2007 (in thousands of Brazilian Reais)

	Notes	Capital	Capital reserve	Legal reserve	Retained losses	Total
<b>Balances at December 31, 2006</b>		<b>952,492</b>	<b>50,539</b>	<b>57,121</b>	-	<b>1,060,152</b>
Adjustments due to Law 11638/07 - previous years	2	-	-	-	(1,038)	(1,038)
<b>Balance at December 31, 2006 (adjusted)</b>		<b>952,492</b>	<b>50,539</b>	<b>57,121</b>	<b>(1,038)</b>	<b>1,059,114</b>
Net income		-	-	-	466,857	466,857
Distribution of net income		-	-	-	-	-
Legal reserve		-	-	23,345	(23,345)	-
Proposed and paid dividends		-	-	-	(375,981)	(375,981)
Interest on equity		-	-	-	(67,585)	(67,585)
<b>Balances at December 31, 2007 (re-presented)</b>		<b>952,492</b>	<b>50,539</b>	<b>80,466</b>	<b>(1,092)</b>	<b>1,082,405</b>
Net income		-	-	-	391,787	391,787
Distribution of net income		-	-	-	-	-
Legal reserve		-	-	19,535	(19,535)	-
Proposed and paid dividends		-	-	-	(303,446)	(303,446)
Interest on equity		-	-	-	(67,714)	(67,714)
<b>Balances at December 31, 2008</b>		<b>952,492</b>	<b>50,539</b>	<b>100,001</b>	<b>-</b>	<b>1,103,032</b>

The foot notes are an integral part of these Financial Statements.

## Cash Flow Statement

For the Fiscal Years ended on December 31, 2008 and 2007 (in thousands of Brazilian Reais)

	12/31/2008	12/31/2007
		Re-presentation
<b>Operating Activities</b>		
<b>Net income for period</b>	<b>391,787</b>	<b>466,857</b>
<b>Expenses (revenues) not affecting cash</b>	<b>366,115</b>	<b>303,134</b>
Allowance for doubtful accounts	27,537	(18,029)
Interest and monetary adjustment	137,739	159,934
Depreciation and other amortizations	116,981	113,851
Goodwill amortization	7,348	7,348
Gain/loss on fixed asset disposal	17,751	12,275
Pension plan	(8,350)	(3,398)
Provision and contingencies	3,496	(38,620)
Amortization and contribution of deferred taxes	63,613	45,851
Other	-	23,922
<b>Asset variation</b>	<b>(158,204)</b>	<b>350,735</b>
Consumers and concessionaries	(49,880)	111,306
Inventories	(180)	(15,833)
Recoverable taxes	2,648	(15,192)
Regulatory assets	(132,648)	276,758
Pledged funds	27,310	3,183
Other credits	(5,454)	(9,487)
<b>Liability variation</b>	<b>14,475</b>	<b>(54,062)</b>
Suppliers	22,353	17,467
Taxes payable	14,335	(34,444)
Regulatory liabilities	(17,213)	(15,738)
Pension plan	-	(1,762)
Provision and contingencies	(10,302)	(5,093)
Energy efficiency program	268	(29,050)
Other	5,034	14,558
<b>Total operating activities</b>	<b>614,173</b>	<b>1,066,664</b>
<b>Investments activities</b>	<b>(275,459)</b>	<b>(249,058)</b>
Capital expenditures	(267,862)	(264,872)
Capital expenditures - warehouse material	(28,654)	(6,797)
Special liabilities	12,172	14,492
Selling price of property, plant and equipment	8,885	8,119
<b>Loans and financing</b>	<b>(291,022)</b>	<b>(1,143,867)</b>
Proposed and paid dividends and interest on equity	(280,080)	(775,479)
Debenture amortization (principal and interest)	(135,034)	(494,817)
Lease amortization (principal and interest)	(4,640)	(6,638)
Loans	128,732	133,067
<b>Total Cash Flows</b>	<b>47,692</b>	<b>(326,261)</b>
Initial balance - cash flow	157,328	483,589
Final balance - cash flow	205,020	157,328
<b>Change in cash</b>	<b>47,692</b>	<b>(326,261)</b>
<b>Additional information:</b>		
Paid interest	90,262	133,527
Paid income tax and social contribution	104,911	113,861
Paid taxes	1,013,476	1,096,565
Fixed assets acquisitions - lease agreements	20,191	19,735

The foot notes are an integral part of these Financial Statements.

## Added Value Statement

For the Fiscal Years ended on December 31, 2008 and 2007 (in thousands of Brazilian Reals)

	Notes	12/31/2008	12/31/2007
<b>Revenue</b>		<b>3,707,110</b>	<b>Re-representation 3,577,711</b>
Energy sales and services	30	3,719,874	3,582,762
Allowance for doubtful accounts		(18,488)	(12,100)
Other revenues		5,724	7,049
<b>Acquired inputs from third parties</b>		<b>(1,723,574)</b>	<b>(1,404,679)</b>
Purchased energy	31	(1,461,478)	(1,181,576)
Materials	33	(26,699)	(25,343)
Outside services	34	(107,630)	(99,174)
Other operating costs		(103,521)	(79,252)
Other expenses		(24,246)	(19,334)
<b>Gross added value</b>		<b>1,983,536</b>	<b>2,173,032</b>
Depreciation, goodwill and other amortizations		(124,329)	(121,199)
<b>Net added value</b>		<b>1,859,207</b>	<b>2,051,833</b>
Financial revenues, monetary and exchange rate variations	36	102,413	129,695
<b>Added value for distribution</b>		<b>1,961,620</b>	<b>2,181,528</b>
<b>Distribution of added value</b>		<b>1,961,620</b>	<b>2,181,528</b>
Personnel	32	176,930	172,738
Taxes, fees and contributions		1,011,735	1,075,103
Federal		391,744	415,141
Estate		619,653	659,452
Municipal		338	510
Consumer charges and others		209,257	277,179
Financial expenses		171,911	189,651
Interest on equity		67,714	67,585
Dividends proposed		303,446	375,981
Retained earnings		20,627	23,291

The foot notes are an integral part of these Financial Statements.

## Notes to the Financial Statements

December 31, 2008 and 2007 (in thousands of Brazilian Reals, except where otherwise stated)

### 1. The Company, its Operations and the Concession

Elektro Eletricidade e Serviços S.A., hereinafter "Elektro" or "Company", has its principal place of business at Rua Ary Antenor de Souza, 321, in the municipality of Campinas. It is a public electric energy services concessionaire, and its businesses, including the services rendered and tariffs charges are generally speaking regulated by the National Electric Energy Agency (ANEEL), according to concession contract entered into by the Company and federal government (Granting Authority), with ANEEL acting as intermediary, and signed on August 27, 1998.

The concession contract is effective for 30 years, and may be extended upon request by the concessionaire company at ANEEL's sole discretion, for an additional period of at most 30 years. According to the contract, Elektro is entitled to explore energy distribution services in 228 municipalities, 223 of which are located in the state of São Paulo and 5 in the state of Mato Grosso do Sul, and is under the obligation to implement new facilities and expand existing ones in order to fulfill both the current and also the future demand of its energy market.

The concession contract establishes that all assets and installations owned by the Company which are pegged to the supply of electric energy distribution services be deemed reversible and incorporated to the respective concession's equity. These assets will automatically revert to the Granting Authority upon the expiry of the concession contract, with the evaluation of said assets and determination of the compensation payable to the concessionaire to be subject to applicable regulations.

The Company is listed with the Brazilian Securities Commission (CVM) as a publicly-held company, and trades its shares on the São Paulo Stock Exchange (Bovespa).

### 2. Presentation of the Financial Statements

The Financial Statements were prepared according to generally accepted accounting standards in Brazil, including those of CVM and with the pronouncements issued by the Accounting Pronouncements Committee (CPC), as well as with the provision contained in specific laws applying to public electric energy services concessionaires, issued by ANEEL.

The accounting practices and criteria used in preparing the current Financial Statements are consistent with those used in preparing the Financial Statements of the fiscal year ending December 31, 2007, including those referring to the accounting standards established in Law No. 11638/07, Provisional Measure No. 449/08, and regulations issued by the CPC.

On February 16, 2009, the Board of Executive Officers of Elektro authorized the completion of the Financial Statements for the fiscal year ending December 31, 2008, and sent them to the Board of Directors, which approved these Financial Statements on March 2, 2009.

### 2.1. Changes in Corporate Law and Brazilian Accounting Practices and Adjustments and Reclassification of the Financial Statements as of December 31, 2007

On December 28, 2007, Law No. 11638/07 was promulgated, having changed, revoked and introduced new provisions to Corporate Law, especially in the section on the disclosure and preparation of the Financial Statements. These changes in accounting practices became effective as from January 1, 2008. Law No. 11638/07 was amended after publication of Provisional Measure No. 449, on December 3, 2008.

The main purpose of this Law was to update Brazilian corporate law in order to bring Brazilian accounting practices into line with International Financial Reporting Standards – (IFRS), and to allow for new accounting standards and procedures to be issued by CVM in accordance with international accounting standards.

As the new law came into force, some of the changes were regulated through provisions issued by the CVM, among which, Instruction No. 469, dated May 2, 2008, which provided for the full application of the Law on Quarterly Information (ITR) of 2008 (articles 3 to 14 of said Instruction) and also for full and mandatory application of the law to the 2008 Financial Statements. Additionally, because of the new law, some accounting pronouncements were made by CPC and approved through CVM Deliberations.

Based on the regulations issued by the CVM and CPC during fiscal 2008, the Company analyzed the changes in accounting practices and registered the impacts identified on December 31, 2008.

According to CPC Pronouncement 13 - Initial adoption of Law No.11638/07 and Provisional Measure No. 449/08, approved under CVM Resolution No. 565/08, Elektro made the accounting adjustments on December 31, 2008, considering December 31, 2007 the opening balance sheet date.

For comparative purposes and to facilitate comprehension of the Financial Statements, the Company is presenting the Financial Statements of December 31, 2007 with the effects provided for in Law and the new CPC standards, taking into consideration for this purpose, the adjustments to the opening balance at December 31, 2006, on a *pro-forma* basis.

Shown below is a statement of the lines and groups that were adjusted in the Balance Sheet, Income Statement, Cash flow Statement and Value Added Statement for the fiscal year ending December 2007, due to the adjustments stipulated in Law No.11638/07 and the CPC standards. Furthermore, the Company reclassified certain 2007 account balances so that they could be compared with those of 2008, as specified below.

**Income Statement at December 31, 2007 (in thousands of Brazilian Reais)**  
**Adjustments in compliance with Law No. 11638/07 and other reclassifications**

Assets	Notes	12/31/2007 Published	Adjustment due to Law 11638/07	Other Reclassifications	12/31/2007 Adjusted
<b>Current assets</b>		<b>786,727</b>	<b>-</b>	<b>(14,625)</b>	<b>772,102</b>
<b>Receivable and recoverable assets</b>		<b>629,399</b>	<b>-</b>	<b>(14,625)</b>	<b>614,774</b>
Other credits	(a)	48,398	-	(14,625)	33,773
<b>Non-current assets</b>		<b>1,883,266</b>	<b>12,154</b>	<b>14,625</b>	<b>1,910,045</b>
<b>Long-term</b>		<b>461,413</b>	<b>563</b>	<b>19,521</b>	<b>481,497</b>
<b>Receivable and recoverable assets</b>		<b>461,413</b>	<b>563</b>	<b>19,521</b>	<b>481,497</b>
Revenue loss recovery and free energy	(a)	-	-	15,960	15,960
Deferred and recoverable taxes	(b)	388,358	563	-	388,921
Other credits	(a)	2,569	-	3,561	6,130
<b>Property, Plant and Equipment</b>	(c)	<b>1,375,660</b>	<b>11,591</b>	<b>-</b>	<b>1,387,251</b>
<b>Deferred Asset</b>	(a)	<b>4,896</b>	<b>-</b>	<b>(4,896)</b>	<b>-</b>
<b>Total assets</b>		<b>2,669,993</b>	<b>12,154</b>	<b>-</b>	<b>2,682,147</b>

Liabilities	Notes	12/31/2007 Published	Adjustment due to Law 11638/07	Other Reclassifications	12/31/2007 Adjusted
<b>Current</b>		<b>724,306</b>	<b>2,956</b>	<b>(7,872)</b>	<b>719,390</b>
Lease agreements	(c)	-	2,956	-	2,956
Energy efficiency program obligations	(d)	44,712	-	(7,872)	36,840
<b>Non-current assets</b>		<b>862,190</b>	<b>10,290</b>	<b>7,872</b>	<b>880,352</b>
<b>Long-term</b>		<b>862,190</b>	<b>10,290</b>	<b>7,872</b>	<b>880,352</b>
Lease agreements	(c)	-	10,290	-	10,290
Energy efficiency program obligations	(d)	-	-	7,872	7,872
<b>Shareholders equity</b>		<b>1,083,497</b>	<b>(1,092)</b>	<b>-</b>	<b>1,082,405</b>
Accumulated losses	(b) (c)	-	(1,092)	-	(1,092)
<b>Total Liabilities</b>		<b>2,669,993</b>	<b>12,154</b>	<b>-</b>	<b>2,682,147</b>

**Income Statement at December 31, 2007 (in thousands of Brazilian Reais)**  
**Adjustments in compliance with Law No. 11638/07 and other reclassifications**

	Notes	12/31/2007 Published	Adjusted as per Law 11638/07	12/31/2007 Adjusted
<b>Operating costs</b>		<b>(338,245)</b>	<b>1,195</b>	<b>(337,050)</b>
Depreciation and other amortizations	(c)	(112,051)	(1,800)	(113,851)
Other operating costs	(c)	(22,039)	2,995	(19,044)
<b>Gross profit</b>		<b>847,057</b>	<b>1,195</b>	<b>848,252</b>
<b>Operating expenses</b>		<b>(133,971)</b>	<b>(12,285)</b>	<b>(146,256)</b>
Other net operating expenses	(e)	(49,039)	(12,285)	(61,324)
<b>EBIT</b>		<b>713,086</b>	<b>(11,090)</b>	<b>701,996</b>
<b>Financial result</b>		<b>(146,231)</b>	<b>(1,277)</b>	<b>(147,508)</b>
Financial expenses	(c)	(151,583)	(1,277)	(152,860)
<b>Operating result</b>		<b>566,855</b>	<b>(12,367)</b>	<b>554,488</b>
Non-operating result	(e)	(12,285)	12,285	-
<b>Income before tax and social security</b>		<b>554,570</b>	<b>(82)</b>	<b>554,488</b>
Deferred income tax	(b)	(34,557)	21	(34,536)
Deferred social contribution	(b)	(10,758)	7	(10,751)
<b>Net income</b>		<b>466,911</b>	<b>(54)</b>	<b>466,857</b>



Statement of Cash Flow at December 31, 2007 (in thousands of Brazilian Reais)  
Adjustments in compliance with Law No. 11638/07 and other reclassifications

	Notes	12/31/2007 Published	Adjusted as per Law 11.638/07	12/31/2007 Adjusted
<b>Operating activities</b>				
Net income for the period	(c)	466,911	(54)	466,857
Expenses (revenues) not affecting cash		295,879	7,255	303,134
Interest and monetary adjustment	(c)	155,015	4,919	159,934
Depreciation and other amortizations	(c)	112,051	1,800	113,851
Amortization and deferred taxes	(b)	45,315	536	45,851
Asset variation		351,298	(563)	350,735
Recoverable taxes	(b)	(14,629)	(563)	(15,192)
<b>Total operating activities</b>		<b>1,060,026</b>	<b>6,638</b>	<b>1,066,664</b>
Investments		(1,137,229)	(6,638)	(1,143,867)
Lease amortization (principal and interest)	(c)	-	(6,638)	(6,638)
<b>Total cash flows</b>		<b>(326,261)</b>	<b>-</b>	<b>(326,261)</b>

Value Added Statement for fiscal years ended December 31, 2008 and 2007 (in thousands of Brazilian Reais)  
Adjustments in compliance with Law No. 11638/07 and other reclassifications

	Notes	12/31/2007 Published	Adjusted as per Law 11638/07	12/31/2007 Adjusted
<b>Acquisitions from third parties</b>		<b>(1,407,674)</b>	<b>2,995</b>	<b>(1,404,679)</b>
Other operating costs	(c)	(82,247)	2,995	(79,252)
<b>Gross added value</b>		<b>2,170,037</b>	<b>2,995</b>	<b>2,173,032</b>
Depreciation, goodwill and other amortizations	(c)	(119,399)	(1,800)	(121,199)
<b>Net added value</b>		<b>2,050,638</b>	<b>1,195</b>	<b>2,051,833</b>
<b>Added value for distribution</b>		<b>2,180,333</b>	<b>1,195</b>	<b>2,181,528</b>
<b>Distribution of added value</b>		<b>2,180,333</b>	<b>1,195</b>	<b>2,181,528</b>
Taxes, fees and contributions	(b)	1,075,131	(28)	1,075,103
Federal		415,169	(28)	415,141
Financial expenses	(c)	188,374	1,277	189,651
Retained earnings	(c)	23,345	(54)	23,291

- (a) In order to improve comparability, in the December 31, 2007 balances, the Company reclassified the amount of R\$ 15,960 booked to the item "Other credits" under current assets to "RTE – Revenue loss recovery and free energy" under non-current assets, and the amount of R\$ 4,896 posted to expenses related to the second issue of debentures in the item "Deferred Expenses" to prepaid expenses under the item "Other credits" (R\$ 1,335 under current assets and R\$ 3,561 under non-current assets).
- (b) For adjustments related to changes in accounting practices prompted by the amendment to Corporate Law, a provision for deferred income tax and social contribution was made, since, according to the Transition Tax System created under Provisional Measure No. 449, of December 3, 2008, these adjustments will not be taxable bases for income tax.
- (c) Amounts stemming from transactions involving the transfer of asset benefits, risks and control of assets to the Company were posted to fixed assets. In Elektro's case, the agreements characterized as financial lease agreements (see note 21) were registered as established in CPC Pronouncement 06 - Financial Lease Transactions, as approved by CVM under CVM Resolution No. 554/08.

(d) According to a pronouncement by ANEEL by way of Official Letter No. 127, of January 16, 2009, the Company inserted on December 31, 2008, a new heading "Energy Efficiency Program" between current and non-current liabilities. For comparative purposes, the December 31, 2007 account balances were also reclassified.

(e) The item "Non-operating income" in the Statement of Income was eliminated, the effects of which were presented under the heading "Other net operating expenses", as per Provisional Measure No. 449/2008.

Other relevant changes in Corporate Law, CVM and CPC regulations and their effects in relation to the Company are:

- Creation of an intangible subgroup under assets. Elektro has been including this item in the Balance Sheet since 2006, as per CVM Resolution No. 488/05;
- Creation of the account "Equity Evaluation Adjustments" under Shareholders' Equity to allow, for example, the registry of given asset evaluations at market prices, especially of financial instruments. This has had no impact thus far, since there has been no adjustment that has called for a counter-entry to this account;

- Compulsory periodical assessment of the recoverability of amounts posted to fixed assets, investments and intangible assets. The Company analyzed its assets as established in CPC Pronouncement 01 – Reduction in the Recoverable Value of Assets, as approved under CVM Resolution No. 527/07, and found, firstly, that there was no indication of any devaluation in its assets and, secondly, based on the discounted cash flow, found that assets are receivable within satisfactory time frames;

- Introduction of the present value adjustment concept to long-term assets and liabilities and relevant short-term assets and liabilities. This has had no effect thus far, since the Company has evaluated its assets and liabilities and found that any such adjustment would be irrelevant.

The other changes introduced under Law No. 11638/07 and MP No. 449/08 as well as in the CPC pronouncements issued during 2008, which were not listed above had no effects as regards the Company in light of applicable law, or are already being complied with, such as, for example, presentation of the cash flows and value added statements, among others.

### 3. Smain Accounting Practices

#### 3.1. Specific Accounting Practices

##### a. Indirect costs related to construction in progress

Indirect costs are appropriated every month to property, plant and equipment through the apportionment of administrative expenses.

##### b. Tracking account for variations in Parcel A - CVA

According to applicable law and regulations issued by ANEEL via several resolutions, the Company recognizes the economic and financial effects of variations in Parcel A (non-manageable costs) not covered by billed tariffs in either assets or liabilities, as provided for in the energy distribution concession contract (see note 12).

#### 3.2. General Accounting Practices

##### a. Cash and cash equivalents

The balance includes financial investments posted at cost and grossed up by earnings on investments up to the balance sheet date, and do not exceed their market value.

##### b. Consumers

Accounts receivable include amounts related to both billed and unbilled energy supply and are reported on an accrual basis.

##### c. Allowance for doubtful accounts

The allowance for doubtful accounts was set up according to the Public Electric Energy Services Accounting Manual, and is considered sufficient to cover eventual losses related to receivables

##### d. Electric Energy Commercialization Chamber (CCEE)

Energy purchase and sale transactions conducted on the CCEE and System Service Charges (ESS) are accounted on an accrual basis, based on estimates prepared by company management and later adjusted based on reports furnished by CCEE.

##### e. Inventory

Materials in stock are evaluated at the average cost of acquisition of new items, and outlays on maintenance and calibration are added to cost of reused items, and do not exceed their intrinsic value or replacement cost. Materials designated for use on site are classified as fixed assets and those designated for maintenance as current assets.

##### f. Investments

Investments are registered at acquisition cost and basically involve real estate for future use granted on a free lease basis (see note 16).

##### g. Property, plant and equipment

Property, plant and equipment are registered at acquisition or construction cost, plus financial charges arising from loans and financing tied to their production period, less accumulated depreciation. Depreciation is calculated via the linear method, and the rates were consistent with those found in the Public Electric Energy Services Accounting Manual and ANEEL Normative Resolution No. 240, dated December 5, 2006.

Assets acquired through financial lease transactions are registered at their respective cash value or adjusted to present value.

The portion of the premium related to goodwill amortization of plant, property and equipment is amortized over a 20-year period (see note 15), and refers to the merger of the controlling company, *Terraço Participações Ltda.*

The special liabilities shown as fixed asset reduction drivers are registered at the total amount collected from consumers and the federal government, and, in accordance with ANEEL regulations, amortized at the average rate applying to fixed assets in service.

##### h. Income tax and social contribution

Income tax and social contribution are registered on an accrual basis, subject to current legislation, at the basic rate of 25% for income tax and 9% for social contribution. The effects of deferred income tax and social contribution on tax losses, the negative social contribution base and temporary differences are posted to the Financial Statements as provided for in CVM Deliberation No. 273/98 and CVM Instruction No. 371/02 (see notes 15 and 37).

##### i. PIS and COFINS

In compliance with IBRACON Technical Interpretation No. 1, of June 22, 2004, the Company presents non-accruable PIS and COFINS credits on operational costs and expenses as reducers these groups of accounts in the Financial Statements.

##### j. Accounting Estimates

The Company calculates and registers given assets, liabilities, receipts and expenses based on accounting estimates made in accordance with generally accepted accounting practices in Brazil. Settlement of the transactions involving these estimated figures may result in amounts different to those estimated. In order to minimize eventual adjustments to these estimates, the evaluation premises of these figures are periodically revised.

**k. Balances and transactions in foreign currency or subject to exchange rate updates**

These balances and transactions are posted based on the applicable foreign exchange rate of the respective currency on the balance sheet closing date or based on contractually agreed upon indexes.

**l. Current and non-current liabilities**

Current and non-current liabilities are known or calculable amounts plus, as applicable, the corresponding charges, foreign exchange rate fluctuations and price-level adjustments incurred.

**m. Pension plan**

The Company registers the adjustment of actuarial commitment related to the Employee Pension Fund according to the IBRACON Pronouncement, Accounting Standards and Procedures (NPC) No. 26, which provides for the entry into the accounting registers of employee benefits, as approved under CVM Resolution No. 371, of December 13, 2000 (see note 39).

**n. Income**

Income is determined on an accrual basis.

**o. Net income per share**

Net income per share is determined by the number of shares in circulation on the balance sheet date.

**p. Cash flow**

The Company prepares its cash flow in compliance with the Public Electric Energy Service Manual, as established in CPC Pronouncement 03 - Statement of Cash Flows, approved under CVM Resolution No. 547/08.

**q. Added value statement**

The Added value statement is prepared in accordance with CPC Pronouncement 09 – Added Value Statement, approved under CVM Resolution No. 557/08, and in compliance with the Public Electric Energy Services Accounting Manual. It is designed to show the results of the business in the accounting period in terms of value generated and value distributed by the Company.

**4. Tariff Review****4.1. Periodic Tariff Review**

As stipulated in the Elektro concession contract, regular tariff reviews are conducted every four years. The purpose of the review is to re-assess the economic and financial balance of the concession and to pass on to consumers the concessionaire's productivity gains, expected by the regulatory agency, through to the next tariff review. In Elektro's case, the first regular review was carried out on August 27, 2003, and the second on August 27, 2007.

ANEEL published the provisional results of the Company's second tariff review through Confirmatory Resolution No. 535, dated August 21, 2007. The reviewed tariffs became effective as of August 27, of 2007 resulting in an average decrease in tariffs of 18.59%.

The main factors influencing the tariff reduction were:

1. A decrease in the rate of return, expressed by the Weighted Average Cost of Capital (WACC), to 9.95%, from 11.26% per year, as per ANEEL Resolution No. 246, of December 21, 2006;

2. The end of the amortization period (see note 14) of the deferred tariff increase relating to Elektro's first tariff review on August 2003, which provided for payment installments of the 28.69% readjustment. In 2003, the tariffs were readjusted by 20.25%, and the 8.44% balance deferred to the tariff adjustments made between 2004 and 2007, duly monetarily adjusted by the SELIC interest rate;

3. Exclusion of special liabilities from the Gross Remuneration Base for the purpose of calculating the reintegration quota;

4. Pass on to the consumers of Elektro's productivity and efficiency gains; and

5. Drop in Fuel Consumption Account (CCC) figures, as regulated by ANEEL.

The tariff review was only provisionally ratified in 2007 because Public Hearing 008/2006, which discussed the modification in ANEEL Resolution No. 234/2006 providing for the second tariff cycle calculation method, had not been concluded. Therefore, all Efficient Operating Cost results and their implications in the calculation of the X factor remained provisional. In 2008, ANEEL changed only the amount designated to cover delinquency management costs, which were raised from 0.5% to 0.6% of gross billings.

The administrative appeal formally filed by Elektro at ANEEL on September 10, 2007, requesting, specifically, the inclusion of assets not considered by the Regulatory Agency to the Regulatory Remuneration Base and the review of the calculations of additional costs and minor components on August 27, 2008, was partially complied with. To offset the previous cycle, ANEEL included in Elektro's current tariff cycle a financial component of R\$ 15,507, which is registered to "Other Credits" under current assets, and will be amortized in billings up to August 2009.

These changes were formally effected via Confirmatory Resolution No. 700, dated August 26, 2008.

The results of the tariff review disclosed thus far remain provisional, as they are for most of the energy distributors in Brazil. In the case of Elektro, efficient operating costs (also known as "Model Company") are also being reviewed by ANEEL, and may be revised in Elektro's 2009 tariff review.

**4.2. Tariff Adjustment**

Tariff adjustments, which occur annually in the intervals between the tariff reviews, are designed to restore the economic and financial balance of a concessionaire's contract and guarantee that it does not suffer losses due to inflation. In addition, it permits the appropriation by the consumers of part of the productivity gains expected by ANEEL when the tariffs are reviewed. In the case of Elektro, this adjustment is made on August 27 of each year, as established in the concession contract.

ANEEL ratified Elektro's annual contractual tariff adjustment via Confirmatory Resolution No. 701, on August 26, 2008. The average tariff adjustment authorized was 11.63%, as from August 27, 2008. To consumers, the effective adjustment was 10.91%, due to the elimination of some financial components of the August 2007 adjustment.

## 5. Financial Investments

The financial investments have the following maturities:

Maturity year	12/31/2008	12/31/2007
2008	-	523
2009	47,436	128,584
2010	154,225	2,406
Total	201,661	131,513

In December 31, 2008, investments were pegged to post-fixed yield instruments, including Bank Certificates of Deposit (CDBs), investment funds and other instruments indexed to the average fluctuation of the daily Interbank Certificates of Deposit (CDI) rates. These financial investments have daily marketability and may be redeemed at any time without any loss to the Company, independently of their maturity dates, which is why they are posted to current assets.

Elektro has a very stringent and conservative investment policy, which does not permit investments in derivatives or instruments exposed to high credit risks, whether public or private. Furthermore, Elektro is most selective in choosing the financial institutions with which it operates, and its portfolio only has investments made in top-ranking banks, rated to AA- minimum by one of the international risk rating agencies.

## 6. Accounts Receivable - Consumers, Debt Installment and Suppliers

	12/31/2008				12/31/2008			
	Past Due			Total	Past Due			Total
	Due	Under 90 days	(+) 90 days		Due	Under 90 days	(+) 90 days	
Supply	131,965	83,135	18,330	233,430	110,935	79,058	30,398	220,391
Residential	64,473	54,034	3,834	122,341	52,809	48,834	3,648	105,291
Industrial	19,857	10,350	9,599	39,806	16,914	10,167	15,687	42,768
Commercial	18,761	12,238	1,773	32,772	16,232	12,095	2,008	30,335
Rural	6,386	3,780	281	10,447	5,564	3,747	320	9,631
Government	7,999	890	59	8,948	6,823	1,258	1,376	9,457
Public lighting	8,294	721	2,760	11,775	6,806	1,880	6,790	15,476
Public services	6,195	1,122	24	7,341	5,787	1,077	569	7,433
Other accounts receivable	298,966	3,903	4,198	307,067	278,580	2,779	7,815	289,174
Debt parceling	51,647	3,903	4,198	59,748	52,162	2,779	7,815	62,756
Unbilled revenue	205,438	-	-	205,438	173,446	-	-	173,446
Suppliers	31,027	-	-	31,027	39,378	-	-	39,378
Other	10,854	-	-	10,854	13,594	-	-	13,594
Total	430,931	87,038	22,528	540,497	389,515	81,837	38,213	509,565
Current	389,650	87,038	22,528	499,216	347,541	81,837	38,213	467,591
Non-current	41,281	-	-	41,281	41,974	-	-	41,974

On December 31, 2008, R\$ 20,057 out of the R\$ 31,027 classified as "Suppliers" under long-term receivables refers to transactions carried out within the framework of CCEE during the energy rationing period and includes: (i) R\$ 16,048 relating to injunctions filed with CCEE by the energy industry's agents and (ii) R\$ 4,009 refers to bilateral agreements under negotiation. The Company does not expect to incur losses from the realization of these amounts.

## 7. Allowance for Doubtful Accounts

The allowance for doubtful accounts is broken down into the following classes:

	12/31/2008	12/31/2007
Residential	5,678	4,929
Industrial	7,200	8,353
Commercial	2,248	2,197
Rural	607	400
Government (Federal, State and Local)	1,044	788
Public lighting	4,742	7,320
Municipality due in installments	17,049	19,398
Private due in installments	5,088	873
Total	43,656	44,258

Allowance for doubtful accounts is in compliance with the Public Electric Energy Services Accounting Manual. Company management considers this allowance sufficient to cover likely losses on receivables.

The decrease in the public lighting balance is due to renegotiation of the debts of quasi-public companies and municipalities.

The reduction in the municipal government debt parceling account balance is due to effective write-off of instruments with low probability of collection.

The increase in the private debt parceling balance is due to a higher reserve made for industrial clients facing insolvency.

## 8. Pledged of Funds and Restricted Deposits

	12/31/2008		12/31/2007	
	Current	Non-Current	Current	Non-Current
Debts:				
Eletrobrás ( <i>Luz para Todos</i> ) (i)	232	-	11,279	-
BNDES (Finem) (ii)	-	-	14,969	-
Debentures (iii)	4,824	-	8,081	-
Guarantee - electric power purchase auction	9,090	11,711	8,781	10,722
Others	1,591	-	926	-
Total	<u>15,737</u>	<u>11,711</u>	<u>44,036</u>	<u>10,722</u>

Pledged funds have been set up as a consequence of the contractual provisions governing the following liabilities assumed by the Company:

(i) Eletrobrás – The loan agreement amount related to the *Luz para Todos* program. The total will be made available to Elektro after evidence is submitted on the investments made by the Company. The reduction is due to the attestations submitted during the period.

(ii) BNDES (Finem) – An accrued total to secure payment of the highest loan installment.

(iii) Debentures – An amount accrued on a monthly basis to cover the next due interest payment.

## 9. RTE - Revenue Loss Recovery and Free Energy

### The Electric Energy Industry's General Agreement

In December 2001, the Electric Energy Industry's General Agreement was concluded. This instituted an extraordinary tariff adjustment known as the Deferred Tariff Increase (RTE), the mechanism used by energy distributors and generators to recover revenue losses stemming from the Electric Energy Rationing Program that was put into effect from June 1, 2001 through February 28, 2002.

According to the time line established by ANEEL, November 2006 was the deadline for billing the RTE, which consisted of amounts designed to amortize recovery of the revenue losses sustained by distributors and related to free energy, to be passed on to the generators.

However, there are still some amounts that are yet to be billed to consumers from some municipalities in the area of Presidente Prudente, due to an injunctive relief issued by the court as a result of the legal suit brought against tariff increase by the consumers of that area. On February 29, 2008, this injunction was revoked with the result that Elektro was authorized to collect the amounts related to RTEs in these municipalities.

As this injunction has been in force since April 2002 and collection of the RTE in the rest of that concession area had ended by November 2006, ANEEL decided to charge consumers the RTE related to the remaining period, and levy the additional tariffs provided for in Law 10438/02 in the 26 municipalities when applying the August 2008 tariff adjustment. As a result of this ruling, which provides for collection of the respective amounts involved, Elektro recognized on December 31, 2008, the price-level restatement of the assets in question and respective free energy related liability.

The amounts registered to the RTE account (Revenue loss recovery and free energy) are being amortized in billings since the August 2008 tariff adjustment. The

amounts corresponding to the free energy liability (R\$ 5,473 registered to current liabilities and R\$ 15,484 to noncurrent liabilities) owed to generators, made up mostly of as yet unbilled amounts, will be transferred on to consumers as the RTEs are billed and collected. These assets and liabilities figures were recalculated as established in ANEEL Official Letter 2027/2008, without considering the unbilled amounts of the municipalities of the Presidente Prudente area.

## 10. Regulatory Assets and Liabilities - Transmitters

In 2007, the deferred tariff increase of some transmission concessionaires (transmitters) was duly ratified and it was found that they had a reported financial liability in favor of several energy industry agents as a result of a reduction in tariffs. The holders of such credit claims are public distribution service concession and permit holders (distributors), which had entered said amounts to costs under Parcel A in the period prior to the tariff review of such transmitters. Therefore, in its Circular Letter 2409/2007, ANEEL ordered distributors to post this balance to assets and make a counter-entry to operating revenue. The circular letter also orders the financial deduction of said amounts from those payable to the abovementioned transmitters by way of cost for the use of the transmission system (CUST). Thus, the distributors' asset will be liquidated in twenty-four months; fifty percent in the 2007-2008 cycle and the balance by August 2009.

Furthermore, ANEEL considered that the financial asset registered by distributors had been factored in Parcel A of the tariff charged to consumers and, consequently, has to be refunded. Therefore, the distributors entered a financial liability relative to consumers, the counter entry of which was operating cost, which is being deducted since the last tariff adjustment and will end in August 2009.

Elektro registered the original sum of R\$ 21,577 to both assets and liabilities. This amount has been taken into account in the last tariff review and therefore it is already being passed on to consumers, as is the reduction of the amounts paid by way of CUST. At December 31, 2008, the figure registered to both current assets and liabilities was R\$ 6,293. These amounts are not subject to price-level restatement.

## 11. Tariff for Use of the Distribution System paid by Generating units - TUSD-G

ANEEL Normative Resolution 67, dated June 8, de 2004, instituted the charging of a Tariff for Use of the Distribution System (TUSD) to generators that distribute energy in a centralized form via ONS, which were connected the transmission lines, busbars, voltage transformers and substation equipment, at under 230 kV, within Elektro's concession area. On June 26, 2007, ANEEL Confirmatory Resolution 497 was published with a view to establishing the tariffs to be charged to the generating units connected to the 138 kV system. These resolutions provide for five generating plants that are connected to Elektro's distribution

system: UHE Nova Avanhandava, owned by AES Tietê; UHE Jupia and UHE Paraibuna, owned by CESP; UHE Rosana, owned by Duke Energy; and UTE Três Lagoas, owned by Petrobrás.

These resolutions order Elektro to cover the costs of the generating units and pay the transmitter, Companhia de Transmissão de Energia Elétrica Paulista (CTEEP), the Connection Charges and Agreements on Use of the Transmission System (CUST) so that these costs are not onerous to their result. Some generators have brought suit and been granted injunctions favorable to the non-payment of these amounts. In these cases, ANEEL has partially included the forecast payment of such charges in final consumer rates. Elektro filed a suit with a request for injunction to seek not to pay the Connection Charges and CUST to CTEEP in cases in which there have been no forecast payments, with a view to preserving its economic and financial equilibrium, since it has collected neither from the generators nor from the consumers. The request for injunction was granted and a court deposit of R\$ 4,454 - equivalent to the installment that fell due in early

September 2008 – was ordered, as was the issue of a letter of guarantee to secure the payments to be made up until the next tariff adjustment (R\$ 10,635 to December 31, 2008).

In the case of the UTE Três Lagoas, the agreements were signed in compliance with Resolution 67, and since July 2004, Elektro has been billing this generating plant. Resolution 497 established a new TUSD-G that was less than that established in the agreement signed with Petrobrás, with the result that Elektro must now refund overbilled differences for the period. These amounts were included in Elektro's tariffs by way of a financial component to be amortized in 24 months as from August 2007.

In view of the foregoing explanation, on December 31, 2008 the balance sheet figures in relation to the TUSD-G are:

Assets	12/31/2008		Balance
	Principal	Amortization	
Current assets	28,599	(14,877)	13,722
Petrobrás - Três Lagoas - jul/04 to jun/07 (a)	15,613	(10,086)	5,527
AES - Nova Avanhandava - jun/07 to mai/08 (b)	12,986	(4,791)	8,195
Non-current assets	31,713	-	31,713
AES - Nova Avanhandava - jul/04 to mai/07 (c)	25,139	-	25,139
CESP - Jupia/Paraibuna - jul/08 to set/08 (c)	6,574	-	6,574
Total to be received - TUSD-G	60,312	(14,877)	45,435

Liabilities	12/31/2008		Balance
	Principal	Amortization	
Current liabilities	29,716	(16,877)	12,839
Petrobrás - Três Lagoas - jul/04 to jun/07 (a)	16,730	(10,384)	6,346
AES - Nova Avanhandava - jun/07 to mai/08 (b)	12,986	(6,493)	6,493
Non-current liabilities	31,713	-	31,713
AES - Nova Avanhandava - jul/04 to mai/07 (c)	25,139	-	25,139
CESP - Jupia/Paraibuna - jul/08 to dez/08 (c)	6,574	-	6,574
Total to be paid - TUSD-G	61,429	(16,877)	44,552

(a) The R\$ 5,527 balance refers to the amount Elektro will collect from consumers through billings through August 2009. The balance posted to current liabilities of R\$ 6,346 is the amount to be paid to Petrobrás, as per the agreement signed on October 8, 2008.

(b) The R\$ 8,195 balance refers to the amount Elektro will collect from consumers through billings through August 2009. The balance posted to current liabilities of R\$ 6,493 is being paid on the respective CTREP invoice due dates relative to the July 2008 - June 2009 period.

(c) The generators were granted an injunction waiving payment of these amounts to Elektro, and Elektro has been granted an injunction to waive its payments to CTREP.

On January 13, 2009, an agreement was reached between the generators AES-Tietê and CESP, the distributors Elektro, CPFL, CPEE and Bandeirante and the transmitter CTREP, in which these generating companies agreed to enter into Agreements on the Use of the Distribution System (CUSD) with the distributors to make payment for the use of the system legally binding and to agree to pay the debts related to the July 2004 – December 2008 period in 36 installments indexed to the SELIC rate.

Only the generator Duk Paranapanema, owner of the Rosana plant located within Elektro's concession area, decided not to sign the agreement. Thus, payment for its use of the system and its liabilities are still pending. As a result, Elektro has signed the CUSD with AES-Tietê for the Nova Avanhandava plant, as well as the Instrument of Acknowledgment of Debt and Commitment to Pay together with other Covenants, according to which AES-Tietê recognizes the debt of R\$ 49,372 (monetarily updated on December 31, 2008) and undertakes to pay it in 36 monthly installments, indexed to the SELIC rate. This CUSD was also signed with CESP for the Jupia and Paraibuna plants, in which CESP recognizes the debt of R\$ 44,009 (monetarily updated on December 31, 2008) and undertakes to pay this on the same terms as AES-Tietê. Conversely, Elektro signed an Instrument of Acknowledgment of Debt and Agreement to Pay with CTREP in which it agrees to pay CTREP R\$ 41,875 (duly updated on December 31, 2008) in 36 monthly installments indexed to the SELIC rate. In view of this agreement, Elektro filed a petition in court, with the consent of the other parties to the agreement, to discontinue the lawsuit it had filed for damages due to non-collection of the aforementioned sums. Furthermore, the amounts stated in the agreement that have been or will be received by consumers via tariff, will be posted in 2009 to regulatory liabilities, and subsequently returned to consumers also via tariff, as soon as they are ratified by ANEEL.



## 12. Tracking Account for Parcel a Item Variations - CVA

The mechanism for offsetting variations in non-manageable costs incurred by power distribution companies is provided for and in compliance with applicable legislation. These variations are determined from differences between non-manageable costs effectively incurred and those estimated when calculating the tariff at the time of the annual tariff adjustments.

	CVA 07/08 (ii)	CVA 08/09 (iii)	Total	CVA 06/07 (i)	CVA 07/08 (ii)	Total
Energy purchased	(27,339)	41,845	14,506	17,160	868	18,028
Transportation of energy - Itaipu	-	-	-	(330)	(45)	(375)
System service charges - ESS	24,790	19,309	44,099	368	(987)	(619)
PROINFA	6,465	-	6,465	6,268	613	6,881
Basic network usage	(1,671)	11,289	9,618	209	3,530	3,739
Other	-	-	-	(577)	-	(577)
Deferred subtotal of energy purchased	2,245	72,443	74,688	23,098	3,979	27,077
Fuel consumption account - CCC	5,075	24,131	29,206	(43,898)	2,860	(41,038)
Energy development account - CDE	1,679	174	1,853	6,638	1,085	7,723
Total variation of CVA items	8,999	96,748	105,747	(14,162)	7,924	(6,238)
Total SELIC corrections	2,293	2,382	4,675	(499)	310	(189)
Total adjusted principal	11,292	99,130	110,422	(14,661)	8,234	(6,427)
Amortization of CVA	(3,436)	-	(3,436)	3,368	-	3,368
Total	7,856	99,130	106,986	(11,293)	8,234	(3,059)
Current assets	7,856	-	7,856	-	-	-
Non-current assets	-	99,130	99,130	-	8,234	8,234
Current liabilities	-	-	-	(11,293)	-	(11,293)

(i) includes deferrals between Aug/06 to Jul/07.

(ii) includes deferrals between Aug/07 to Jul/08.

(iii) includes deferrals between Aug/08 to Dec/08 (current cycle).

Under Confirmatory Resolution 701, dated August 26, 2008, ANEEL ratified the CVA amounts for the period between August 2007 and July 2008. The ratified amounts began to be amortized as from August 27, 2008, and the balance is being updated based on the SELIC rate.

The CVA for the period between August 2008 and December 2008 (current cycle) was verified and registered in the books by the Company in accordance with current legislation, and will be subject to audit by an independent auditing firm, as ruled in ANEEL Order 2082, of May 29, 2008, and then ratified by ANEEL at the next tariff adjustment in August 2009. The amortization of these amounts will start as soon as they are incorporated into the supply tariffs by ANEEL, which should happen on August 27, 2009.

The increase in the System Service Charge (ESS) was due to the startup of the thermal plants at the end of 2007 as a result of the Risk Aversion Curve (CAR) having been surpassed, at the order of the Energy Industry's Monitoring Committee (CMSE).

The increase in the CVA related to Purchased Energy is mainly due to the fluctuations in the foreign exchange rate to which the Itaipu invoices are pegged. These invoices were adversely affected by the US dollar exchange rate as from the second half of 2008, as well as by the high cost of the energy generated by the thermal plants that have been put into operation since January 2008.

With respect to outlays on fuels to generate electric energy credited to Fossil Fuel Consumption Account of Isolated Systems – CCC-ISOL, the variation was due to rising expenses incurred on consumption of fuel to generate energy by isolated systems. Because of these increases, ANEEL changed the annual quota values for the January to December 2008 period, via Confirmatory Resolution 751, dated December 16, 2008.

### Pass-on of energy purchase costs

On March 18, 2008, ANEEL's full board approved the regulations governing the pass-on of electric energy purchasing costs of distributors to energy supply tariffs of up to 103% of its market.

After approving the definitive method for determining the surplus up to 103%, ANEEL revised the calculations ratified in previous periods and found that there were some criteria differences that required adjustment. Adjustments of the differences were made in the August 2008 tariff adjustments, resulting in Elektro reporting a negative financial component of R\$ 12,335 in "Other Credits" under noncurrent assets.

The new rule, detailed in Technical Note 085/2008-SEM/SRE/ANEEL, now takes into account the pass-on to tariffs of the costs of purchasing energy on the spot market of the Electric Energy Commercialization Chamber, at the Price for Differential Settling (PLD) arising from declared purchase quantities at auctions, but not purchased by distributors due to insufficient energy or the fact that the auctions were not held. It also considers the pass on to tariffs of the quotas related to Financial Support Program for Investments in Alternative Sources of Electric Energy - PROINFA, and the review of the Itaipu energy quotas. Elektro has posted the CVA connected to frustrated quantities to the purchased energy account since the beginning of 2008.

### 13. PIS and COFINS Recovery

As from August 2005, based on Confirmatory Resolution 185, of August 22, 2005, the Company began to collect differences in the PIS and COFINS rates directly via consumer bills, and booked these to current assets. On December 31, 2008, the balance related to such differences in tax rates showed a credit balance of R\$ 328 (as compared to a debt balance of R\$ 1,835 on December 31, 2007). The right to adjust the tariff based on the increase in the tax burden is assured under the Concession Agreement and applicable legislation.

According to the understanding expressed in Technical Note 554/2006-SFF/ANEEL, ANEEL made the final verification of the effects of the increase in PIS and COFINS rates in previous periods. The difference at Elektro yet to be cleared is also registered to current assets, in the amount of R\$ 2,596 (R\$ 4,366 to current assets and R\$ 3,263 to noncurrent assets at December 31, 2007), and was confirmed by ANEEL in the August 2008 tariff adjustment. This will be amortized in billings in this tariff cycle.

### 14. Deferred Tariff Increase

ANEEL, as established in Confirmatory Resolution 216, dated August 26, 2004, definitively revised the Company's deferred tariff increase rate to 28.69%. On August 27, 2003, tariffs were adjusted by 20.25%, and the 8.44% difference deferred was applied gradually in the annual tariff adjustments between August 2004 and August 2007, when this percentage was fully incorporated into the tariffs. A provision for this deferred tariff increase was made with a counter entry to operating revenue on August 27, 2003, and has been amortized in billings made in the August 2004 and August 2007 period, as per the criteria established by ANEEL. In the year ended at December 31, 2007, amortization produced an impact (reduction) of R\$ 93,353 in revenues (see note 30).

### 15. Deferred and Recoverable Taxes

	12/31/2008	12/31/2007
Recoverable taxes	80,920	82,055
Income tax and social contribution on net income	10,797	7,995
Withholding taxes and contributions	1,648	2,846
ICMS to recover	44,254	42,400
PIS and COFINS to recover	24,221	28,814
Deferred Taxes	334,409	399,535
Income tax on tax losses	72,078	102,804
Social contribution on negative base	27,589	38,516
Income tax on temporary differences	52,083	56,930
Allowance for doubtful accounts	10,796	10,932
CVA	8,979	3,381
COFINS provision - injunction	19,531	18,412
Other	12,777	24,205
Social contribution on temporary differences	10,361	12,586
Allowance for doubtful accounts	3,886	3,935
CVA	3,233	1,217
Other	3,242	7,434
Tax benefit from merged goodwill	172,298	188,699
Total	415,329	481,590
Current	105,135	92,669
Non-current	310,194	388,921

In the majority of cases, the recoverable ICMS, PIS and COFINS balances refer to credits arising from the purchase of property, plant and equipment, and these are cleared in 48 months maximum.

Deferred tax credits arising from accrued temporary differences, income tax loss and negative social contribution basis are in compliance with CVM Resolution 273/98 and CVM Instruction 371/02, including as regards the realization deadline, which does not extend beyond ten years. These credits are recognized based on future taxable income of the Company, as approved by the Board of Directors on March 2, 2009.

The tax benefit related to the merged goodwill amortization is booked as determined by ANEEL and in CVM Instructions 319/99 and 349/01. The accounting registers for corporate and tax purposes are made in specific merged goodwill and provision accounts, with the corresponding amortization and reverse entries. This amount will be realized at the percentages officially announced by ANEEL on December 23, 2003 in its Official Letter 2182/2003, having been based on the concession period and the recovery forecasts found in the taxable income projections then presented by the Company to this regulatory authority.

Expectations regarding the amortization of deferred tax credits and the tax benefit of the merged goodwill are as follows:

Year	12/31/2008
2009	59,901
2010	60,647
2011	49,375
2012	51,343
2013	14,517
2014 to 2016	34,545
2017 to 2019	25,397
2020 to 2022	17,405
2023 to 2025	14,262
2026 to 2028	7,017
Total	334,409



The actual value of income tax and social contribution on net profits payable and recovery of the respective deferred balances resulted from the determination of taxable income, expectations regarding the realization of temporary differences and other variables. Therefore, the estimated future realization of this asset should not be considered indicative of a future profit projection of the Company. Besides, these projections are based on a series of premises that may vary in relation to the actual figures.

### 16. Investments

	12/31/2008	12/31/2007
Lands	4,264	4,264
Buildings	70	79
Total	4,334	4,343

Out of a total of R\$ 4,264 recorded as land, R\$ 4,240 are rural properties retained by the Company for probable future use. These properties are not tied to the concession and have been granted on a free lease basis, in order to ensure the physical and economic integrity of the assets.

### 17. Plant, Property and Equipment (PP&E)

	Annual Depreciation/ Amortization rates	12/31/2008			12/31/2007		
		Cost	Accrued depreciation and amortization	Net	Cost	Accrued depreciation and amortization	Net
PP&E In Service		2,921,281	(1,276,794)	1,644,487	2,663,692	(1,184,166)	1,479,527
Distribution		2,826,720	(1,241,316)	1,585,404	2,596,422	(1,156,345)	1,440,077
Lands	-	13,113	-	13,113	12,841	-	12,841
Buildings, civil construction and improvements	2.0 to 5.0%	49,224	(26,712)	22,512	48,199	(24,862)	23,337
Machinery and equipment	2.0 to 7.7%	2,721,900	(1,190,098)	1,531,802	2,494,886	(1,108,715)	1,386,171
Vehicles	20.0%	32,255	(18,702)	13,553	31,439	(17,664)	13,775
Furniture and equipments	10.0%	10,228	(5,804)	4,424	9,057	(5,104)	3,953
Central administration	-	94,561	(35,478)	59,083	67,270	(27,821)	39,450
Land		223	-	223	223	-	223
Buildings, civil construction and improvements	2.0 to 5.0%	13,288	(2,238)	11,050	10,259	(1,770)	8,489
Buildings, civil construction and improvements leases	2.0 to 5.0%	17,615	(9,010)	8,605	10,855	(7,419)	3,437
Machinery and equipment	2.0 to 7.7%	11,945	(4,299)	7,646	9,111	(3,661)	5,450
Vehicles	20.0%	6,418	(5,241)	1,177	8,517	(5,444)	3,073
Vehicles - leases	20.0%	13,660	(3,161)	10,499	8,147	(640)	7,507
Furniture and equipments	10.0%	21,221	(10,167)	11,054	19,424	(8,801)	10,623
Furniture and equipments - leases	10.0%	10,191	(1,362)	8,829	734	(86)	648
Activities not linked to concession							
Goodwill on property, plant and equipment	5.0%	146,954	(73,522)	73,432	146,953	(66,174)	80,779
PP&E in progress		141,033	-	141,033	151,309	-	151,309
Construction in progress		89,643	-	89,643	98,316	-	98,316
Inventories		46,972	-	46,972	47,827	-	47,827
Procurement in progress		153	-	153	-	-	-
Materials under repair		4,265	-	4,265	5,166	-	5,166
Special liabilities		(341,582)	20,518	(321,064)	(329,411)	5,047	(324,364)
Total		2,867,686	(1,329,798)	1,537,888	2,632,543	(1,245,293)	1,387,251
Balance of goods totally depreciated		251,987	-	251,987	218,162	-	218,162

#### 17.1. Special Liabilities

	12/31/2008			12/31/2007		
	Cost	Accrued amortization	Net	Cost	Accrued amortization	Net
Federal Government participation	(27,208)	1,604	(25,604)	(25,835)	399	(25,436)
Consumer participation	(189,922)	13,165	(176,757)	(181,264)	2,781	(178,483)
Donations and subventions subsidies	(121,042)	5,561	(115,481)	(119,819)	1,836	(117,983)
Research and development	(3,410)	188	(3,222)	(2,493)	31	(2,462)
Total	(341,582)	20,518	(321,064)	(329,411)	5,047	(324,364)

The special liabilities (contributions by the consumers) are the funds paid by consumers and the federal government to society to cover connection costs to the power distribution network.

Elektro receives donations and subventions that do not require any return favor to their donors, but are designed to be invested in public electric energy distribution services.

The possible offsetting of such special liabilities are subject to rules issued by the Granting Authority and, according to the Public Electric Energy Services Accounting Manual, the balance of this account must be booked as a negative item under plant, property and equipment. Special liabilities will be amortized at the rate of 4.63% per year, according to the ANEEL Monitoring Report - RAF 234/2006, the average depreciation rate of machinery and equipment account.

**17.2. Universalization Program (\*)**

In compliance with Law 10438, of April 26, 2002, which rules that new connections and load increases are to be granted free of charge to clients with loads less than 50 KVA, the Company connected 99,359 clients in 2008.

In 2004, the federal government created the *Luz para Todos* program, which was designed to bring electricity to rural districts. Within the framework of this program, the Company completed the connections of 7,590 clients in 2008 and is set to connect 7,300 in 2009.

The table below shows the amounts provided for in the *Luz para Todos* program agreements and those effectively confirmed by Eletrobrás, which were incorporated into the Company's in service fixed assets up to December 31, 2008.

<i>Luz para Todos</i> Agreement	1 <sup>st</sup> Tranche ECFS	1 <sup>st</sup> Tranche ECFS	2 <sup>nd</sup> Tranche ECFS	2 <sup>nd</sup> Tranche ECFS	3 <sup>rd</sup> Tranche ECFS	3 <sup>rd</sup> Tranche ECFS	4 <sup>th</sup> Tranche ECFS	Agreement Convênio	
Signature dates	044/2004 MS	025/2004 SP	134/2006 MS	126/2006 SP	222/2008 MS	179/2007 SP	231/2008 SP	031/2004 MS	
	09/22/2004	01/06/2004	04/01/2006	11/01/2006	06/20/2008	07/30/2007	08/21/2008	08/12/2004	Total
<b>Amounts provided for in agreements</b>									
Own funds									
Eletrobrás - RGR	1,278	14,649	1,225	33,123	906	36,502	29,813	-	117,496
Non-financed funds	483	4,309	463	9,742	2,827	6,442	6,070	-	30,336
Third-party funds (special liabilities)									
Eletrobrás - CDE	1,461	9,766	1,400	22,082	1,036	-	4,587	-	40,331
State Government	-	-	-	-	-	-	-	723	723
Estimated total for program	<u>3,222</u>	<u>28,724</u>	<u>3,088</u>	<u>64,947</u>	<u>4,769</u>	<u>42,944</u>	<u>40,470</u>	<u>723</u>	<u>188,886</u>
<b>Realized agreement amounts</b>									
Own funds									
Eletrobrás - RGR	988	12,000	830	22,709	272	25,551	8,944	-	71,294
Non-financed funds	1,354	12,504	1,446	27,828	-	7,620	-	675	51,427
Third-party funds (special liabilities)									
Eletrobrás - CDE	972	8,185	1,155	14,985	308	-	1,362	-	26,967
State Government	-	-	-	-	-	-	-	244	244
Total validated with Eletrobrás	<u>3,314</u>	<u>32,689</u>	<u>3,431</u>	<u>65,522</u>	<u>580</u>	<u>33,171</u>	<u>10,306</u>	<u>919</u>	<u>149,932</u>
<b>Agreement status</b>	<b>Terminated</b>	<b>Terminated</b>	<b>Terminated</b>	<b>Terminated</b>	<b>Still in effect</b>	<b>Still in effect</b>	<b>Still in effect</b>	<b>Still in effect</b>	

The realized amounts only include the figures that have been verified and inspected by Eletrobrás. The differences between the amounts provided for in the agreements and those actually realized are due to disallowances due to use of the credit closing methodology, in accordance with the Eletrobrás Technical Operationalization Manual, which is influenced by the difference between the agreed price and that effectively charged, as well as physical advancements approved by Eletrobrás.

**17.3. Remunerable Investment (Regulatory Remuneration Base) (\*)**

The table below shows the updated amounts based on the IGP-M used in the August 2008 tariff adjustment of (i) Remunerable Investment, also called Remuneration Base, which is made up of Fixed Assets in Service – AIS and Operations Supplies, less the balance of Obligations Tied to Public Electric Energy Service (Special Liabilities), based on which remuneration was calculated; and (ii)

AIS based on which the depreciation quota was calculated. Both amounts make up Parcel "B" of the Concessionaire's Required Revenue, as established in the August 2007 Tariff Review and ratified in ANEEL Confirmatory Resolution 535, of August 21, 2007.

	Tariff Review August 2007	Tariff Adjustment August 2008
Gross fixed assets in service	4,679,093	5,386,572
(-) Accrued depreciation: 51.07%	(2,389,518)	(2,750,813)
(-) Liabilities to Public energy service (Special liabilities)	(504,091)	(580,310)
<b>Net fixed assets in service</b>	<b>1,785,484</b>	<b>2,055,449</b>
(+) Supplies	3,322	3,824
Remunerable Investment (Remuneration Base)	1,788,806	2,059,273
Balance of fully depreciated goods	203,443	234,203
Indexed to IGPM (Confirmatory Resolution ANEEL 701, of 08/26/2008)		15.12%
Depreciation quota - Annual average rate: 4.63%		

(\*) Information not reviewed by the independent auditors.

### 18. Intangible Assets

	Annual Deprec./amort. rate	12/31/2008			12/31/2007		
		Cost	Accrued depreciation amortization	Net	Cost	Accrued depreciation amortization	Net
Intangible assets in service		58,476	(33,467)	25,009	54,382	(31,841)	22,541
Distribution		21,088	(1,128)	19,960	21,088	(947)	20,141
Software	20%	1,360	(1,128)	232	1,360	(947)	413
Expropriation	-	19,728	-	19,728	19,728	-	19,728
Central management		37,388	(32,339)	5,049	33,294	(30,894)	2,400
Software	20%	37,293	(32,339)	4,954	33,200	(30,894)	2,306
Others	-	95	-	95	94	-	94
Intangible assets in progress		14,887	-	14,887	14,413	-	14,413
Projects		8,150	-	8,150	8,235	-	8,235
Expropriation		6,737	-	6,737	6,178	-	6,178
Total		73,363	(33,467)	39,896	68,795	(31,841)	36,954

Expropriation of rights passage have not been amortized, since they refer to land property.

### 19. Loans And Financing

	12/31/2008			12/31/2007		
	Principal	Charges	Total	Principal	Charges	Total
Brazilian currency						
BNDES						
Finem II (*)	38,780	196	38,976	64,478	285	64,763
Finem III (*)	139,909	622	140,531	107,703	425	108,128
Finem IV (*)	43,787	126	43,913	-	-	-
Finame (*)	2,446	39	2,485	2,524	27	2,551
Finame 2008 (*)	3,444	57	3,501	-	-	-
Automatic (*)	2,114	36	2,150	-	-	-
Eletróbrás - Luz para Todos	66,502	-	66,502	46,476	-	46,476
Finep	9,217	30	9,247	3,411	17	3,428
Total	306,199	1,106	307,305	224,592	754	225,346
Current	64,219	1,106	65,325	47,345	754	48,099
Non-current	241,980	-	241,980	177,247	-	177,247

(\*) Transfers made by financial institutions, acting as agents for the BNDES.

Maturities of principal long-term	
Year	12/31/2008
2010	58,995
2011	53,048
2012	49,904
2013	26,665
2014	18,118
After 2014	35,250
Total	241,980

The charges, guarantees and general conditions of the loan and funding transactions are stated below:

Type	Guarantees	General terms	Payment of charges	Payment of principal	Initial maturity	Final maturity
BNDES						
Finem II	Pegged to revenue from power sales	TJLP + 6.00% p.a.	Quarterly during grace period & monthly thereafter	Monthly	07/17/2006	06/15/2010
Finem III	Pegged to revenue from power sales	TJLP + 4.65% p.a.	Quarterly during grace period & monthly thereafter	Monthly	04/15/2008	09/15/2013
Finem IV Sublaon A to D (*)	Pegged to revenue from power sales	TJLP + 2.45% p.a.	Quarterly during grace period & monthly thereafter	Monthly	07/15/2011	12/15/2015
Subloan E (*)	Pegged to revenue from power sales	TJLP + 1.55% p.a.	Quarterly during grace period & monthly thereafter	Monthly	09/15/2010	15/09/2014
Finame	Fiduciary title to financed goods	TJLP + 2.80% p.a.	Quarterly during grace period & monthly thereafter	Monthly	07/31/2008	06/30/2012 to 07/31/2012
Finame 2008	Fiduciary title to financed goods	TJLP + 2.79% p.a.	Quarterly during grace period & monthly thereafter	Monthly	08/15/2009	07/15/2013
Automatic	Fiduciary title to financed goods an promissory note	TJLP + 2.7% p.a.	Quarterly during grace period & monthly thereafter	Monthly	05/15/2009	07/15/2013
Eletrobrás Luz para Todos (**)	Surety Letter	RGR + 5.0% p.a. (***)	Monthly	Monthly	11/30/2006 to 11/30/2010	10/30/2016 to 11/30/2020
Finep	Surety Letter	TJLP + 0.94% p.a.	Monthly during grace period	Monthly	01/15/2008	10/15/2014

(\*) Finem IV is related to the investment program ranging from July 2008 through December 2010, and loans have specific maturities and rates depending on the type of investment.

(\*\*) Luz para Todos project is pegged to seven loan agreements.

(\*\*\*) Global reversal reserve - RGR is indexed to UFIR and has remained unchanged.

**Restrictive Financial Conditions (covenants):** The BNDES "Finem II" Loan Agreement contains restrictive provisions regarding the special liabilities assumed under the agreement by the Company. According to section II, item 2.13.15, of this agreement, compliance is required with certain financial indicators as from December 2005, as follows: (i) Net Debt / EBITDA equal to or less than 2.5; (ii) Net Debt / Shareholder equity equal to or less than 0.8%; (iii) EBITDA / Net Financial Expenses equal to or more than 3.0. All these restrictive conditions were met by the Company.

## 20. Debentures

	12/31/2008			12/31/2007		
	Principal	Charges	Total	Principal	Charges	Total
2 <sup>nd</sup> Issuance - 09/01/2005						
1 <sup>st</sup> Series	375,000	105,811	480,811	375,000	61,301	436,301
2 <sup>nd</sup> Series	87,210	4,340	91,550	87,210	3,439	90,649
Total	462,210	110,151	572,361	462,210	64,740	526,950
Current	154,070	49,685	203,755	-	18,618	18,618
Non-current	308,140	60,466	368,606	462,210	46,122	508,332

On September 19 and December 20, the Company anticipated the redeeming of the entire third series and part of the outstanding second series (10,029 debentures), relating, of its second public issuance.

Calculation of the redeemed amounts were based on face value, plus remuneration and premium, as established in the issue deed and in the amendment to the issue deed approved at the Board of Directors' Meeting held on November 9, 2007 and at the General Debenture-holders' Meeting held on December 4, 2007. The Company has cancelled the second and third debenture series that were redeemed.

The characteristics of the two current series are:

Series	Quantity	Remuneration	Interest payment
1 <sup>st</sup> Series	37,500	IGP-M + 11.80% p.a.	Annually from September 1 <sup>st</sup> 2006
2 <sup>nd</sup> Series	8,721	CDI + 1.65% p.a.	Half-yearly from March 1 <sup>st</sup> 2006

Amortization of principal, grossed up by remuneration, of the two current series will be made in three installments: 33.33% on September 1, 2009; 33.33% on September 1, 2010; and 33.34% on September 1, 2011.

**Additional guarantee:** Fiduciary Assignment Agreement entered into by Elektro, the Trustee and Banco Itaú S.A., the agent bank, in compliance with the provision in article 66-B of Law 4728/65, as amended by article 55 of Law 10931/04.

**Restrictive Financial Conditions (covenants):** The second issue of debentures contains restrictive provisions that cause early maturity and require compliance with certain financial indicators, as stated in Section 8.1, letters (n), (o), (p), (q) and (r) of the issue deed. The Company has been complying with all the restrictive conditions.

The full text of the terms and conditions of the public distribution of the second issue of debentures is available on Elektro's website at: [www.elektro.com.br](http://www.elektro.com.br).

## 21. Lease Transactions

In compliance with CPC Pronouncement 06 - Lease Transactions, approved under CVM Resolution 554/08 - the Company capitalized the assets pegged to lease agreements considered financial to transfer the risks and benefits related to such assets to the Company. The agreements covering real estate contained clauses providing for their extension and adjustments based on the inflation reported for the period. Restrictive clauses and contingency payments were not provided for in any of the existing agreements.

The outstanding balance, calculated at present value based on rates ranging from 12 to 18% per year, of future payments, is broken down according to type of asset as follows:

	12/31/2008	12/31/2007
Financial lease agreements payable		
Vehicles	11,829	7,821
Property, plant and equipment	3,976	4,876
IT equipment	14,223	549
Total	30,028	13,246
Current	7,744	2,956
Non current	22,284	10,290

Future payments of the abovementioned agreements are shown below according to their due dates:

Long-term future payment maturities	
2010	8,806
2011	4,998
2012	3,274
After 2012	5,206
Total	22,284

### Operational Leasing

According to the instructions found in CPC Pronouncement 06, the Company analyzed the agreements that were classified as operational lease agreements and among these, found equipment, vehicle, real estate and other lease agreements that were in force in fiscal 2007 and 2008.

The table below shows a list of the totals of the most relevant agreements, which have been reported as expenses in fiscal 2007 and 2008, as well as future payments the Company will be making based on these agreements.

Expenses recognized in reporting period	12/31/2008	12/31/2007
Lease of call services infrastructure (Call Center)	2,055	1,054
Vehicle rentals	172	194
Computer leases	1,655	1,900
Printer leases	758	937
Lease of other IT equipment	312	-
Energy invoice printing services	1,886	453
Total	<u>6,838</u>	<u>4,538</u>

Future payment maturities	
2009	7,659
2010	5,338
2011	1,932
2012	161
Total	<u>15,090</u>

### 22. Electric Power Suppliers and Providers

	12/31/2008	12/31/2007
Brazilian currency	182,709	181,333
Electric power providers	126,311	135,112
System service charges - ESS	3,525	500
Suppliers of materials and services	52,873	45,721
Foreign currency	57,147	36,170
Electric power providers - Itaipu	57,108	36,210
Exchange rate variation - Itaipu	39	(40)
Total	<u>239,856</u>	<u>217,503</u>

### 23. Taxes Payable

	12/31/2008	12/31/2007
Income tax and social security on net profit	257	-
Contribution to the Social security financing - COFINS	14,821	13,548
Social Participation Program - PIS	3,220	2,941
Value added tax on product and services - ICMS	79,419	66,979
Withholding income tax	14,329	2,712
Service Tax - ISS	52	18
Total	<u>112,098</u>	<u>86,198</u>

### 24. Consumer Charges

	12/31/2008	12/31/2007
Quota for global reserve reversal - RGR	1,665	1,520
Quota for fuel consumption account - CCC	13,657	7,767
Quota for energy development account - CDE	9,149	9,055
Emergency capacity charges - ECE	258	275
Total	<u>24,729</u>	<u>18,617</u>

### 25. Dividends and Interest on Equity

	12/31/2008	12/31/2007
Dividends payable	168,058	139,169
Interest on equity payable	55,120	4,494
Total	<u>223,178</u>	<u>143,663</u>

Interest on equity payable is net of withholding tax.

There are dividends and interest on equity that have been declared and must be paid to minority shareholders who have yet to submit their updated registration data.

## 26. Energy Efficiency Program

The concession agreement establishes that Elektro has an obligation to annually invest an amount equivalent to 1% of its net operating revenue in initiatives aimed at reducing energy waste and promoting the technological development of the electric energy industry. This sum is allocated to Efficiency Enhancing and Research and Development Programs and includes contributions to the National Fund for Scientific and Technological Development (FNDCT) and to the Ministry of Mines and Energy (MME). The share allocated to each of the programs is established in Law 11465, of March 28, 2007.

The manner in which these programs affect the Company's obligations, broken down by the realization cycle and fund allocation, is shown below:

Invoicing period	Billing cycle	12/31/2007	Inflow	Update	Payment	12/31/2008
2004/2005	oct/03 to sep/04	8,643	-	868	(5,784)	3,727
2005/2006	oct/04 to sep/05	5,302	-	533	(3,548)	2,287
2006/2007	oct/05 to sep/06	850	-	85	(569)	367
2007/2008	oct/06 to sep/07	23,740	-	2,385	(15,887)	10,238
2008/2009	oct/07 to sep/08	6,177	19,965	475	-	26,617
2009/2010	oct/08 to sep/09	-	6,091	146	-	6,237
Total		<u>44,712</u>	<u>26,056</u>	<u>4,492</u>	<u>(25,788)</u>	<u>49,472</u>

Resource distribution	Distribution percentage	12/31/2007	Inflow	Update	Payment	12/31/2008
Energy efficiency research	0.50%	16,872	13,028	2,260	(13,252)	18,908
Research and development	0.20%	17,053	5,211	2,232	(4,234)	20,262
FNDCT	0.20%	7,460	5,211	-	(5,283)	7,388
MME	0.10%	3,327	2,606	-	(3,019)	2,914
Total		<u>44,712</u>	<u>26,056</u>	<u>4,492</u>	<u>(25,788)</u>	<u>49,472</u>
Current		36,840	20,845	3,174	(25,788)	35,071
Non-current		<u>7,872</u>	<u>5,211</u>	<u>1,318</u>	<u>-</u>	<u>14,401</u>

The amounts paid to these Efficiency Enhancement and Research and Development programs are registered based on the SELIC rate, subject to ANEEL Normative Resolutions 176, dated November 28, 2005, and 219, dated April 11, 2006.

Under Normative Resolution 233, of October 24, 2006, which became effective on January 1, 2007, ANEEL established new criteria for the calculation, investment and payment of funds to the energy efficiency programs. Included in the new criteria was the establishing of the new items that were to be factored into the calculation base of such obligations, i.e., net operating revenue, and the schedule for paying the contributions to FNDCT and to MME.

Compliance with the obligations related to the energy efficiency and research and development programs via acquisition of fixed assets are posted with a counter-entry to the special liabilities account (see note 17.1).

## 27. Liabilities provisions and contingencies

### 27.1. Provision and contingencies

All legal claims are continuously monitored by the Company's legal advisors, which, subject to criteria previously defined by Management, classify each contingency, and a provision is then made for those considered a probable loss.

The provisions registered, less the corresponding court deposits, are to cover cases considered a probable loss for the Company, and their respective balance and status are shown in the table below:

	12/31/2007	Ingress and update	Reversal	Settlement	12/31/2008
Civil and Environmental	11,322	9,276	(5,401)	(2,737)	12,460
Labor	7,169	1,884	(1,090)	(407)	7,556
Regulatory	6,312	2,140	(5,087)	(2,165)	1,200
Expropriations and rights of way	3,833	1,477	(754)	(103)	4,453
Tax:					
COFINS	73,648	4,474	-	-	78,122
PIS	14,241	844	-	-	15,085
Others	4,616	1,434	(383)	-	5,667
Total provisions	121,141	21,529	(12,715)	(5,412)	124,543
(-) Judicial deposits	(37,952)	(5,521)	630	-	(42,842)
Total net provisions	<u>83,189</u>	<u>16,008</u>	<u>(12,085)</u>	<u>(5,412)</u>	<u>81,701</u>

The description of the nature of the main contingencies for which a provision is made is as follows:

#### Civil, environmental, labor and regulatory issues

This involves provisions for coverage, especially for litigation for damages of diverse classifications; labor claims brought by former Elektro employees or contractors related to salary differences, overtime and other issues; and regulatory issues directly related to ANEEL.

#### PIS and COFINS - Extension of the calculation base

This involves the questioning of the tax authorities' right to collect PIS and COFINS contributions as established in Supplementary Law 70/91, based on billed revenue only, excluding financial revenues of any kind.

Since the suit brought by Elektro has not been examined at the highest court level, the Company has made a 100% provision for the amounts under discussion, notwithstanding the court deposit made on October 29, 2004, the updated value of which on December 31, 2008 was R\$ 39,194 (R\$ 36,529 at December 31, 2007).

#### 27.2. Liabilities contingencies classified as possible risks

The Company is discussing in court different kinds of issues which in the assessment of its legal advisors, based on criteria established by Management, are considered a possible risk of loss, thus no provision has been made for these. The estimated total of said contingencies is R\$ 62,747 related to social contribution issues; R\$ 23,124 to civil matters; R\$ 15,243 to labor issues; and R\$ 520,353 to tax issues.

In relation to social contribution, the Company received notices and infraction notices dated December 29, 2006 by the National Social Security Institute (INSS), demanding payment of social security contributions for periods extending from June 1998 to June 2006 in connection with labor payments, particularly company profit sharing.

In relation to tax issues, the Company was served a State Notice of Infraction by the São Paulo Finance Office on December 14, 2007 in connection with ICMS credit claims deemed to have been unduly offset by the Company, the updated total of which on December 31, 2008 was R\$ 16,308 (R\$ 15,273 on December 31, 2007).

Elektro was also served two Federal Notices of Infraction by the Federal Revenue Office on December 27, 2007, for allegedly due IRPJ, CSLL, PIS and COFINS

payments as a result of the Company's corporate reorganization and debt restructuring, the updated value of which on December 31, 2008 was R\$ 459,760 (R\$ 426,049 on December 31, 2007). In the assessment of its legal advisors, the federal notice of infraction is deemed as involving a loss at some point between possible and remote, since it was annulled at the first administrative level on being challenged by Elektro, whilst in the case of the State Notice of Infraction, the risk of loss is possible. For this reason, no provisions have been made for any of these in the accounts.

#### 28. Reimbursements Of Benefit To Low Income Customers

The implementation of criteria for classifying low income consumers established under ANEEL Resolution 485, dated August 29, 2002, boosted the concessionaire's revenues which, after being calculated and approved by ANEEL, will be used to bring about tariff modicity at the next tariff adjustments and/or reviews. The accounting procedures and criteria for offsetting these against supply rates were established by ANEEL under Resolution 514, dated September 16, 2002.

Under Confirmatory Resolution 535, of August 21, 2007, ANEEL approved the sum of R\$ 48,083, which was posted to current liabilities and fully amortized based on billed invoices between August 27, 2007 and August 26, 2008. The balance of R\$ 944 posted in current liabilities refers to the differences in the ratified total which will be amortized in the current tariff cycle.

Through Normative Resolution 325, dated July 22, 2008, ANEEL amended Resolution 514, of September 16, 2002, to provide that revenue increases reported by concessionaires due to the change in low-income consumer classification criteria will not be recorded as liabilities by concessionaires that have already completed their second tariff review cycle, since these gains have already been taken into account by the regular tariff review calculation method. Thus, the R\$ 54,637 registered on December 31, 2007 posted to noncurrent liabilities and the amounts related to the August to December 2007 period totaling R\$ 17,649, were reversed in July 2008. The balance of R\$ 41,890 still registered to noncurrent liabilities are pending ratification by ANEEL.

As of the date of the August 2008 tariff adjustment, confirmed under Confirmatory Resolution 701/08, ANEEL withdrew the low-income consumer subsidy from the tariff structure and started to consider it as a financial component. Therefore, Elektro will be determining the subsidy effectively extended to low-income consumers in each invoice, and will offset this against the financial component included in the tariff. Any differences will be offset in the next tariff adjustment.

## 29. Shareholders Equity

### 29.1. Capital

The subscribed and paid-in capital as on December 31, 2008 of a total R\$ 952,492, is distributed among the shareholders as follows:

Shareholders	Ordinary	Preferences	Total
AEI Investimentos Energeticos Ltda.	6,579,221	-	6,579,221
EPC - Empresa Paranaense Comercializadora Ltda.	59,310,480	-	59,310,480
ETB - Energia Total do Brasil Ltda.	25,964,606	34,535,214	60,499,820
AEI Brazil Finance Ltd.	-	66,744,382	66,744,382
Others Shareholders	26,665	598,697	625,362
Total	<u>91,880,972</u>	<u>101,878,293</u>	<u>193,759,265</u>

AEI (the new corporate name of Ashmore Energy International) is the indirect controller of the Company and holder of 99.68% of its share capital.



### 29.2. Reverse Stock Split Process

The reserve stock split of Elektro's shares in the ratio of 2,000 existing shares to one new share was approved at the General Shareholders' Meeting, held on March 31, 2008.

Following the market trend, the purpose of reserve stock split is to enable the shares to be traded in unit form without this resulting in any change in the value of the Company's share capital, which is represented as follows: 193,759,265 shares, 91,880,972 of which are ordinary shares and 101,878,293 preferred shares, all registered and with no face value.

On May 5, 2008 the reserve stock split process was completed and the calculation of the fractions resulted in 518 preferred shares and 90 ordinary shares, all sold at share surplus auctions organized at Bovespa in July 2008.

### 29.3. Capital Reserves

The reported amount of R\$ 50.539 in capital reserves has the following composition: (i) capitalization in July 2005 of the total balance payable to shareholders in connection with the redemption of the shares by the Company in 2005 amounting to R\$ 240,764; (ii) capitalization of debts with related parties totaling R\$ 276,495, due to the financial restructuring process conducted during the second half of 2005; (iii) investment of tax incentives amounting to R\$ 2,353; and (iv) deduction of R\$ 469,073, by setting up a reserve as per CVM Instructions 319/99 and 349/01, from the portion of merged goodwill (see note 15).

### 29.4. Legal Reserve

This is formed by setting aside 5% of the net profit reported in the period, according to article 193 of Law 6404/76.

Calculation of the legal reserve on December 31, 2008, has taken into account the net profit of the period less the previous year's accumulated losses due to the adjustments established in Law n° 11638/07.

### 29.5. Distribution of Dividends and Interest on Equity

Elektro's bylaws and Law 6404/76 provide for payment of interim dividends based on the income reported in half-yearly balance sheets or trial balance sheets drawn up at shorter intervals, subject to the provisions of the law.

At the Board of Directors' meeting held on August 12, 2008, payment of a total R\$135,392 in interim dividends was approved, based on reported income in the first half of 2008. These interim dividends were posted to current liabilities in the quarter ended on June 30, 2008. The interim dividends were paid in two installments on the following dates and in the following amounts: R\$ 115,325 on August 26, 2008 and R\$ 20,067 on October 22, 2008.

Share		Interim dividends	
Type	Quantity	R\$	R\$ per share
Preferred	101,878,293	74,396	0.730247089
Ordinary	91,880,972	60,996	0.663860990
Total	193,759,265	135,392	

At the Board of Directors' meeting held on November 11, 2008, payment of interest on equity was approved subject to Law 9249/95 and CVM Resolution 207/96, and a total R\$ 67,714 was paid on January 28, 2009.

Share		JSCP	
Type	Quantity	R\$	R\$ per share
Preferred	101,878,293	37,208	0.365220708
Ordinary	91,880,972	30,506	0.332018826
Total	193,759,265	67,714	

At the end of fiscal 2008, as shown below, the Company's Management proposed payment of dividends of a total R\$ 168,054, based on the reported income at December 31, 2008, after setting aside the sum for the legal reserve and deducting interim dividends and interest on equity. This proposal will be submitted for approval to the General Shareholders' Meeting, which will be called to approve the December 31, 2008 financial statements.

Share		Proposed dividends	
Type	Quantity	R\$	R\$ per share
Preferred	101,878,293	92,344	0.906404219
Ordinary	91,880,972	75,710	0.824003835
Total	193,759,265	168,054	

According to its bylaws, common and preferred shares with no face value are entitled to compulsory minimum dividend payment of 25% of net adjusted income, according to Law 6404/76.

Preferred shares have no voting right but have priority in capital reimbursements and the right to collect dividends at least 10% higher than those paid out to ordinary shares, according to article 5 of the Company's bylaws.

30. Net Operating Revenues

	12/31/2008			12/31/2007		
	No. of (*) consumers	MWh (*)	R\$	No. of (*) consumers	MWh (*)	R\$
Operating revenue	2,067,151	10,875,942	3,719,874	2,004,893	10,093,479	3,582,762
Supply to consumers	2,067,151	10,844,888	3,404,837	2,004,893	9,970,626	3,327,919
Residential	1,763,950	3,346,662	1,337,752	1,712,012	3,183,538	1,371,474
Industrial	22,112	4,052,253	1,076,460	21,833	3,463,548	912,710
Commercial	139,733	1,580,340	555,913	133,693	1,490,276	575,657
Rural	120,128	807,284	158,079	117,314	809,283	175,087
Government	15,706	229,411	77,256	15,019	262,473	104,733
Public lighting	2,847	428,920	89,109	2,463	394,739	92,347
Public services	2,675	400,018	110,268	2,559	366,769	95,911
Other revenues	-	31,054	315,037	-	122,853	254,843
CCEE	-	31,054	12,810	-	122,853	13,497
Revenues from deferred tariff increase (see note 14)	-	-	-	-	-	(93,353)
Revenues from Distribution System Usage	-	-	252,407	-	-	300,400
Others Revenues	-	-	49,820	-	-	34,299
Deduction from operating revenues	-	-	(1,207,397)	-	-	(1,326,689)
Allocation to reversal global reserve - RGR	-	-	(20,097)	-	-	(19,428)
Allocation to fuel consumption account - CCC	-	-	(73,865)	-	-	(140,269)
Allocation to energy development account - CDE	-	-	(115,295)	-	-	(117,482)
ICMS on supply	-	-	(619,653)	-	-	(659,452)
Recomposition of PIS and COFINS	-	-	(8,022)	-	-	(16,605)
COFINS	-	-	(282,710)	-	-	(287,300)
PIS	-	-	(61,378)	-	-	(62,374)
R&D and Energy Efficiency Program	-	-	(26,056)	-	-	(23,269)
Others	-	-	(321)	-	-	(510)
Total	2,067,151	10,875,942	2,512,477	2,004,893	10,093,479	2,256,073

(\*) Information not reviewed by the independent auditors.

The main reasons for the difference in the Company's operating revenues figures were the adjustment in tariffs in August 2008 (see note 4.2), and the differences in the number of consumers and volume of electric energy sold.

31. Energy Purchased for Resale

	12/31/2008		12/31/2007	
	MWh (*)	R\$	MWh (*)	R\$
Energy suppliers	12,369,086	1,043,272	11,545,131	893,537
Itaipu Binacional (**)	3,172,172	296,267	3,148,267	293,703
Bilateral Contracts	318,215	43,620	263,607	33,516
Energy Purchase Agreement in the Regulated Environment - CCEAR	8,686,507	641,583	8,016,861	541,731
PROINFA	192,192	33,349	116,396	23,657
Energy Transportation	-	28,453	-	930
Other energy costs	-	418,206	-	288,039
ONS - Basic Network Use	-	378,158	-	296,954
CTEEP - Connection charges	-	30,374	-	23,546
System service charges - ESS	-	50,601	-	1,483
CVA Register	-	(57,320)	-	(38,449)
CVA Amortization	-	16,393	-	4,505
Total	12,369,086	1,461,478	11,545,131	1,181,576

(\*) Information not reviewed by the independent auditors.

(\*\*)Agreement on the pass-on of energy and transportation charges.

**32. Personnel**

	12/31/2008	12/31/2007
Remuneration	124,479	123,902
Social charges	43,406	44,303
Allowance for meals	11,524	10,964
Health care and others benefits	9,562	7,558
Labor indemnity	8,002	6,959
Private pension plan	5,514	4,844
Others	16,869	16,698
(-) Transfers to construction in progress	(42,426)	(42,490)
Total	<u>176,930</u>	<u>172,738</u>
Operating costs	135,884	129,277
Sales expenses	4,395	3,377
General administrative expenses	36,651	40,084
Total	<u>176,930</u>	<u>172,738</u>

**33. Materials**

	12/31/2008	12/31/2007
Materials and equipment	141,980	149,158
(-) Transfers to construction in progress	(115,281)	(123,815)
Total	<u>26,699</u>	<u>25,343</u>
Operating costs	24,955	23,659
Sales expenses	80	120
General administrative expenses	1,664	1,564
Total	<u>26,699</u>	<u>25,343</u>

**34. Outside Services**

	12/31/2008	12/31/2007
Services on electric system	131,975	114,101
Maintenance and conservation services	29,647	46,191
Metering and bill delivery services	21,028	20,414
Administrative services	18,994	15,331
Other services	31,160	23,824
(-) Transfers to construction in progress	(125,174)	(120,687)
Total	<u>107,630</u>	<u>99,174</u>
Operating costs	71,819	66,735
Sales expenses	10,583	9,592
General administrative expenses	25,228	22,847
Total	<u>107,630</u>	<u>99,174</u>

**35. Other Net Operating Expenses**

	12/31/2008	12/31/2007
Bank collection expenses	15,908	15,530
ANEEL monitoring fees	8,307	8,298
Insurance	1,397	1,826
Leases	3,724	7,351
Allowance for doubtful accounts	18,488	12,100
Fees and contributions	4,087	2,346
Travel expenses	8,323	6,451
Advertising and publicity	5,150	9,155
Telephones and telecommunications	18,734	16,395
Software	10,007	7,644
Civil, labor and others provision	940	(36,101)
Losses due to shutdown or disposal of assets (net)	18,522	12,285
Other	14,310	26,256
(-) Transfers to construction in progress	(5,606)	(9,168)
Total	<u>122,291</u>	<u>80,368</u>
Operating costs	52,086	19,044
Sales expenses	70,205	61,324
Total	<u>122,291</u>	<u>80,368</u>

## 36. Financial Result

	12/31/2008	12/31/2007
<b>Financial revenues</b>	<b>66,841</b>	<b>103,117</b>
Financial investments	25,695	58,040
Charges on outstanding electricity bills	34,491	39,958
Other financial revenues	6,655	5,119
<b>Financial expenses</b>	<b>(110,973)</b>	<b>(152,860)</b>
CPMF	(312)	(19,601)
Interest on debts with related parties	(32,710)	(19,499)
Interest on debentures	(64,710)	(95,629)
Interest on intercompany loans	-	(4,241)
Other financial expenses	(13,241)	(13,890)
<b>Net foreign exchange and monetary variance</b>	<b>(28,386)</b>	<b>(30,180)</b>
Revenues from monetary variation	30,412	17,028
Revenue loss recovery and free energy	10,986	-
Tracking account for variations on parcel A items - CVA	4,725	7,650
Others	14,701	9,378
Revenues from currency exchange rate updates	5,160	9,550
Purchased energy	5,077	9,543
Other	83	7
Expenses from monetary updates	(58,763)	(47,213)
Principal - third parties	(3,301)	(509)
Principal - related parties	-	(2,853)
Free energy	(6,680)	(1,866)
Energy efficiency	(4,492)	(4,267)
Debentures	(38,939)	(29,964)
Other	(5,351)	(7,754)
Expenses from currency exchange rate updates	(5,195)	(9,545)
Purchased energy	(5,077)	(9,543)
Other	(118)	(2)
<b>Interest on equity</b>	<b>(67,714)</b>	<b>(67,585)</b>
<b>Total</b>	<b>(140,232)</b>	<b>(147,508)</b>

The variation in income from the financial investments account is due to the reduction in the average cash and cash equivalents account balance throughout 2008.

The difference in the interest on debentures account is due to reduced debt because of their early redemption in 2007 (see note 20).

The variation in the debenture price level adjusted expenses account is associated with the first series of debentures, which was indexed to the IGP-M, and this index was higher in 2008 (9.81%) than in 2007 (7.75%).

## 37. Income Tax and Social Contribution

Reconciliation of Income tax and social contribution in 2008 result:

	12/31/2008		12/31/2007	
	Income tax	Social security	Income tax	Social security
Income before income tax and social security	489,820	489,820	554,489	554,489
Statutory tax rate	25%	9%	25%	9%
Tax charges calculated at nominal rate	(122,431)	(44,084)	(138,598)	(49,904)
Effect of (addition) exclusions on tax calculations				
Permanent	(69)	837	24,753	8,505
Income and social security on result	(122,500)	(43,247)	(113,845)	(41,399)
Current income tax and social security	(74,867)	(25,754)	(79,288)	(30,641)
Deferred income tax and social security	(47,633)	(17,493)	(34,557)	(10,758)
Total	(122,500)	(43,247)	(113,845)	(41,399)

### 38. Related Parties

Related party transactions and end balances are shown below:

		12/31/2008		12/31/2007	
		Asset	Result	Asset	Result
Elektro Comercializadora de Energia Ltda.	(a)	18	227	17	213
Elektro Geração S.A.	(a)	-	-	-	15
AEI América do Sul Holding Ltda.	(a)	48	642	86	557
ETB Energia Total do Brasil Ltda.	(b)	-	-	-	(7,094)
Total		<u>66</u>	<u>869</u>	<u>103</u>	<u>(6,309)</u>

(a) The balances refer to shared administrative services and lease of rooms for the companies of the group.

(b) The R\$ 7,094 in reported income in 2007 refers to interest and adjustment for inflation of the loans from the company ETB, which was settled in December 2007.

According to the instructions on disclosure found in CPC Pronouncement 05 - Disclosure on Related Parties, approved under CVM Resolution 560/08, company management's total remuneration in the 2008 period was R\$ 8,117 (R\$ 12,571 in 2007), including fixed and variable remuneration amounting to R\$ 5,416 (R\$ 7,567 in 2007), social charges and benefits, including after severance, amounting to R\$ 1,554 (R\$ 2,525 in 2007) and labor indemnity totaling R\$ 1,147 (R\$ 2,479 in 2007).

In 2008, contributions made by the Company to the abovementioned pension plans totaled R\$ 2,457 (R\$ 2,259 in 2007).

The main results posted for the year ended at December 31, 2008 are shown below, including projections for year 2009:

	12/31/2008	12/31/2007
<b>Reconciliation of assets and liabilities</b>		
Present value of actuarial liabilities	518,954	543,088
Fair value of plan assets	(681,732)	(575,641)
Net assets	(162,778)	(32,553)
Unacknowledged actuarial gains	(186,274)	(64,399)
Provision for net actuarial liabilities under noncurrent liabilities	23,496	31,846
<b>Plan losses (gains)</b>		
Gains at beginning of year	(64.399)	(21.456)
Amortization for the year	354	-
(Gains) losses resulting from actuarial obligations	(59.752)	14.953
Gains related to plan assets	(63.032)	(57.896)
(Gains) losses from employee adhesion	555	-
Gains at the end of year	(186.274)	(64.399)
Interval not subject to amortization	(68.173)	(57.564)
Amount subject to amortization	(118.099)	(6.835)
<b>Expenses (revenues) acknowledged in income statement</b>		
Cost of current services (with interest)	6.318	5.233
Plan member annuities	(2.744)	(2.864)
Interest on actuarial obligations	54.498	54.088
Earnings on assets	(64.008)	(57.829)
unacknowledged actuarial gains	(354)	-
Expense (revenue) to be appropriated per employer according to CVM-371	(6.290)	(1.372)
Employer contribution	(2.049)	(1.897)
Amortization of sponsor's loan agreement	-	(854)
Revenue effectively appropriated by employer	(2.049)	(2.751)
Total acknowledged revenue	(8.339)	(4.123)

### 39. Pension Plan

Elektro has an additional private pension and retirement plans for its employees, via Fundação CESP. These have the following descriptions:

**PSAP/CESP B:** Proportional Settled Supplementary Benefit - BSPS, comprising the benefits assured to employees who adhered to the plan in effect to December 31, 1997, that is, before the implementation of the mixed plan, calculated proportionally to that date.

**PSAP/CESP B1:** Elektro Supplementary Retirement and Pension Plan - PSAP Elektro, which was instituted on January 1, 1998, is a mixed plan that establishes a defined benefit for 70% of the real contribution salary and a defined contribution for the remaining 30%.

Effects to be acknowledged in statement of results	2009	2008
Cost of current service (with interest)	8,161	6,318
Expected plan member annuities	(2,197)	(2,744)
Interest on actuarial obligations	62,504	54,498
Expected earnings from assets	(89,084)	(64,008)
Cost of amortization of unacknowledged actuarial gains	(8,201)	(354)
Total revenue to be acknowledged	<u>(28,817)</u>	<u>(6,290)</u>

Economic-financial and demographic premises	2008	2007
Nominal discount rate for actuarial obligations	12.37%	10.24%
Expected nominal rate of return on plan assets	13.29%	11.28%
Estimated nominal salary growth index	7.63%	7.12%
Estimated nominal benefit growth index	4.50%	4.00%
Estimated long-term inflation rate	4.50%	4.00%
Real discount rate for actuarial obligations	7.53%	6.00%
Real rate of return on plan assets	8.41%	7.00%
Estimated real salary growth index	3.00%	3.00%
Biometric general mortality table	AT-83 segregated by gender	AT-83 segregated per gender
Biometric table on disabled persons	Light medium	Light medium
Gross expected turnover rate	EY_BR exp.	EY_BR exp.
Probability of retirement	100% on the first eleg.	100% on the first eleg.

#### 40. Insurance

The Company maintains the following insurance covers, consistent with the risks of the business operations and deemed sufficient to insure the Company's assets and businesses from possible claims:

Risks	Insured amount (in thousands)
Operating risks and multi risk	R\$ 451,200
Third-party civil liability	US\$ 25,000
Managers and officers liability	US\$ 15,000

These policies are effective during the following terms:

- Operating and multi risk and third-party civil liability: August 25, 2008 to August 25, 2009;
- Directors and Officers Liability: August 18, 2008 to August 25, 2009.

The operating and multi risk policies provide insurance against property damages to the Company's assets, except for transmission and distribution lines.

The third-party civil liability policy carries two insurance covers: a general coverage for property damages, bodily injuries and moral damages caused to third parties, including those caused by its own employees and contractors.

The directors and officers civil liability policy covers the insured against damages caused in the performance of their management duties.

#### 41. Financial Instruments and Risk

Considering the provisions in CVM Instruction 235/95, CVM Deliberation 550/08 and CVM Deliberation 566/08, which approved CPC Pronouncement 14 – Financial Instruments, a description of the Company's main financial assets and liabilities, and the evaluation and valuation criteria on reporting these in the financial statements are shown below:

**Cash and cash equivalents, pledged funds and restricted deposits:** the instruments listed under these accounts were appraised as instructed in CPC Pronouncement 14, and all were classified as "available for sale", but as the book values consider cost plus contracted earnings to the balance sheet dates

and are close to their market values (fair value), no adjustments were made to shareholders' equity as a result of this classification. Pledges and tied deposits are used on a limited scale.

**Regulatory assets and liabilities:** are registered, evaluated and realized according to criteria established by ANEEL and listed under the following titles: Revenue loss recovery, free energy, CVA, PIS and COFINS recovery, Reimbursements to low-income customers – tariff modicity, Transmitter regulatory assets and liabilities and TUSD-G. There are no comparable parameters on the market for such assets and liabilities, in view of their regulatory nature.

**Loans and financing:** are evaluated and registered as provided for in the agreements, and the market value of these liabilities, as shown on the chart below, was projected based on the discounted cash flow, using the rates available on the market for similar transactions on the financial statements date. As regards agreements pegged to specific projects related to the industry, signed with Eletrobrás, the market values were considered identical to the accounting balances, since there are no existing similar instruments having comparable maturities and interest rates. For the purpose of CPC Pronouncement 14, loans and financing were classified as "financial liabilities not assessed at fair value", since the book value is that which best represents the Company's equity and financial position. Thus, the market value of these liabilities is merely for information purposes.

**Debentures:** are evaluated and registered as established in their respective issue deeds. The market value of the debentures, as shown on the chart below, was determined from their value on the secondary market, as published by Andima on the balance sheet date, using the discounted cash flow method. The debentures are also classified as "financial liabilities not assessed at fair value" and their market value is merely for information purposes.

The book and market values of loans and financing and debentures for the years ended at December 31, 2008 and 2007 are shown below:

	12/31/2008		12/31/2007	
	Book value	Market value	Book value	Market value
Loans and financing	307,305	313,138	225,346	226,275
Debentures	572,361	577,187	526,950	563,873
Total	879,666	890,325	752,296	790,148

The estimated market value of the Company's financial instruments is a reflection of the better risk rating given to them by Standard & Poor's on March 20, 2008. Elektro's corporate rating was raised from brAA- to brAA, and even its second issue of debentures, whose characteristics are described in note 20, had its rating raised by Standard & Poor's from brAA to brAA+.

Depending on the evaluation premises used, there may be significant changes in the market value of financial instruments. Thus, the estimates posted do not necessarily represent their realization value on the current market.

#### Policy governing the use of derivative financial instruments

In compliance with CVM Resolution 550/2008, Elektro currently has no derivatives and did not engage in any transactions involving this type of financial instrument, due to its policy restricting use of derivatives.

In accordance with Management's policy governing Elektro's financial transactions, the sole and specific purpose of derivatives is to hedge the Company against exposure to currency or interest rate risk. With the exception of the electric energy purchased from Itaipu, as shown in detail below, there is currently no significant exchange risk involving Elektro's transactions and the Company has maintained the interest rates on assets (receivables) and liabilities (payables) balanced and in a natural state, and therefore does not need to resort to this type of instrument.

With respect to the debt pegged to the inflationary index (IGP-M), Elektro believes the tariff adjustment mechanism to be a natural hedge.

The main financial assets and liabilities indicators showed the following accrued changes in the years 2008 and 2007:

Indexes	Accrued % change over the periods	
	12/31/2008	12/31/2007
Appreciation (devaluation) of the real against the US dollar	(31.94)	17.15
IGP-M	9.81	7.75
IGP-DI	9.10	7.89
TJLP	6.25	6.37
Selic	12.48	11.88
CDI	12.33	11.82
IPCA	5.90	4.46

The main risk factors affecting the Company's businesses are:

#### Exchange Exposure

The only relevant risk exposure the Company faces involves Itaipu energy purchase payments, which are pegged to the US dollar. However, fluctuations in the exchange rate related to the purchase of this energy are factored into the annual tariff adjustment made by the Company, according to the CVA mechanism (see note 12).

The Company is not exposed to any exchange risk in connection with foreign currency-pegged debts or any other financial instrument.

#### Credit Risk

The Company does not rate the creditworthiness of its customers before supplying them with energy because it is an electric power distributor and as such is obliged to supply energy to all customers located within its concession area as stipulated in the concession contract signed with ANEEL on August 27, 1998, as well as in energy industry regulations.

To protect the businesses from default payments, the Company: (i) conducts guarantee-pegged debt renegotiations programs; (ii) effects energy supply cuts subject to applicable legislation; (iii) retains companies specialized in collecting past-due payments; and (iv) resorts to judicial collection.

#### Risk Related to the Revision and Adjustment of Power Supply Tariffs

In order to ensure the economic and financial equilibrium of the concession contract and to transfer efficiency gains on to consumers, the concession contract establishes a regular energy supply tariff review every four years. The new tariff is fixed based on: (i) the Company's total non-manageable costs (Parcel A); (ii) coverage for efficient costs as established by the regulator according to the "Model Company" method; and (iii) returns on prudent investments made by the Company, at the WACC rate, in concession-related assets. The first review was made on August 27, 2003, and the second on August 27, 2007.

On August 27 of the years between each regular review, the concession contract grants the Company the right to annually adjust energy supply tariffs, with a view to restoring the purchasing power of the concessionaire's revenues. The adjustment index is determined by the variation of Parcel A costs, plus that of the IGP-M, less the X factor corresponding to the difference between the revenue reported in the past 12 months for tariff purposes and Parcel A expenses during the same period, according to the parametric formula found in the concession contract. X factor is the index established by the regulator upon each tariff review with a view to sharing with consumers the concessionaire's productivity gains from the added number of consumer units and increase in consumption reported by the existing market, as estimated by the regulator.

In the interval between the adjustments, in order to determine the monthly variation in Parcel A costs effectively incurred by the Company as compared to those estimated at the time of the tariff reviews/adjustments, there is a mechanism called the tracking account for variations in Parcel A (CVA). The plus or minus differences are then adjusted based on the SELIC and transferred on to supply tariffs at each annual adjustment provided for in the contract (see note 12).

Should any unforeseeable event have any impact on the economic and financial balance of the concession, the Company may, with due justification, request the regulator to order an extraordinary tariff review, which shall be given at the regulator's sole discretion.

#### Market Risk

Given the conditions established in the current regulatory environment on distributor energy supply, especially via auctions regulated by ANEEL, Elektro has played an active role in all the mechanisms provided under the legal and regulatory frameworks to contract its energy needs for the 2008-2012 period. To meet the demands of its growing market, Elektro has acquired a part of its additional needs as of 2013 at the Jirau plant auction (Rio Madeira) and the 2008

A-5 auction. It will be securing the remainder at the next regulated auctions, as provided for in current legislation.

#### Risk of Interruption in the Supply of Electric Power (Information not reviewed by the independent auditors)

With a view to reducing its exposure to risk in event of operational energy supply failure, Elektro has two mobile substations that ensure its operational flexibility and agility in restoring the energy supply.

In the period between January 2002 and December 2008, Elektro invested around R\$ 42,182 to implement new technologies, including: (i) digitalization of 43 substations; (ii) protection system improvements by replacing 295 circuit breakers; (iii) distribution network automation using GSM communications technology to oversee and command the electric network equipment, using a total of 234 reconstructions; and (iv) substituting the conventional network for the compact network in a total of 260 km.

The main purpose of these investments was to afford greater protection of the electric network and reduce failures due to natural environmental causes and thus, to minimize the risk of power outages.

#### Risk of Debt Acceleration

The Company has debentures (see note 20) and a loan agreement made with BNDES in connection with Finem II (see note 19), both of which contain the usual

restrictive financial clauses in effect for this type of business. These restrictive clauses were complied with and do not prevent the Company from the regular performance of its business. The Company's equity and financial positions are monitored permanently so as to ensure compliance with said restrictive conditions.

#### 42. Environmental Issues

On conducting its operations the Company is committed to preserve the environment and minimize any impacts caused thereto. In 2008, the Company set aside R\$ 26,168 to invest in initiatives to increase responsibility for the environment and foster the development and dissemination of environment-friendly technologies.

From the total invested, R\$ 2,951 was posted as plant, property and equipment and is tied to the installation of compact, isolated and pre-spliced cable networks.

A total R\$ 23,217 registered to income is pegged to energy efficiency projects, recycling regenerated oil from live transformers, co-processing of waste, lamp decontamination, tree planting, vegetation management, tree pruning, research and development projects (R&D) on the environment and environmental awareness projects such as Merinos Ecológicos (Ecological Boys) and Jovens ECOncientes (ECOaware Youths).

#### Annex I – Income Statement Segregated by Activity

	12/31/2008		
	Distribution and comercialization	(*) Non-linked activities	Total
<b>Operating revenues</b>	<b>3,714,937</b>	<b>4,937</b>	<b>3,719,874</b>
<b>Operating revenues deductions</b>	<b>(1,207,064)</b>	<b>(333)</b>	<b>(1,207,397)</b>
<b>Net operating revenues</b>	<b>2,507,873</b>	<b>4,604</b>	<b>2,512,477</b>
<b>Cost of electric power services</b>	<b>(1,328,595)</b>	<b>-</b>	<b>(1,328,595)</b>
Energy purchased for resale	(1,461,478)	-	(1,461,478)
PIS and COFINS credits on cost of electric power services	132,883	-	132,883
<b>Operating costs</b>	<b>(396,949)</b>	<b>(727)</b>	<b>(397,676)</b>
Personnel	(135,642)	(242)	(135,884)
Materials	(24,916)	(39)	(24,955)
Outside services cost	(71,799)	(20)	(71,819)
Depreciation and other amortizations	(116,972)	(9)	(116,981)
Other operating cost	(51,669)	(417)	(52,086)
PIS and COFINS credits on operating cost	4,049	-	4,049
<b>Gross profit</b>	<b>782,329</b>	<b>3,877</b>	<b>786,206</b>
<b>Operating expenses</b>	<b>(148,806)</b>	<b>(7,348)</b>	<b>(156,154)</b>
Sales expenses	(15,058)	-	(15,058)
General administrative expenses	(63,543)	-	(63,543)
Goodwill amortization	-	(7,348)	(7,348)
Other net operating expenses	(70,205)	-	(70,205)
<b>EBIT</b>	<b>633,523</b>	<b>(3,471)</b>	<b>630,052</b>
<b>Financial income</b>	<b>(140,232)</b>	<b>-</b>	<b>(140,232)</b>
<b>Operating income</b>	<b>493,291</b>	<b>(3,471)</b>	<b>489,820</b>
<b>Income before income tax and social contribution</b>	<b>493,291</b>	<b>(3,471)</b>	<b>489,820</b>
Income tax	(74,867)	-	(74,867)
Social contribution	(25,754)	-	(25,754)
Deferred income tax	(47,633)	-	(47,633)
Deferred social contribution	(17,493)	-	(17,493)
Reversal of interest on equity	67,714	-	67,714
<b>Net income (loss)</b>	<b>395,258</b>	<b>(3,471)</b>	<b>391,787</b>

(\*) The amounts refer to atypical receipts and expenditures related to services not connected to the power distribution business and goodwill amortization of the premium resulting from the added value (see note 15) related to the merger of the controller Terraço Participações Ltda.

GERENTE EXECUTIVO DE CONTROLADORIA  
Vitor Cuminato Filho - CRC 1SP236785/0-3



## Independent Auditors' Report

To the Shareholders and Managers of  
**Elektro Eletricidade e Serviços S.A.**  
Campinas - SP

1. We have examined the balance sheets of Elektro Eletricidade e Serviços S.A. as at December 31, 2008 and 2007, and the respective statements of income, changes in shareholders' equity, cash flows and added value for the fiscal years then ended. These reports were prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our examination was conducted in accordance with applicable audit standards in Brazil and comprises: (a) the planning of the works, considering the relevance of the balances, volume of transactions and the accounting systems and internal controls of the Company; (b) the finding, on a test basis, of evidence and registers supporting the amounts and disclosures in the financial statements; and (c) the assessment of the accounting practices and most significant estimates used by the Company's management, as well as the overall presentation of the financial statements.
3. In our opinion, the financial statements above present fairly, in all material aspects, the equity and financial position of Elektro Eletricidade e Serviços S/A as at December 31, 2008 and 2007, the results of its operations, changes in shareholders' equity, its cash flows and added value of the operations related to the fiscal years then ended, in conformity with generally accepted accounting practices in Brazil.
4. Our audits were conducted with a view to expressing an opinion on the overall basic financial statements referred to in paragraph 1 above. The statement of income broken down by business activity refers to the fiscal year ended

at December 31, 2008, which is being presented to provide additional information on the Company and is a required integral part of the basic financial statements, according to Brazilian accounting practices. Such statement was submitted to the same audit procedures described in paragraph 2 and, in our opinion, is on the whole represented fairly, in all material aspects, in relation to the basic financial statements for the period ended December 31, 2008.

5. As mentioned in explanatory note 2, due to the changes in accounting practices that took place in Brazil in 2008, the financial statements for the fiscal period ended at December 31, 2007, presented for comparative purposes, were adjusted and are being presented as provided for in NPC 12 - Accounting Practices, Changes in Accounting Estimates and Correction of Errors.

Campinas, March 2, 2009

**Deloitte Touche Tohmatsu**  
**Audidores Independentes**  
CRC No. 2 SP 011609/O-8

**José Carlos Amadi**  
Accountant  
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**Deloitte.**

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**Elektro linemen**



***ELEKTRO***  
*Energia que vem da gente*