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A WORD FROM THE BOARD OF DIRECTORS

The Stockholders,

Companhia Hidro Elétrica do São Francisco – Chesf is pleased to submit its Annual Management Report and the Financial Statements for the year ended December 31, 2007, accompanied by the Independent Auditors' Report and the Fiscal Council's Report.

In 2007, the Chesf had a good economic and financial performance, keeping itself solid and profitable.

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

- Net income of R\$ 652.6 million.
- Participated in the Transmission Auction Nr. 004/2007, held by National Electric Power Agency - ANEEL, whereby the Company was granted Lot E concession, corresponding to the transmission line of 230 kV Jardim-Penedo, with 120 km of extension and enlargement of the substations of 230 kV Jardim and Penedo, with investment of R\$ 30.5 million;
- Conclusion of the venture Milagres-Tauá, part of the Programa de Aceleração do Crescimento -PAC, with the construction, assembly and energization of the transmission line of 230 kV Milagres-Tauá, with 208 km of extension, of Tauá substation, with a transformation of 100 MVA, and extension of Milagres substation;
- Increase, in 660 MVA, of the capacity of transformation of electric power in Chesf Transmission System;
- Adoption of procedures according to section 404, of the Law Sarbanes-Oxley – SOX, of the United States of America, regarding its information technology and business main procedures, aiming at the Eletrobrás Certification and;
- Implementation of Entrepreneurial Social Responsibility actions, according to the directives of the Federal Government, acting in programs of food safety, health, education, citizenship and generation of revenue in the several regions where the Company conducts business.

Chesf, as an electric power public operating company, contributes to provide the infrastructure necessary to the social economical development of the Country, acting as a socially responsible company, regarding the search for profitability, preservation of the environmental resources and reduction of regional and social differences.

THE COMPANY'S PROFILE

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

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

Power Plants	River	Installed Capacity (MW)
HYDROELECTRIC:	-	10,268,328
Sobradinho	São Francisco	1,050,300
Luiz Gonzaga (Itaparica)	São Francisco	1,479,600
Apolônio Sales (Moxotó)	São Francisco	400,000
Paulo Afonso I	São Francisco	180,001
Paulo Afonso II	São Francisco	443,000
Paulo Afonso III	São Francisco	794,200
Paulo Afonso IV	São Francisco	2,462,400
Piloto	São Francisco	2,000
Xingo	São Francisco	3,162,000
Funil	das Contas	30,000
Pedra	das Contas	20,007
Boa Esperança	Parnaíba	237,300
Curemas	Piancó	3,520
Araras	Acaraú	4,000
THERMOELECTRIC:		350,000
Camaçari	-	350,000
TOTAL		10,618,328

The transmission system, which the first units became operative in 1954, covers the states of Alagoas, Bahia, Ceará, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and Sergipe, with 18,468 km of transmission lines in operation, of which 5,122 km are 500 kV transmission circuits; 12,537 km of 230 kV transmission circuits; 809 km of lower tension transmission circuits; 98 substations with higher than 69 kV tension and 729 transformers in operation, with a total transformation capacity of 41,558 MVA, plus 4,907 Km of optical fiber cables.

RELATIONS WITH INVESTORS

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

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

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

OWNERSHIP

Capital of company, in the amount of R\$ 1,696.3 million, is comprised in 41,709,653 shares, of which 40,477,564 are common and 1,232,089 are preferred, all without nominal value. Of these, 99.45% is held by Eletrobrás, 0.46% by Sudene, 0.04% by Finor and 0.05% by other shareholders.

CORPORATE GOVERNANCE

Administration

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

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

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

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

Code of Ethics

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

Internal Controls and Auditing

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

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

Observing the best practices of corporate governance, Chesf applied to its main information technology and business some procedures according to section 404, of the Law Sarbanes-Oxley – SOX, of the United States of America, aiming at the Eletrobrás Certification.

ELECTRIC POWER ENERGY MARKET

The market projections disclosed by the Empresa de Pesquisa Energética – EPE, for the period from 2007 to 2017, present a growth in the national consumption of electric power, in the Regions served by the National Interconnected System – SIN, of 4.8% per year. Such growth represents an increase of 30,472 MW in average at the end of 2017, developing from the current 50,345 MW in average to 80.817 MW in average, considering the integration of some subsystems separated from the National Interconnected System - SIN as of 2009. Northeast region shall have an average expansion of 4.9% per year, with a growth a little bit higher than the one foreseen to Brazil, going from 7,280 MW in average to 11,727 MW in average, in the same horizon, representing an increase of 4,447 MW in average up to the end of last year.

This picture demonstrates the need to add new sources of power generation, indicating expansion and diversification opportunities of the investments of the Company, both in natural gas thermoelectric ventures and nuclear ones, already indicated in the Expansion Decennial Plan from 2007 to 2016 of EPE, regarding hydroelectrics of the remaining potential in the Northeast region and in the great utilization by the North Region.

ELECTRIC POWER TRADING

The energy traded in 2007 reached 49,596 GWh, distributed among 21 States of Brazil and the Federal District, with Sales to distributors within the Regulated Contracting Environment (ACR) accounting for 70.9% of that total. States with the largest share of sales in the segment of distribution were São Paulo (19.9%), Paraná (10.4%) Rio de Janeiro (10.3%), Pernambuco (8.2%) and Bahia (7.5%).

Sales to the Northeast accounted for about 41% of the total sold by Chesf. Part of this energy was sold directly to the thirteen major industries located in this region.

In 2007, it was carried out by the Electric Power Commercialization Chamber – CCEE, adjustment auctions destined to ACR, in which Chesf sold a total of 50 MW in average in 2007 and 34 MW in average in 2008.

Chesf also took part in auctions held at the Free Contracting Environment (ACL), both as a promoting entity (sales auctions) and those held by third parties (purchase auctions), which lead to the signing of 148 contracts with free traders and consumers for various supply periods. When compared with 2006, the number of contracts signed within ACL increased by more than 74%. In terms of energy traded within this environment, it grew 117%, increasing from 2,974 GWh in 2006 to 6,442 GWh in 2007.

The business process got the support of a modern computer platform on which Chesf energy auctions are held. Business transactions are conducted in a virtual environment through a world network of computers, making short-term, medium-term and long-term sales more transparent, competitive and quicker.

OPERATING PERFORMANCE

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

Given the localization of its main power plants, Chesf receives influence of the hydrological systems of the Northeast and Southeast Regions. Due to its localization and to the affluences in the humid period 2006/2007, in April, the main reservoir of the Northeast Region, Sobradinho, reached its full storage and, at the end of 2007, its storage was about 16.5% of its useful volume.

The Company generated 57.301 GWh, in 2007, in relation to 54,718 GWh, in 2006, representing a growth of 4.7 %. The variations of the production of energy, in 2007, in comparison to 2006, resulted mainly from the market growth, the power conditions of the National Interconnected System - SIN and centralized dispatch policy exercised by the Electric System National Operator - ONS.

In 2007, continuous investments were made to train human resources, improve intervention-planning instruments and implement new techniques and processes for maintenance of equipment, transmission lines and protection, control and supervision appliances.

Several actions stand out: the constant improvement in transmission and generation systems, with the replacement of obsolete equipment, digitalization of protection systems and installation of appliances to supervise and control the electric systems, the modernization of the operation centers with the implementation of advanced functions, such as the state estimator, network configurator, alarm address system and operator training simulator.

In an effort to enhance the Chesf Telecommunications network, were new optical-digital transmission system services, it is HIGHT-LIGHTS the Telecommunications west link, with the following main places attended: Fortaleza, Teresina, Sobradinho and Paulo Afonso cities. Such configuration was possible through the use of fiber-optics allocated along of 632 km of cable OPGW around Boa Esperança – São João do Piauí and Sobradinho substations.

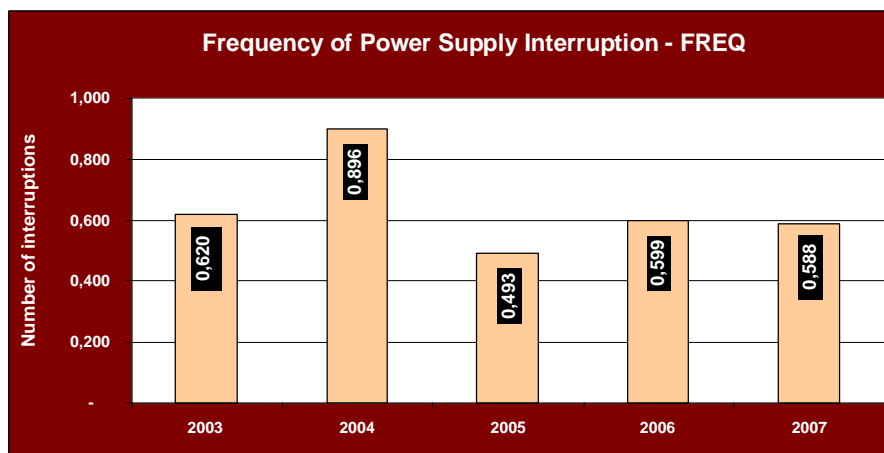
Performance Indicators

In 2007, a better result was obtained in the Operational Availability indicator - DO, while there was a small reduction of performance in the indicators of Interruption Equivalent Duration - DREQ and Interrupted Power – ENES in relation to the previous year.

The targets established for indicators of Frequency of Power Supply Interruption – FREQ and Equivalent Power Interruption Duration - DREQ were fully hit, registering the second better result in the last five years.

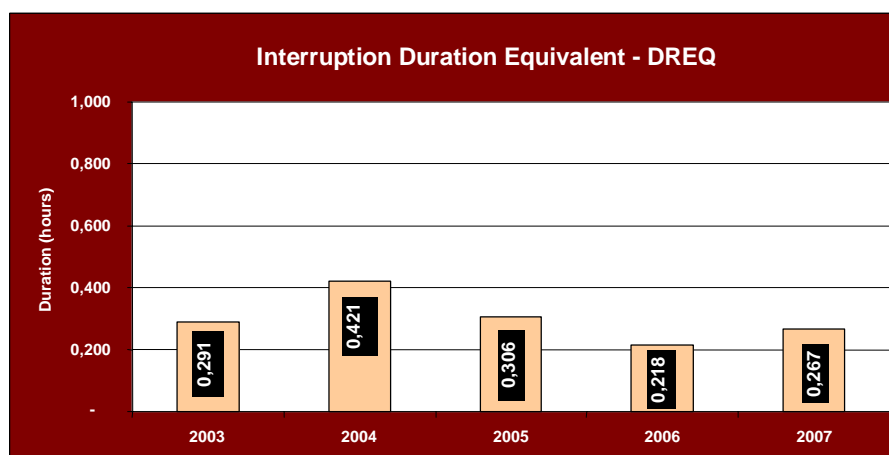
Frequency of Power Supply Interruption - FREQ

This indicates the equivalent number of electric power supply interruptions.



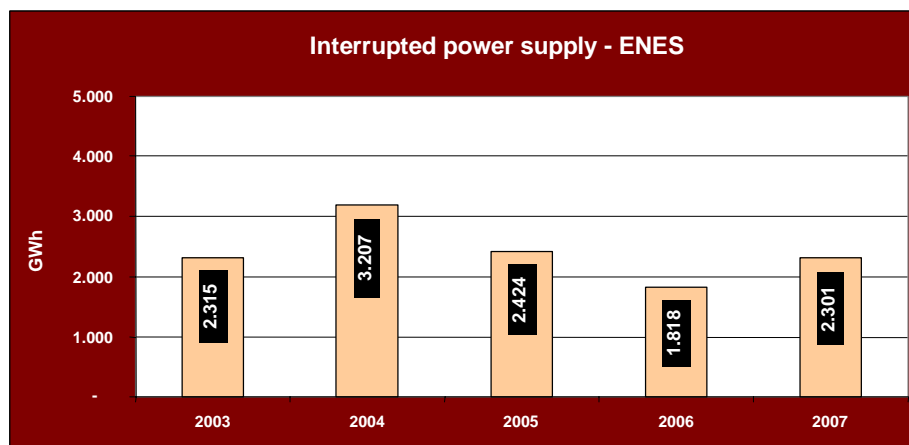
Interruption Duration Equivalent - DREQ

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



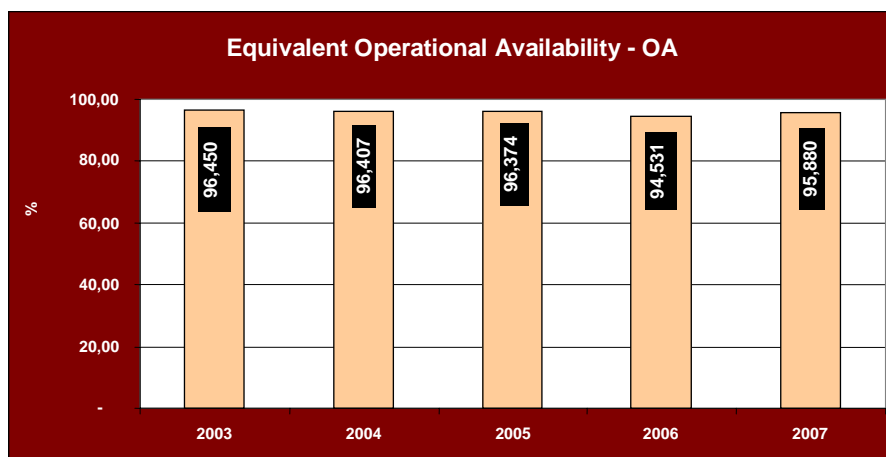
Interrupted Power – ENES

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



Operational Availability - OA

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



INVESTMENTS

Chesf, in 2007, invested in the expansion and modernization of its electric system and in the improvement of its infrastructure. The amount recorded, considering only additions to property, plant and equipment and intangible assets, totaled R\$ 538.4 million, distributed as follows:

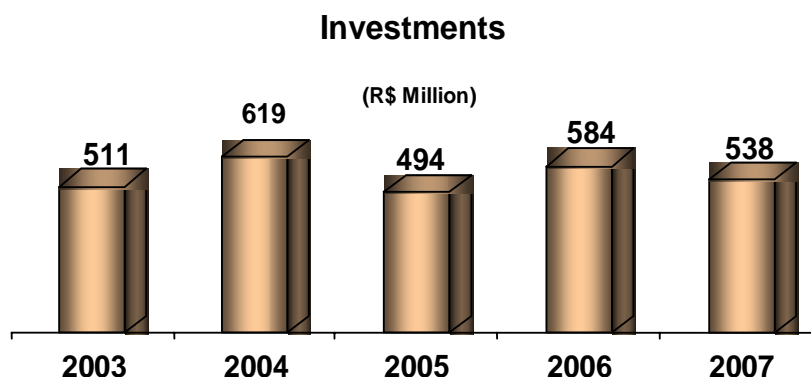
Summary of investments – R\$ million

- Generation
- Transmission
- Renewal HPP Luiz Gonzaga (Itaparica)
- Infrastructure

TOTAL

2003	2004	2005	2006	2007
209	191	66	57	49
189	301	284	335	306
77	90	101	149	109
36	37	43	43	74
511	619	494	584	538

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



Generation

In order to keep the generation system with a satisfactory availability level, several maintenance and improvement actions were carried out in the power plants of the Companies, including:

- The conclusion of modernization works of the protection and control systems of 3 generator units of the Hydroelectric Power Plants Paulo Afonso I, II and III. The global project, which includes the 13 existent generator units, when concluded in 2010 shall permit the centralization of all command of the 3 power plants, increasing the operational reliability; and
- The conclusion of the recovery of a machine damaged of HPP Paulo Afonso III.

In the Hydroelectric Power Potentials Program, the following key actions were taken to increase the supply of power generation in the Northeast:

- In partnership with Construtora Queiroz Galvão and CNEC Engenharia S.A., the Company concluded technical, economic and environmental feasibility studies involving five potential hydroelectric sites detected in the inventory studies carried out on the River Parnaíba basin sites: Ribeiro Gonçalves (113 MW), Uruçuí (134 MW), Cachoeiro (63MW), Estreito (56 MW) , and Castelhana (64 MW). Two other studies of the Cachoeira (63 MW) and Castelhana (64 MW), as well as yours Environmental Studies (EIA/RIMA); and
- In another partnership with Construtora Norberto Odebrecht, Engevix Engenharia S.A. and Desenvix S.A., it was concluded the Environmental, Economical and Technical Feasibility Studies (EVTA) of the Hydroelectric Utilization of Riacho Seco (276 MW), in the submedium of São Francisco River. It was continued the Environmental, Economical and Technical Feasibility Studies of the Hydroelectric Utilization of Pedra Branca (320 MW), also in the submedium of São Francisco River. The performance of such studies faces greater difficulties due to the complexity of the involved social environmental problems.

Transmission

The Chesf Transmission System was expanded with the completion of the following projects:

- Construction, assembly and energization of the transmission line of 230 kV, Milagres - Tauá, with 208 km of extension, of substation Tauá, with 100 MVA of transformation, and the enlargement of Milagres substation. Such venture integrates the Growth Acceleration Program – PAC;
- Re-empowerment of the circuits C1, C2 and C3 of the transmission line of 230 kV Recife II - Joairam, with extension of 8 km;

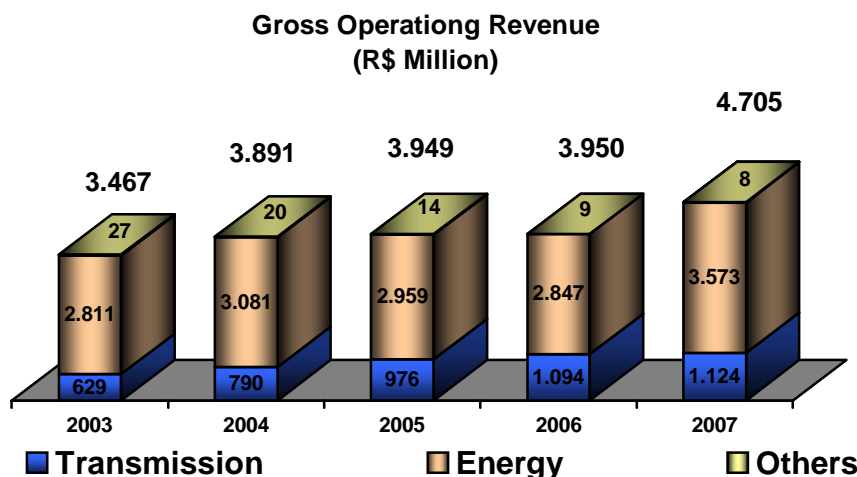
- Increase of the transformation capacity of Irecê substation, 230/138 kV – 55 MVA, bus interconnection of 138 kV and installation of 3 reactors limiting the short circuit current 13.8 kV – 0.31 ohms/phase;
- Increase of the transformation capacity of the Piripiri substation, 230/138 kV – 55 MVA and bus interconnection of 138 kV;
- Increase of the transformation capacity of the Santo Antonio de Jesus substation, 230/69 kV – 100 MVA and installation of 2 entry line of 230kV;
- Increase in the transformation capacity of Cauípe substation, 230/69 kV – 100 MVA;
- Increase in the transformation capacity of Cotegipe substation, 230/69 kV – 100 MVA;
- Increase in the transformation capacity of Picos substation, 230/69 kV – 50 MVA;
- Increase in the transformation capacity of Juazeiro II substation, 230/69 kV – 100 MVA; and
- Enlargement of Bom Jesus da Lapa substation, with the implementation of the general module 230 kV and implementation of 3 reactors limiting the short circuit current RLCC 13.8 kV – 0.50 ohms/phase.

It is in course the implementation of the ventures in 230 kV, part of the PAC, comprised of transmission lines and enlargement of substations, whose concessions were obtained in Auctions of ANEEL, comprised by: Funil-Itapebí, Milagres-Coremas, Ibicoara-Brumado, Paraíso-Açu, Picos-Tauá and Jardim-Penedo.

ECONOMIC-FINANCIAL PERFORMANCE

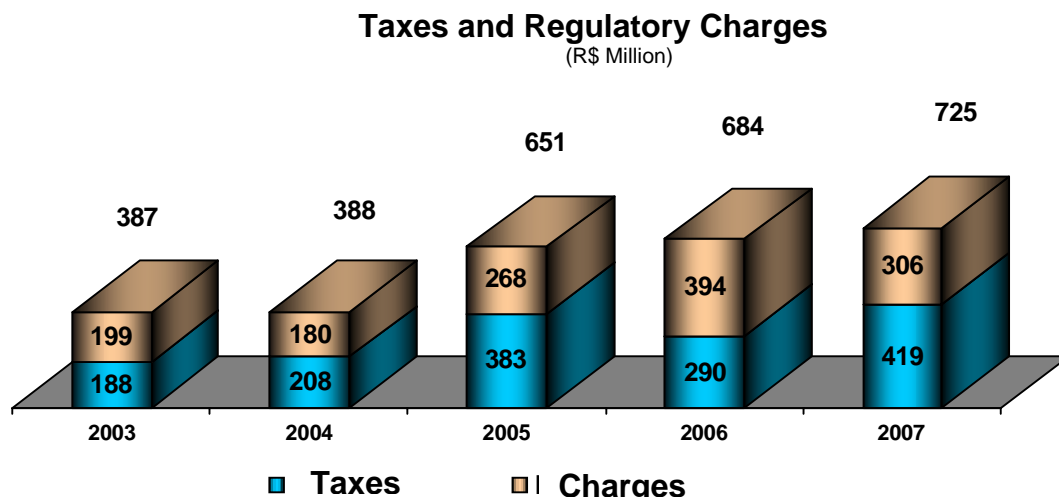
Gross Operating Revenue

The gross operational revenue, in 2007, reached the amount of R\$ 4,705.4 million, with an expressive growth of 19.1% in relation to the prior fiscal year (R\$ 3,949.8 million), result of the good performance verified in the power sale sector (+ 25.5%), due to an increase of the amounts settled according to the Electric Power Commercialization Chamber – CCEE, which reached R\$ 400.3 million, in relation to R\$ 106.1 million in 2006, and auctions of power surpluses, in the amount of R\$ 474.7 million in 2007 (R\$ 122.1 million in 2006), besides the price readjustments set forth in the agreements. On the other hand, the power transmission sector grew 2.7%, as a result of the enlargement and reinforcements of the basic network. It is demonstrated as follows the development of the revenues per sector, in the last five years.



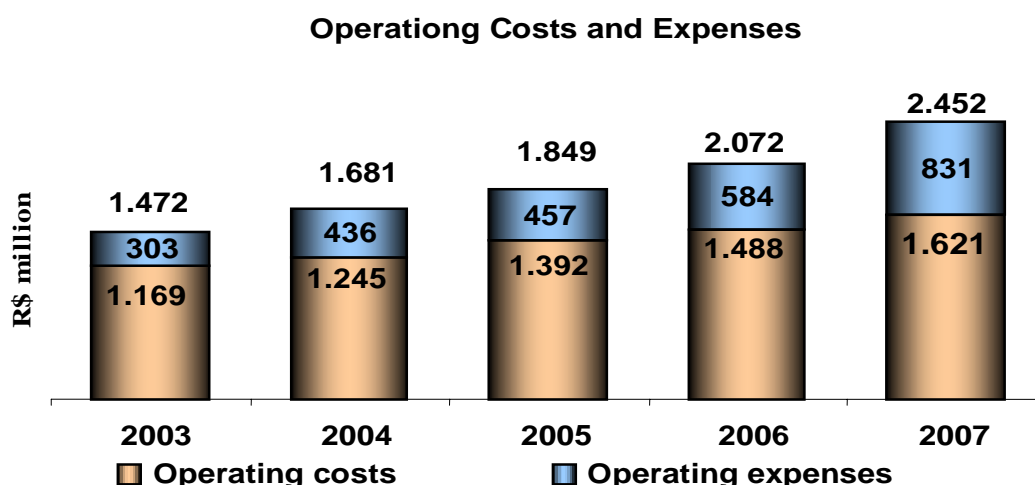
Taxes and Sector Charges on Sales

The Company is among the biggest taxpayers of the Northeast Region. In 2007, regulatory taxes and charges fell directly upon the sales, totaling R\$ 724.7 million, 6.0% above 2006.



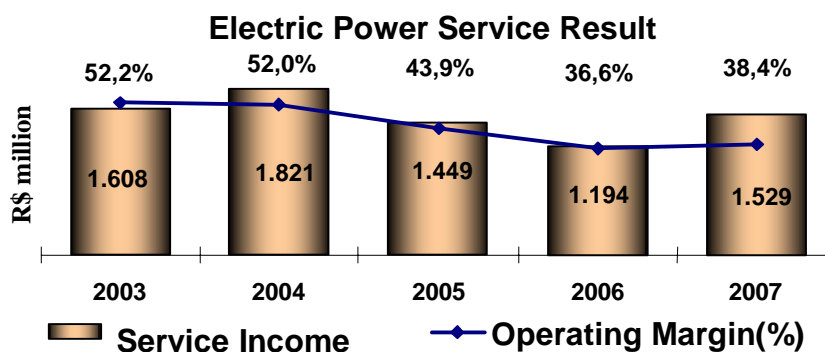
Operating Costs and Expenses

The operational costs and expenses had an increase of 18.4%, reaching R\$ 2,452.2 million in 2007, in relation to R\$ 2,071.4 million in 2006. Such growth was strongly influenced by the *loss with free energy*, in the value of R\$ 185.8 million, accounted in compliance with the determination of Official Letter nr. 2.409/2007-SFF/ANEEL, and of the *provision for doubtful liquidation credits*, in the amount of R\$ 96.6 million corresponding to the part constituted in this fiscal year, of a total of R\$ 205.5 million, for the coverage of occasional losses in the realization of these free energy credits. Such costs and expenses had an increase of just 10.5%.



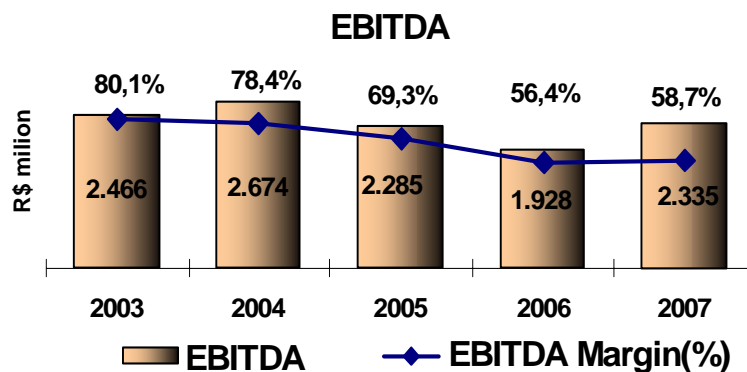
Electric Power Service Income and Operating Margin

The service operational result (EBIT) reached R\$ 1,528.6 million, 28.0% above the amount reached in 2006 (R\$ 1,194.3 million). As a consequence, the operational margin (result of the service / net revenue) advanced to 38.4% in comparison to the 36.6% in 2006.



Operating Cash Generation (EBITDA)

The operating cash generation as measured by EBITDA (Earnings Before Interests, Tax Depreciation and Amortization) fell to R\$ 2,335.7 million in 2007, from R\$ 1,982,2 million in 2006. The EBITDA in relation to net revenues, on its turn, it advanced to 58.7%, in comparison to the 56.4% in 2006.



Reconciliation of EBITDA (R\$ million)

	2007	2006
Net income	652.6	457.3
(+) Income and social contribution tax.....	329.2	120.5
(+) Profit sharing.....	54.0	47.9
(+) Non-operating income.....	6.1	5.8
(+) Financial expenses.....	640.3	735.4
(+) Depreciation and amortization.....	594.5	563.5
(+) Provisions for contingencies.....	59.0	(2.2)
(=) EBITDA	2,335.7	1,928.2

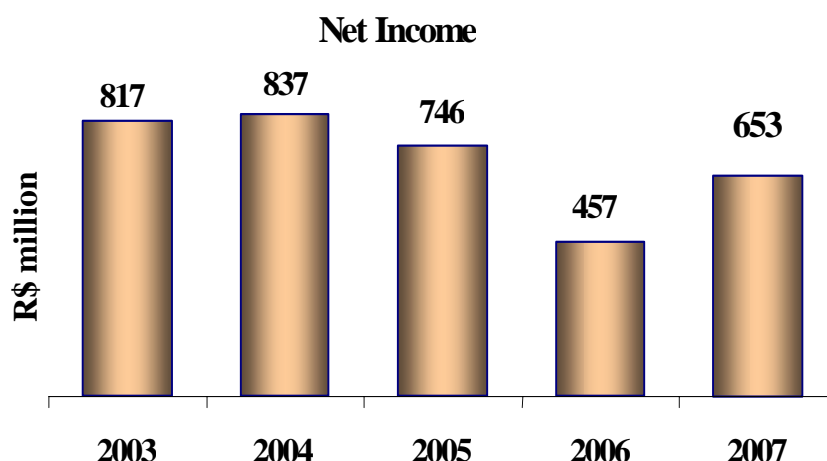
Financial Result

The net financial result of the year presented an expense of R\$ 486.6 million, representing an improvement of 13.5% in relation to the expense of R\$ 562.8 million obtained in 2006. Such improvement was mainly originated from the reduction of the financial charges resulting from loan debts and other obligations.

Financial income (expenses) – R\$ million	2007	2006
Income from financial investments.....	27,2	22,2
Income from refinancing granted to clients.....	109,2	131,2
Interest and monetary variations on loans and financing.....	(556,9)	(617,2)
Other financial income (expenses).....	(66,1)	(99,0)
(=) Financial net result net.....	(486,6)	(562,8)

Net Income

In 2007, the combined effect of the revenue growth, aligned to the policy adopted by the administration related to the operational and financial aspects, permitted the Company to obtain a net profit of R\$ 652.6 million, 42.7% over the one verified in 2006, R\$ 457.3 million.

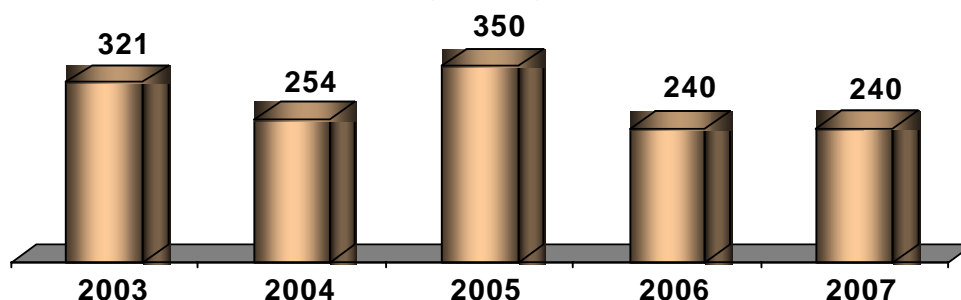


STOCKHOLDERS' COMPENSATION

The Bylaws of the Company provides for the distribution of 25% of the net profit adjusted according to the corporate law, as obligatory minimum dividends. However, the administration of the Company, considering the fiscal year net profit, resolved to propose in the Ordinary General Meeting - AGO a compensation of R\$ 240 million, as dividends, equivalent to 37.4% of the adjusted net profit, and corresponding to a distribution of R\$ 5.75 per preferred and common stock.

Stockholders' Compensation

(R\$ million)

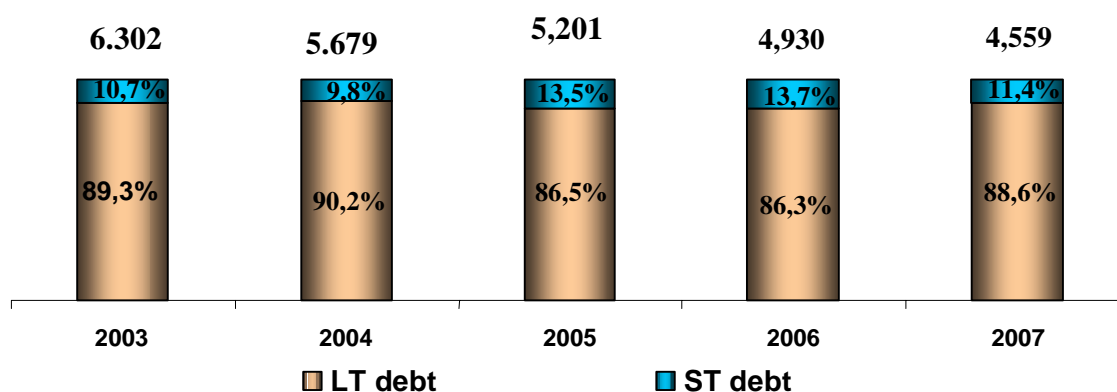


INDEBTEDNESS (LOANS AND FINANCING)

In 2007, the gross indebtedness (obligations before the controller and financial institutions) was of R\$ 4,558.8 million, 7.5% less than the R\$ 4,930.1 million, at the end of 2006. The short term due debts correspond to 11.4% of the total indebtedness and the 88.6% of the long-term maturities are distributed from 2009 to 2022. The indebtedness interest in national currency is of only 6.4% of the total debt (8.8% in 2006).

GROSS INDEBTEDNESS

R\$ million



RELATIONS WITH INDEPENDENT AUDITORS

The Company's policy for engagement of independent auditors relies on principles that preserve their independence. Accordingly, a service contract was signed with the auditing firm Boucinhas % Campos + Soteconti Auditores Independentes S/S, on 06/01/2007, covering the period from June 2007 through May 2008. It should be stressed that in compliance with CVM Instruction nr.381, of 01/14/2003, ratified by the Circular Letter/CVM/SNC/SEP/number 02/2005, of 08/24/2005, no other service contract exists with this firm.

SHAREHOLDING

Within the expansion policy of its business of electric power generation and transmission, the Company has been celebrating partnerships with private companies, by means of majority interests, and the fiscal year was ended with the following companies:

Sistemas de Transmissão Nordeste S.A – STN

Interest of 49% in the capital stock of the Empresa Sistema de Transmissão Nordeste S.A. - STN, organized in 2003, in association with the Companhia Técnica de Engenharia Elétrica - ALUSA, for the exploration of the concession of installations of electric power transmission of the National Interconnected System basic network, in route Teresina II – Sobral III - Fortaleza II, in 500 kV, with concession term of 30 years. STN initiated its commercial operation in January of 2006. On 09.26.2007, the interest of ALUSA was transferred to ALUPAR Investimento S.A.

Integração Transmissora de Energia S.A – INTESA

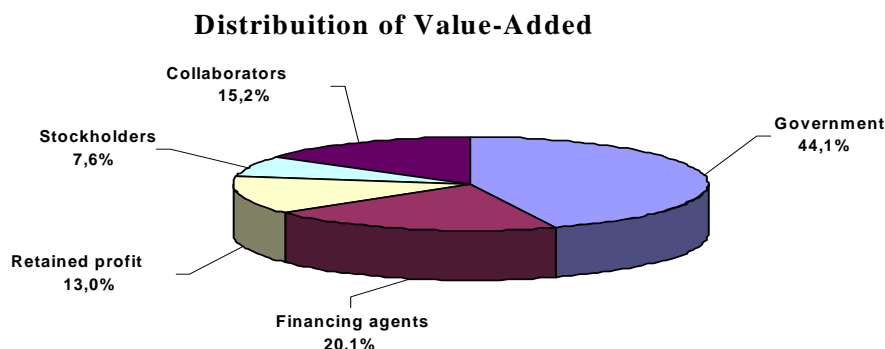
Interest of 12% in the capital stock of the company Integração Transmissora de Energia S.A. – INTESA, organized in 2006, in association with Fundo de Investimentos em Participações Brasil Energia – FIP, with 48%, Eletronorte, with 37%, and Engevix Engenharia S.A., with 3%, for the exploration of the concession of installations of electric power transmission of the National Interconnected System - SIN basic network, in route Colinas - Serra da Mesa 2, 3rd circuit, in 500 kV, with concession term of 30 years. INTESA shall initiate its commercial operation in April of 2008.

Energética Águas da Pedra S.A.

Interest of 24.5% in the capital stock of the company Energética Águas da Pedra S.A., which purpose is the implementation of Dardanelos Hydroelectric Power Plant. Such Power Plant shall be implemented in Aripuanã River, situated in the north of the Estate of Mato Grosso, with potency of 261 MW and guaranteed total power of 154.9 MW in average. The investment expected is of R\$ 760.8 million and the concession is for the generation of power for the term of 30 years, and the operation of the first machines is expected to start in 2011. It was commercialized 147 MW in average for the concession period from 2011 to 2041. The other participants of the association are Eletronorte (24.5%) and Neoenergia S.A. (51.0%).

VALUE-ADDED

Chesf has been strongly promoting the Northeastern and Brazilian economies. The Company's contribution to the Brazilian economic growth was R\$ 3,168.1 million of value added, in 2007, amount 17.9% superior to the R\$ 2,686.0 million generated in 2006. This amount was given in return to the society as a whole, by way of salaries, payroll taxes and benefits to its employees and their families (15.2%); taxes, fees and contributions to the municipal, state and federal governments (44.1%); interest paid to the financiers of assets and services (20.1%); stockholders' compensation (7.6%) and retention of profits (13%).



RESEARCH AND DEVELOPMENT PROGRAM

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

In the year of 2007, it was made a high investment in the modernization of the R&D process management, including the development of an integrated system of managerial information and the optimization of the methodology chosen for the projects and executing entities, in a way to meet the strategic needs of the Company.

The Company has two project portfolios. The first one, which meets the requirements of Law nr. 9.991/2000 and nr. 10.848/2004, is focused on the need for a more specific interest in relation to the electric power production and transmission system, with the involvement of a large range of well known teaching and research entities as the executors of the current 105 projects. The second project portfolio concentrates in common interest matters of the Eletrobrás System companies and has, as executor, the Electric Power Research Center - CEPEL, which has been providing relevant services for the national electric sector for more than 30 years. The annual average of resources invested in the portfolios in question is of approximately R\$ 23 million.

In addition to such investments, Chesf contributed to the Technological and Scientific Development National Fund – FNDCT and born part of the expenses of Energetic Research Company – EPE, reaching an annual average of R\$ 22.5 million. Therefore, in the total, Chesf annually invests in R&D, directly and indirectly, the expressive amount of R\$ 45 million, approximately.

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

SOCIAL AND ENVIRONMENT RESPONSABILITY

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

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

PEOPLE MANAGEMENT (EMPLOYEES)

The Company ended the year of 2007 with a staff comprised of 5,640 employees. The *turnover* index of the exercise was of 0.55%. It was given continuity to the construction of the new Chesf Model of Management of People per Competence, which aims to align the people management sector with the strategic directives of the Company, integrate several Human Resources Procedures and approximate the expectancies of the Company and of the employees, to contribute to the improvement of the professional and entrepreneurial performance.

According to suggestion of the Joint Committee of Camping Policies, it was carried out improvements in the provision of public cleaning services, paving and urbanization; availability of ambulances type movable UTI, for employees and dependants, in the camping of Boa Esperança, Sobradinho and Xingó and sale of the houses of Chesf to its dwellers, in the campings of the Company.

Employees' Compensation and Benefits

The employees of Chesf have the right to the following benefits: maternal and child assistance, assistance to disabled people, ambulatory service, education for dependants, Employment Assistance Plan - PAP, which gives the employees access to hundreds of clinics, hospitals, doctors, dentists, psychologists, phonoaudiologists and other health professionals, transport, meal allowance, disease assistance complementation, group life insurance and private pensions, by means of Chesf Social Security and Assistance Foundation - FACHESF, counting with 12,282 participants, being 5,327 active and 6,955 assisted.

In 2007, R\$ 48.2 million were distributed for employees as profit sharing – PLR, resulting from the compliance with goals pre-established by Eletrobrás and Chesf: give profit and distribute dividends, financial goals (operational margin and cost index) and operational goals (operational availability of the generation and transmission system). The participation of Chesf in the payment of the school monthly fee was extended to the dependants under 21 years old of the employees.

Training and Development

Chesf adopted a corporative education system, aiming at strongly binding the learning to the needs of the organization. Such system concentrates all initiatives of development of the individual competencies giving support to the entrepreneurial essential competences. Such programs shall be the connection between the development of the people and the strategic guidance of the company, aiming at a more effective actuation in the market.

In 2007, the average number of training hours per employee was of 78.83 corresponding to 3.96% of the work hours. The regulatory mark and the high complexity inherent to the new Model of the Electric Sector have required from Chesf a strategic redirection of the empowerment procedures. In this sense, the Company has been extending the long-term training offer, with the purpose to develop the new required competences, specially regarding the Production Engineering, Economy and Finances, Power Commercialization, Electric Power Law and Electric Power Business Management areas. There was an increase of 141% of employees participating in distance trainings if compared to the previous year.

Health and Security at Work

The Company prepared, in the fiscal year, a Life Quality and Health Corporative Plan - Viver Bem-Chesf, as of the information obtained from the Life Quality and Health Research, Employee Social Economic Profile research, results from the periodical medical exams, and Disease-Absenteeism Index. The purpose of this Plan, awarded by the Life Quality Brazilian Association - ABQV in the category Global Program, was to optimize the use of the resources available and act systemically in the disease prevention action, recovery and promotion of health and life quality in the Company. Viver Bem-Chesf is constituted of programs and actions, including: Emergency Service Program – PAE (trainings with rescue simulation for employees working in the risk areas) and Biopsychosocial Monitoring Program - MBPS (for employees acting in the risk area for the maintenance of the transmission lines and substation equipment), both received the award COGE Foundation; physical activity in the Company (labor gymnastic, academy, massage); Nutritional Reeducation Program; Management of Human Behavior at Work (with the purpose to improve the socio-professional relationships of work teams with high index of absenteeism); and educative actions of dissemination of information on health.

The Company carried out, in Recife and Paulo Afonso, seminars destined to managers and other employees, with the purpose to prevent the occurrence discriminations, violence and sexual and moral harassment at work, and workshops for the qualification of 40 health professionals, attorneys and members of the Ethic Commission, so that they can properly forward the questionings and denunciations of employees on such topics.

Among the safety prevention measures, it can be pointed out the Safety Campaign, referred to as *Segurança Dez*, aiming at explaining the importance and motivating the employees of Chesf to cooperate with the prevention of work accidents and the Incident Monitoring Project, with the purpose to study, in a multidisciplinary way, the accident causes. There was a reduction in the indicators, of 10.92% in the Accumulated Frequency Rate of Typical Occupational Accident with dismissal, and of 57% in the Accumulated Gravity Rate of Typical with Dismissal. The Company received the Safety Protection Award, of the Protection Magazine, by the Labor Safety Audit Plan for Contracted Companies.

Diversity Valuation and Gender Equity

The Company recognizes that the respect and promotion of diversity are essential for a management proving a health and united organizational environment, facilitating the professional growth.

In a way to guarantee the individual rights and to promote the elimination of practices affecting such rights, Chesf included, in several regulations regarding the management of people, an item emphasizing the promotion of diversity and prohibiting the discrimination per gender, color/race, religion, age, marital status, sexual orientation, health conditions, among others. The Company joined the Gender Pro-Equity Program, of the Federal Government, and is implementing several measures provided for in the Action Plan agreed with the Policy National Secretariat for Women of the Federal Government. The Action Plan is available in the page of the Company in the Internet.

To meet the needs of the visual disabled people, it was installed voice synthetizers in the elevators. Fifty-nine employees and interns were trained in Libras (Brazilian Language of Signs). The Company maintained Assistance Program to Disabled People – PAPD, which includes a group of medical, education and sportive measures, destined to employees and their dependents.

SUPPLIERS

The Company promotes, periodically, the updating of its suppliers on the procedures used for the management of the agreements. It also acts in order to strengthen the partnership and improve the quality of the services and products. For such, it was held out one-day meetings, in Recife, Salvador and Paulo Afonso, which were attended by 320 suppliers. The requirements of social and ethical responsibility were emphasized in a specific lecture, which is included in the schedule of the event.

RELATIONSHIP WITH THE COMMUNITIES

The Company develops the following structural programs:

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

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

Education Qualification and Knowledge Divulagation

The education, qualification and knowledge divulgation programs developed by Chesf, in 2007, reached more than 5,913 children, teenagers and Adults of Pernambuco, Bahia, Alagoas, Sergipe, Ceará and Piauí, including: the distance pedagogy course concluded by 250 secondary school and high school teachers of the cities part of the region of Lagos do São Francisco; remunerated curriculum internship for university level students, high school students and disabled students, benefiting 205 young people, in the headquarters and regional ones; young apprentices and minor apprentices program reaching 151 teenagers from communities near the offices of the Company; qualification of 160 teenagers and young people in agriculture, in the city of Cícero Dantas; qualification in informatics for 324 young people, in Recife, carried out by voluntaries of the Company; long distance qualification in public management and business management for 515 people in Recife; projects for school complementation and development of abilities for 1,009 children and teenagers, in Recife, Sobradinho and Salvador; preparation for SATs and entrance exams for 294 young people and teenagers; Read More Program, to give incentive to reading, in Paulo Afonso, involving 2,922 children and teenagers; donation of 2,200 children books to 10 schools, in Recife; Income Generation and Gender Course, for 83 people, representatives of NGO's, associations, cooperatives and public bodies of Bahia and Pernambuco, with the purpose to qualify them to better manage income generation projects.

Generation of Work and Income and Regional Development

Chesf implemented projects aligned to social programs of the Federal Government, as Luz para Todos [Light for Everyone]. In the Northeast region, this Program is coordinated by the Chief Operating Officer of the Company and it performed 155,882 connections that beneficiated 779,882 people. Yet in the context of the decisions of the Federal Government, within the scope of PAC, Chesf transferred to the Development Company of Vales do São Francisco and Parnaíba – Codevasf the group of sanitation projects for the swage collection and treatment in the municipal headquarters of the margins of Itaparica Lake.

Within the Transmission Programs and Metropolitan Region, the Company continued providing assistance to the management of the communitarian gardens previously implemented in Salvador and Messias. The gardens are producing and benefiting 85 families with a monthly income, per family, of about 500 reais. In the Metropolitan Region Program, Chesf sponsored the purchase of equipment for the installation of the gastronomy school, in João Pessoa, in a partnership with the City Hall of this city, and the purchase of equipment for the project in Vitória de Santo Antão, where 50 women were qualified for the generation of income. Part of the women participating in the project can already guarantee the necessary income for their subsistence.

In the Program Lagos do São Francisco, it is include: the success of the production of camarão pitu [pitu shrimp] in captivity, which procedure was being attempted for more than ten years; the diffusion of knowledge and transference of technology to 80 fish farmers in the reservoirs of Itaparica, Moxotó, Xingó and in the bed of São Francisco river and the retaking of the apiculture projects with 12 honey production poles, benefiting 300 people. The Company continued supporting the Xingó Archeology project, visited in the fiscal year by around 6 thousand people, and sponsored the construction of Caminho do Calvário, in Água Branca, which shall make it possible the expansion of the tourism in the region.

Food Complementation

The projects in the food complementation area directly beneficiated 850 people, specially the family agricultural project at Lameirão and Malhada seats.

Health Promotion

In Hospital Nair Alves de Souza - HNAS, in Paulo Afonso, the Company invested R\$ 8,187 million, used for improvements in the administration, maintenance of the hospital, purchase of semi-intensive UTI's and X Ray devices. Ninety-six thousand people of 22 cities of 5 Northeastern States were served, in the fiscal year, totalizing 307,160 procedures.

The Viva Mulher Program, in Paulo Afonso, continued serving 400 women of the community, for the treatment of gynecological cancer. It was carried out the Citizenship and Health Fair in communities around the facilities of the Company in Recife, Paulo Afonso, Salvador, Sobradinho and Teresina, with schedule that includes: workshops on child health, prevention of diseases and hygiene and lectures on prevention of domestic violence, benefiting approximately 1,000 teenagers and adults, mostly women; specialized exams and medical service for 1,695 women; 600 children and teenagers received orientation for the prevention of diseases and use of drugs; and medical service for 200 children, in Salvador.

In the area covered by Sobradinho Program (cities of Casa Nova, Remanso, Pilão Arcado, Sobradinho and Sento Sé), it was concluded the construction of 4 warehouses for the collection of pesticide empty packages, essential support for the resolution of a serious environmental and health problem of the population of the margin of Sobradinho Lake.

Aiming at supporting the public health measures, Chesf maintains a sanitary room of the Family Health Program - PSF, in the Irrigated Perimeter Pedra Branca, as well as the treatment and distribution of drinking water for a population of more than 500 families in the City of Abaré.

It also maintains sanitary rooms in the City of Curaçá and in the City of Tacaratu, also to provide services to the agriculturists re-established in the Reservoir Implementation Project of Itaparica.

Citizenship

Aware of the complexity and plurality of the regions where its installations are located, Chesf contributed with several identity strengthening programs and projects and construction of citizenship, serving more than 13,000 people. In Paulo Afonso, Chesf supported the installation of the Special Police Station for Women and the creation of the Municipal Council of Women Rights, being represented in this Council and in the Municipal Council for Children and Teenagers.

It was signed the Conduct Adjustment Term with FUNAI and with the Federal Public Ministry -MPF of Pernambuco, in the value of R\$ 3 million, regarding the potential damages caused in the past and by the foreseen damages until 2015, by the transmission lines of Chesf in the Fulni-ô indian community.

At the headquarters and in the Regions, the Company actively participated in the Campaign 16 Days Fighting for the End of Violence Against Women, with lectures given to the communities and distribution of parts of the campaign to community radios.

Environmental Sustainability

Chesf is putting in place a systematic management of environmental impacts and matters stemming from its power generation and transmission holdings, as well as of the storing and transportation process of dangerous products. For this reason, in 2007 it earmarked R\$ 13.3 million for programs aimed at preserving the environment.

In the generation area, all enterprises have operating licenses, and only one review of the operating license for HPP Pedra, Bahia, is still missing. More than 20 socio-environmental programs have been carried out, such as: Degradation Areas Recovery Program (PRAD); Limnological Monitoring and Water Quality Program; Ichthyofauna Handling and Conservation Program; Associativism and Cooperativism Incentive Program for Lower São Francisco Fishermen; Environmental Health and Education Program geared to the Lower São Francisco Fishermen Communities; and the Archeological Rescue Program. The Monitoring and Evaluation Program of the Salt Wedge Introduction into the São Francisco River Estuary was concluded and surveys and analyses of Environmental Studies were carried out on the new uses of the Parnaíba River, as well as an analysis of the environmental studies on the hydroelectric use of Riacho Seco, on the São Francisco River.

In the transmission sector, all enterprises that came up after 1988 have been licensed and, more than that, there are 135 enterprises preceding that date whose regularization was required from environmental organizations. An Installation License for the Milagres-Coremas transmission line was acquired and an environmental licensing process was started for 5 new 230-kV transmission lines, which were bought at an auction, to be set up in Bahia, Ceará, Piauí and Rio Grande do Norte.

Forty-one Environmental Licenses have been renewed and 533 requirements have been met through a number of Environmental Programs, such as: Fauna and Flora Monitoring Program, Serra Negra Biological Reservation Handling Plan and Revitalization Establishment of the Mamucabas River, Processes Control. Erosives and Degradation Areas Recovery, Surveys, Prospection and Archeological Rescue, among others.

The dangerous products area has 6 operating licenses for several premises to keep and handle these products, with 60 requirements, besides monitoring actions of residue environmental hazards and discarding of dangerous products. An agreement was achieved for the operation of the Camaçari thermoelectric plant, meeting the determinations of the Electric Sector Monitoring Committee – CMSE.

A number of education campaigns have been carried out at communities on how to prevent risks near transmission lines and substations, highlighting the items: kite flying, children climbing up towers, bird hunting, vegetation and garbage burning, robbery of items, vandalism, solid residues and erosion on the bases of the towers. These campaigns have involved more than 2,500 people of the communities situated near the enterprises in the states of Rio Grande do Norte, Alagoas and Pernambuco. Besides these campaigns, education and environmental health programs have been established, meeting the requirements posed by the environmental licenses, favoring some 10,000 people in Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Sergipe and Bahia.

In the environmental compensation area, R\$ 500,000 have been invested on the purchase of equipment for Conservation Units, as well as for the development of Handling Plans of the Serra Negra Biological Reservation, in Pernambuco, and the Santa Isabel Biological Reservation, in Sergipe.

In order to meet the São Francisco Revitalization National Program in the recovery of the São Francisco riparian forest, 150,694 seedlings have been planted in the municipalities of Itacuruba, Belém do São Francisco, Petrolândia and Santa Maria da Boa Vista.

Five programs are set in place by the Public Prosecutor's Office regarding the Permanent Preservation Areas (APP) on the banks of the reservoirs of the Pedra and Paulo Afonso complex hydroelectric plants, as well as the Cotegipe substation, the Truká Indian affair and the surge of macrophytes on Sergipe beaches.

In 2007, Chesf was not fined for breaking environmental protection norms and there is no restriction on the Company's operating activities.

The Itaparica Resettlement Program

Chesf has invested R\$ 109.5 million on the Itaparica Resettlement Program, including works and services, the purchase of equipment, assistance to the resettled people and farm production, on environmental programs, on indemnities to the Tuxá Indian community in the agrarian regularization and to support the municipalities in the influence area of the agricultural perimeters.

As for the works, the establishment of the water catchment and channeling for the Downstream Project, in the Glória Municipality, and another phase of the Block 2 Barrier Perimeter has been put up for tender (Tacaratu Municipality), corresponding to water distribution networks and access roads to the irrigated lots.

In the farm draining program, works towards complementing the Pedra Branca Project have been contracted. Also, the reform and fitting of the chlorination systems of the domestic Water Treatment Stations (ETA) of the farm villages of the Brígida Project, Rodelas (Araticum), Barreiras Block 1 and Brejinho have been started.

The Company has assisted the resettled people and their farm output on the irrigated perimeters in operation, bankrolling moves regarding the operation of the irrigation infrastructure for common use, technical assistance and rural extension to the people favored by irrigation, besides paying the temporary Maintenance Grant (VMT) to those resettled people who are still lacking an irrigated lot fit for production.

The municipalities of Santa Maria da Boa Vista and Abaré, where the Fulgêncio and Pedra Branca perimeters are respectively located, have been supported through a Financial Cooperation Term in order to provide public services, such as of health and road maintenance, to the resettled people of the agricultural villages of the perimeters.

A Cooperation Agreement was signed with the Development Company of the São Francisco and Parnaíba Valleys (Codevasf), with a 5-year execution deadline, for the administration of hydroagricultural projects and the transfer of the common use infrastructure from the irrigated perimeters, the procedures of which have already been started. Included among these actions is the direct participation of the people favored by irrigation in managing the irrigation's infrastructure, with a resulting cost reduction, recovery of part of the operating expenses through payment of water rates and better knowledge by irrigation users of environmental affairs associated with soil-water-plant management.

SOCIO-ENVIRONMENTAL INFORMATION

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

(Expresses in thousands of Reais)

1 - Wealth generation and distribution		In 2007:		3.168.126		Em 2006:		2.686.020	
Value-Added Distribution		44.1% government		15.2% employees		41.8% government		13.9% employees	
The DVA - Value-Added Statement is fully disclosed jointly with the Financial Statements.		20.6% shareholders		20.1% financiers		17.0% shareholders		27.3 % financiers	
2 - HUMAN RESOURCES		In 2007:				In 2006:			
2.1 - Compensation									
Payroll - Gross (FPB)		490,493				437,595			
- Employees		487,879				435,015			
- Management		2,614				2,580			
Relationship between the highest and the lowest compensation:									
- Employees		23.3				24.4			
- Management		1.0				1.0			
2.2 - Benefits Granted		Amount (000)	% Payroll	% on NI	Amount (000)	% Payroll	% on NI		
Payroll taxes		99,698	20.3%	3.0%	94,039	21.5%	2.7%		
Meals		32,359	6.6%	1.0%	30,442	7.0%	0.9%		
Transportation		718	0.1%	0.0%	682	0.2%	0.0%		
Private pension funds		28,857	5.9%	0.9%	25,234	5.8%	0.7%		
Health care		31,895	6.5%	1.0%	29,230	6.7%	0.8%		
Labor security and medicine		2,233	0.5%	0.1%	2,240	0.5%	0.1%		
Education		5,804	1.2%	0.2%	5,040	1.2%	0.1%		
Culture		-	0.0%	0.0%	-	0.0%	0.0%		
Professional development		6,676	1.4%	0.2%	6,984	1.6%	0.2%		
Day-care and day-care allowance		5,701	1.2%	0.2%	1,569	0.4%	0.0%		
Profit sharing		54,504	11.1%	1.7%	48,200	11.0%	1.4%		
Total		268,445	54.7%	8.1%	243,660	55.7%	7.0%		
2.3 - Personnel Composition									
Number of employees at year end		5,640				5,688			
Nunber of employees hired		7				202			
Number of employees dismissed		55				142			
Number of trainees at year end		185				282			
Number of employees with special needs at year end		43				43			
Number of service providers on an outsourcing basis at year end		-				-			
Number of employees by gender:									
- Men		4,484				4,523			
- Women		1,156				1,165			
Number of employees by age:									
- Below 18 years of age		-				-			
- From 18 to 35 years of age		915				1,000			
- From 36 to 60 years of age		4,447				4,458			
- Above 60 years of age		278				230			
Number of employees by level of schooling :									
- Illiterate		0				21			
- Basic schooling		1,101				1,095			
- Intermediate schooling		442				447			
- Technical schooling		2,188				2,198			
- Superior schooling		1,736				1,754			
- Post-graduates		173				173			
Percent distribution of people in chief positions, by gender:									
- Men		86.8%				86.7%			
- Women		13.2%				13.3%			
2.4 - Labor contingencies and obligations:									
Number of labor actions filed against the entity		1,040				1,209			
Number of labor actions deemed valid		349				158			
Number of labor actions deemed unfounded		216				396			
Justice		-				10,723			
3 - Interaction between the Entity and the		Amount (000)	% on OI	% on NR	Amount (000)	% on OI	% on NR		
3.1 - Relations with the Community									
Total investment in:									
Education		3,844	0.5%	0.1%	1,509	0.2%	0.0%		
Culture		11,278	1.4%	0.3%	21,292	2.3%	0.6%		
Health care and infrastructure		9,022	1.1%	0.3%	7,632	0.8%	0.2%		
Sports and leisure		2,689	0.3%	0.1%	2,485	0.3%	0.1%		
Meals		479	0.1%	0.0%	613	0.1%	0.0%		
Employment and income generation		1,790	0.2%	0.1%	2,138	0.2%	0.1%		
Relocation of families		109,459	13.5%	3.3%	148,787	16.1%	4.2%		
Total investments		138,561	17.1%	4.2%	184,456	20.0%	5.3%		
Taxes (payroll taxes excluded)		773,574	95.2%	23.4%	431,761	46.8%	12.3%		
Financial compensagion for water use		222,707	27.4%	6.8%	206,552	22.4%	5.9%		
Total - Relations with the Community		1,134,842	139.7%	34.4%	822,769	89.2%	23.5%		
3.2 - Interaaction with Suppliers		Required controls on :							
Social responsibility criteria used for selecting suppliers		Environmental risks, environmental work conditions, medical control on environmental health, work-by-night or unhealthful work practice by people under 18 years of age.							

4 - Interaction with the Environment	In 2007			In 2006		
	Amount (000)	% on OI	% on NR	Amount (000)	% on OI	% on NR
Investments in and maintenance expenses arising from operational processes for environmental improvement	7.869	1,0%	0,2%	5.931	0,6%	0,2%
Investments and expenses on preservation and/or recovery of degraded environments	2.187	0,3%	0,1%	1.825	0,2%	0,1%
Investments in expenses on environmental education of employees, outsourced personnel, autonomous employees and the entity's management	95	0,0%	0,0%	53	0,0%	0,0%
Investments in and expenses on environmental education of the community	1.296	0,2%	0,0%	1.368	0,1%	0,0%
Investments in and expenses on other environmental projects	1.762	0,2%	0,1%	-	0,0%	0,0%
Quantity of environmental, administrative and legal processes filed against the entity	8	0,0%	0,0%	7	0,0%	0,0%
Fines and indemnities relating to environmental issues, determined at administrative level and/or in court.	-	0,0%	0,0%	-	0,0%	0,0%
Environmental obligations and contingencies	-	0,0%	0,0%	-	0,0%	0,0%
Total Interaction with the environment	13.209	1,6%	0,4%	9.177	1,0%	0,3%
5 - Additional information	2007			2006		
Net Revenue (NR)	3.980.753			3.265.709		
Operating Income (OI)	1.041.975			391.539		

Recife, March 06, 2008

The Board of Directors

BALANCE SHEET AS OF DECEMBER 31,

(In thousands of Reais)

	2007	2006 (Reclassified)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	30,913	34,510
Money market investments – note 5	543,187	134,355
Consumers, concessionaires and permit grantees – note 6	1,039,921	882,495
(-) Allowance for doubtful accounts – note 33	(190,504)	(48,821)
Taxes and contributions to compensate – note 7	10,983	57,140
Stocks – note 8	71,066	67,362
Tax credits – note 9	86,814	31,403
Securities – note 5	32	30
Collateral security and linked deposits	48,064	3,923
Global Reversal Reserve	11,141	11,727
Services in progress	84,548	81,268
Others – note 10	52,877	32,531
	1,789,042	1,287,923
NONCURRENT		
Long Term Receivables		
Consumers, concessionaires and permit grantees – note 6	112,704	349,209
(-) Allowance for doubtful accounts – note 33	(15,023)	(60,141)
Taxes and contributions to compensate – note 7	8,552	-
Securities – note 5	740	703
Assets and rights destined alienation	10,769	5,928
Tax credits – note 9	134,444	175,292
Others – note 11	5,476	8,367
	257,662	479,358
Investments – note 12	157,673	115,427
Property, plant and equipment – note 13	16,125,104	16,238,516
Intangible assets – note 14	138,247	117,622
Deferred charges	276	464
TOTAL ASSETS	18,468,004	18,239,310

The accompanying notes are an integral part of these financial statements

BALANCE SHEET AS OF DECEMBER 31 (In thousands of Reais)

	2007	2006 (Reclassified)
LIABILITIES		
CURRENT LIABILITIES		
Suppliers – note 15	263,926	204,392
Payroll	7,608	6,878
Taxes and social contributions – note 16	214,893	70,993
Loans and financing – note 17	467,687	619,215
Charges on debts – note 17	50,680	54,265
Profit sharing – note 27	54,504	48,200
Stockholders' compensation – note 28	240,014	204,197
Estimated liabilities	71,474	55,910
Private pension plan entity – note 19	167,388	158,458
Research and development	130,501	118,571
Others – note 18	101,011	106,798
	1,769,686	1,647,877
NONCURRENT LIABILITIES		
Taxes and social contributions – note 16	40,535	63,891
Loans and financing – note 17	4,040,440	4,256,636
Private pension plan entity – note 19	357,299	474,480
Provisions for contingencies – note 20	336,068	305,434
Others – note 21	57,972	37,618
	4,832,314	5,138,059
STOCKHOLDERS' EQUITY		
Capital – note 22	1,696,306	1,696,306
Capital reserves – note 22	7,416,199	7,416,199
Profit reserves – note 22	2,459,103	2,046,473
	11,571,608	11,158,978
Funds for capital increase	294,396	294,396
	11,866,004	11,453,374
TOTAL LIABILITIES	18,468,004	18,239,310

The accompanying notes are an integral part of these financial statements

STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31

(In thousands of Reais)

	2007	2006 (Reclassified)
OPERATING REVENUE		
Electric power supply – note 23	622,417	589,205
Electric power bulk supply – note 23	2,950,647	2,258,227
Transmission system availability– note 23	1,123,832	1,094,172
Others operating revenues	8,540	8,176
	4,705,436	3,949,780
Deductions from operating revenue		
Global Reversal Reserve – RGR	(122,005)	(99,825)
ICMS on electric power (Added value tax)	(77,237)	(74,210)
ISS	(467)	(332)
Research and development	(40,215)	(152,172)
Fuel Consumption Account – CCC	(106,637)	(113,059)
Energy Development Account – CDE	(17,601)	(16,333)
PROINFA	(19,594)	(12,638)
PASEP (Civil servants savings program)	(60,799)	(40,392)
COFINS (Contribution for social security financing)	(280,128)	(175,110)
	(724,683)	(684,071)
Net operating revenue	3,980,753	3,265,709
COST OF ELECTRIC POWER SERVICE – note 25		
Cost with electric power		
Electric power purchased for resale	(173)	(1,490)
Charges on the use of electric power network	(614,469)	(575,476)
Operating cost		
Personnel	(173,623)	(134,216)
Material	(13,528)	(8,037)
Fuel for production of electric power	(37,020)	(3,173)
Third-party services	(48,241)	(38,697)
Financial compensation for the water use	(222,707)	(206,552)
Depreciation and amortization	(542,450)	(527,327)
Others	35,033	12,847
	(1,617,178)	(1,482,121)
COST OF SERVICE RENDERED TO THIRD PARTIES – note 25	(3,865)	(5,484)
GROSS OPERATING PROFIT	2,359,710	1,778,104
OPERATING EXPENSES – note 25	(831,127)	(583,779)
SERVICE RESULT	1,528,583	1,194,325
FINANCIAL REVENUE (EXPENSE)		
Revenue from temporary cash investments	27,237	22,243
Monetary variation and additions – electric power sold	109,234	131,172
Other monetary variations – assets	771	14,827
Other financial revenues	16,454	4,346
Pis/Pasep and Cofins	(14)	(23)
Debt charges	(573,671)	(614,466)
Monetary variations on loans and financing	16,749	(2,716)
Other monetary variations – liabilities	(41,302)	(49,903)
Other financial expenses	(42,066)	(68,266)
	(486,608)	(562,786)
Operating result before interest on equity	1,041,975	631,539
Interest on equity capital	-	(240,000)
OPERATING RESULT	1,041,975	391,539
Non-operating revenues	3,292	2,328
Non-operating expenses	(9,417)	(8,176)
Non-operating result	(6,125)	(5,848)
Profit before social contribution and income tax	1,035,850	385,691
Social contribution – note 26	(88,581)	(32,798)
Income tax – note 26	(240,632)	(87,666)
Profit before sharing and reversal of interest on equity capital	706,637	265,227
Profit sharing – note 27	(54,007)	(47,877)
Reversal of interest on equity capital	-	240,000
NET INCOME FOR THE YEAR	652,630	457,350
Net income per share (R\$)	15.65	10.97

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands of Reais)

	REALIZED SUBSCRIBED CAPITAL	CAPITAL RESERVES	PROFIT RESERVES (**)	RETAINED EARNINGS	SUBTOTAL	FUNDS FOR CAPITAL INCREASE	TOTAL
AT DECEMBER 31, 2005	1,278,585	7,416,199	2,246,844	-	10,941,628	294,396	11,236,024
Capital increase with profit reserve	417,721	-	(417,721)	-	-	-	-
Realization of profit reserves	-	-	(22,118)	22,118	-	-	-
Net income for the year	-	-	-	457,350	457,350	-	457,350
Appropriations:							
Legal reserve	-	-	22,867	(22,867)	-	-	-
Interest on equity capital	-	-	-	(240,000)	(240,000)	-	(240,000)
Retained profit reserve	-	-	216,601	(216,601)	-	-	-
AT DECEMBER 31, 2006	1,696,306	7,416,199	2,046,473	-	11,158,978	294,396	11,453,374
Realization of profit reserves	-	-	(22,399)	22,399	-	-	-
Net income for the year	-	-	-	652,630	652,630	-	652,630
Appropriations:							
Legal reserve	-	-	32,631	(32,631)	-	-	-
Interest on equity capital	-	-	-	(240,000)	(240,000)	-	(240,000)
Retained profit reserve (*)	-	-	402,398	(402,398)	-	-	-
AT DECEMBER 31, 2007	1,696,306	7,416,199	2,459,103	-	11,571,608	294,396	11,866,004

(*) The amount of R\$ 402,398 thousand, allocated to the Retained profit reserve, corresponds to the unpaid portion of net income of the year, is part of the source of funds that comprise the capital investment budget of the Company.

(**) Considering established in the art. 199 of the Law nr. 6.404/1976, there is in the exercise an excess of the limit of the reserves of profits, amounting to R\$ 256,776 thousand, which will be the object of increasing the capital of the Company at the next Extraordinary General Meeting (note 22).

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION YEARS ENDED DECEMBER 31

(In thousands of Reais)

	2007	2006 (Reclassified)
FINANCIAL RESOURCES WERE PROVIDED BY:		
From operations		
Net income for the year	652,630	457,350
Expenses (revenues) not affecting net working capital:		
Depreciation and amortization	594,478	563,528
Long-term monetary and exchange variations (net)	21,006	(16,425)
Deferred income tax and social contribution	(53,006)	(27,727)
Free energy – note 33	(86,863)	(188,815)
Allowance for doubtful accounts	(1,281)	-
Regulatory liability of the transmission	5,772	-
Others	(342)	343
	1,132,394	788,254
From third parties		
Financing obtained	390,741	231,102
Transfer from current to noncurrent:		
Private pension plan entity	(69,280)	81,732
Taxes and social contributions	4,397	11,894
Noncurrent assets (LTR) transferred to current assets:		
Financing to third parties – local currency	5,185	3,980
Tax credits	97,022	37,318
Notes receivable – consumers	426,630	373,661
Allowance for doubtful accounts	(43,837)	60,141
Assets and rights destined alienation	15,888	580
Provision for contingencies	74,501	157,271
Consumer charges payable	19,174	305
Other payables – Fachesf	-	26,346
Retirement of fixed assets	27,525	13,898
Others	433	63
	948,379	998,291
TOTAL FUNDS PROVIDED	2,080,773	1,786,545
FINANCIAL RESOURCES WERE USED FOR:		
In increase in noncurrent assets (LTR):		
Financing to third parties – local currency	3,344	1,123
Notes receivable – consumers	102,691	8,517
Atualização Finsocial	8,552	-
Tax credits	3,168	10,253
Assets and rights destined alienation	20,766	1,980
In investment		
In assets and rights to use future	7,909	-
In permanent interest equity	34,337	19,521
In acquisitions of property, plant and equipment and intangible assets	538,428	584,396
Noncurrent liabilities transferred to current liabilities:		
Loans and financing	596,549	473,470
Private pension plan entity	81,639	158,153
Tax and social contributions	570	6,124
Suppliers	3,196	31,723
Other payables – Fachesf	-	5,259
Provision for contingencies	43,867	148,157
Consumer charges payable	917	3,366
Finance charges and effects of inflation	15,530	21,164
Stockholders' compensation - note 28	240,000	240,000
TOTAL FUNDS USED	1,701,463	1,713,206
Increase/Decrease in net working capital	379,310	73,339
Current assets		
At beginning of year	1,287,923	1,273,641
At end of year	1,789,042	1,287,923
	501,119	14,282
Current liabilities		
At beginning of year	1,647,877	1,706,934
At end of year	1,769,686	1,647,877
	121,809	(59,057)
	379,310	73,339

The accompanying notes are an integral part of these financial statements

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

Operating activities

Net income for the period

Expenses (revenues) not affecting cash:	
Depreciation and amortization	
Long-term monetary and exchange variations (net)	
Deferred income tax and social contribution	
Free energy – note 33	
Allowance for doubtful accounts	
Regulatory liability of the transmission	
Other	

Variation in current assets

Consumers, concessionaires and permit grantees	
Stocks	
Taxes and contributions to compensate	
Advances to employees	
Collateral security and linked deposits	
Tax credits	
Services in progress	
Allowance for doubtful accounts	
Deactivations in progress	
Disposal in progress	
Other operating assets	

Variation in current liabilities

Suppliers	
Taxes and social contributions	
Estimated obligations	
Profit sharing	
Consumer charges payable	
Research and development	
Other operating liabilities	

Use of noncurrent assets (LTR)

Accounts receivable – consumer	
Tax credits	
Allowance for doubtful accounts	
Finsocial Atualização	
Other	

Increase in noncurrent liabilities

Provisions for contingencies	
Consumer charges payable	
Other receivables – Fachesf	

Net cash provided by operating activities

Investing activities

Investments in property, plant and equipment and intangible assets	
Assets and future rights	
Permanent equity	

Financing activities

Long-term loans and financing	
Charges payable on loans and financing	
Monetary variation on loans and financing	
Payments of short-term installments of long-term loans and financing	
Finance charges paid to stockholders and related parties	
Finance charges paid to financial institutions and others	
Stockholders' compensation	
Private pension plan entity	
Retirement of fixed assets	
Other	

TOTAL EFFECTS ON CASH BALANCE

Cash and cash equivalents, beginning of year	
Cash and cash equivalents, end of year	

CASH VARIATION

2007	2006 (Reclassified)
652,630	457,350
594,478	563,528
21,006	(16,425)
(53,006)	(27,727)
(86,863)	(188,815)
(1,281)	-
5,772	-
(342)	343
1,132,394	788,254
(157,426)	(6,777)
(3,704)	1,795
46,157	(31,667)
(3,440)	6,445
(44,141)	557
(55,411)	(17,032)
(3,280)	559
141,683	48,821
(2,932)	(1,287)
(2,927)	966
(10,463)	(9,897)
(95,884)	(7,517)
59,534	(31,452)
143,900	13,170
15,564	5,625
6,304	4,722
(7,485)	147
11,930	118,571
2,428	13,909
232,175	124,692
323,939	365,144
93,854	27,065
(43,837)	60,141
(8,552)	-
(3,037)	1,457
362,367	453,807
30,634	9,114
19,174	305
-	21,087
49,808	30,506
1,680,860	1,389,742
(538,428)	(584,396)
(7,909)	-
(34,337)	(19,521)
(580,674)	(603,917)
390,741	231,102
529,758	566,208
(7,915)	(454)
(740,492)	(447,433)
(459,123)	(385,865)
(89,420)	(257,780)
(211,294)	(340,603)
(141,989)	(157,825)
27,525	13,898
7,258	1,148
(694,951)	(777,604)
405,235	8,221
168,865	160,644
574,100	168,865
405,235	8,221

The accompanying notes are an integral part of these financial statements

VALUE-ADDED STATEMENT YEARS ENDED DECEMBER 31

(In thousands of Reais)

GENERATION OF VALUE-ADDED

Revenues

Electric power supply, transmission and others	4,705,436	3,949,780
Allowance for doubtful accounts	(96,566)	(108,962)
Non-operating income	(6,125)	(5,848)

2007

2006

(Reclassified)

4,602,745

3,834,970

(-) Input acquired from third parties

Material	30,655	28,272
Fuel for energy production	37,020	3,173
Third-party services	129,262	118,678
Electric power purchased for resale	173	1,490
Charges on the use of electric power network	614,469	575,476
Others	182,258	30,921

993,837

758,010

(=) Gross added value

3,608,908

3,076,960

(-) Retentions

Reintegration quotas (Depreciation and amortization)	594,478	563,528
--	---------	---------

594,478

563,528

(=) Net added value

3,014,430

2,513,432

(+) Added value transferred

Financial income	153,696	172,588
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153,696

172,588

(=) Added value to be distributed

3,168,126

2,686,020

DISTRIBUTION OF VALUE-ADDED

Personnel:

Salaries/benefits/Severance pay fund (FGTS)	362,391	320,314
Profit sharing	54,007	47,877
Management fees	1,797	1,830
Provisions for labor contingencies/indemnities	34,799	(22,392)
Private pension plan entity – normal contributions	28,857	25,234

362,391

320,314

54,007

47,877

1,797

1,830

34,799

(22,392)

28,857

25,234

481,851

372,863

Governments:

Payroll charges	78,442	75,005
Taxes	773,574	431,761
Sector charges – note 24	544,413	616,882

78,442

75,005

773,574

431,761

544,413

616,882

1,396,429

1,123,648

Financing agents:

Finance charges, monetary variation and others	487,375	510,491
Eletrobrás	130,479	205,223
Other financing agents	19,362	16,445

487,375

510,491

130,479

205,223

19,362

16,445

637,216

732,159

Stockholders:

Interest on equity capital	-	240,000
Dividends	240,000	-

-

240,000

240,000

-

240,000

240,000

Retained profit

412,630

217,350

3,168,126

2,686,020

Average value-added per employee

562

472

The accompanying notes are an integral part of these financial statement

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

(In thousands of Reais, unless otherwise stated)

1 - OPERATIONS

Companhia Hidro Elétrica do São Francisco – Chesf, with central office at Rua Delmiro Gouveia, 333, Bairro do Bongi, ZipCode 50761-901, in the city of Recife, state of Pernambuco, is a listed mixed capital company, controlled by Eletrobrás. The Company was created through Decree-Law number 8.031/1945, and started its operations on March 15, 1948. Its key business activities are the generation and transmission of electric power. Its main market is located in the Northeast region of Brazil, where it serves directly the states of Bahia, Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, and Piauí, covering an area of more than 1.2 million square kilometers, equivalent to 14.3% of the Brazilian territory. As from 2002, with the gradual release of its supply contracts (initial contracts) at the rate of 25% per year, as established by Law 9.648, of May 27, 1998, the Company began to serve other Brazilian regions.

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

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

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

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

2 - CONCESSIONS

The Company holds the following concessions:

CONCESSIONS/ PERMISSIONS	River	Installed Capacity (MW)	Capacity Used 2007 (MW average/year)	Concession Dates	Maturity Dates
POWER PLANTS					
Hydroelectric					
Paulo Afonso I	São Francisco	180,001	-	10/03/1945	10/02/2015
Paulo Afonso II	São Francisco	443,000	285,709	10/03/1945	10/02/2015
Paulo Afonso III	São Francisco	794,200	400,505	10/03/1945	10/02/2015
Paulo Afonso IV	São Francisco	2.462,400	1.427,471	10/03/1945	10/02/2015
Apolônio Sales (Moxotó)	São Francisco	400,000	170,208	10/03/1945	10/02/2015
Luiz Gonzaga (Itaparica)	São Francisco	1.479,600	1.050,338	10/03/1945	10/03/2015
Xingó	São Francisco	3.162,000	2.469,280	10/03/1945	10/02/2015
Piloto	São Francisco	2,000	-	02/16/1949	07/07/2015
Araras	Acaraú	4,000	-	08/29/1958	07/07/2015
Funil	Das Contas	30,000	14,165	08/25/1961	07/07/2015
Pedra	Das Contas	20,007	3,505	08/25/1961	07/07/2015
Castelo Branco (B. Esperança)	Parnaíba	237,300	127,393	10/11/1965	10/10/2015
Sobradinho	São Francisco	1.050,300	586,906	02/10/1972	02/09/2022
Curemas	Piancó	3,520	1,046	11/26/1974	11/25/2024
Thermoelectric					
Camaçari	-	350,000	4,691	08/11/1977	08/10/2007

TRANSMISSION SYSTEM

Concession Agreement nr. 061/2001 – ANEEL:

In operation:

- 82 transmission substations, 15 elevator pumping substation and 18.260 km of high tension lines.

06/29/2001 07/07/2015

Agreements obtained by means of Auctions of ANEEL:

In operation:

- Transmission Line Milagres/Tauá (CE), in 230 kV, with extension of 208 km.

03/04/2005 03/03/2035

In construction:

- Transmission line Milagres / Coremas (CE/PB), in 230 kV, with extension of 120 km, approximately.
- Transmission line Funil/Itapebi (BA), in 230 kV, with extension of 200 km, approximately.
- Transmission line Ibicoara/Brumado (BA), in 230 kV, with extension of 100 km, approximately.
- Transmission line Picos/Tauá (PI/CE), in 230 kV, with extension of 180 km, approximately.
- Transmission line Paraíso/Açu II (RN), in 230 kV, with extension of 135 km, approximately.

03/04/2005 03/03/2035

04/20/2007 04/20/2037

06/14/2007 06/14/2037

06/14/2007 06/14/2037

06/14/2007 06/14/2037

Note: The capacity used corresponds to the average generation (in MW) for the period.

(*) Postponement required to ANEEL, on 03/30/2005. Proceeding currently at MME for decision.

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

- any periods, along the day and throughout the year, in which energy demand is either higher or lower in the system for which the plant or generation system is dimensioned.
- any periods in which equipment is shutdown for maintenance purposes, both preventive and corrective;
- the production of hydroelectric plants further relies on the availability of waters in the river where they are located. In periods of higher waters it may be possible to increase generation, as it may be reduced in periods of water scarcity, as it takes place in periods of energy rationing.

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

3 – PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements are presented in accordance with the Brazilian Corporate Law, the Brazilian Security Exchange Commission (CVM) standards and the National Electric Power Agency (ANEEL) regulations, in compliance with accounting practices.

For the purpose of comparison with this year, the Balance Sheet and the Statement of Income as of and for the previous year were reclassified as follows:

	2007	2006		
		Reclassified	Adjustment	Published
Balance sheet				
Current assets				
Allowance for doubtful accounts	(190.504)	(48.821)	(48.821)	-
Tax credits	86.814	31.403	16.698	14.705
Service in progress	84.548	81.268	81.268	-
Advances to employees	-	-	(5.629)	5.629
Advances to suppliers	-	-	(3.636)	3.636
Securities	32	30	30	-
Others	52.877	32.531	(73.489)	106.020
Noncurrent assets				
Long term receivables				
Allowance for doubtful accounts	(15.023)	(60.141)	48.821	(108.962)
Tax credits	134.444	175.292	(16.698)	191.990
Securities	740	703	703	-
Transferred financing	-	-	(2.036)	2.036
Assets and rights destined alienation	10.769	5.928	5.928	-
Others	5.476	8.367	(3.139)	11.506
Current liabilities				
Others	101.011	106.798	(1.456)	108.254
Noncurrent liabilities				
Suppliers	-	-	(2.611)	2.611
Others	57.972	37.618	4.067	33.551
Statement of operations				
Deductions from operating revenue				
Research and development	(40.215)	(152.172)	(152.172)	-
ISS	(467)	(332)	(332)	-
Cost of Electric Power Service				
Cost of operations				
Research and Development	-	-	152.172	(152.172)
Cost of service rendered to third parties	(3.865)	(5.484)	227	(5.711)
Operating revenue	(831.127)	(583.779)	105	(583.884)

4 - MAIN ACCOUNTING PRINCIPLES

a) Inflationary effects

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

b) Current assets and noncurrent receivables

- Money market investments are recorded at cost plus the related earnings up to the balance sheet date;
- Securities are recorded at their acquisition cost plus yield up to the balance sheet date, where applicable, with a provision for adjustment to probable realizable value;
- Materials in stocks recorded as current assets are stated at their average acquisition costs; those for investment purposes are recorded in property, plant and equipment, at their acquisition cost;
- Deferred tax assets are recognized at the income tax and social contribution rates then ruling in connection with temporary differences and negative basis;
- Collateral Securities and linked deposits in connection with guarantees provided to suppliers are recorded at cost, plus yield as of the balance sheet date;
- Indexed assets are restated as of the balance sheet dates; other assets are recorded at cost, net of provision for losses.
- Permanent equity interest is recorded at acquisition cost, while those recorded before December 31, 1995 are recorded after monetarily restated up to that date.
- Property, plant and equipment are recorded at acquisition or construction cost, plus monetary restatement up to December 31, 1995; depreciation is calculated on the straight-line method. On January 1, 2007, the Company adopted the depreciation rates established by the ANEEL Resolution nr. 240, as of 12/05/2006, which is between 2% per year and 20% per year (note 13).
- Part of the central administration expenses is monthly appropriated to the immobilizations in course, limited to 10% of the direct expenses with people and outsourced services registered in this works;
- According to the Accounting Instruction 6.3.23, of the Accounting Manual for the Electric Power Public Utilities, the amount arising from liabilities in connection with concessions is stated as a deduction of Property, Plant and Equipment(see notes 13.a and 13.d).
- In compliance with the Accounting Instruction 6.3.10, of the Accounting Manual for the Electric Power Public Utilities, interest and other financial charges, as well as inflationary effects, in connection with third-party loans and financing that are used in Property, plant and equipment in progress are registered in this subgroup as cost (see note 13.c).

c) Current and noncurrent liabilities

- Stated at known or estimated amounts, plus, when applicable, the respective finance charges and monetary variations incurred through the balance sheet date;
- The costs of the pension plan held at Fundação Chesf de Assistência e Seguridade Social – Fachesf, are recognized as contributions are incurred. Actuarial liabilities and the costs and expenses arising from them are recorded according to CVM Resolution nr. 371/2000.

d) Stockholders' equity

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

e) Results of operations

- Income is determined on the accrual basis, taking into account the tax credits arisen and realized in the period;
- The statement of operations accounts are recorded in accordance with the Accounting Manual for the Electric Power Public Utilities, as approved by the ANEEL Resolution nr. 444 of October 26, 2001, and provides for segregation of revenues and expenses arising from generation and transmission activities, thereby allowing the calculation of each segment's book income (Note 31);
- In compliance with Generally Accepted Accounting Principles, the exchange rate variations are fully recognized in the result for the period.

f) Statements of Cash Flow (DFC) and Value-Added Statement (DVA)

The Company has been publishing these statements in accordance with provisions set forth in the Accounting Manual for Electric Power Public Service and with Federal Accounting Council Resolution nr. 1.010/2005, in case of DVA.

g) Modification of the Accounting Practices

On December 28, 2007, it was passed Law nr. 11.638/2007, conversion of the Bill of Law nr. 3.741.

The Law nr. 11.638/2007 modifies and revokes the provisions of the Business Corporation Law – Law nr. 6.404/1976 –, aiming at the alignment of the accounting practices adopted in Brazil with the international accounting regulations.

The main modifications brought by said Law, indicated in note 38, shall be applied only as of the year initiated on January 1, 2008, not affecting the present demonstrations.

5 - INVESTMENTS IN THE MONEY MARKET AND SECURITIES

Financial Institution	Type of investment	Maturity	Yield	2007	2006
<u>Money market investments</u>					
BB-DTVM	Extra Fund - Market	-	98% of certificates of interbank deposit rate	543,187	134,355
<u>Securities</u>					
Minority interest	Shares	-	Interest on equity capital/Dividends	42	42
	Allowance for losses			(10)	(12)
				32	30
National treasury	National treasury notes				
	P series	07/09/2012	TR + 6% p.a.	315	300
	National treasury notes				
	P series	07/09/2014	TR + 6% p.a.	149	142
	National treasury notes				
	P series	12/28/2015	TR + 6% p.a.	276	261
				740	703
TOTAL				772	733
Current				32	30
Noncurrent				740	703

- Investments in the money market

Under this heading are short-term investments in Banco do Brasil Distribuidora de Títulos e Valores Mobiliários S.A. – BB-DTVM, under the specific legislation applicable to state-owned companies, as established by Decree-Law nr. 1.290 of 12/03/1973, as amended by the Banco Central do Brasil (Central Bank of Brazil) Resolution nr. 3.284 of 05/25/2005, which established new mechanisms for investments by public companies and mixed-economy companies under Federal Indirect Administration.

- Securities

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

Treasury Notes – P Series refer to sale of shares representing minority interest, deposited with the National Privatization Fund (the “FND”), pursuant to Decree nr. 1.068/1994, and are stated in noncurrent assets/long term receivables.

6 - CONSUMERS, CONCESSIONAIRES AND PERMIT GRANTEES

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

	Falling due	Overdue			Total	
		In up to 90 days	For over 90 days	Total	2007	2006
Industrial consumers:						
Energy sales – Contracts	56,762	3,130	100,167	103,29	160,059	131,532
Extraordinary Tariff Recomposition (*)	32,782	-	-	-	32,782	67,921
Concessionaires:						
Energy sale – Contracts	483,552	1,971	3,591	15,562	499,114	408,560
Commercialization at CCEE	89,887	-	-	-	89,887	1,034
Free energy – Reimbursement	253,441	-	-	-	253,441	503,644
Connection to the transmission system	4,118	76	4,849	4,925	9,043	8,049
Transmission system availability	103,581	572	4,146	4,718	108,299	110,944
	1,024,123	5,749	122,753	128,502	1,152,625	1,231,704
Current					1,039,921	882,495
Noncurrent					112,704	349,209

(*) note 33

• RENEGOTIATED RECEIVABLES

Part of the credits receivables are being renegotiated:

Debtor	2007			2006
	Current	Noncurrent	Total	Total
Libra S.A.	5,616	-	5,616	4,407
Rio Doce Manganês S.A.	72,998	-	72,998	66,649
Cepisa	38,392	94,179	132,571	120,793
Celpe	-	-	-	2,615
Coelba	-	-	-	2,981
Cosern	-	-	-	1,346
Total	117,006	94,179	211,185	198,791

The renegotiated receivables above, originated from electric power contracts, were renegotiated as follows:

- **Libra S.A.** – An acknowledgement of indebtedness statement was signed by Chesf and Ligas do Brasil S.A. – Libra dated September 1, 2004 in the amount of R\$ 3,423 thousand, repayable in 36 monthly installments from September 25, 2004 and bearing interest at the Central Bank Overnight (SELIC) rate plus 1% p.m.

- **Rio Doce Manganês S.A.** – Private Instrument for Obligation Recognition and Payment Agreement signed between Chesf and SIBRA, currently Rio Doce Manganês S.A., dated June 30, 1995, in the amount of R\$ 21,915 thousand, repayable in 120 monthly installments from March 30, 1997 and bearing interest at the General Market Price Index (IGP-M) rate plus 6% p.a.
- **Cepisa** – End of Recognition and Payment of Debt nr. 001/2007, dated July 1, 2007, in the amount of R\$ 121,569 thousand, payable in 52 monthly instalments, corrected by the IGP-M, plus interest of 1% p.m., from September 9, 2007. This term consolidates into a single document, the following commitments reached earlier:
 - a) An acknowledgement of indebtedness statement was signed by Chesf and Cepisa, dated December 19, 2003, in the amount of R\$ 80,083 thousand, repayable in 56 months from February of 2004 based on a collection percentage bearing interest at the General Market Price Index (IGP-M) rate plus 1% p.m.;
 - b) Acknowledgement and payment of indebtedness statement nr.016/2004 dated August 16, 2004, in the amount of R\$ 50,047 thousand, repayable in 36 monthly installments from June 25, 2005 and bearing interest at the General Market Price Index (IGP-M) rate plus 1% p.m.;
 - c) Acknowledgement and payment of indebtedness statement nr. 018/2004 dated October 7, 2004, in the amount of R\$ 8,637 thousand, repayable in 36 monthly installments from June 25, 2005 and bearing interest at the General Market Price Index (IGP-M) rate plus 1% p.m.;
- **Celpe/Coelba/Cosern** – Statement of transactions and other covenants signed by Chesf and Celpe, Coelba and Cosern dated April 20, 2006, in the amounts of R\$ 7,773 thousand, R\$ 8,854 thousand and R\$ 4,002 thousand, respectively, repayable in 12 installments from May 15, 2006 and bearing interest at the General Market Price Index (IGP-M) rate plus 1% p.m.;

7 - TAXES AND CONTRIBUTIONS TO COMPENSATE

	2007	2006 (Reclassified)
Current assets		
Corporate income tax (IRPJ) / Social contribution (CSLL)	217	43,158
IR Fonte	390	-
Finsocial	1,069	10,979
Pis/Pasep	1,261	-
Cofins	5,809	-
Other	2,237	3,003
	10,983	57,140
Nocurrent assets		
Finsocial	8,552	-

8 - STOCKS

	2007	2006
Current assets		
Material:		
Stockroom	55,125	53,078
Transformation, manufacturing and repair material	1,116	807
Loaned	8	16
Destined in alienation	12,027	10,712
	68,276	64,613
Acquisitions in progress	1,983	1,983
Advances to suppliers	807	766
Total	71,066	67,362

9 – TAX CREDITS

• Corporate Income Tax and Social Contribution

Pursuant to CVM Resolution nr. 273 of 8/20/1998, the Company recognizes tax credits to be offset against future taxable income as its current assets and noncurrent assets. These credits, in the amount of R\$ 221,258 thousand, arise from temporary differences and negative social contribution basis, as detailed below:

	2007	2006
Temporary differences		
. DNAEE Administrative Act nr. 250/1985 - credit in 1994	98,943	104,409
. Provisions for contingencies	150,954	112,082
. Allowance for doubtful accounts	205,527	108,962
. Other	14,706	14,349
	470,130	339,802
Negative social contribution basis	781,313	1,117,320
	1,251,443	1,457,122
Tax credits		
. Income tax on temporary differences	117,533	84,951
. Social contribution on temporary differences (provisions)	33,407	21,185
. Negative social contribution basis	70,318	100,559
	221,258	206,695
Current	86,814	31,403
Noncurrent	134,444	175,292

These tax effects consist of a 9% rate on social contribution and a 10% surtax over the 15% basic rate on the calculation basis to ascertain income tax payable, pursuant to Law nr. 9.430, of 12/30/1996.

The amount of tax credits arising from Social Contribution (CSLL) negative basis totaled R\$ 30,241 thousand, this year. R\$ 70,318 thousand remains to be used - R\$ 19,423 thousand in current assets, and R\$ 50,895 thousand in long term receivables – against a negative tax basis of R\$ 781,313 thousand.

According to the Technical Study performed by the Management and reviewed on 12/31/2007, the estimates for the realization of said credit are:

	R\$ million			
	2008	2009	2010	2011
Tax credits on CSLL negative basis	19.4	21.2	21.8	7.9

Other tax credits, in connection with temporary differences - provisions for contingencies, allowance for doubtful accounts, valuation allowance and provision for inflationary effects recorded under “Property, Plant and Equipment” - in the amount of R\$ 150,940 thousand, R\$ 67,391 thousand in current assets, and R\$ 83,549 thousand, in noncurrent assets, that will be realized in connection with the final court decision about lawsuits, with realization of marketable securities and property, plant and equipment, respectively.

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

▪ PIS/PASEP and COFINS - UNCONSTITUTIONALITY

The STF – Supreme Court declared unconstitutional the section 1st, art. 3th of Law nr. 9.718/98, which increased the PIS/PASEP and COFINS bases of calculation, so that the sales concept was modified to cover all revenues earned by a company, irrespective of the type of activity performed and the accounting classification adopted. This provision had no legal supporting basis, having been the object of constitutional amendment subsequently.

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

The Company’s PIS/PASEP potential credits for the period from February 1999 through November 2002, and COFINS’s credits for the period from February 1999 through January 2004, which, adjusted through the end of this year, correspond respectively to R\$ 17,724 thousand and R\$ 123,083 thousand, totaling R\$ 140,807 thousand.

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

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

10 – OTHER CURRENT ASSETS

	2007	2006 (Reclassified)
Financing to third-parties	3,445	3,143
Disposals in progress	4,840	1,913
Deactivations in progress	7,817	4,885
Insurance premium	2,008	1,987
Charge recoverable	1,628	1,252
Alienation of asstes and rights	3,764	-
Advances to employees	9,069	5,629
Advances to suppliers	4,061	3,636
Other	16,245	10,086
	52,877	32,531

11 - OTHER NONCURRENT ASSETS

	2007	2006
Lightpar	1,456	1,456
FGTS / Company	3,338	4,402
Transferred financing	197	2,036
Other	485	473
	5,476	8,367

12 - INVESTMENTS

Composition:

	2007	2006
1. Permanent equity interest		
Affiliates		
• STN - Sistema de Transmissão Nordeste S.A.	97,020	97,020
• INTESA – Integração Transmissora de Energia S.A	18,000	15,600
• Energética Águas da Pedra S.A.	31,790	-
Other equity interest	638	491
2. Other investments		
• Assets and rights to use in future – Studies and Projects	7,909	-
• Others	2,316	2,316
Total	157,673	115,427

STN - Sistema de Transmissão Nordeste S.A.

In accordance with the Federal Government policy of attracting private capital to enhance investments in the electric sector, and pursuant to Law nr. 10.438/2002, the Consórcio AC Transmissão, formed by Chesf and Cia. Técnica de Engenharia Elétrica - Alusa, participated in auction nr. 001/2003-ANEEL for concession of transmission lines; the Consórcio was the winner of Lot C, corresponding to a transmission line of 546 km, 500 kV, in the sections Teresina (state of Piauí), Sobral and Fortaleza (state of Ceará), with estimated annual revenues of R\$ 77.9 million.

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

Still about this venture, Chesf was contracted by STN for the technical management of the works and for operation and maintenance of the transmission line. The Company received the total amount of R\$ 1,775 thousand for the services rendered.

INTESA – Integração Transmissora de Energia S.A.

The Company forwarded, in the fiscal year, the value of R\$ 2.4 million in one of its affiliated companies in the power transmission activities, the company INTESA - Integração Transmissora de Energia S.A., in which participates with 12% of capital stock. The INTESA is engaged in building, implementing, operating and maintaining the Electric Power Transmission Public Service of the Interconnected Electric System's Basic Network, consisting of the 500-kv transmission line of Colinas/Serra da Mesa 2, 3rd circuit, related line entries and facilities, pursuant to Concession Agreement nr.. 002/2006-ANEEL, signed with the concession authority on April 27, 2006 through ANEEL for a period of 30 (thirty) years. INTESA has an authorized capital of R\$ 150 million in registered common shares, without par value, of which R\$ 18,000 thousand was subscribed and paid in by Chesf in the year. The other participants are Fundo de Investimentos em Participações Brasil Energia – FIP, with 48%, Eletronorte, with 37% and Engevix Engenharia S.A, with 3%. INTESA is expected to start operations on April 27, 2008.

Energética Águas da Pedra S.A.

Still in the scope of the investments, the Company started, in the fiscal year, making contributions to its new affiliated company, in the power generation activity, the company Energética Águas da Pedra S.A., in the total value of R\$ 31.8 million, in which it holds an interest of 24.5%, together with Eletronorte (24.5%) and Neoenergia S.A. (51.0%). Said companies originate from Aripuanã Consortium, winner of Auction nr.. 004/2006-ANEEL, held on 10/10/2006, in relation to the contracting of power coming from new enterprises, afterwards giving approvals within the Regulated Contracting Environment - ACR, for the implementation of Dardanelos Hydroelectric Power Plant - HPP Dardanelos, with investment provided of R\$ 760.8 million. The HPP Dardanelos shall be implemented in Rio Aripuanã, situated in the north of the State of Mato Grosso, with potency of 261 MW, and total guaranteed power of 154,9 MW in average, to supply the entire city of Aripuanã and, afterwards, the National Interconnected System - SIN. The first machines shall start operation in 2011, and 147 MW in average was commercialized from 2011 to 2041, in the concession term of thirty (30) years.

13 – PROPERTY, PLANT AND EQUIPMENT

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

	2007	2006
In use	14,805,243	14,675,721
In progress	1,475,502	1,718,003
	16,280,745	16,393,724
Concession-related obligations	(155,641)	(155,208)
	16,125,104	16,238,516

	Annual average depreciation rates (%)	2007				2006
		Cost	Accumulated depreciation	(-) Concession-related obligations	Net amount	Net amount
In use						
Generation	2.41	17,143,404	(6,593,464)	(93,273)	10,456,667	10,582,798
Transmission	2.97	6,936,847	(3,135,709)	(25,848)	3,775,290	3,586,744
Management	6.57	895,235	(441,070)	(36,520)	417,645	350,971
		24,975,486	(10,170,243)	(155,641)	14,649,602	14,520,513
In progress						
Generation		169,207	-	-	169,207	225,602
Transmission		1,175,239	-	-	1,175,239	1,318,712
Management		131,056	-	-	131,056	173,689
		1,475,502	-	-	1,475,502	1,718,003
		26,450,988	(10,170,243)	(155,208)	16,125,104	16,238,516

b) Annual depreciation rates

The Company calculated and accounted the depreciation quotas of each assets or facilities item in accordance at rates established by ANEEL Resolution nr. 240, of 12/05/2006, taking as a basis the book balances shown in the respective UC – Reference File Units, as instructed by DNAEE Ordinance nr. 815 of 11/30/1994.

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

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

c) Finance charges and inflation effects

According to item 4 of Accounting Instruction nr. 6.3.10, of the Accounting Manual for the Electric Power Public Utilities, and CVM Deliberation nr.193, of 7/11/1996, part of the financial charges and the effects of inflation were transferred to property, plant and equipment in progress, as shown below:

		2007		2006
	Generation	Transmission	Total	Total
Total financial charges	506,499	86,638	593,137	636,135
(-)Reclassification as property, plant and equipment in progress	(2,358)	(17,108)	(19,466)	(21,669)
Net effect on income	504,141	69,530	573,671	614,466
Total effects of inflation	(15,005)	(3,336)	(18,341)	1,807
(-)Reclassification of property, plant and equipment in progress	5	1,587	1,592	909
Net effect on income	(15,000)	(1,749)	(16,749)	2,716

d) Concession-related obligations

These represent amounts received from the Federal Government, states, municipalities and consumers, as well as donations not conditioned to return of any kind to the donor. The deadline to settle these liabilities is set out by the Regulatory Agency and will be due upon expiry of the Concession agreement.

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

Composition:

	2007	2006 (Reclassified)
Federal Government's participation	108,052	108,052
Contributions from consumers	3,344	3,344
Donations and subventions for investments	43,865	43,812
Research and development	380	-
	155,641	155,208

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

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

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

According to Articles 63 and 64 of Federal Decree nr. 41.019/1957, assets and facilities used in the production, transmission, distribution and sale, are tied to these services and cannot be retired, sold, assigned or subject to lien without the written consent of the Regulatory Agency. Resolution nr. 20/1999 issued by ANEEL regulates the disentailment of assets from Public Electric Power Utilities, and provides a prior consent for the separation of assets that is not fit for the Concession, when put up for sale and determining that the sales product is deposited in a bank account for use at the Concession's sole discretion. In its operations, the Company has not identified assets of a significant value considered as unserviceable.

14 – INTANGIBLE ASSETS

- Intangible assets segregated by nature and activity

	2007	2006
In use		
Generation	504	297
Transmission	91,631	78,500
Management	32,224	94
Accumulated amortization	(2,843)	-
	121,516	78,891
In progress		
Generation	35	155
Transmission	5,953	10,291
Management	10,743	28,285
	16,731	38,731
Total	138,247	117,622

15 - SUPPLIERS

The Suppliers account are composed:

	2007	2006
Current		
Materials and services	195,300	129,796
Electric power:		
Free energy refunding - note 33	-	8,338
Others	3	439
Charges on electric network use:		
Eletronorte	6,429	5,888
Eletrosul	5,749	5,306
Furnas	12,362	14,322
CTEEP	9,859	8,797
Cemig	3,223	3,194
TSN	3,020	2,706
Other	27,981	25,606
	263,926	204,392
Noncurrent		
Free energy refunding — note 33	-	2,611
Total	263,926	207,003

16 - TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

In 12/31/2007, the Company's taxes and contributions payable are recorded as current and noncurrent liabilities as follow:

	2007		2006	
	Current	Noncurrent	Current	Noncurrent
IRPJ	138,594	-	-	-
CSLL	6,296	-	-	-
COFINS	28,104	-	16,883	-
ICMS	9,899	-	10,214	-
Deferred ICMS		40,535		63,891
INSS	9,945	-	8,407	-
PIS/PASEP	6,100	-	3,664	-
IRRF	6,071	-	17,230	-
FGTS	2,853	-	7,406	-
Others	7,031	-	7,189	-
	214,893	40,535	70,993	63,891

17 – LOANS AND FINANCING

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

a) Composition:

	Current		Noncurrent	Total	Total
	Principal	Charges	Principal	2007	2006
<u>Foreign currency</u>					
Eletrobrás	40,796	1,362	158,633	200,791	285,673
Financial institutions	44,984	511	44,985	90,480	146,732
	85,780	1,873	203,618	291,271	432,405
<u>Local currency</u>					
Eletrobrás	381,907	41,687	3,586,856	4,010,450	4,312,423
Banco do Brasil	-	7,120	249,966	257,086	-
BNDES*	-	-	-	-	184,802
Others	-	-	-	-	486
	381,907	48,807	3,836,822	4,267,536	4,497,711
Total	467,687	50,680	4,040,440	4,558,807	4,930,116

* National Bank for Economic and Social Development

- b) The above debt in foreign currency with financial institutions is guaranteed by the Federal Government's sureties. The loan with Banco do Brasil is guaranteed by means of the compensation and assignment of credits, in the even they are required by the creditor. For approximately R\$ 3.607,532 thousand in loans taken from Eletrobrás, no surety was required. However, at the discretion of the lender it may be claimed and the Company will have to provide it, under the risk of having the maturity dates anticipated.

The financing provided by the Parent Company (Eletrobrás) is funded by the Global Reversal Reserve (RGR) for the works at the Itaparica and the Xingó Hydroelectric power plants and their transmission systems as well.

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

<u>Index</u>	<u>Annual variation (%)</u>	
	2007	2006
USD	-17.15	-8.65
Eur	-7.50	1.85
IGP-M	7.75	3.83
SELIC	11.88	15.08
CDI	11.77	15.03

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

<u>Currency (equivalent in R\$)/Index</u>	2007		2006	
	R\$ thousand	%	R\$ thousand	%
<u>Foreign currency</u>				
USD	200,791	4,41	285,673	5,79
Eur	90,480	1,99	146,732	2,98
	291,271	6,40	432,405	8,77
<u>Local currency</u>				
Not restated (*)	3,471,548	76,15	3,612,665	73,28
IGP-M	538,902	11,82	699,758	14,19
CDI	257,086	5,63	-	-
SELIC	-	-	184,802	3,75
Others	-	-	486	0,01
	4,267,536	93,60	4,497,711	91,23
Total	4,558,807	100,00	4,930,116	100,00

(*) Of the total Eletrobrás loan, R\$ 3,471,548 thousand derives from the RGR – Global Reversal Reserve, collected by the Electric Sector and earmarked for reinvestment therein. Of this total amount, R\$ 3,356,689 thousand (96.69%) bears interest at 10% p.a. and administrative rate at 2% p.a.; whereas R\$ 111,125 thousand (3.20%) and R\$ 3,734 thousand (0.11%) bears interest at 5% p.a. and administrative rate at 2% p.a. and 1,5% p.a. These loans are not subject to monetary restatement, because the permanent assets' restatement method applicable to these loans, too, has been legally suspended.

e) The principal of long-term loans and financing, amount R\$ 4,040,440 thousand, matures as follows:

	Local currency	Foreign currency	2007	2006
2008	-	-	-	492,242
2009	391,103	84,821	475,924	494,614
2010	398,262	37,180	435,442	454,126
2011	342,499	39,549	382,048	381,218
2012	620,873	42,068	662,941	418,005
2013	350,086	-	350,086	347,635
2014	385,563	-	385,563	383,697
After 2014	1,348,436	-	1,348,436	1,285,099
Total	3,836,822	203,618	4,040,440	4,256,636

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

	Domestic Market	Foreign Market
	(% p.a.)	(% p.a.)
<u>Fixed rates</u>		
2007	5.00 to 10.00	-
2006	5.00 to 10.00	-
<u>Variable rates</u>		
2007	11,12	6.25 to 7.55
2006	13,19	6.25 to 7.55

g) Changes in Loans and Financing:

	Local currency		Foreign currency	
	Current	Noncurrent	Current	Noncurrent
As of December 31, 2005	608,353	4,048,496	95,817	448,248
Receipts	-	231,102	-	-
Charges	551,979	-	35,393	-
Monetary and exchange variation	851	23,902	(1,305)	(21,642)
Reclassifications	380,433	(380,433)	93,037	(93,037)
Payment of principal and charges	(966,972)	-	(124,106)	-
As of December 31, 2006	574,644	3,923,067	98,836	333,569
Receipts	-	390,741	-	-
Charges	517,300	-	27,988	-
Monetary and exchange variations	2,913	34,253	(10,828)	(44,641)
Reclassifications	511,239	(511,239)	85,310	(85,310)
Payment of principal and charges	(1,175,382)	-	(113,653)	-
As of December 31, 2007	430,714	3,836,822	87,653	203,618

18 - OTHER CURRENT LIABILITIES

	2007	2006 (Reclassified)
Financial compensation for water use	36,395	38,087
Consumer charges payable	27,254	34,739
ANEEL Inspection rates	1,304	1,359
Private pension entity – normal contribution	5,893	4,996
Codevasf agreement	20	4,000
Other creditors – Fachesf	100	4,810
Other creditors – CEEE	4,012	2,904
Acquisition of properties – camping facilities	2,623	3,034
Liabilities Regulatory of transmission	10,960	-
Others	12,450	12,869
Total	101,011	106,798

19 – SOCIAL SECURITY PLAN AND OTHER BENEFITS TO EMPLOYEES

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

Fachesf's actuarial model is one of capitalization and the Plan originally established is the Defined Benefit (BD Plan). On 06/29/2001, Defined Contribution Pension Plans (CD Plan) and Settled Benefit (BS Plan) were implemented, and participants transference from the BD Plan to the new Plans, closed on 11/19/2001, reaching 97.1%.

Based on the actuarial evaluation results performed on the base date of 12/31/2007, the commitments assumed by the Company were reviewed and updated, and calculated per the CVM Deliberation nr. 371/2000, reaching an actuarial liability in the amount of R\$ 524,687 thousand.

Since the accounting principles laid down in CVM Deliberation nr. 371/2000 have been adopted, the plans jointly sponsored by the Company and Fachesf have accumulated gains, which, on 12/31/2007, summed up R\$ 14,356 thousand. The alteration of the situation of the plan, which on 12/31/2006 accumulated consolidated losses of R\$ 165,017 thousand, were the consequence mainly of the fact that the profitability accumulated in each of the plans was superior to the actuarial goal registered in the period.

We emphasize that one of the main factors responsible for this increase in accumulated actuarial losses, that on 12/31/2006 totaled R\$ 165,017 thousand, was the change in actuarial figures budgeted for 2007. Among those changes is the general mortality table, changed for the AT83.

In the applicable legislation terms, the Complementary Social Security Secretariat – SPC, determines that contracts be drawn up between the sponsors and the Complementary Social Security entities, seeking full actuarial coverage for complementary benefit plans to that received from the Official Social Security. The contracted actuarial commitments with Fachesf until 12/31/2007 add up to R\$ 548,757 thousand.

As the balance of contracts signed with Fachesf in the amount of R\$ 548,757 thousand exceeded the amount of the actuarial liability calculated in accordance with the CVM Deliberation nr. 371/2000, the Company, in order to adjust its accounting records to the net actuarial liability, in the amount of R\$ 524,687 thousand determined through the actuarial appraisal report issued on the base date of 12/31/2007, Chesf recorded the surplus of R\$ 24,070 thousand, as a reduction of the actuarial liability, under “Noncurrent liabilities” by way of deferral, as stipulated by the Deliberation. This portion is subject to annual reviews.

The following are detailed commitments related to Pension Plans, as described in the applicable paragraphs of item 81 of CVM Deliberation nr. 371/2000, as of the base date 12/31/2007.

Basic Characteristics of the Benefit Plan

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

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

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

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

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

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

2. Reconciliation of Assets and Liabilities Recognized in the Balance Sheet as of 12/31/2007

	BD	BS	CD	TOTAL
2.1. Present value of funded actuarial liabilities	2,073,465	634,698	574,598	3,282,761
2.2. Present value of unfunded actuarial liabilities	-	-	-	-
2.3. Present value of actuarial liabilities (2.1+2.2)	2,073,465	634,698	574,598	3,282,761
2.4. Fair value of the plan's assets	(1,551,894)	(661,900)	(558,636)	(2,772,430)
2.5. Present value of liabilities in excess of the fair value of assets (2.3 + 2.4)	521,571	(27,202)	15,962	510,331
2.6. Adjustments for deferrals permitted				
a) Actuarial (gains) or losses, not recognized	123,876	(132,610)	(5,622)	(14,356)
b) Cost of past service not recognized	-	-	-	-
c) Increase in (assets)/liabilities in adopting unrecognized pronouncement	-	-	-	-
d) Total (a + b + c)	123,876	(132,610)	(5,622)	(14,356)
2.7. Total actuarial liabilities / (Assets) to be provided for (2.5 – 2.6d) (*)	397,695	105,408	21,584	524,687
(*) If asset, it will only be recognized by the sponsor if it reduces future contributions from the sponsor or could be reimbursed.				

3. Deadlines for Recognition as from 31/12/2007 (in years)

3.1. Actuarial gains or losses, not recognized	8.6	8.6	8.6	8.6
3.2. Cost of past service not recognized	N/A	N/A	N/A	N/A
3.3. Increase in liabilities in adopting unrecognized pronouncement	N/A	N/A	N/A	N/A

4. Changes in Net Actuarial Liabilities (Assets)

4.1. Net Actuarial Liabilities /(Assets) at the beginning of the year	498,469	110,103	24,366	632,938
4.2. Expenses (revenues) recognized in previous year's statement of income	75,796	4,643	2,583	83,022
4.3. Sponsor's contributions during the year	176,570	9,338	5,365	191,273
4.4. Impact of reduction on the benefit plan	-	-	-	-
4.5. Impact of early settlement on the benefit plan	-	-	-	-
4.6. Net Actuarial Liabilities /(Assets) at the end of the year (4.1 + 4.2 - 4.3 + 4.4 + 4.5)	397,695	105,408	21,584	524,687

5. Reconciliation of Fair Value of the Plan's Assets

5.1. Fair value of the plan's assets at the beginning of the year	1,257,262	534,130	410,320	2,201,712
5.2. Benefits paid in the year	170,945	6,308	2,437	179,690
5.3. Participants' contributions paid in the year	688	-	24,069	24,757
5.4. Sponsor's contributions paid during the year	176,570	9,338	26,593	212,501
5.5. Actual income on assets in the year (5.6-(5.1-5.2+5.3+5.4))	288,319	124,740	100,091	513,150
5.6. Fair value of the plan's assets at the end of the year (=2.4)	1,551,894	661,900	558,636	2,772,430

6. Reconciliation of Present Value of Actuarial Liabilities

6.1. Amount of obligations at the beginning of the year	1,985,376	582,908	431,383	2,999,667
6.2. Gross costs of current service (with interest)	300	-	491	791
6.3. Regular Participants' and Sponsor's Contributions to Pension Plan	-	-	45,297	45,297
6.4. Interest on actuarial liabilities	215,248	64,610	48,639	328,497
6.5. Benefits paid in the year	170,945	6,308	2,437	179,690
6.6. Impact due to changes on actuarial budgeted figures	7,232	571	5,914	13,717

6.7. Obligations - (G)/P (6.7 - (6.1+6.2+6.3+6.4-6.5+6.6))	36,254	(7,083)	45,311	74,482
6.8. Amount of liabilities calculated at the end of the year (=2.3)	2,073,465	634,698	574,598	3,282,761
7. Calculations of (Gains) / Losses				
7.1. Amount of (gain) / loss at the beginning of the year	229,645	(61,325)	(3,303)	165,017
7.2. Amortization in the year	3,703	(361)	-	3,342
7.3. (Gain) / loss on actuarial liabilities	43,486	(6,512)	51,225	88,199
7.4. (Gain) / loss on plan assets	(145,360)	(65,134)	(53,544)	(264,038)
7.5. (Gain) / loss on employees' contribution	(192)	-	-	(192)
7.6. Impact of reduction on the benefit plan	-	-	-	-
7.7. Impact of early settlement on the benefit plan	-	-	-	-
7.8. (Gain) / loss at the end of the year (7.1- 7.2+7.3+7.4+7.5+7.6+7.7)	123,876	(132,610)	(5,622)	(14,356)
7.9. Calculation of transition (10% equity or the obligation amount, whichever is higher (2.3))	207,347	66,190	57,460	330,997
7.10. Portion to be amortized (max 0; 7.8 -7.9)	-	66,420	-	66,420
7.11. Amortization (7.10 / 3.1)	-	(7,723)	-	(7,723)
8. Expected Return on Assets for the Next Year				
8.1. Fair value of the plan's assets as of 12/31/2006 (=2.4)	1,551,894	661,900	558,636	2,772,430
8.2. Contributions expected from participants for the next year	505	-	-	505
8.3. Contributions expected from sponsor for the next year (*)	159,455	-	5,569	165,024
8.4. Expected benefits for the next year	175,463	28,192	2,118	205,773
8.5. Expected return on assets (8.1 * 11,30% + (8.2 + 8.3 - 8.4) * ((1+11,30%)^1/2-1))	174,512	73,244	63,316	311,072
9. Interest on Actuarial Liabilities for the Next Year				
9.1. Present value of actuarial liabilities as of 31/12/2007 (=2.3)	2,073,465	634,698	574,598	3,282,761
9.2. Expected benefits for the next year	175,463	28,192	2,118	205,773
9.3. Interest on Actuarial Liabilities for the next year(9.1 * 11,30% - 9.2 * ((1+11,30%)^1/2-1))	224,653	70,171	64,813	359,637
10. Expenses (Revenues) to be Recognized in the Statement of Income for 2008				
10.1. Current service costs (with interest)	216	-	680	896
10.2. Interest on Actuarial Liabilities	224,653	70,171	64,813	359,637
10.3. Expected Return on the Plan's Assets	174,512	73,244	63,316	311,072
10.4. Amortization costs				
a) Actuarial (gains) or losses, not recognized	-	(7,723)	-	(7,723)
b) Cost of past service not recognized	-	-	-	-
c) Increase of (asset)/liabilities in adopting unrecognized pronouncement	-	-	-	-
d) Total (a + b + c)	-	(7,723)	-	(7,723)
10.5. Total gross expenses (revenues) to be recognized (10.1 + 10.2 - 10.3 + 10.4d)	50,357	(10,796)	2,177	41,738
10.6. Contributions expected from participants for the next year	505	-	-	505
10.7. Total net expenses (revenues) to be recognized (10.5 - 10.6)	49,852	(10,796)	2,177	41,233
(A) The total expense determined for the next year does not include administrative expenses forecast for the year				

11. Summary of Registered Participants' Data (in R\$)

Active + Enrolled Participants

Quantitative	65	2,391	5,500
Average age (years)	55.1	52.8	47.1
Average length of service (years)	29.4	27.6	20.7
Average length of future service (years)	8.6	8.6	8.6
Average monthly salary/wages	5,448.33	5,120.59	4,236.61
Annual payroll (13x)	4,603,840	159,163,376	302,917,463

Participants awaiting benefits

Quantitative	2	20	2
Average age (years)	56.0	49.9	52.2
Average monthly benefit	1.101	2.255	N/A

Participants assisted / Beneficiaries enjoying benefit

Quantitative	6,618	288	358
Average age (years)	64.8	58.0	57.2
Average monthly benefit	2,017	1,764	373
Payroll benefits (13x)	173,493,499	6,603,634	1,735,746

Actual income in the year

Employee contribution	177,257,773	9,338,490	50,661,841
Sponsor's contribution	688,152	-	24,069,311
	176,569,622	9,338,490	26,592,529

Actual expenses in the year

	170,945,013	6,307,682	2,436,686
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12. Actuarial Assumptions Adopted in Calculation

Nominal discount rate for actuarial liabilities	11.30%	11.30%	11.30%
Nominal yield rate expected on the plan's assets	11.30%	11.30%	11.30%
Estimated rate of nominal salary increase	7.57%	N/A	7.57%
Estimated rate of nominal benefit increase	5.00%	5.00%	5.00%
Nominal growth rate of medical costs	N/A	N/A	N/A
Estimated long term inflation rate (basis for the determination of above rates)	5.00%	5.00%	5.00%
General mortality biometric table:	AT83 separated by Sex	AT83 separated by Sex	AT83 separated by Sex
Biometric admittance for disability table	Mercer admittance for disability	Mercer admittance for disability	Mercer admittance for disability
Expected turnover rate	Nula	Nula	2,6% per year
Likelihood of beginning retirement	100% on initial eligibility to a full plan benefit under the BD and BS Plans. Plan/CD Plan: 10% on eligibility to early Pension Plan, 3% between that date and eligibility to regular retirement, and 100% on eligibility to regular retirement date and 100% in the latter age.		

13. Additional Information

- 1) The Plan's assets are set as of 12/31/2007.
- 2) Individually recorded asset data are set as of 09/30/2007 and were projected to 12/31/2007, while the Assisted and Beneficiaries' data are set as of 12/31/2007
- 3) The registered statistics presented consider the family group benefits as one benefit

Additional Benefits

In addition to the benefits granted through the complementary social security plans, the Company offers advantages to its employees, such as: health care plan, meal allowance, transportation allowance and day-care assistance, which are periodically negotiated through a collective bargaining agreement. The expenses in connection therewith, during the year, amounted to R\$ 67,373 thousand (R\$ 60,281 thousand, in 2006).

20 – CONTINGENCIES

	Provision in 12/31/2006	Increase (reversals)	Decrease	Provision in 12/31/2007	Judicial deposits	Net Provision 12/31/2007	Net Provision 12/31/2006
Labor	34,269	34,624	(9,929)	58,964	(45,124)	13,840	77
Civil	341,712	42,266	(10,187)	373,791	(59,884)	313,907	305,160
Tax	197	8,124	-	8,321	-	8,321	197
Total	376,178	85,014	(20,116)	441,076	(105,008)	336,068	305,434

In compliance with the provisions of the Accounting Manual for Electric Power Public Utilities, approved by ANEEL Resolution nr.444, on 10/26/2001, Chesf adopts the procedure of classifying the intended cases against the Company due to the risk of loss, based on the opinion of its legal advisors, as follows:

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

Labor contingencies mostly refer to claims concerning risk, overtime, FGTS fine miscalculations due to the past economic recovery plans; and severance indemnities due by outsourced companies

More serious civil cases are compensation claims, expropriations, and those filed by suppliers.

Regarding taxes, there are minor legal disputes basically involving federal VAT (IPI) and import tax.

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

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

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

The lawsuit was filed at Federal Justice, but a decision of the 5th Federal Regional Court established that lawsuit proceedings were moved Pernambuco's State Justice.

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

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

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

Based on the opinion of its legal advisers and on calculations that included the suspension of payment of the installments of K Factor, and its respective monetary restatements, the Management records a provision under noncurrent liabilities in the amount of R\$ 330,537 thousand, as of 12/31/2007. This provision is intended to cover possible losses resulting from this issue, and it corresponds to partial disallowance of K Factor between July 1990 and December 1993, in accordance to Law nr. 8.030/1990, and to full payment suspension of K Factor between January 1994 and January 1996, in accordance to the Company.

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

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

- b) A lawsuit filed by the “Sindicato de Eletricitários da Bahia” (Bahia Electricity Sector Workers Union) is under way at the “Tribunal Regional do Trabalho do Estado da Bahia” (State of Bahia Regional Labor Court) claiming for payment of the salary difference due to employees from Paulo Afonso – BA, under the Amendment to the Decree Law nr. 1971 – ADL and the Annuity on Risk Additional, to the “Gerência Regional de Paulo Afonso – GRP” (Regional Paulo Afonso Management), involving an estimated R\$ 21 million. The Company filed a bill of review under Review appeal with the TST – Superior Labor Court, which was sentenced unfounded. The lawsuit had a final judgment not subject to further appeal, after which the execution phase started, with the process now at the accounting department for settlement. Preliminary calculation established an approximate R\$ 1,500 thousand needed for settlement. It is currently in progress the negotiation procedure for the concretization of the agreement with all substituted ones.
- c) An action was filed with the 8th Fortaleza Court by the SINDIELETRO - “Sindicato de Eletricitários do Ceará” (Ceará Electricity Sector Workers Union) claiming for refunding for losses borne by the “Gerência Regional Norte – GRN” (Northern Regional Management) (Ceará and Rio Grande do Norte) employees after interruption of the collective transportation services, involving an estimated R\$ 6 million. The request for resumption of the transportation services was partially accepted, and the Company obeyed the judicial order. The plaintiff claimed for supplementation of transportation and the condemnation of the Company to pay a daily fine, which the Company contested. After a hearing on August 23, 2005, in which one of the parties and Chesf submitted their final arguments, the previous decision was modified, the resumption of transportation services being ordered only to the extent previously existing. Also in the same decision, the parameters for settlement of the sentence were defined, so that the labor credit was reduced to R\$ 1,344.2 thousand. The execution is under way at the Labor Justice of 1st Instance in Fortaleza, CE. In 12/31/2007 the situation in unaltered.
- d) Lawsuit filed at the 4th Labor Court of Recife – PE, by the “Sindicato dos Trabalhadores das Indústrias Urbanas do Estado de Pernambuco – Urbanitários” (Union of Industry Workers from Pernambuco) in the name of 460 employees transferred to Recife - PE, process nr. 01473-2005-004-06-00-0, requesting risk Premium on all wages and salaries, in the amount of R\$ 4,050 thousand. First instance judgment excluded about 300 of the transferred employees, due to pending lawsuits, and deemed the claim groundless. The Union filed regular appeal at the 6th Regional Labor Court. The suit she meets - if em phase of liquidation from one side to the other ability.

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

Contingencies	2007	2006
Labor	23,106	26,095
Civil and Tax	268,003	273,013
Total	291,109	299,108

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

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

In August 2005, after the results of the expert work and additional explanations, a hearing took place and the final arguments were scheduled to be presented on 10/17/2005. Currently, the processes are ready for dispatch and the final clearing and the sentence will follow.

- b) Also, a public civil action has been filed against Chesf by the “Associação Comunitária do Povoado do Cabeço e Adjacências” (Community Association of the Cabeço County and Surrounding Areas) in the state of Sergipe, involving R\$ 100 million, at the 2nd. Federal Court in Sergipe (process nr. 20028500002809-6), claiming for financial compensation for alleged material environmental damage caused to the fishermen from Cabeço, downstream UHE Xingo, all caused by the construction of this power plant.

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

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

According to its lawyers, an unfavorable outcome for the Company is *possible*, due to possible defense failure, but not concerning the amounts claimed for.

III) Among legal actions for which a negative outcome for the Company is considered *remote* stands out:

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

This collection action is based on the Declaratory Action judged valid for the purpose of declaring the existence of a Mendes Junior's credit against Chesf, thus ensuring financial refunding. To be entitled to financial refunding, in compliance with the decisions of the Pernambuco Justice Court, and the Supreme Court, Mendes Junior was expected to prove that it raised funds specifically for financing Itaparica works, due to Chesf's delay in paying some invoices and that these additional fund-raising expenses were higher than the arrears charges paid by Chesf.

As determined by the Federal Justice of the 12th Court's Section of Pernambuco, an expert accounting examination is under way, whereby, in reply to Chesf's inquiry, the expert declared that “it was impossible, based on an analysis of Mendes Junior's accounting records, to affirm that it raised funds in the money market in the periods of delay in payment of invoices, specifically for financing Itaparica works”.

With the expert examination report on hand, the parties requested clarifications to the Expert, which have not been examined by the 12th Federal Court's Section Judge. The records were sent to the Federal Prosecution Office, which is completing its pronouncement on the matter for subsequent delivery to the Judge.

Given the cancellation of all deeds developed within the State Justice's sphere and the strict determinations of the Federal Judge regarding the new examination, requiring the complete identification of Mendes Junior's own or obtained resources, and proof of their actual use in the construction, it is not possible to estimate the litigation amount, not even as an expectation. If one considers that, thus far, the Expert has not been able to prove the existence of credit in favor of the plaintiff, even after having had access to the latter's accounting records and to those of the defendant, Chesf's legal counselors confirm the lawyer's opinion that currently the risk of loss is *remote*.

On 06/30/2005, the records of the process were completed for the Judge and ready for the notary public action, awaiting the pronouncement of the Public Prosecutor Office. On September 30, 2005, the expert had already handed over the Supplementary Appraisal Report, in reply to the parties' questions, but without adding anything new to the previous opinions. On 12/31/2005, the records were examined by the Public Prosecutor Office for issuance of their opinion. Between that date and 03/31/2006, the Public Prosecutor Office passed opinion for the annulment of the decision rendered at the declaratory action that recognized the credit relation of Mendes Júnior to Chesf, and for the groundlessness of the present lawsuit. In 12/31/2007, the documents awaiting conclusive about to decision of the MM. judgment

21 – OTHERS NONCURRENT LIABILITIES

	2007	2006
Community Tuxá Agreement – Itaparica	25,724	25,724
Charges of consumers to collect	19,068	810
Liabilities Regulatory of transmission	5,772	-
FGTS / Company	3,338	4,402
Lightpar	1,456	1,456
Others	2,614	5,226
Total	57,972	37,618

22 – STOCKHOLDERS' EQUITY

• Capital Social

Capital stock in the amount of R\$ 1,696,306 thousand, comprises shares without nominal value, thus distributed:

Shareholders	Number of shares in thousands					
	Common		Preferred		Total	%
	Qty.	%	Qty.	%		
Eletrobrás	40,478	100.000	1,002	81.351	41,480	99.449
Sudene	-	-	194	15.718	194	0.464
Finor	-	-	17	1.362	17	0.040
Others	-	-	19	1.569	19	0.047
	40,478	100.000	1,232	100.000	41,710	100.000

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

• Capital reserves

	2007	2006
Premium on share issue	769,028	769,028
Donations/subventions for investments	4,759,353	4,759,353
Yield on assets and rights formed out of equity capital	1,691,475	1,691,475
Monetary restatement of property, plant and equipment	196,343	196,343
	7,416,199	7,416,199

• Profit reserves

	2007	2006
Legal	265,215	232,583
Statutory	8,179	8,179
Unrealized profit	506,020	528,420
Retained profit	1,679,689	1,277,291
	2,459,103	2,046,473

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

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

The Retained Profit Reserve, established by article 196 of Law nr. 6,404/1976 is composed of portions of the net income and is intended to compose the source of funds for use in the Company's investments. In the year, R\$ 402,398 thousand was appropriated to this reserve, based on the Company's capital budget, established by Decret nr. 6.251/2007, of 11/06/2007, that defines investments of R\$ 962,693 thousand for 2008, with the following applications:

Description	Budget Portion
Maintenance of generation system	55,130
Studies for generation expansion in the Northeast area	11,660
Implementing of UTE Camaçari's combined cycle	778
Total Generation	67,568
UHE Itaparica relocation – Plots of land irrigation	134,605
Total Itaparica	134,605
Expansion of transmission system	264,073
Reinforcements and improvements System Transmitting	325,948
Maintenance of Transmission System (Improvement)	91,339
Total Transmission	681,360
Infrastructure – Real state	10,978
Infrastructure - Equipment/Vehicles/Furniture	26,320
Infrastructure – Informatics/Telecommunication/Teleprocessing	41,862
Total Infrastructure	79,160
Total General	962,693

Article 199 of Law nr. 6.404/1976 determines that the balance of the Profit Reserves, except for the Contingency Reserves and Profits to be carried out, shall not exceed the capital stock. Once this limit is reached, the General Meeting shall resolve on the application of the surplus in the full payment, regarding the increase of the capital stock, or distribution of dividends.

After the distribution of the result of the year which ended on December 31, 2007, The Profit Reserves exceeded the capital social in R\$ 256.776 thousand, which shall be submitted to the General Meeting for capitalization, without issuance of stocks.

The proposal consists of the capitalization of this amount, related to the Profit Reserves constituted in the fiscal exercises ended on December 31, 2003 and 2004, not capitalized yet that were totally used for investments, during the years of 2004 and 2005.

23 - ELECTRIC POWER SUPPLY/PROVISION AND THE TRANSMISSION SYSTEM AVAILABILITY

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

This revenue is thus composed:

	2007			2006		
	Number of clients	GWh	R\$ thousand	Number of clients	GWh	R\$ thousand
Industrial supply	20	8,213	622,417	17	7,729	589,205
Energy provision (*)	53	41,383	2,950,647	53	39,175	2,258,227
Transmission system	155	-	1,123,832	154	-	1,094,172
Total		49,596	4,696,896		46,904	3,941,604

(*) Including short-term operations (CCEE) worth R\$ 400,292 thousand (2006 - R\$ 106,078 thousand).

24 – REGULATORY CHARGES

The Company incurred, in the fiscal year, in regulatory charges, totalizing R\$ 544,413 thousand, with the following composition:

	2007	2006
Global Reversal Reserve – RGR	122,005	99,825
Research and Development	40,215	152,172
Fuel Consumption Account - CCC	106,637	113,059
Energetic Development Account – CDE	17,601	16,333
PROINFA	19,594	12,638
Electric Power Public Service Inspection Rate - TFSEE	15,654	16,303
Financial Compensation for the Utilization of Hydride Resources – CFURH	222,707	206,552
	544,413	616,882

25 - OPERATING COSTS AND EXPENSES

The general and administrative costs and expenses shown in the income statement are thus composed:

	2007			2006 (Reclassified)
Operating Costs and Expenses	Operating costs	Operating expenses	Total	Total
Electric power purchased for resale	173	-	173	1,490
Charges on use of electric power network	614,469	-	614,469	575,476
Personnel	176,791	294,871	471,662	423,626
Material	13,704	16,951	30,655	28,272
Fuel for energy production	37,020	-	37,020	3,173
Third parties' services	48,761	80,501	129,262	118,678
Depreciation and amortization	542,450	52,028	594,478	563,528
Financial compensation for water use	222,707	-	222,707	206,552
Leases and Rentals	5,407	13,955	19,362	16,446
Provisions for contingencies	-	58,988	58,988	(2,246)
Taxes	120	3,725	3,845	4,099
Allowance for doubtful accounts	-	96,566	96,566	108,962
Loss of Free energy	-	185,839	185,839	-
Others	(40,559)	27,703	(12,856)	23,328
Total	1,621,04	831,127	2,452,170	2,071,384

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

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

	2007	
	Social Contribution	Income Tax
Income before tax and social contribution	1,035,850	1,035,8
Total income tax and social contribution burden calculated at 15% plus surtax and 9%, respectively.	93,227	258,939
Tax effects on permanent additions or exclusions	(4,646)	(18,307)
Income tax and social contribution for the year	88,581	240,632

27 – PROFIT SHARING

As a result of the Collective Bargaining Agreement and observing the legal determinations, the Company booked the amount of R\$ 54,504 thousand intended for employee profit sharing for the year, to be submitted to the Annual General Stockholders' Meeting - AGO. The amount of R\$ 54,007 thousand, recorded in the Statement of Operations, considers the reduction of R\$ 497 thousand, corresponding to the unrealized portion of 2006 profit sharing.

28 – STOCKHOLDERS' COMPENSATION

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

	2007	2006
Net income for the year	652,630	457,350
Legal reserve set up	(32,630)	(22,867)
Realization of unrealized earnings reserve	22,399	22,118
Adjusted net income – basis of compensation calculation	642,399	456,601
Minimum statutory dividends (25%)	160,600	114,150
Compensation proposed:		
Dividends	240,000	-
Interest on equity capital – IEC	-	240,000
Income tax	-	(35,814)
Net compensation	240,000	204,186
Percentage on adjusted net income	37,4%	44,7%
Dividends/IEC per common/preferred share (R\$)	5,75	5,75

Stockholders' compensation will be paid on a date to be defined at the Annual General Stockholders' Meeting – AGO, or according to its bylaw in case AGO does not deal with the issue. Compensation will be monetarily revaluated, from December 31, 2007 up to payment, according to Brazil Central Bank overnight rate (SELIC) variation.

29 - RELATED-PARTY TRANSACTIONS

These are performed under market terms and conditions, or based on contracts applicable to the Electric Sector.

BALANCES	2007											2006
	ELETROBRÁS	FURNAS	ELETROSUL	ELETRONORTE	ELETRONUCLEAR	CGTEE	LIGHTPAR	STN	INTESA	ÁGUAS DA PEDRA	TOTAL	TOTAL
▪ Consumers, Concessionaires and permit grantees	-	4.724	-	6.364	538	70	-	-	-	-	11.696	11.815
▪ Accounts JCP/Dividends receivable	379	-	34	11	-	-	14.693	-	-	-	15.117	15.242
▪ (-) Allowance for doubtful accounts	-	-	-	-	-	-	-	2.888	-	-	2.888	3.192
▪ Permanent shareholding	-	-	-	-	-	-	(13.237)	-	-	-	(13.237)	(13.237)
▪ Suppliers	-	(12.362)	(5.749)	(6.429)	-	-	-	97.020	18.000	31.790	146.810	112.620
▪ Loans and financing taken	(4.211.241)	-	-	-	-	-	-	-	-	-	(4.211.241)	(4.598.096)
▪ JCP/Dividends receivable	(238.678)	(5)	-	-	(3)	-	-	-	-	-	(238.686)	(202.883)
▪ Accounts payable	(332)	-	-	-	-	-	(1.456)	-	-	-	(1.788)	(1.846)
Total	(4.449.872)	(7.643)	(5.715)	(54)	535	70	-	98.879	18.000	31.790	(4.314.010)	(4.698.709)

CHANGES	01/01/2007 a 12/31/2007											2006
	ELETROBRÁS	FURNAS	ELETROSUL	ELETRONORTE	ELETRONUCLEAR	CGTEE	LIGHTPAR	STN	INTESA	ÁGUAS DA PEDRA	TOTAL	TOTAL
▪ Revenue from use of electric network	-	42.213	-	57.338	4.847	632	-	-	-	-	105.030	99.442
▪ Service revenue	-	-	-	-	-	-	-	1.775	-	-	1.775	1.632
▪ Revenue from dividends	-	-	-	-	-	-	-	2.888	-	-	2.888	3.192
▪ Charge on use of electric network	-	(121.577)	(50.637)	(55.889)	-	-	-	(9.076)	-	-	(237.179)	(237.056)
▪ Financial expense on loans and financing taken	(487.375)	-	-	-	-	-	-	-	-	-	(487.375)	(510.491)
▪ Interest on equity capital /Dividends	(7.065)	-	-	-	-	-	-	-	-	-	(7.065)	(263.486)
▪ Capital contributed	-	-	-	-	-	-	-	-	(2.400)	(31.790)	(34.190)	(19.521)
Total	(494.440)	(79.364)	(50.637)	1.449	4.847	632	-	(4.413)	(2.400)	(31.790)	(656.116)	(926.288)

Transactions by each company:

ELETROBRÁS

- Loan Agreements entered into between the parties, with contracting conditions informed in note 17.
- Compensation on invested capital.

FURNAS

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

ELETROSUL

- Agreements for the use of transmission system network.

ELETRONORTE

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

STN

- Agreement for services of transmission line maintenance and operation.
- Amount invested in shareholding, for capital contribution to the Company's capital stock.
- Compensation on invested capital.

INTESA

- Amount invested in shareholding, for capital contribution to the Company's capital stock.

ENERGÉTICA ÁGUAS DA PEDRA

- Amount invested in shareholding, for capital contribution to the Company's capital stock.

30 - FINANCIAL INSTRUMENTS

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

The Company's financial instruments are as follows:

ASSETS

- Investments in the Money Market

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

LIABILITIES

- Loans and financing

These local and foreign lending operations are restated based on currencies of the respective countries of origin up to the balance sheet date, being provided for at fixed or variable rates ruling at 12/31/2007, in domestic and foreign markets, and loan agreements with the parent company, Eletrobrás, which represent 93% of the total debt, almost all of which (93%) bearing interest at 10% p.a. The market rate for Eletrobrás is defined taking into account the risk premium compatible with the activities of the Electric Sector. Given the special circumstances surrounding the funding of its expansion projects, the market value of these loans is the same as their book value.

- Exchange risk

Of the total debt of the Company as of 12/31/2007, R\$ 291,271 thousand refers to agreements in foreign currency, 6.4% comprising US\$ 113,358 thousand (basically relending from Eletrobrás) and Eur 34,685 thousand (balances of UHE Xingó financing), which is why the Company is exposed to exchange risks from these currencies. This year, these two currencies varied in relation to the Real by -17.15% and -7.50%, respectively.

31 - STATEMENT OF OPERATIONS BY ACTIVITY

	2007			2006 (Reclassified)		
	Generation	Transmission	Total	Generation	Transmission	Total
OPERATING REVENUE						
Electric power supply	622,417	-	622,417	589,205	-	589,205
Electric power bulk supply	2,950,647	-	2,950,647	2,258,227	-	2,258,227
Transmission system availability	-	1,123,832	1,123,832	-	1,094,172	1,094,172
Other operating revenues	2,472	6,068	8,540	4,429	3,747	8,176
	3,575,536	1,129,900	4,705,436	2,851,861	1,097,919	3,949,780
Deduction from operating revenue						
Global Reversal Reserve – RGR	(92,697)	(29,308)	(122,005)	(71,609)	(28,216)	(99,825)
ICMS on electric power (added value tax)	(77,237)	-	(77,237)	(74,210)	-	(74,210)
ISS	(130)	(337)	(467)	(191)	(141)	(332)
Research and development	(30,660)	(9,555)	(40,215)	(114,361)	(37,811)	(152,172)
Fuel consumption account - CCC	-	(106,637)	(106,637)	-	(113,059)	(113,059)
Energetic development account – CDE	-	(17,601)	(17,601)	-	(16,333)	(16,333)
PROINFA	-	(19,594)	(19,594)	-	(12,638)	(12,638)
PIS/PASEP	(53,432)	(7,367)	(60,799)	(39,590)	(802)	(40,392)
COFINS	(246,152)	(33,976)	(280,128)	(184,919)	9,809	(175,110)
	(500,308)	(224,375)	(724,683)	(484,880)	(199,191)	(684,071)
NET OPERATING REVENUE	3,075,228	905,525	3,980,753	2,366,981	898,728	3,265,709
COST OF ELECTRIC POWER SERVICE						
Electric power cost						
Electric power purchased for resale	(173)	-	(173)	(1,490)	-	(1,490)
Charges on use of electric power network	(614,469)	-	(614,469)	(575,476)	-	(575,476)
Operating cost						
Personnel	(48,717)	(124,906)	(173,623)	(39,865)	(94,351)	(134,216)
Material	(4,479)	(9,049)	(13,528)	(2,194)	(5,843)	(8,037)
Fuel for energy production	(37,020)	-	(37,020)	(3,173)	-	(3,173)
Third-parties' services	(16,840)	(31,401)	(48,241)	(12,615)	(26,082)	(38,697)
Financial compensation for water use	(222,707)	-	(222,707)	(206,552)	-	(206,552)
Depreciation and amortization	(353,266)	(189,184)	(542,450)	(348,070)	(179,257)	(527,327)
Others	39,826	(4,793)	35,033	24,770	(11,923)	12,847
	(1,257,845)	(359,333)	(1,617,178)	(1,164,665)	(317,456)	(1,482,121)
COST OF SERVICE RENDERED TO THIRD	(478)	(3,387)	(3,865)	(33)	(5,451)	(5,484)
GROSS OPERATING INCOME	1,816,905	542,805	2,359,710	1,202,283	575,821	1,778,104
OPERATING EXPENSES	(461,078)	(370,049)	(831,127)	(357,542)	(226,237)	(583,779)
SERVICE INCOME	1,355,827	172,756	1,528,583	844,741	349,584	1,194,325
FINANCIAL REVENUE (EXPENSES)						
Revenue from temporary cash investments	21,364	5,873	27,237	16,032	6,211	22,243
Monetary variation and arrears charge – energy sold	108,232	1,002	109,234	130,665	507	131,172
Other monetary gains	224	547	771	6,195	8,632	14,827
Other financial revenues	10,877	5,577	16,454	4,205	141	4,346
Pis/Pasep and Cofins	(10)	(4)	(14)	(23)	-	(23)
Debt charges	(504,141)	(69,530)	(573,671)	(551,775)	(62,691)	(614,466)
Monetary variations on loans and financing	15,000	1,749	16,749	(194)	(2,522)	(2,716)
Other monetary losses	(12,165)	(29,137)	(41,302)	(22,626)	(27,277)	(49,903)
Other financial expenses	(17,488)	(24,578)	(42,066)	(50,622)	(17,644)	(68,266)
	(378,107)	(108,501)	(486,608)	(468,143)	(94,643)	(562,786)
Operating income before interest on equity	977,720	64,255	1,041,975	376,598	254,941	631,539
Interest on equity capital	-	-	-	(143,600)	(96,400)	(240,000)
OPERATING RESULT	977,720	64,255	1,041,975	232,998	158,541	391,539
Non-operating revenue	379	2,913	3,292	807	1,521	2,328
Non-operating expense	(3,087)	(6,330)	(9,417)	(3,033)	(5,143)	(8,176)
Non-operating result	(2,708)	(3,417)	(6,125)	(2,226)	(3,622)	(5,848)
Profit before social contribution and income tax	975,012	60,838	1,035,850	230,772	154,919	385,691
Social contribution	(89,318)	737	(88,581)	(16,796)	(16,002)	(32,798)
Income tax	(229,405)	(11,227)	(240,632)	(45,101)	(42,565)	(87,666)
Profit before sharing and reversal of interest on equity capital	656,289	50,348	706,637	168,875	96,352	265,227
Profit sharing	(14,561)	(39,446)	(54,007)	(19,988)	(27,889)	(47,877)
Reversal of interest on equity capital	-	-	-	143,600	96,400	240,000
NET INCOME FOR THE YEAR	641,728	10,902	652,630	292,487	164,863	457,350
Net earnings per share (R\$)	-	-	15,65	-	-	10,97

32 - INSURANCE

Under a contract signed with Bradesco Auto/RE – Cia. de Seguros, with 4-year duration as from 04/30/2005, the Company's main assets such as construction work and stored material are insured under annual policies for R\$ 3,085,039 thousand. The policy in force is valid from 04/30/2007 to 04/30/2008. Specification by risk is as follows:

Policies

- Risks:

Fire, lightning strike, explosion, electric damage, engineering risks (operational functioning)

- Aeronautic Risks

Insured Amount	Annual Premium
3,075,735	6,133
9,304	411
3,085,039	6,544

The amount insured under the aeronautic risk policy includes R\$ 713 thousand of third-party liability.

Besides these, the Company has transportation insurance policies to guarantee the handling of materials, which are valid from May 2005 through May 2009, totaling R\$ 488,486 thousand payable in monthly installments, with premiums amounting R\$ 1,120 thousand.

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

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

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

ITEMS	RATIFICATION INSTRUMENT NR.	RATIFIED AMOUNT	ACCUMULATED COMPENSATION 12/31/2007	AMORTIZED AMOUNT UP TO 12/31/2007	BALANCE TO BE PASSED ON AS OF 12/31/2007
		(1)	(2)	(3)	(4) = (1+2-3)
Loss of revenue	Resolution nrs 480/02, 481/02 and 01/04.	40,674	11,399	52,073	-
Free Energy	Resolutions nrs 01/04 and 45/04.	77,303	44,039	121,342	-
Total		117,977	55,438	173,415	-

2. The variation of Portion A Items (period from 01/01/2001 through 10/25/2001) ratified by ANEEL.

ITEMS	RATIFIED AMOUNT RESOLUTIONS NRS 482/02 AND 001/04	ACCUMULATED COMPENSATION UP TO 12/31/2007	ACCUMULATED AMOUNT UP TO 12/31/2007	AMORTIZED AMOUNT UP TO 12/31/2007	BALANCE TO BE PASSED ON AS OF 12/31/2007
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) - (4)
“Portion A” (period from 01/01 through 10/25/2001)	21,827	36,213	58,040	25,258	32,782

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

ITEMS	RATIFIED AMOUNT RESOLUTIONS NRS-001/04 AND 045/04	ACCUMULATED COMPENSATION UP TO 12/31/2006	ACCUMULATED AMOUNT UP TO 12/31/2006	AMORTIZED AMOUNT UP TO 12/31/2006	REDUCTION OF TAXES AND CHARGES OFÍCIO Nr. 2.409/2007-SFF/ANEEL	BALANCE TO BE PASSED ON AS OF 12/31/2007
	(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6) = (3) - (4) - (5)
Free Energy Passed On	77,303	44,039	121,342	117,330	5,880	(1,868)

In compliance with the determinations of Official Letter nr. 2.409/2007-SFF/ANEEL, the Company registered in its accounting reversing entry of the values related to the regulatory taxes and charges, whose encumbrance was attributed to the generation concessionaire and that were not effectively supported by the consumers, under the Terms of Technical Note nr. 392/2007-SFF/ANEEL. Since the repass terms had been concluded and all the values repassed, with such registry it was verified the occurrence of a greater payment, in the amount of R\$ 5.880 thousand, to receive from said concessionaires.

Under the Electric Sector General Agreement, signed by the generators and the distributors on 12/18/2001, this year the Company received R\$ 40,866 thousand and R\$ 116,034 thousand, corresponding to the Extraordinary Tariff Recomposition – RTE and the free energy refunding, respectively, and paid R\$ 10,662 thousand, for free energy.

On the other hand, the Company, in compliance with the determinations of Official Letter nr.2.409/2007-SFF/ANEEL, registered the write-off of the receivables of Free Energy not billed by the distributors within the established term by ANEEL, in the amount of R\$ 185.839 thousand, such as, the reversing entry of the of the fiscal charges and regulatory charges born by it, deduced by the financial repasses distribution concessionaire of Free Energy, which values were not effectively supported by the consumers, under the terms of Technical Note nr. 392/2007-SFF/ANEEL, in the amount of R\$ 13.437 thousand, and its accounts receivable in relation to Free Energy, per debtor, as follows:

Receivables	12/31/2007
Company	Amount (R\$ 000)
AMPLA (CERJ)	16,602
CEB-BRASÍLIA	7,913
CELB	1,572
CELPE	11,744
CEMIG	73,968
CEPISA	4,831
COELBA	18,967
COELCE	13,559
COSERN	9,119
CPFL – PAULISTA	33,904
CSPE – SUL PAULISTA	664
EBE – BANDEIRANTE	2,522
ENERSUL	3,185
ESCELSA	589
LIGHT	51,728
SAELPA	2,574
Total	253,441
(-) Allowance for doubtful accounts	(205,527)
Total receivables	47,914
Current	44,411
Noncurrent	3,503

Considering that the Distributors have a deadline, established by ANEEL, to collect the RTE from the consumers and repossess the due values to the generating companies, the Company, after the adjustment of the accounts receivable of Free Energy to the determinations established in said official letter, prepared a new study in a way to find the installment of the non-realizable receivables, due to the termination of the RTE deadlines of the distributors. Accordingly, it was estimated in R\$ 205.527 thousand, the provision for losses in the realization of such credits on December 31, 2007.

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

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

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

	2007								2006	
	Generation				Transmission				Generation	Tansm.
	Qty. Items	Restated Cost	Estimated Depreciation	Net Value	Qty. Items	Restated Cost	Estimated Depreciation	Net Value	Net Value	Net Value
HPP Castelo Branco Dam	1	56,858	(48,898)	7,960	-	-	-	-	9,097	-
Plots of land	10	2,958	-	2,958	4	223	-	223	2,958	223
Buildings	223	1,688	(1,688)	-	2	13	(10)	3	-	3
HPP Itaparica Relocation	1	5,201	(1,931)	3,270	-	-	-	-	3,478	-
Guadalupe-PI Airport	1	926	(926)	-	-	-	-	-	-	-
Access Road to HPP Castelo Branco	1	508	(508)	-	-	-	-	-	-	-
Others	-	-	-	-	3	90	(72)	18	-	22
Total	237	68,139	(53,951)	14,188	9	326	(82)	244	15,533	248

35 - EMPLOYEES' AND MANAGEMENT'S COMPENSATION

With December 2007 as a basis and pursuant to the Company's salary policy, the highest and the lowest monthly compensation paid to employees were R\$ 23,216.60 and R\$ 996.60, respectively; the highest fees paid to top management was R\$ 27,016.00. These compensations comprise permanent salaries, bonuses and additional fees.

36 – REVENUES – PUBLIC TRANSMISSION SERVICE CONCESSIONAIRES

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

37 - UNIVERSALIZATION OF THE ELECTRIC POWER UTILITY – PROGRAMA LUZ PARA TODOS

The Company is the executor of the *Programa Luz para Todos* (electric power for everybody program) in 79 cities of the State of Piauí, comprising 51.994 new rural connections, with implementation goal until September 30, 2009.

The Program has the following sources of funds, in the total value of R\$ 327.562 thousand, with expenses of R\$ 934 thousand, already incurred:

Origin of the Fund	Value (R\$ thousand)	Financing Sources		Agreements for the Execution
		Document	Note	
Union	262,050	Agreement ECFS-177/2007 Eletrobrás/Chesf	Direct costs to 46.217 connections	CN-92.2007.4130 (Project, Construction and Supply of Materials).
Government of the State of Piauí	32,756	Convention of the Government of Piauí/Chesf	Direct costs to 5.777 connections	
Cepisa	32,756	Cooperation Term Cepisa/Chesf	Direct costs to 51.994 connections	CN-92.2007.4130 (Project, Construction and Supply of Materials) regarding the item Project and Supply of Plates. PG-92.2007.3670 (Inspection and Technical Support). Preliminary Registry and Management
Total	327,562			

Note: The cities shall not participate with financial resources for the execution of the program.

38 – SUBSEQUENT EVENTS

Alterations of Law nr. 6.404/1976, which governs the business corporations.

On December 28, 2007, the President of Republic approved Law nr. 11.638, promoting alterations in the accounting rules of Brazil, in the sense of its alignment to the Accounting International Rules, in regards to the preparation and disclosure of accounting statements.

We shall present next the main accounting alterations, which, upon evaluation of the administration, may affect the accounting statements of the Company as of the year of 2008.

Financial Statements

Extinction of the Statements of Changes in the Financial Position – DOAR, with its substitution by the Cash Flow Statements, is already practiced by the Company.

Accounting Bookkeeping

The legislation determined that the provisions of the tax law or special law were registered in auxiliary registries. With such alterations, these registries may be carried out in auxiliary accounting books provided that, in the last case, the accounting registries are made in order to prepare the accounting statements. The open company shall observe the rules issued by the SEC and these shall observe the Accounting International Rules. The adjustment entries made exclusively for the harmonization of the accounting rules may not have fiscal effects.

Balance Sheet

The structure of the Net Equity – NE was altered and the Accumulated Profits were eliminated, and the Stocks in Treasury and Equity Evaluation Adjustment shall be part of the NE.

Asset

- a) In the fixed asset it shall be classified the rights having as object tangible assets destined to the maintenance of the activities of the Company or exercised with such purpose, including the ones resulting from operations transferring to the company the benefits, risks and control of these assets.
- b) In the Differed Assets it shall be classified the pre-operational expenses and the restructuring costs which shall contribute, effectively, for the increase of the result of more than one fiscal year, and which does not just comprise a cost reduction or increase in the operational efficiency.
- c) In the Intangible Assets it shall be classified the rights having as object intangible assets destined the maintenance of the company or exercised with such purpose.

Net Equity

It was abolished from the capital reserve The Premium Received in the Issuance of Debentures and Donations and Subventions for Investment.

- **Assets evaluation criteria**

- I – The financial instruments, including derivatives, rights and bonds, classified in the Current Assets or Long Term Realizables started to be evaluated:
 - a) by its market value or equivalent value, whenever it is about applications destined to negotiations or available for sale; and
 - b) by the acquisition cost value or issuance value, updated according to the contractual or legal provisions, adjusted to the realization likable value, whenever this is inferior, regarding the other applications and the rights and bonds;
- II – The rights classified as intangible assets, by the cost incurred in the acquisition deduced from the balance of the respective amortization account;
- III – The elements of the asset resulting from long term operations shall be adjusted to a current value, being the other ones adjusted whenever there is a relevant effect.

- **Liability Evaluation Criteria**

The obligations, charges and risks classified in the Long Term liability shall be adjusted to its present value, being the other ones adjusted upon existence of a relevant effect.

- **Statements of Operations**

The Income Statements of the fiscal year shall define the debenture interests, employees' interest and administrators' interest, even as financial instruments, and institutions or retirements or assistance funds of employees, which are not characterized as expense.

- **Reserves and Retention of Profits**

Upon creation of the Tax Incentive Reserve – government donations and subventions for investment, which shall comprise the result of the fiscal year and, upon proposal of the administration bodies, the General Meeting may destine the net profit parcel resulting from such incentives for the formation of said reserve.

- **Limit of the profit reserve balance**

The balance of the Contingency Reserves, Fiscal Incentives and Profits to be realized may exceed the amount of the capital stock.

- **Investment Evaluation in Affiliated and Controlled Companies**

The investments in affiliated companies, on which administration has a substantial influence or participated with 20% or more of the voting capital, in controlled companies and other companies part of the same group or under the same control, shall be evaluated by the equity equivalence method.

The requirements of the new law apply to the accounting statements related to the exercises ended as of January 01, 2008, not being possible, at the moment, to determine the impacts resulting from the entry into force of said law in the accounting statements of the Company.

BOARD OF DIRECTORS AND ADMINISTRATIVE AND FISCAL COUNCILS

BOARD OF DIRECTORS

Dilton da Conti Oliveira
President

Marcos José Mota de Cerqueira
Economic and Financial Director and
Administrative Director Substitute

José Ailton de Lima
Engineering and Construction Director

Mozart Bandeira Arnaud
Operations Director

SUPERINTENDENCY OF EXECUTION AND ECONOMIC-FINANCIAL CONTROL

José Ivan Pereira Filho
Superintendent
CRC-PE-007552/O-6 – Accountant
CPF - 080.801.434-04

ADMINISTRATIVE COUNCIL

Aracilda Alves da Rocha
Chairman

Dilton da Conti Oliveira
Council Member

Swedenberger do Nascimento Barbosa
Council Member

Ricardo Spanier Homrich
Council Member

Erenice Alves Guerra
Council Member

Luiz Awazu Pereira da Silva
Council Member

FISCAL COUNCIL

Marcelo Cruz
President

Sonia Regina Jung
Council Member

Antônio Carlos Pinho de Argôlo
Council Member

THE INDEPENDENT AUDITORS' REPORT

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

1. We have examined the balance sheet of Companhia Hidro Elétrica do São Francisco - CHESF as of December 31, 2007, and accompanying statements of operations, changes in the stockholders' equity and financial position for the year then ended, prepared under the responsibility of its management. Our responsibility is to express an opinion on such financial statements based on our audit.
2. Our exams were conducted in accordance with the auditing standards accepted in Brazil, and they comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, as well as accounting and internal control system of the Company; (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements; and (c) assessing the accounting principles used and the more significant accounting estimates made by the management, as well as evaluating the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material aspects, the equity and financial position of Companhia Hidro Elétrica do São Francisco - CHESF as of December 31, 2007, as well as the result of its operations, changes in its stockholders' equity and in the financial position for the period ended on such date, in compliance with the accounting practices adopted in Brazil.
4. The supplementary information, contained in the statements of added value and cash flow for the period ended as of December 31, 2007, requested by "Agência Nacional de Energia Elétrica – ANEEL" (National Electric Power Agency), are presented with the purpose of allowing additional analysis and are not an integral part of the basic financial statements. We have examined such information in accordance with the audit procedures mentioned in paragraph 2 and, in our opinion, they are appropriately presented, in all material aspects, in relation to the financial statements taken as a whole.
5. The balance sheet corresponding to the year ending December 31, 2006, presented for comparison, were audited by other independent auditors, whose opinion on 07 March 2007, contained no exception.

Recife (PE), February 1, 2008.

Boucinnhas & Campos + Soteconti
Auditores Independentes S/S
CRC – SP – 005.528/O – 2 "S" – PE

Carlos Caputo
Accountant
CRC SP 175.056/O "S" - PE

THE FISCAL COUNCIL'S REPORT

The Fiscal Council of Companhia Hidro Elétrica do São Francisco – Chesf, in the use of its legal and statutory attributions, carried out the analysis of the **Management Report**, as well as of the **Balance Sheet and other Accounting Statements**, related to the fiscal year Chesf which ended on 12/31/2007, in view of the Independent Auditors' Report, Boucinhas & Campos + Soteconti Auditores Independentes S/S, issued on February 1, 2008, without exceptions, prepared according to the applicable audit rules in Brazil.

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

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

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

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

Brasília, March 17, 2008.

Marcelo Cruz
President

Sonia Regina Jung

Antônio Carlos Pinho de Argôlo