



US\$ 300,000,000

Senior Secured Syndicated Credit Facility

Garter Properties Inc.

Guaranteed by

**COELBA - Companhia de Eletricidade
do Estado da Bahia**

CONFIDENTIAL INFORMATION MEMORANDUM

May 2001



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NOTICE TO RECIPIENTS

This confidential information memorandum (the "Confidential Information Memorandum") has been prepared solely for informational purposes from information provided by Garter Properties Inc. (The "Borrower") and Companhia de Eletricidade do Estado da Bahia ("Coelba" or the "Guarantor") and is being furnished by BankBoston N.A. ("BankBoston"), Banco do Brasil S.A. ("BB"), J.P. Morgan Securities Inc. ("JP Morgan"), and Salomon Smith Barney, Inc. ("Salomon") (each an "Arranger and collectively the "Joint Arrangers") solely for use by prospective participants in considering participation in a US\$300,000,000 Senior Secured Syndicated Credit Facility (the "Facility") to the Borrower.

The information contained herein has been prepared to assist interested parties in making their own evaluation of the Borrower, the Guarantor and the Facility, and is not intended to be complete or to contain all that a prospective participant in the transaction described herein may require. By accepting this Confidential Information Memorandum, each recipient acknowledges that it will make its own independent investigation and analysis of the transaction and the creditworthiness of the Borrower and the Guarantor, without reliance upon the Joint Arrangers and based upon such documents and information as it, in its sole discretion, has deemed appropriate. The information contained herein does not substitute your independent evaluation and analysis.

Neither the Joint Arrangers nor any of their respective affiliates have independently verified any of the information and/or data contained herein. The Joint Arrangers and their respective affiliates make no representation or warranty as to the accuracy or completeness of such information and by accepting this Confidential Information Memorandum each recipient agrees that the Joint Arrangers and their respective affiliates shall have no liability for any representation or warranty (express or implied) or other statement or information contained in this Confidential Information Memorandum, or for any omission from this Confidential Information Memorandum, or for any other written or oral communications to you from the Joint Arrangers, their respective affiliates and/or the Borrower or the Guarantor, or for any other information provided for your evaluation of the proposed transaction.

This Confidential Information Memorandum includes certain statements, estimates and projections provided by Coelba's management with respect to the anticipated future performance of Coelba. Such statements, estimates and projections reflect various assumptions by Coelba's management concerning anticipated results and have been included solely for illustrative purposes. No representations are made as to the accuracy of such statements, estimates or projections or with respect to any other materials herein. Actual results may vary materially from the projected results contained herein.

In furnishing this Information Memorandum, the Joint Arrangers, the Borrower and the Guarantor reserve the right to amend or replace the information at any time but undertake no obligation to update, correct or supplement any information contained herein or to provide the recipient with access to any additional information regarding the Borrower or the Guarantor.

The information and data contained herein are confidential and may not be divulged to any person or entity or reproduced, disseminated or disclosed, in whole or in part, except as set forth in the Confidentiality Agreement under which the information contained in this Confidential Information Memorandum is provided.

CONFIDENTIALITY AGREEMENT

In connection with your discussions with BankBoston N.A. ("BankBoston"), Banco do Brasil S.A. ("BB"), J.P. Morgan Securities Inc. ("JP Morgan"), and Salomon Smith Barney, Inc. ("Salomon") (each an "Arranger and collectively the "Joint Arrangers") regarding a US\$ 300,000,000 Senior Secured Syndicated Credit Facility (the "Facility") to the Borrower, the Guarantor, and the Joint Arrangers are providing you with certain confidential information regarding the Facility, and certain of the parties thereto.

As used herein, "Confidential Information" means any information relating to the Facility, including but not limited to the structure, the Borrower, and the Guarantor, that the Joint Arrangers furnish you with, whether written or oral and whether furnished before or after the date hereof, and all other documents that contain or otherwise reflect such information.

You agree that, without the prior written consent of the Borrower, the Guarantor, and the Joint Arrangers, you will not disclose any of the Confidential Information to any person or use the Confidential Information for any purpose other than in connection with your evaluation of the Facility and the funding therefor, provided, however, that you may make disclosure of such Confidential Information to your directors, officers, employees, agents, counsel, auditors, advisors and representatives (collectively, the "Representatives") if such information is necessary for the purpose of your evaluation of the Facility and the funding therefor (it being understood that such Representatives shall be informed by you of the confidential nature of such information and shall be directed by you to treat such information in accordance with the terms of this Agreement). You agree to be responsible for any breach of this Agreement that results from the actions or omissions of your Representatives.

Notwithstanding the foregoing, you shall have no obligation hereunder with respect to any Confidential Information to the extent that such information: (i) is or becomes generally available to the public other than as a result of a disclosure by you in violation of this Agreement; (ii) was within your possession, as evidenced by your written records, prior to it being furnished to you pursuant hereto, provided that the source of such information was not known by you to be bound by a confidentiality agreement or other contractual, legal, or fiduciary obligation of confidentiality to the Borrower, the Guarantor, the Joint Arrangers, or any other party with respect to such information; (iii) is or becomes available to you on a non-confidential basis from a source other than the Borrower, the Guarantor, the Joint Arrangers or their respective Representatives, provided that such source is not known by you to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Borrower, the Guarantor, the Joint Arrangers or any other party with respect to such information; or (iv) is required to be disclosed pursuant to applicable law, regulation or court order; provided in the case of this item (iv) that (x) such disclosure is made subject to all available measures to protect the confidentiality of such Confidential Information and (y) that you have given reasonable advance notice of such disclosure to the Borrower, the Guarantor and the Joint Arrangers.

You agree that, if you do not participate in the Facility, you will promptly deliver all of the Confidential Information to the Joint Arrangers, or destroy and confirm such destruction in writing to the Joint Arrangers, including all copies, summaries, analyses or extracts thereof or based thereon in your possession or in the possession of any of your Representatives.

You agree that money damages would not be a sufficient remedy for breach of this Agreement, and that in addition to all other remedies available at law or in equity, the Borrower, the Guarantor and the Joint Arrangers shall be entitled to equitable relief, including injunction and specific performance, without proof of actual damage.

This Agreement embodies the entire understanding and agreement between the parties with respect to the Confidential Information and supersedes all prior understandings and agreements relating thereto.

This Agreement shall be governed by and construed in accordance with the law of the State of New York, without regard to principles of conflicts of law.

If you are not prepared to accept the terms set forth herein you must immediately return the enclosed Confidential Information Memorandum without making any copies thereof or extracts therefrom. Your acceptance of the enclosed Information Memorandum will constitute your agreement to be bound by this Agreement.

AUTHORIZATION LETTER

May 2001

Bank Boston N.A.
100 Federal St
Boston, MA 02110

BankBoston N.A. Nassau Branch
100 Rustcraft Rd. MADED 74-02-02D
Dedham, MA 02026

Attention: Marcos Soares de Camargo, Director
Subject: Garter Properties Inc. Confidential Information Memorandum

We refer to the Confidential Information Memorandum (the "Memorandum") dated May 2001 which includes information on Garter Properties Inc. ("the Borrower"), and Companhia de Eletricidade do Estado da Bahia ("Coelba" or the "Guarantor"), which you propose to send to prospective Lenders for their evaluation to participate in the US\$300,000,000 Senior Secured Syndicated Credit Facility (the "Facility") to the Borrower, such Facility being arranged BankBoston N.A. ("BankBoston"), J.P. Morgan Securities Inc. ("JP Morgan"), and Salomon Smith Barney, Inc. ("Salomon") (each an "Arranger and collectively the "Joint Arrangers").


We have reviewed a copy of the Memorandum and we confirm that (i) the information contained therein has either been supplied or reviewed by us or been obtained from publicly available information; (ii) to our knowledge the information contained in the Memorandum concerning the business, properties and operation of the Borrower and the Guarantor is true and complete in all material aspects as of the date hereof; (iii) the forecasts included therein have been prepared based upon assumptions which are reasonable in the opinion of the Borrower and the Guarantor, and (iv) to the best of our knowledge, information concerning the financial condition (except for the forecasts) of the Guarantor presents fairly the financial condition and results of operations for the periods therein indicated.

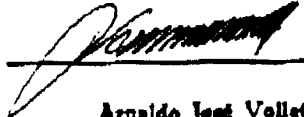
Accordingly, we authorize you to distribute the Memorandum to prospective Lenders under the Facility to use in their evaluation of the Borrower and the Guarantor, and therefore allowing such Lenders to gauge their interest in participating in the Facility.

Sincerely,

Garter Properties Inc.

Companhia de Eletricidade do Estado da Bahia

By: 
Title: _____
Date: _____

By: 
Title: Arnaldo José Vollet
Diretor de Economia, Finanças
e de Relações com Investidores
Date: _____

FORM OF COMMITMENT ADVICE

[LENDER LETTERHEAD]

Form of Commitment Advice

Month Date, 2001

Bank Boston N.A.
100 Federal St
Boston, MA 02110

BankBoston N.A. Nassau Branch
100 Rustcraft Rd. MADED 74-02-02D
Dedham, MA 02026

Attention:

Marcos S. de Camargo
Director
Corporate Finance

Tel: (55) (11) 3118-5790

Fax (55) (11) 3118-5042

Subject: US\$300,000,000 Senior Secured Syndicated Credit Facility (the "Facility") for Garter Properties Inc. (the "Borrower"), guaranteed by Coelba – Companhia de Eletricidade do Estado da Bahia ("Coelba").

Ladies and Gentlemen:

_____ (the "Lender") hereby confirms its commitment to lend to the Borrower an aggregate principal amount of US\$_____ (the "Commitment Amount") as part of the above-referenced Facility. Terms and conditions will be substantially as set forth in the Summary of Terms and Conditions (the "Term Sheet") included in the Confidential Information Memorandum dated May 2001. This commitment is subject to our satisfactory review of the documentation relating to the Facility.

The Lender acknowledges that it has independently, without reliance upon BankBoston N.A., Salomon Smith Barney, Inc. and JP Morgan Securities Inc. (the "Joint Arrangers") and based on the financial statements of the Borrower and Coelba and other such documents and information as the Lender has deemed appropriate, made its own credit analysis and decision to enter into this commitment.

The Lender further understands that the Joint Arrangers reserves the right to allocate final commitments in their sole discretion, subject to the general syndication process described in the Invitation to Participate. The Joint Arrangers shall have no liability or responsibility to the Lender if the Facility is not entered into. The Lender understands and agrees that the proposed Commitment Amount is subject to the acceptance by the Borrower, Coelba and the Joint Arrangers, and that the Syndication Agent will notify the Lender at the end of the syndication period of the amount of the Lender's accepted commitment.

Sincerely,

Authorized Officer:

Title:

Lender:

Telephone Number

LENDER INFORMATION FORM

To: BankBoston N.A., Nassau Branch
 Nassau Branch of BankBoston, N.A.
 100 Rustcraft Rd. MADED 74-02-02D
 Dedham, MA 02026

Month Date, 2001

Attn.:

Lee Shay

or

Valeria Garcia

Tel: (781) 467-2136

Tel.: (781) 467-2985

Fax: (781) 467-2094

Fax: (781) 467-2094

From: _____

(enter Lender Name above)

Date: _____

Subject: Up to U.S.\$300,000,000 Senior Secured Syndicate Credit Facility (the "Facility") to Garter Properties Inc. (the "Borrower") Guaranteed by Companhia de Eletricidade do Estado da Bahia (the "Guarantor").

1) LEGAL NAME OF ENTITY FOR SIGNATURE PAGE:

2) MARKETING NAME OF ENTITY FOR ADVERTISING (such as tombstone):

3) APPLICABLE LENDING OFFICE:

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

4) MAILING ADDRESS FOR CREDIT DOCUMENTS AND FINANCIAL INFORMATION

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

5) BUSINESS AND/OR CREDIT MATTERS:

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

6) LEGAL MATTERS:

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

7) ADMINISTRATIVE AND/OR OPERATIONAL MATTERS:

Responsible Person:	
Title:	
Street Address:	
City/State/Zip:	
Telephone #:	
Facsimile #:	
Email Address:	

8) NAME OF BANK WHERE PAYMENT OF FUNDS ARE TO BE TRANSFERRED:

9) ROUTING TRANSIT/ABA NUMBER OF BANK WHERE FUNDS ARE TO BE TRANSFERRED:

10) NAME OF ACCOUNT, IF APPLICABLE:

11) ACCOUNT NUMBER:

12) ADDITIONAL INFORMATION:

If you have any questions, please call:

Lee Shay
Tel: (781) 467-2136

or

Valeria Garcia
Tel.: (781) 467-2985

Authorized Signature

Date

CONTACT LIST

COELBA – Companhia de Eletricidade do Estado da Bahia

Av. Edgard Santos, 300 – Bl. A – 2nd. Floor
Salvador – Bahia – 41186-900 - Brasil

Arnaldo José Vollet
Chief Financial Officer
Tel.: (55) (71) 370-5500/ 5501
Fax: (55) (71) 370-5506
Email: avollet@coelba.com.br

Nivaldo Teixeira Meira
Treasurer
Tel.: (55) (71) 370-5555/ 5556
Fax: (55) (71) 370-5558
Email: nmeira@coelba.com.br

Guaraniana S.A.

Rua da Candelária, 65/ 16th floor
Rio de Janeiro – RJ – 20091-020

Luiz Carlos Alvarez
Chief Financial Officer
Tel.: (55) (21) 516-6883
Fax: (55) (21) 516-7827
Email: lc.alvarez@guaraniana.com.br

José Maria Torres
Director
Tel.: (55) (21) 277-9160
Fax: (55) (21) 516-9486
Email: jmtorres@guararema.com.br

Iberdrola Energía

Lagasca 88 – 3^a planta
28001 – Madrid – Spain

Javier Arrieta
Chief Financial Officer
Tel: (34) (91) 577-6500
Fax: (34) (91) 577-0654/0655
Email: javier.arrieta@iberdrola.es

Alfonso Esteban
Jefe de Finanzas
Tel.: (34) (91) 577-6500
Fax: (34) (91) 577-0655
Email: alfonso.esteban@iberdrola.es

BankBoston Banco Múltiplo S.A.

Rua Libero Badaró, 487.
São Paulo – SP - 01009-000 – Brasil

Ricardo Caldeira
Managing Director
Corporate Finance and
Specialized Industries
Tel: (55) (11) 3118-5754
Fax (55) (11) 3118-5262
Email: rdcaldeira@bkb.com

Marcos S. de Camargo
Director
Corporate Finance
Tel: (55) (11) 3118-5790
Fax (55) (11) 3118-5042
Email: mscamargo@bkb.com

Maria Cláudia M. Guimarães
Director
Specialized Industries
Tel: (55) (11) 3118-6862
Fax (55) (11) 3118-5262
Email: mguimaraes@bkb.com

Eugenio Favaro
Assistant Director
Loan Syndications
Tel.: (55) (11) 3118-5075
Fax: (55) (11) 3118-6982/5042
Email1: epfavaro@bkb.com
Email2: epfavaro@bkb.com.br

Carlos Santos
Associate
Specialized Industries
Tel.: (55) (11) 3118-7162
Fax: (55) (11) 3118-5261/5262
Email: csantos@bkb.com

Miriam M. Mariottoni
Deputy Director
Legal Unit
Tel.: (55) (11) 3118-6861
Fax: (55) (11) 3118-5527
E-mail: mmmariottoni@bkb.com

FleetBoston Securities

Av. of the Americas, 1185 – 16th Floor
New York – NY – 10036

Flavio R. Barbosa
Director
Loan Syndications
Tel.: (212) 819-5435
Fax: (212) 819-5445
Email: flavio_r_barbosa@fleet.com

Simpson Thacher & Bartlett

3330 Hillview Anevue
Palto Alto, California 94304

William B. Brentani
Partner
Tel.: (650) 251-5110
Fax: (650) 251-5002
Email: w_brentani@stblaw.com

Simpson Thacher & Bartlett

425 Lexington Avenue
New York, New York 10017 Tel.: (212) 455-7023

Alden Millard
Associate Tel.: (212) 455-2871
Fax: (212) 455-2502
Email: j_millard@stblaw.com

Richard Flores
Associate Tel.: (212) 455-7245
Fax: (212) 455-2502
Email: rflores@stblaw.com

Souza, Cescon Avedissian, Barriou e Flesch

Rua Funchal, 263 – 11th floor
04551-060 São Paulo - SP

Ronald Herscovici
Partner Tel.: (55) (11) 3089-6506
Fax: (55) (11) 3089-6565
Email: ronaldo@scbf.com.br

André Fiorotto
Associate Tel.: (55) (11) 3089-6533
Fax: (55) (11) 3089-6565
Email: afiorotto@scbf.com.br

Harneys Westwood & Riegels (BVI Legal Counsel)

Peter Tarn
Partner Tel.: (1) (284) 494-8137/2233
Fax: (1) (284) 494-3547
Email: peter.tarn@harneys.com

Colin Riegels
Associate Tel.: (1) (284) 494-2233
Fax: (1) (284) 494-3547
Email: colin.riegels@harneys.com



Gibson, Dunn & Crutcher (NY Law – Legal Advisor to Coelba and Garter)

Ignacio Foncillas
Tel.: (212) 351-3971
Fax: (212) 351-5223
Email: ifoncillas@gibsondunn.com

TRANSACTION TIMETABLE

May 2001						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

June 2001						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

 Major US Holiday
 Major Brazilian Holiday

DATE	ACTIVITY
May 24	- Bank meeting in São Paulo
May 30	- Bank meeting in New York
June 11	- Commitments due
June 13	- Signing and closing
June 19	- Disbursement

EXECUTIVE SUMMARY

1) Company History

Companhia de Eletricidade do Estado da Bahia S/A - COELBA, an open capital corporation founded in 1960, is an electricity distribution company serving the State of Bahia, in the Northeast Region of Brazil. Coelba was established in 1959 and its authorization for operating as an utility was granted in 1960. In 1968 Coelba incorporated the Centrais Elétricas do Rio das Contas – CERC and in 1973 two other utilities were incorporated: Companhia de Energia Elétrica da Bahia – CEEB- and Companhia de Eletrificação Rural do Nordeste – CERN. After such incorporations, Coelba's concession include 415 out of 416 municipalities of the State of Bahia, with an approximate area of 567.295 Km², which is 3.7% bigger than that of France.

In July 1997 Coelba was privatized, and sold to Guaraniana SA. Guaraniana is a consortium comprised of Iberdrola (39%), Banco do Brasil Mutual Investment Fund (33%), Previ (20%), and Banco do Brasil (8%). Iberdrola is one of Europe's leading electricity companies, with assets of approximately Pta 2,600.0 million, over 8 million customers in Spain and almost 5 million customers in Latin America. Banco do Brasil Mutual Investment Fund is a fund administered by the asset management group of Banco do Brasil. Previ is the pension fund of the employees of Banco do Brasil. Banco do Brasil is a state owned bank, with total assets of approximately R\$ 139 billion figuring as the largest bank operating in Brazil.

Through the privatization process, Guaraniana acquired 65.6 % of Coelba's voting shares, equivalent to 55% of Coelba's total capital. A new 30-year concession contract was signed between Coelba and the Brazilian Federal Government, authorizing Coelba to own and operate the businesses of generation and distribution of electricity in the State of Bahia. The concession contract is renewable for an additional 30-year period. Coelba has also obtained a concession to operate a small generation business, composed of two hydro-plants and three thermal-plants with 27MW of installed capacity.

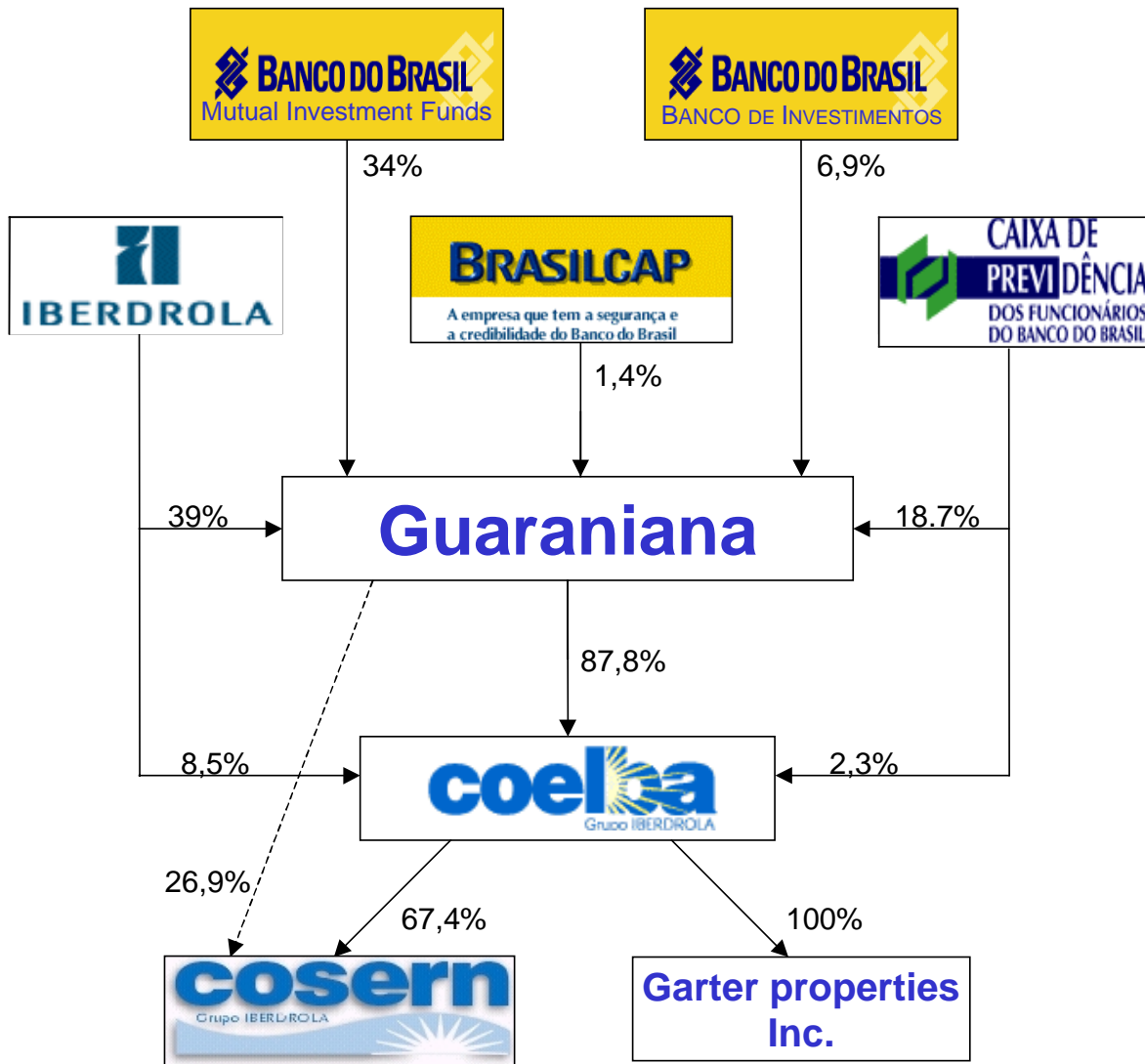
In December 1997, Coelba formed a consortium with Guaraniana and UPTICK Participações SA, a group of eight pension funds from the northeast of Brazil, and acquired the control of Companhia Energética do Rio Grande do Norte – "COSERN", an electricity distributor serving the State of Rio Grande do Norte.

In May 1998, Coelba established Tracol Serviços Elétricos SA - Tracol, a company specialized in the maintenance of electric equipment rendering services to the electricity sector in Brazil. Also in 1998, a consortium formed by Coelba and Guaraniana won the auction for the construction and exploration of a hydroelectric plant located at Rio Jequitinhonha, Municipality of Itapebi, in the State of Bahia, which will have an installed capacity of 450MW with an average production of 219MW.

In October 1999, Guaraniana, by means of a public offering, acquired from minority shareholders an additional stake in Coelba equivalent to 27,86% of the voting shares and 51,86% of the non-voting shares. After such acquisition, the end shareholders of Coelba own, 98.63% of Coelba's total capital.

In 2000, a corporate restructuring process took place to allow Coelba to benefit from the amortization of the premium paid by Coelba's shareholders in the privatization. This restructuring was executed in three steps: (1) Guaraniana established Nordeste Participações SA ("Nordeste"), a fully owned SPC; (2) Guaraniana transferred all of its Coelba's shares to Nordeste; (3) Coelba incorporated Nordeste in June 2000 capitalizing into Coelba's balance sheet the acquisition premium. Consequently, Coelba will have the fiscal advantages derived from the amortization of the premium until 2026. This restructuring will have a positive effect in terms of cash flow and a negative impact in terms of net profit.

2) Corporate Structure



3) Economics

Coelba is the largest electricity distribution company in the Northeast Region of Brazil, operating in the State of Bahia. Bahia is the fifth largest state economy in Brazil. Coelba is almost the sole distributor in its concession area comprised of 12.5 million inhabitants spread over 562 thousand km² (nearly 99% of the State of Bahia). The state's GDP was R\$49.12 billion in 2000 and includes one of three Brazilian petrochemical poles. Coelba services 415 out of 416 municipalities in Bahia, has approximately 2.78 million customers, and sells 9,765 GWh per year (approximately 3.79% of Brazil's total electricity consumption).

As of December 2000, Coelba's customers were concentrated on the residential segment which accounted for 48% of the company's revenues (34% of physical volume sold), a percentage higher than Brazil's average of 26%. The commercial segment represented 23% of revenues, industrial customers account for 15%, while Rural, Public Power and other customers account for the remaining 14%. Coelba's high concentration in the residential and commercial segments (clients

that pay higher tariffs) coupled with its low energy costs (R\$ indexed) allow for one of the highest operating margins of the industry in Brazil (R\$ 104,59/MWh since April 22nd 2001).

Coelba's revenues are less concentrated in the industrial sector when compared to other Brazilian distributors. This is an advantage to Coelba, as the industrial customers have the lowest margins, and in addition, the company is less exposed to the risk of having a significant decrease in sales due to the loss of Free Clients (industrial customers that are allowed to purchase energy from other sources through bilateral contracts). Coelba faces competition in the industrial segment from Companhia Petroquímica do Nordeste - Copene and Companhia Hidroelétrica São Francisco "CHESF". Both of Coelba's competitors have focused on supplying the petrochemical pole in Salvador and some small isolated areas.

CHESF supplies 99.5% of Coelba's energy requirements with the remainder 0.5% supplied by Energipe, Celpe, Coelba's own generation, and other sources. CHESF is a fully-owned subsidiary of Eletrobras and is the largest generator in Brazil with an 18% national market share (10,700MW of installed capacity). The contract with CHESF is in local currency and beginning in 2003, Coelba's obligation to purchase the contracted amount under the CHESF contract decreases 25% *per annum*. In order to complement CHESF's energy supply and meet Coelba's expected demand growth, the Company is negotiating purchase contracts with CHESF itself and several IPP's. In addition, and as a backup, Coelba will be able to buy any energy shortfall in the open market (the wholesale energy market or "MAE"), which recently became operational and that will increasingly become an important source of energy for the industry. Another important source of energy in the future will be the hydroelectric plant of, also owned by the group, with operations scheduled to start in early 2003 with installed capacity of 450MW and average production of 219MW.

Coelba's tariffs are adjusted annually (in April) based on the Tariff Readjustment Index - IRT formula, as defined in the concession contract. The formula guarantees the pass-through to final consumers of inflation and the increases in non-manageable costs (such as energy purchase costs and taxes), allowing the company to benefit from cost cutting and efficiency gains it is able to achieve. However, ANEEL imposes some limitation on the pass-through to consumers of the energy purchase costs. As a general rule, the amount to be passed-through to end consumers is calculated based on (i) the volume of energy purchased, (ii) the average price of such energy and (iii) the costs related to the use and connections with the transmission and distribution systems through which such energy is acquired. In April 2001, Coelba's tariffs were adjusted by 14.84% passing through CHESF's tariff increase of 10.52%, plus inflation, additional costs and extra taxes imposed by the Federal Government earlier this year. Every four years, starting in year 2003, Coelba's regulator, ANEEL, will review the company's tariffs, adding to or reducing from the inflation index an "X" factor, to be defined by ANEEL but subject to preservation of the financial economic equilibrium of the distributor.

Coelba's relevant demand for electricity has outpaced that of Brazil, growing in the last year 8.2%, a percentage much higher than Bahia's 1.3% GDP growth for the same period. For the next five years it is expected that demand for electricity in the region covered by Coelba will grow at a 6.5% rate p.a.. Coelba's growth is based mostly on: (i) expansion of its consumer base from an increase in connections of residential, and commercial customers, (ii) increase in Bahia's electricity consumption per customer of 297kw/month/consumer to 305 kw/month/consumer by 2005, on the back of growing per capita income in Brazil and Bahia.

As of March 2001, Coelba energy losses were 13.03%. The new management has been successful in reducing energy losses, which was 17.23% when the company was privatized in July 1997. According to Coelba's management, the current level of energy losses still has room for improvement and the goal is to reduce energy losses to 11% by 2003.

As of December 2000, Coelba had a ratio of 3,359MWh/employee, which represents a significant increase when compared to the 2,014MWh/employee ratio of December 1997.

Customers/employee ratio was 980 in December 2000, improving from 567 customers/employee in December 1997. Management believes these ratios still have room for improvement and the goal is to achieve 4,000 MWh/employee and 1118 customers/employee by 2003.

As of December 2000, the Company had 2,956 employees, representing a 36.5% reduction from the 4,660 employees it had in July 1997 (when it was privatized). Management believes that Coelba's workforce is now stable, and is actually forecasting a small increase of approximately 3% in the number of employees over the next 3 years.

4) Relevant Investments

As of December 2000, approximately R\$561MM of Coelba's investments corresponded to its ownership in Companhia Energética do Rio Grande do Norte ("Cosern"). Cosern was privatized in December 1997, when a Coelba-led consortium, acquired 77.9% of Cosern's total capital (80.2% of the voting shares) for R\$676.4 million, with a 73.6% premium over the minimum price established by the Brazilian Federal Government. The Coelba-led consortium also included Guaraniana and Uptick Participações. The acquisition was direct, thus not using any holding company. Coelba acquired 48.87% of the total capital (50.32% of the voting share).

Coelba further increased its participation in Cosern. The last acquisitions of shares was on May 12th 2000 and on December 22nd 2000, Coelba acquired 13,552,767 voting shares and 14,906,307 preferred shares of Cosern through public tender offers, thus increasing its participation in Cosern to 67.4% of total capital and 62.39% of the voting shares.

Another R\$ 63 million represent the current amount invested in Itapebi Geração de Energia S.A., founded on January 21, 1999 by the consortium COELBA - Guaraniana, with present paid-up capital of R\$ 150 million. Itapebi, is engaged in the study, projection, construction and future operation of the Itapebi hydroelectric power plant. The subsidiary will have investments of approximately R\$ 450million the funds for which will be obtained from the shareholders and in the market.

5) Historical Financial Summary of Coelba

(consolidated)

(R\$ in Thousands)	FYE 1999	FYE 2000
Net Sales	1.221.531	1.533.897
EBITDA	375.176	547.977
% EBITDA Margin	30,71%	35,72%
Interest Expenses	111.702	136.215
Net Income	(82.261)	149.643
Total Assets	2.886.338	3.931.774
Total Debt	1.031.519	1.342.659
Total Shareholders' equity	1.082.703	1.493.752
Capital Expenditures	463.818	592.624
EBITDA/Interest	3,35	4,02
Total Debt/EBITDA	2,74	2,45
Total Debt/Capitalization*	48,8%	47,3%

Capitalization = Total Debt + Total Shareholders Equity

6) Projected Financial Results of Coelba

(non - consolidated)

(R\$ in Thousands)	2001	2002	2003	2004	2005
Net Sales	1.347.214	1.572.970	1.733.682	1.963.267	2.293.421
EBITDA	456.916	561.673	458.662	449.908	506.417
% EBITDA Margin	33,9%	35,7%	26,5%	22,9%	22,1%
Interest Expenses	136.899	131.132	131.929	136.865	150.618
Net Income	206.486	300.392	247.435	232.881	269.270
Total Assets	3.603.025	3.968.370	4.261.804	4.567.128	4.868.900
Total Debt	1.224.947	1.312.128	1.308.761	1.312.669	1.320.028
Total Shareholders' equity	1.549.799	1.678.394	1.768.266	1.779.910	1.793.373
Capital Expenditures	349.887	394.215	427.448	442.498	443.568
EBITDA/Interest	3,34	4,28	3,48	3,29	3,36
Total Debt/EBITDA	2,68	2,34	2,85	2,92	2,61
Total Debt/Capitalization*	47,1%	47,0%	45,7%	45,9%	46,1%

Capitalization = Total Debt + Total Shareholders Equity

COELBA'S SHAREHOLDERS

IBERDROLA

History and Overview

Iberdrola is a limited liability company (sociedad anonima) organized under the laws of the Kingdom of Spain. Iberdrola's shares are publicly traded at the Spanish stock exchange. Its principal executive office is located at Gardoqui, 8, 48008 Bilbao, Spain, and its telephone number is (34 94) 415-1411.

Founded in 1901 as "La Hidroeléctrica Iberica", Iberdrola is the result of several mergers, including most recently, the merger of Iberduero S.A . and Hidroeléctrica Española S. A., which was completed in 1992, and the subsequent merger with Hidroeléctrica de Cataluña, S.A. in 1994.

Iberdrola and its consolidated subsidiaries from the Iberdrola group, one of Europe's leading electricity groups, providing a full range of power services, including the generation, transmission, distribution and supply of electricity. The Iberdrola group also acts as a global service provider, offering services in a number of industries, including:

- Water distribution;
- Gas distribution;
- Telecommunications and new technologies;
- Engineering and consulting; and
- Real estate and other services.

At December 31, 2000, Iberdrola's generating facilities had total installed capacity of 16,041 MW, representing approximately 37% of Spain's total capacity. During 2000, Iberdrola accounted for approximately 39% of electricity distribution in Spain with approximately 8,8 million customers.

The Iberdrola group has expanded its international business interests, particularly in Latin America, where it has made investments totaling more than EUR 2.6 billion in over 20 companies, Iberdrola participates in the management of the supply of gas, water and electricity to more than 6.3 million consumers.

The assets of the consolidated Iberdrola group totaled EUR 19.75 billion at December 2000.

In 2000, Iberdrola had net profits of EUR 852.3 million and consolidated revenue of EUR 7,048.2 million. At December 31, 2000 the Iberdrola group employed approximately 12,000 employees.

Corporate Structure

Domestic Electricity Business

During 2000, Iberdrola restructured its domestic electricity business by creating three new companies to which it contributed specific parts of its business:

- Iberdrola Generation, S.A (generation of electricity)
- Iberdrola Distribución Eléctrica. S.A. (regulated transmission and distribution of electricity);
- Iberdrola Redes, S.A . (transmission management and related activities and management of water, gas and fiber optics activities).

Each of these companies is wholly-owned by Iberdrola, S.A, the parent company. The restructuring was completed on June 30, 2000, with effect for financial reporting purposes from July 1, 2000. Iberdrola believes that this new structure has allowed it to adapt successfully to the new regulatory environment and positions Iberdrola to respond to the demands of the global energy market with speed and flexibility.

International Businesses

Iberdrola Energía (Iberener), a wholly-owned subsidiary of Iberdrola leads the international activities of the Iberdrola group in energy generation and distribution, gas, water and telecommunications, focusing particularly on Latin America (Bolivia, Colombia, Brazil, Mexico, Guatemala, Chile and Uruguay).

As of December 31, 2000, the Iberdrola group had invested over \$2.4 billion through Iberener. Iberener participates in the day-to-day management of 24 companies, which are located mainly in Latin America. Iberdrola participates in a number of industries throughout Latin America, including:

- Electricity generation (Brazil, Chile and Mexico);
- Gas distribution (Brazil and Colombia);
- Electric power distribution (Bolivia, Brazil and Guatemala);
- Fixed-line and cellular telecommunications (Brazil); and
- Water distribution (Chile and Uruguay).

The period 1999-2000 marked a period of consolidation for Iberener in the Latin American market, particularly in the northeastern Brazil, where Iberener consolidated its participation in the electricity industry directly and through participation in consortiums:

The acquisition by a consortium led by Iberdrola in February 2000 of a 79.62% interest in Companhia Energética do Pernambuco (Celpe), a Brazilian electricity company. In addition, the consortium acquired an additional 4.8% of Celpe from its employees in 2000;

The direct acquisition of shares of Companhia de Eletricidade do Estado da Bahia (Coelba) in the open market, followed by the public tender offer for Coelba by Guaraniã, a consortium that includes Iberener, Banco do Brasil and Previ. As a result of these purchase, the consortium's interest in Coelba increased to 98.6% representing and indirect ownership interest of 42.8% on the part of Iberener; and

The successful launch by Guaraniã of a tender offer for Companhia Energética do Rio Grande do Norte (Cosern) in May and December of 2000.

BANCO DO BRASIL

Banco do Brasil is controlled by the Brazilian Federal Government, however it has been acting increasingly like a privately-owned institution seeking profits through 2,908 branches over the country and reaching out 21 countries. Counting on approximately US\$ 70.7Bn Total Assets and US\$ 4.0Bn Net Worth as of December 2000, Banco do Brasil is the largest Brazilian bank in terms of assets, representing nearly 20% of the local industry. Banco do Brasil reported a US\$ 498.2MM net profit in 2000.

As Brazil's largest bank and government-owned, Banco do Brasil is heavily involved in the rural sector, responsible for more than 75% of overall rural credit in Brazil. The market for pension plans is growing rapidly in Brazil, and Banco do Brasil's subsidiary uses the bank's branch network to develop this business.

Banco do Brasil is the largest manager of mutual funds in the country approximately US\$ 24.5Bn under management spread over 147 Brazilian funds and 3 foreign funds.

Banco do Brasil ownership structure is the following:

	Ordinary, voting shares (%)
National Treasury	73.2
PREVI (Employee Pension Fund)	11.2
BNDES Participações (BNDESPAR)	10.0
Other Pension Funds	0.6
Individuals	2.6
Foreign Capital	0.8
Other corporate investors	1.6
TOTAL	100.0

PREVI – Pension Fund of Banco do Brasil's Employees

PREVI - Caixa de Previdência dos Funcionários do Banco do Brasil is a closed-end pension fund founded in 1904. The entity acts to provide defined benefit plans to the sponsor's employees. Sponsored by Banco do Brasil, PREVI has approximately 141,000 associates. As of December, 2000 they recorded approximately US\$ 18.6Bn of total assets under management, what sets PREVI as the largest closed-end pension in Brazil.

As reported by PREVI, 58% of total assets are allocated on equities, 25% on fixed-income, 11% on loans to associates and 6% on real estate investments. Equity investments are represented by stakes on 62 companies. According to the Resolution 2829, from March, 2001, defined benefit closed-end pension funds will be required to follow thresholds, by which equity investments should not exceed 45% of total assets. Thus, PREVI will have to reduce the amount of investments addressed to this category. Besides, according to this resolution, closed-end pension funds will be required to hold, no more than 20% of a company's voting shares, as well as 20% of total shares.

INVESTMENT CONSIDERATIONS

1) Concession Area with Strong Economic Fundamentals

Coelba's concession area is located in the State of Bahia in the northeast region of Brazil. Bahia is Brazil's 5th largest economy being responsible for approximately 5.1% of the Brazilian GDP. Coelba's concession area is comprised of 415 out of the 416 municipalities of the State of Bahia, serving approximately 2.8 million customers. Coelba's service area includes cities such as Salvador, Feira de Santana, Ilhéus, Vitória da Conquista, Itabuna and Juazeiro, which are densely populated urban areas. Salvador alone is responsible for 45% of Coelba's total energy consumption. The main industries located in Coelba's service area are chemical and petrochemical, automobile, technology, agriculture, tourism hotels and shoes.

Coelba has a broad and diverse consumer base with historically high and relatively stable growth rates. The estimated compounded annual growth rate for energy demand in Coelba's concession area in the last five years has been 5.14% versus approximately 4.4% for Brazil. Since the introduction of the Plano Real, residential and commercial demand have increased constantly, as a result of the increase in new connections as well as the higher average usage per consumer. The macroeconomic changes occurring throughout Brazil, and particularly within the state of Bahia, should provide the basis for continued growth in demand in the short and medium term.

Coelba's concession area will receive significant investments and new customers, for instance: In September 2001 Ford will start operations of its factory, which will have a consumption reaching 42.5MWh. In 2002, Costa do Sauipe complex, will reach its maximum consumption of 7.4MWh. In 2003, The Salvador subway will start to operate with a consumption of 24.5MWh. Additional tourism complexes will start activities by 2004 like Terra Vista and Coroa Alta in the municipality of Porto Seguro.

2) Experienced Operator, Tangible Improvements after the Privatization

Iberdrola (AA- by S&P and A1 by Moodys) is the second largest energy company in Spain. It is a vertically integrated electric utility responsible for 39% of the energy distributed and 37% of the generation in the country, serving an area with more than 16 million inhabitants and approximately 8.8 million customers. Iberdrola's largest shareholder is Banco Bilbao Vizcaya Argentaria with 9.89% of the company's total equity. As of today, the company has over EUR 2.6bn invested in seven Latin America countries: Brazil (electricity distributors Coelba, Cosern and Celpe, electricity generation and gas distribution), Bolivia (electricity distribution), Colombia (gas distribution), Chile (water and hydro power), Guatemala (electricity distribution), Mexico (electricity generation) and Uruguay (water distribution).

Since Coelba's privatization, Iberdrola has implemented significant improvements in the Company's operations. The Company has reduced its workforce by 36.5%, streamlining management layers and has focused on improving its cost structure in order to be more competitive in a deregulated market. The Company's information, control and customer service systems have been upgraded and now provide information that was previously unavailable. The Company is also investing in the full automation of its sub-stations and has improved maintenance team logistics. This has allowed the Company to improve customer service quality and reduce downtime in its distribution network. The Company has improved its planning ability and is now in a better position to allocate its resources more efficiently. As a result, Coelba is now benefiting from lower energy losses and higher efficiency ratios such as Clients/Employee, MWh/Employee and EBITDA/Employee as follows:

	1997	2000
Energy Losses	16.6	13.5
Clients / Employee	567	980
MWh / Employee	2,014	3,359

3) Favorable Competitive Environment

The Company has exclusive electricity distribution rights in its concession area until 2027. Only 15% of Coelba's revenues come from industrial customers. Out of 15 thousand customers, only 2 are currently Free Customers (free to choose another energy supplier upon 36 month notification) and 18 more are potentially free. Coelba is engaged in providing value added services (power reliability, quality, continuity and safety) in an effort to maintain its current industrial customer base. In the event the Company loses both its two largest industrial customers to other suppliers, the expected impact on the Company's financials will be limited since these customers represent 1.7% of Coelba's sales while representing 4% of the electricity consumption, thus buying energy at very low margins. Moreover, Coelba will be paid by these clients for the use of its distribution network covering maintenance costs. Since the Brazilian power market continues to experience a shortage in generation capacity, any surplus energy can be redirected by Coelba to the MAE (Wholesale Energy Market) with the potential for higher margins.

4) Regulatory Environment

The regulatory environment in the Brazilian electricity sector is intended to provide stability and fair competition. To ensure this, the Government created an independent agency ANEEL (Agência Nacional de Energia Elétrica) which is responsible for regulating the provision of most electricity services, including generation, distribution and transmission.

One of ANEEL's fundamental concepts underlying all regulatory framework for the sector is the "economic equilibrium" of privatized companies since they provide essential services to the population. In order to assure this, concession contracts guarantee the passthrough of all non-manageable expenses (such as taxes, inflation and energy purchases) to clients, and also require ANEEL's consent to effect any transactions with affiliated companies such as inter-company loans or service contracts. In order to avoid exposure to volatile spot energy prices, distributors are required to purchase at least 85% of their energy requirements through long-term contracts.

5) Conservative Covenants

The Facility benefits from conservative financial covenants including Total Debt/EBITDA, EBITDA/Interest Expenses, and Total Debt/Total Capitalization. Other covenants include: maintenance of ownership clause, limitations on mergers and acquisitions and limitations on transactions with affiliates.

6) Customer Mix Concentrated on Residential Segment

Coelba's 47% revenue concentration on the residential segments allows for higher margins than industry standard and is less volatile as result of the stability of demand of residential consumers.

7) Devaluation and FX Risk Mitigation

Coelba's foreign exchange debt is primarily indexed to the US Dollar. Considering market issues, company's shareholders, as oriented by the Administration Council, has set a hedging policy covering 50% of the outstanding through NDF transactions or investments in US dollar denominated funds or securities.

Such hedge level is not fixed and may vary according to market conditions, reaching up to 100% of the foreign exchange position, as agreed with the Administration Council.

In operational terms, Coelba is not exposed to US Dollar indexed energy purchases since it purchases 99.5% of its energy needs from CHESF under Brazilian Reais denominated contracts.

8) Strong Sponsorship

Coelba is controlled by a strong group of sponsors comprised by Iberdrola, Banco do Brasil and Previ. Iberdrola (AA- by S&P and A1 by Moodys), as already mentioned, is the second largest energy company in Spain. Previ is the pension fund of the employees of Banco do Brasil, being Brazil's largest pension fund with R\$ 35 billion in funds under management of which about 40% is invested in the country's largest listed companies. Banco do Brasil is the largest Brazilian Bank with US\$ 70.7 billion in assets and US\$ 4.0 billion in net worth as of December 2000.

9) Energy Rationing in Brazil

Due to the combination of (i) continued growth in electricity demand, (ii) the lack of investments in the generation sector which is largely controlled by the Brazilian Government to fulfill such growth and (iii) extremely low rain volumes during the last six months, Brazil is expected to face an energy rationing that should last for a six month period commencing in June 2001. The energy rationing will affect mostly the southeast, center west and the northeast regions of Brazil which are those regions where the respective reservoir levels are at historical low levels.

The energy rationing is expected to be formally declared by the Brazilian Federal Government and may be applied to all types of customers with higher emphasis on residential and commercial customers. Initially, it will be implemented to motivate consumers to reduce their average consumption to a level to be determined by the government. Consumption above such level may be penalized by higher tariffs. A second option would be temporary blackouts. The final form which the rationing will take is still being discussed among Brazilian authorities. These measures may have an impact on Coelba's net revenues and EBITDA for 2001. Further information can be found on Appendix D.

SUMMARY OF TERMS AND CONDITIONS

Borrower:	Garter Properties Inc. (the "Borrower"), a wholly owned subsidiary of Coelba – Companhia de Eletricidade do Estado da Bahia.
Guarantor:	Coelba – Companhia de Eletricidade do Estado da Bahia ("Coelba").
Facility:	Senior Secured Syndicated Credit Facility (the "Facility").
Facility Amount:	US\$300,000,000.
Final Maturity:	3 years after the date of disbursement (the "Maturity Date").
Amortization:	Single payment on the Maturity Date.
Interest Rate and Interest Rate Periods:	<p>Interest will be payable quarterly in arrears, from the date of disbursement until the Maturity Date. The loans (the "Loans") under the Facility will bear interest at a rate equal to LIBOR plus the Applicable Margin (as set forth below). Each interest period under the Facility will match the scheduled coupon payment dates with respect to existing Intercompany Notes (the "Intercompany Notes") issued by Coelba to the Borrower.</p> <p>LIBOR, shall mean, with respect to each day during each interest period, the rate per annum equal to the rate for US dollar deposits as it appears on the display page designated as "British Bankers Assoc. Interest Settlement Rates Page" (Page 3740) on Dow Jones Markets service (or such other page as may replace such page on that service) at approximately 11:00 a.m., London time, for the period of time equal to the length of such interest period on the date two business days prior to the first day of such interest period; or if such service is not available, the rate at which US dollar deposits are offered to BankBoston N.A. by prime banks in the London interbank eurodollar market at approximately 11:00 a.m., London time, on the first day of such interest period in an amount equal to BankBoston's Loans for the period of time equal to the length of such interest period.</p>
Applicable Margin:	2.250% p.a. for the first year; 2.625% p.a. for the second year; and 3.000% p.a. for the third year.
Use of Proceeds:	The proceeds of the Loans will be used to refinance the Borrower's existing US\$250 million credit facility due December 20, 2002 (the "Existing Agreement") and to finance capital expenditures of Coelba and its subsidiaries.
Joint Arrangers:	BankBoston N.A. ("BankBoston"), Banco do Brasil S.A. ("BB"), J.P. Morgan Securities Inc. ("JP Morgan"), and Salomon Smith Barney, Inc. ("Salomon"), each an "Arranger and collectively the "Joint Arrangers".
Lenders:	A syndicate of financial institutions, including the Joint Arrangers or any of their affiliates or subsidiaries (the "Lenders").

Administrative Agent:	BankBoston N.A. or any of its subsidiaries or affiliates as deemed necessary to provide the services described herein.
Syndication and Documentation Agent:	BankBoston N.A. or any of its subsidiaries or affiliates as deemed necessary to provide the services described herein.
Availability:	The Facility will be available in a single drawdown on the Disbursement Date referred to below.
Collateral:	The obligations of the Borrower and Coelba under the Facility will be secured by a pledge of the Intercompany Notes and all the outstanding shares of the Borrower.
Disbursement Date:	The Loans will be disbursed on the date on which all conditions precedent to closing under the Facility are satisfied. The target Disbursement Date is June 19, 2001, which is the next scheduled interest payment date under the Existing Agreement, or at a later date to be mutually agreed upon by the Borrower and BankBoston.
Ranking:	The Facility will rank at least <i>pari passu</i> in right of payment with all other indebtedness of the Borrower and Coelba.
Facility Documentation:	The credit documentation with respect to the Facility shall be in form and substance acceptable to the Lenders.
Optional Prepayment:	<p>The Facility may be prepaid, in whole or in part, without penalty on the last day of an interest period, with three business days' prior notice and in minimum amounts of US\$5,000,000 (or integral multiples of US\$1,000,000 thereof). No amount prepaid may be reborrowed under the Facility.</p> <p>Loans may be prepaid at any other time, in minimal amounts of US\$5,000,000 (or integral multiples of US\$1,000,000 thereof) subject to payment of accrued interest to the date of prepayment on the amount prepaid and subject to the payment of applicable breakage of funding cost.</p>
Yield Protection:	The Facility will contain customary provisions satisfactory to the Lenders relating to increased costs, reserve requirements, capital adequacy protection, break funding costs, withholding and other taxes and illegality.
Default Interest:	Amounts outstanding under the Facility after an Event of Default has occurred and is continuing (including when any amounts owing when due) will bear interest at the rate per annum equal to LIBOR plus the Applicable Margin plus 2%.

Taxes and Other Deductions:

All payments under the Facility to the Lenders will be made free and clear of any taxes, duties, withholding or other deductions whatsoever. Any and all taxes, levies or contributions imposed by taxing authorities in any jurisdiction relating to the Facility or its extension to the Borrower or Coelba by the Lenders will be borne and paid by the Borrower or Coelba or grossed up, where appropriate.

Covenants:

Customary for this type of transaction, including, but not limited to the following:

- Delivery of financial statements, reports, officers' certificates and other information requested by the Lenders.
- Payment of taxes and other obligations.
- Continuation of business and maintenance of existence rights and privileges.
- Compliance with all contractual obligations and laws (including, without limitation, environmental laws).
- Maintenance of property and insurance.
- Maintenance of books and records.
- Right of Lenders to inspect property and books and records.
- Notices of defaults, litigation and material events.
- Maintenance of all authorizations and approvals required in connection with the Facility
- Limitation on liens.
- Limitation on asset dispositions, mergers and consolidations, with the exception of a restructuring of the organizational structure in which the shares of Cosern and Itabepi are transferred to Guaraniana. In addition, investments in subsidiaries and affiliates may be transferred provided that such transfers do not result in adverse material changes to the capital structure of Coelba and the Financial Covenants are complied with.
- Limitation on transaction with affiliates, with the exception of: (i) those related to the purchase and sale of energy among Coelba, Cosern and Itabepi, provided that the transactions are executed on an arms length basis; and (ii) the guarantees provided by Coelba in favor of Itapebi which include cost overruns and financial obligations of Itapebi during its initial 39 months of operation, provided that such obligations are included as indebtedness in the calculation of the financial Covenants].
- Limitation on changes to fiscal year.
- Limitations on lines of business.

- Dividend payments or other distribution or restricted payments will not be limited, provided that the Borrower and Coelba are in compliance with all covenants and requirements under the Facility.

Financial Covenants Financial covenants of Coelba based upon its consolidated financial statements, measured in Brazilian GAAP, to be tested at the end of each calendar quarter:

- Consolidated Total Debt to Consolidated EBITDA ratio shall not be greater than 4.0 to 1.0
- Consolidated EBITDA to Consolidated Interest Expense ratio shall not be less than 2.0 to 1.0
- Consolidated Total Senior Debt to Consolidated Capitalization ratio shall not be greater than 0.55 to 1.0
- The only financial covenant applicable to Coelba only, i.e. not on a consolidated basis, will be Coelba Total Senior Debt to Coelba Capitalization ratio which shall not be greater than 0.55 to 1.0

**Assignments/
Participations:**

The Lenders shall be permitted to assign and sell participations in the Facility to other financial institutions in the minimum amount of \$5,000,000 and increments of \$1,000,000 in excess thereof, subject, in the case of assignments (other than to another Lender or to an affiliate of a Lender), to the consent of the Administrative Agent and the Borrower, not to be unreasonably withheld. There will be no cost to the Borrower associated to Assignments and Participations.

**Conditions
Precedent:**

The disbursement of the Loans under the Facility will be subject to satisfaction of the following conditions, including, without limitation:

- Coelba and its subsidiaries shall be existing and duly constituted and all the documents relating to their formation and organizational structure must be under terms and conditions acceptable to the Administrative Agent and the Lenders.
- Receipt of all appropriate governmental and corporate approvals, opinions and authorizations for the Facility.
- Preparation, negotiation and execution of definitive documentation for the Facility in form and substance satisfactory to the Lenders and the Administrative Agent.
- Receipt of legal opinions and certificates issued by external counsel to the Borrower and Coelba to the satisfaction of the Lenders and the Administrative Agent.
- No Event of Default or event that would become an Event of Default for the Borrower and/or Coelba, with the giving of notice or passage of time or both has occurred and is continuing.

- No material litigation of the Borrower, Coelba or any of their respective subsidiaries.
- No event or events shall have occurred and be continuing, in the sole opinion of BankBoston, that could reasonably be expected to have a material adverse change in the business condition, operations, performance, properties or prospects of the Borrower or Coelba or a material adverse effect on the rights and remedies of the Administrative Agent or any Lender under the Facility documentation or the ability of the Borrower or Coelba to perform their respective obligations under the Facility documentation.
- There shall not have occurred any material change or disruption, or any development involving a prospective change or disruption, in the United States, or in Brazil, or in the Borrower's or Coelba's or any of their respective subsidiaries' jurisdictions of incorporation or international financial, political or economic conditions, or currency exchange rates or controls applicable to the US dollar or to the Real, in each case, which could reasonably be expected to impair a successful syndication of the Facility in the sole opinion of the BankBoston.
- Full payment of all fees and expenses outstanding in the transaction (and any stamp taxes or similar taxes in connection with the Facility).
- No change in applicable law making the Facility or the extension of credit thereunder illegal has occurred.
- The Borrower and Coelba are not party to any indenture, loan or credit agreement or any other agreement that could reasonably be expected to have a material adverse effect.
- Appointment of a process agent for service of process in New York.

Representation and Warranties: Customary for this type of financing, including, but not limited to:

- Financial statements and absence of undisclosed liabilities.
- No material adverse change.
- Corporate existence.
- Corporate power and authority.
- Enforceability of Facility documentation.
- Consents and approvals.
- No conflict with law or contractual obligation.

- No material litigation.
- No default.
- Ownership of property and liens.
- No burdensome restrictions.
- Taxes.
- Regulation U.
- Investment Company Act.
- Subsidiaries.
- Pari passu in right of payment with all other indebtedness.
- No immunity.
- Accuracy of disclosure.
- Environmental matters.

Events of Default: Customary to this type of financing including, but not limited to:

- Nonpayment of principal and nonpayment of interest or other amounts after applicable grace periods.
- Inaccuracy in any material respect of representations and warranties.
- Violation of covenants.
- Cross-default.
- Bankruptcy.
- Material judgments.
- Actual or asserted invalidity of Facility documentation.
- Failure to make required capital contributions
- Condemnation, seizure or appropriation of assets or revenues.
- Failure to obtain, or revocation of, material licenses, authorizations, concessions or permits
- Seizure, nationalization, expropriation or compulsory acquisition of all or substantial part of Coelba or its subsidiaries.
- Material adverse change.

-
- Any government authorization necessary for the repayment of the Loans fails to be valid and in full force and effect.
 - Change of control

The Facility documentation will contain those cures, rights and remedies upon several Events of Defaults customarily found in financing transactions of this type. If an event of default occurs and is continuing, the Administrative Agent will have the right to, and at the request of the Lenders shall, accelerate the indebtedness under the Facility, declare all outstanding principal and interest due and payable, and to exercise any other rights available under the Facility documentation, applicable laws or any other document or instrument entered into in connection therewith.

Governing Law:

The Facility documentation will be governed by and construed in accordance with the laws of the State of New York. The Borrower and Coelba will submit to the non-exclusive jurisdiction of Federal and State courts sitting in the City of New York. Sovereign immunity shall be waived.

Jurisdiction:

Any dispute that may arise in connection with the interpretation of the documents shall be settled by the courts of the City of New York, NY.

INDUSTRY OVERVIEW

The Brazilian Electricity Industry

Introduction

Electricity represents approximately 40% of all the energy consumed in Brazil and approximately 93% of this electricity is generated by hydroelectric power plants. At December 31st, 2000, the Brazilian nominal installed capacity was 65,800MW (including 50% of Itaipu's capacity).

The electricity industry in Brazil, has the following three principal areas:

Generation — the production of electricity at generation stations using nuclear, fossil fuel or hydroelectric power plants.

Transmission — the transfer of electricity across large, high-voltage power lines from generation stations to consumption centers.

Distribution — the sale and delivery of electricity within local areas to homes and businesses using relatively low-voltage power lines together with a range of related services such as metering, billing and energy management.

Energy Trade – With the beginning of the Brazilian Wholesale Energy Market (MAE), some dealers are starting operations.

Electricity produced at a generation station is boosted by nearby transformers to high voltages so it can be moved long distances over transmission lines with limited power loss. The voltage is then reduced or stepped down at transformer stations for supply to large customers or distributors. Distributors carry the power over sub-transmission lines to distribution points at which distribution stations further step down the voltage for supply to local consumers.

The Federal Government holds its interests in the electricity transmission sector through Eletrobrás, which controls the following regional generation, transmission and distribution companies:

Furnas, a generation and transmission company in the Southeast of Brazil (States of São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo);

Chesf, a generation and transmission company in the Northeast of Brazil (including the States of Maranhão, Alagoas, Bahia, Ceará, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and Sergipe);

Eletronorte, a generation, transmission and distribution company in the North of Brazil (States of Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, Tocantins and Maranhão);

Eletrosul, a transmission company in the South of Brazil (States of Paraná, Rio Grande do Sul, Santa Catarina and Mato Grosso do Sul);

Eletronuclear, a nuclear generation company in the Southeast of Brazil; and

LightPar, a company which holds an equity participation in Eletronet.

Eletrobrás also holds Brazil's 50% interest in Itaipu as well as non-controlling minority interests in various other electricity generation, transmission and distribution companies. Although the Brazilian Federal Government has begun to implement its program of privatization of the electricity sector, including a more market driven framework for electricity sales, the Brazilian Federal Government

Transmission

To encourage private sector investment, as a prelude to privatization, the Federal Government is introducing a profit-making element to the transmission business and providing funding for such transmission assets. The Power Sector Law permits owners of transmission assets to charge certain tariffs for the generation of electricity throughout Brazil in order to allow movement of electricity between Northern and Southern Brazil, as demand dictates, and to encourage independent power producers to build or expand generation facilities to take advantage of the existing developed transmission system. See "— Reform of the Electricity Sector".

Brazil comprises two major integrated systems for the transmission of electricity located in the North-Northeast and South-Southeast regions of Brazil and which are co-ordinated by Eletrobrás. Furnas and Eletrosul are linked through a transmission grid to which Itaipu is also linked. This transmission grid forms the interconnected power system for the South, Southeast and Midwest regions and serves approximately 80% of Brazil's electricity market. The transmission lines of Eletronorte and Chesf form the interconnected power system for the North and Northeast regions of Brazil. The two systems were connected recently through the North/South transmission line, thus creating a link between the two regions (the "interconnected system"). Most of the energy generation, transmission and distribution companies in Brazil are linked to one of these systems through a network of transmission lines. The primary generators are Eletronorte and Chesf, in the North-Northeast system, and CESP (the São Paulo state-owned electricity company), Furnas, Gerasul, Companhia Energética de Minas Gerais — CEMIG ("CEMIG") the Minas Gerais state-owned electricity company and Companhia Paranaense de Energia — COPEL ("COPEL"), the Paraná state-owned electricity company, in the South-Southeast system. Each system is fully integrated, allowing energy to flow freely among concessionaires in each system as determined by the Operador Nacional do Sistema "ONS", or the independent system operator which is fully described later in this section.

In addition to the interconnected system, there are isolated thermal systems in the northern states that do not have a link with the integrated systems because the distances, capacities and costs involved would make such interconnection technically and economically unfeasible. All of the isolated systems are operated by Eletronorte and by local concessionaires in the Northern region of Brazil.

Distribution

Distribution and retail sales of electricity comprise the sale and delivery of electricity to distribution companies which then sell and deliver electricity by low-voltage power lines to end consumers and industrial consumers together with a range of related services such as metering, billing and energy management.

Between 1990 and 2000, the consumption of electricity in Brazil grew by approximately 52.2%, from 200,800 GWh to 305,570 GWh, the number of residential customers increased by approximately 46.6%, from approximately 27.5 million to approximately 40.3 million, and the total nominal installed capacity (including 50% of Itaipu) increased by approximately 31.3%, from 49.0 GW to 64.3 GW.

In the year ended December 31, 2000, consumption of electricity by the industrial sector accounted for approximately 42.9% of electricity consumed in Brazil, while consumption by residential users accounted for approximately 27.3%, commercial users for approximately 15.5% and the rural sector, street lighting and other users for approximately 14.2%.

National Electric Energy Plans

As the Brazilian electricity supply system is mainly hydro-powered, involving a large geographic area and substantial energy interchanges between the different regions of Brazil, strategic energy expansion programs are necessary to ensure continuity of supply and to monitor and control development. These expansion programs are known as the "National Electricity Energy Plans".

Historically, the *Grupo Coordenador de Planejamento dos Sistemas* — GCPS, the executive committee of Eletrobrás which had the responsibility of coordinating the expansion of Brazil's electricity systems prior to the reform of the regulatory framework (the "GCPS") had the responsibility of preparing the *Plano Decenal de Expansão* ("Ten-Year Expansion Plan" or the "Plan") which established the number, location and generation capacity of electricity plants for each region of Brazil. This responsibility has now passed to the *Comitê Coordenador do Planejamento da Expansão dos Sistemas Elétricos* — CCPE (the "CCPE") which replaced the GCPS as of January 2000. The Ten-Year Expansion Plans are the principal short- and medium-term planning guidelines for the electricity sector. The Plan was first updated in 1989 with the Ten-Year 1990-1999 Expansion Plan, and it has been updated annually since then. The current version is the Ten-Year 2000-2009 Expansion Plan (the "2009 Plan"). Prior to the enactment of the Power Sector Law in 1995, the Ten-Year Expansion Plans specifically indicated which utility would be responsible for building each facility. Currently, most hydroelectric generation concessions must be preceded by a public bidding process. As a result, the Ten-Year Expansion Plans only effectively suggest where it would be appropriate for a generation facility to be built and a public bidding process determines which company will actually build the plant. Furthermore, if a thermal plant, which does not require a public bidding process when being built by an independent electricity producer or by a self generator, is constructed that is not specifically called for in the Ten-Year Expansion Plan, the need to build one of the hydroelectric plants contemplated in the Plan may be obviated.

The following table shows the projected investments for the Brazilian electricity sector as a whole for the period 2000 to 2004 as set out in the 2009 Plan:

Item	For the year ended December 31,				Total
	2001	2002	2003	2004	
	<i>(in billions of reais)</i>				
Generation ⁽¹⁾	5.3	5.6	4.0	3.4	22.1
Transmission	3.4	2.5	1.1	1.0	10.7
Distribution.....	1.5	1.5	1.5	1.4	7.6
General Installations.....	0.5	0.5	0.4	0.3	2.1
Total	10.7	10.1	7.0	6.1	42.5

(1) Including the portion of investments relating to independent power producers.

The estimated increase in total consumption of electricity of concessionaires, which has been adopted as a point of reference for the whole of Brazil, is 4.7% per year for the 2000-2009 period. The supply of electricity is expected to increase from 64,300MW to 107,195MW over the same period including the electricity imported from foreign countries within South America. The participation of thermal plants in the total supply of electricity is expected to increase from 9.2% to 25.2% in the 2000-2009 period. Approximately 49,813Km of transmission lines are expected to be installed in Brazil, and approximately 93,373MVA are expected to be installed in substations. Expansion in the sector will demand investment of approximately R\$8.5 billion per year between 2000 and 2004.

There can be no assurance that the 2009 Plan will be implemented or, if implemented, will be implemented in accordance with its terms. In addition, the Federal Government has entered into various other agreements to help meet Brazil's energy needs, such as those relating to the Brazil-Bolívia natural gas pipeline, and to the transmission lines between Brazil and Argentina.

Reform of the Electricity Sector

In recent years, the Federal Government has taken a number of measures to transform the Brazilian electricity sector, and further significant initiatives are under consideration. In very general terms, all of these initiatives are aimed at increasing the role of private investment, eliminating barriers to foreign investment and increasing competition in the electricity industry.

The following is a summary of the principal measures taken by the Federal Government to date:

Concessions Law and Power Sector Law. The Concessions Law and the Power Sector Law (i) require that all concessions provide electricity services be awarded only after a public bidding process, (ii) permit the formation of independent power producers to generate and sell electricity for their own account to certain classes of customers, (iii) permit certain customers to purchase electricity from any power supplier, (iv) require that suppliers and large consumers be given open access (for a fee) to the distribution and transmission systems of concessionaires that are included in the basic national transmission grid, and (v) eliminate the requirement to obtain concessions for certain small electricity projects.

Constitutional Amendment. The Brazilian federal constitution was amended on August 15, 1995 (Constitutional Amendment N°8/95) to permit a company established in Brazil with its headquarters and management based in Brazil, irrespective of the nationality of the persons controlling such company, to become a concessionaire and to hold authorisations in the electricity sector. Previously, a company holding a concession or authorisation was required to be controlled by Brazilian nationals, the Federal Government or a Brazilian state government.

Privatizations. Since 1995, controlling interests in distribution companies previously owned by the Federal Government through Eletrobrás, or the various States, have been sold to private investors. Certain state governments have also sold minority interests in major distribution companies in the same period. See "Privatization of Eletrobrás".

ANEEL and the Federal Government have adopted measures beginning with the Power Sector Restructuring Law (Law N°9,648 of May 27, 1998) and implemented regulations. Measures taken by ANEEL include (i) requiring distributors and generation companies to enter into supply agreements covering the transition period leading to the establishment of a wholesale energy market, (ii) establishing the ONS with powers to ensure a fair, competitive market for the generation and energy distribution segments of the energy supply chain, (iii) demanding that energy sector companies split into generation, distribution and transmission affiliates within a specified period and segregate accounting for generation, distribution, transmission and distribution activities immediately, including segregating costs related to operating the basic grid, supplying captive customers, operating the distribution grid, and businesses outside the energy sector, (iv) requiring distributors and energy retailers to contract 85% of the energy required to meet their obligations to final customers through long-term contracts with generation companies, (v) limiting market share and cross-ownership in the generation, transmission and distribution markets nation-wide and regionally, (vi) requiring generation, transmission and distribution companies to enter into agreements relating to energy supply, interconnection and use of the basic transmission grid, (vii) establishing a single pricing methodology and uniform rules and procedures for access to the basic transmission grid, and (viii) holding public bidding processes for authorizations and concessions to construct and operate power plants. In addition, ANEEL regulations allow large customers to choose whether to purchase energy from the local distribution company, a transmission company or an energy distributor.

Regulation

General

The Brazilian electricity sector is in a transitional period from a heavily regulated industry in which the most significant players were also Federal Government-owned, to a market with open competition subject to a governing regulatory framework, including tariff controls. Two new agencies have been created: the ONS, the independent system operator responsible for operation planning and the *Associação do Mercado Atacadista de Energia Elétrica* – ASMAE, the wholesale electricity market association (the "ASMAE"), the market entity responsible for providing

administrative, legal and technical support for the activities of the Wholesale Electricity Market. Pursuant to Law N°3,890-A, dated as of April 25, 1961, as amended by the Power Sector Restructuring Law of 1998, Eletrobrás is the holding company for certain generation, transmission and distribution companies. Power utilities are directly responsible for designing, building and operating their own power projects subject to applicable licensing requirements. Eletrobrás also transferred its responsibilities for planning to the Brazilian supply systems to the CCPE, retaining only the responsibility for ancillary activities. Utilities participate in the ONS, which draws up working guidelines and operates the basic grid to ensure continuous energy supply. Utilities also participate in the Wholesale Electricity Market, which operates a spot market for bulk energy through the wholesale energy market administrator, ASMAE. ASMAE is a non-profit entity created under the *Acordo do Mercado* to provide administrative, legal and technical support to the activities of the Wholesale Electricity Market. The *Acordo do Mercado* is a document that is subscribed to by all the Wholesale Electricity Market participants and establishes the conditions that shall regulate the market ("*Acordo do Mercado*"). The activities of ASMAE are subject to the regulations established by the Wholesale Electricity Market itself to mitigate exposure of the Wholesale Electricity Market's clearing system to its participants' financial condition. The GCPS was responsible for establishing working guidelines and action plans. The CCPE replaced the GCPS as of January 2000.

ONS

The ONS was created in 1998, pursuant to the Power Sector Restructuring Law of 1998, and succeeded the *Grupo Coordenador da Operação Interligada* – GCOI, the interconnected operation co-ordination group (the "GCOI"). The role of the GCOI was to optimize the use of Brazil's available installed electricity capacity through its interconnected systems at a time of market growth. The ONS is a non-profit organization controlled by electricity utilities engaged in generation, transmission (defined as operators of lines of 230kV or higher voltage) and distribution or retail of electricity. The organization of the ONS, as set out in its by-laws, is similar to that of a corporation, where the generation, transmission and distribution companies, as well as large importers, exporters and free consumers, are members with voting rights and where the Federal Department of Energy and consumer representatives are members without voting rights. Members vote to elect nominees to the administrative council, an audit committee and certain other deliberative bodies. The administrative council elects the board of directors and produces working guidelines and lines of action for the ONS.

The primary role of the ONS is to co-ordinate the operations of the interconnected systems in order to (i) achieve appropriate levels of load supply that minimize operating costs, (ii) maintain an adequate reliability level and (iii) ensure open access to the basic transmission grid. The Brazilian electricity system is jointly operated by different utilities, which own plants and reservoirs in sequence in river basins, thus creating interdependence in power production. Only a few of these generation companies own thermal plants.

The ONS co-ordinates and supervises the operation of the transmission system at levels that maintain adequate voltage and frequency standards. The utilities' transmission systems are interconnected to form a grid that has more than 55,000Km of lines at voltages equal or greater than 230kV. The ONS carries out electrical and energy management studies, with variable timescales and planning horizons ranging from years to real-time operation in order to assist in planning for the operation of the power system. The following are some of the principal considerations the ONS takes into account when formulating its operational plans:

peak demand and energy supply contracts between utilities;

annual mean system short-run marginal costs;

forecasts for thermal generation and fuel consumption;

- projections of financial resources for the CCC Account;
- strategies for hydroelectric operations adopted monthly in short-term planning; and
- conditions for supplying the consumer market and estimates of energy shortage risks.

The ONS also carries out studies to identify the most likely emergencies in order to prepare emergency plans to minimize breakdowns. Studies are also carried out in relation to flood control and specific projects such as how to bring a new plant on-line. The technical groups of the ONS also carry out research to develop new technologies to improve the overall operation of the system with the help of *Centro de Pesquisas de Energia Elétrica* — CEPEL, the research center for electric energy.

The ONS has come to play a key role in ensuring that generation companies, distribution companies, energy retailers and large customers have open access to the basic transmission grid. The expansion of the transmission grid is dictated by the mandatory planning guidelines issued by the CCPE. ANEEL, in turn, is responsible for conducting the public bidding process for the construction and maintenance of the newly added segment of the basic transmission grid.

GCPS and CCPE

The GCPS was a national committee comprised of representatives from the principal electricity concessionaires which co-ordinated planning for electricity systems throughout Brazil. The Federal Department of Energy created the CCPE, which replaced the GCPS in January 2000. Accordingly, the CCPE has assumed the responsibility of preparing the Ten-Year Expansion Plans. The last plan drawn under the responsibility of the GCPS was the 2009 Plan. The first plan to be drawn under the CCPE's responsibility is the 2001/2010 Plan.

Wholesale Electricity Market

In order to provide a spot market of energy in Brazil upon the deregulation of the electricity market, the Federal Government created the Wholesale Electricity Market pursuant to the Power Sector Restructuring Law of 1998, and approved by ANEEL pursuant to Resolution N°18 of January 28, 1999.

The Wholesale Electricity Market is a self-regulatory body responsible for the operation of the wholesale electricity market and for ensuring that purchases of energy in the spot market are settled and cleared in an efficient manner. Participants in the Wholesale Electricity Market are subject to rules contained in the charter of the Wholesale Electricity Market which have been approved by ANEEL, and to applicable ANEEL regulations. Parties which must participate in the Wholesale Electricity Market include (i) generation companies with an installed generation capacity of 50MW or more, (ii) energy retailers, including distribution companies, having sold 300 GWh of electricity or more during the preceding year, and (iii) importers or exporters of electricity with an available capacity of 50MW or more. Other parties have the option to participate in the Wholesale Electricity Market, such as (i) self-producers having a generation capacity of 50MW or more, (ii) large energy consumers eligible for bulk energy purchases, (iii) generation companies with an installed generation capacity of less than 50MW, (iv) importers and exporters of energy having available capacity under 50MW, and (v) energy distributors, having sold under 300 GWh of electricity, during the preceding year. All electricity supply contracts must be registered with the Wholesale Electricity Market. Distributors and energy retailers must show, through registration, their compliance with the requirement that 85% of their contractual obligations to final customers are covered by long-term electricity supply contracts with generation companies. Registration of electricity supply contracts with the Wholesale Electricity Market is also designed to ensure that generation companies do not commit to supplying more than their maximum available capacity as set by ANEEL. See "— The Tariff System — Generation Tariffs".

The Wholesale Electricity Market is expected to determine the spot price for energy according to guidelines that are currently in use and available to the public. The spot price is currently determined by market conditions and by certain public policy and operational considerations, including the optimal use of resources, transmission bottlenecks, the costs of an energy deficit, the self-restraint of customers caused by a high spot price, projected energy requirements and international alternative markets.

Prevailing spot prices are expected to vary in each of the several sub-markets within the wholesale energy market. Sub-markets are defined by the Wholesale Electricity Market and take into account restrictions in transmission capacity that effectively limit the ability of generation companies to supply purchasers to the basic grid in a market, as defined by the Wholesale Electricity Market.

Electricity purchase contracts guarantee electricity purchasers that they will be able to purchase electricity for a fixed price, and thus avoid the volatility of the Wholesale Electricity Market. The Wholesale Electricity Market insures that amounts due from participants are collected and distributed as necessary to observe supply arrangements.

ASMAE

The ASMAE is a non-profit entity created under the *Acordo do Mercado* to provide administrative, legal and technical support to the activities of the Wholesale Electricity Market.

Independent Power Producers and Self-Producers

The Power Sector Law also introduced the concept of the independent power producer as a further factor in opening up the electricity sector to private investment and enhancing competition in energy generation. An independent power producer is a legal entity or consortium that trades in energy with (i) certain large industrial and commercial consumers, (ii) consumers who have not been supplied by the local distribution concessionaire for more than 180 days, (iii) certain other customers upon previous agreement with the local distribution concessionaire, (iv) existing consumers with demand for at least 10MW who are supplied at a voltage level equal to or greater than 69kV and (v) new consumers with demand of at least 3MW who are supplied at a voltage level equal to or greater than 69kV. The Power Sector Law also provides for the formation of consortia to generate power for public utilities, for use by consortium members, for independent power production or for any one or more of these, in each case governed by applicable rules. Self-producers, producers who generate power primarily for their own use, may (i) contribute or exchange energy with other self-producers within a consortium, (ii) sell excess energy to the local distribution concessionaire, or (iii) exchange energy with the local distribution concessionaire to allow for consumption by industrial plants owned by the self-producer and located somewhere other than in the area of generation.

Decree N°2,003 dated September 10, 1996 ("Decree N°2,003") sets forth the regulatory framework for independent power producers and self-producers. Pursuant to Decree N°2,003, the development of hydroelectric power plants by an independent power producer or a self-producer requires a concession, awarded following a bidding process, only when the project generates power in excess of 1MW in the case of an independent power producer and 10MW in the case of a self-producer. In all other cases, including the development of thermoelectric power plants, the independent power producer or self-producer is only required to obtain authorization from, or to register with, the applicable authority. Decree N°2,003 also provides that concessions and authorizations granted thereunder have terms of 35 and 30 years, respectively, with the possibility of extensions for periods equal to the initial terms, at the option of ANEEL.

Large volume electricity consumers

Large consumers of electricity are also eligible, pursuant to the *Acordo de Mercado*, to purchase bulk electricity directly through the Wholesale Electricity Market. ANEEL regulations define eligibility requirements for large consumers and institute safeguards to permit access to the basic grid and to any interposed distribution lines for the benefit of large consumers. The transmission and distribution companies are obliged to incur any expenses arising from the access of large consumers to their respective transmission lines, except for a tariff reflecting marginal operating costs and expenses directly related to interconnection.

The Tariff System

General

Law N°8,631 dated March 4, 1993, as clarified in related regulations, generally established that each utility was to propose a tariff structure, based on its particular circumstances, for approval by federal regulatory authorities. The proposed rate was to be calculated, taking into account the concessionaire's desired level of remuneration, as well as, among other things, operating expenditures, including personnel costs, the cost of Itaipu electricity, any other external generation supply costs and electricity purchased from other concessionaire companies, certain construction costs, depreciation and amortization charges, RGR Fund charges and taxes other than income taxes.

The introduction of the Real Plan in 1994 abolished the rate-setting process introduced by Law N°8,631. Under the Real Plan, rate increases for public utilities relating to inflation were no longer to be granted automatically. Instead, rate increases were frozen and any increase in rates would require the approval of the Ministry of Finance. Tariff-setting authority was subsequently transferred from DNAEE to ANEEL in 1997.

No rate increases were granted to Brazil's public utilities between July 1994 and November 1995. Consequently, despite the considerable decrease in the rate of inflation resulting from the implementation of the Real Plan, public utilities' *real* rates declined during this period. In November 1995, DNAEE set new rates for many public utilities.

In August 1998, ANEEL issued new regulations governing distribution tariffs. According to such regulations, ANEEL has the authority to readjust and review tariffs in response to changes in energy purchase costs and market conditions. In readjusting distribution tariffs, ANEEL considers the following:

- costs of electricity purchased for resale under the contracts and from Itaipu;

- costs of electricity purchased under freely negotiated contracts;

- costs of electricity purchased in the wholesale electricity market where energy that is not contracted for under the contracts and surplus energy will be purchased and sold; and

- certain other charges for transmission and distribution systems. Each distribution company's concession contract also provides for an annual readjustment of tariffs based on certain regulatory charges, costs of electricity purchased for resale, costs for the use of hydroelectric resources and transmission costs. Tariffs are also reviewed every four years in accordance with a productivity factor (referred to as the "X" Factor).

Rates that Brazilian energy utility companies pay for the purchase of electricity generated by Itaipu and charge for the sale of such electricity are established pursuant to the agreement between Brazil and Paraguay to construct and operate the Itaipu power plant signed on April 26, 1973. The rates are denominated in U.S. dollars. As a consequence, tariffs for electricity sold by Itaipu rise or fall independently of the rates established by federal regulatory authorities for sales by electric utilities. Such sales by Itaipu is equal to the tariff paid by the Brazilian energy utility company.

The rate-setting model in Brazil, prior to the comprehensive reform of the energy sector, set rates independently for generation (including transmission) tariffs, applied to distributors, and distribution tariffs, applied to final consumers. Whereas both generation and distribution tariffs failed to keep pace with inflation and declined in real terms over the period from 1988 to 1993, from 1994 through 1999 annual average generation tariffs rose 53% in real terms while annual average distribution tariffs rose 75% in real terms over the same period. The result of this divergence in rates was an increase in the operating income of energy distribution companies and a decrease in profit margin of companies focused on generation and transmission, in respect of the construction and operation of the Itaipu power plant. No assurance can be given that future generation and distribution tariffs will converge or that the new regulatory regime will rectify this discrepancy in tariffs in whole or in part.

Generation Tariffs

Pursuant to ANEEL Resolution N°143 of June 9, 1999, generation and distribution companies are required over time to enter into supply agreements, otherwise known as "Initial Agreements", as the electricity sector evolves from a regulated electricity market into a liberalized market. Such initial agreements establish that generation and distribution companies will supply a specified amount of energy to distribution companies at a price set by ANEEL for seven years from the date of execution of each agreement. The assured energy supply for the first year is equal to the projected consumption of the relevant markets, and the assured energy supply for subsequent years includes additional energy supplies to cover projected growth in energy consumption until the end of 2001. For 2002, the assured energy supply is the same as for 2001. For each year after 2002, the assured energy supply decreases by 25% of the assured energy supply for 2001 until the assured energy supply reaches zero in 2006. Distribution companies will then rely on purchases at competitive market prices made through the Wholesale Energy Market or under long-term supply agreements to obtain bulk energy in excess of its assured energy supply.

Generation companies may only commit to supply energy up to a limit established by ANEEL. This is equal to the nominal capacity of thermal plants, which means that it is equal to 95% of the projected energy capacity of hydroelectric plants as calculated by the ONS. The effect of the gradual deregulation of prices, through the initial agreements, will be to create a competitive market for the available generating capacity. Once a competitive market has been created, prices will be established by mutual agreement or by reference to the spot market prices set by the Wholesale Energy Market.

Transmission Tariffs

Transmission tariffs are established in accordance with ANEEL's approved rate at the time the concessions are granted to construct each transmission line. The ONS collects such tariffs from customers and passes them on to the transmission companies. The fees due to transmission companies are established in the applicable concession agreement and are subject to adjustment for certain additional costs. Transmission companies also charge a tariff stipulated by the ONS for interconnection by generation and distribution companies. Strict price regulation of transmission services and non-discriminatory pricing are considered by ANEEL to be necessary conditions to ensure that open access to the basic transmission grid is maintained as part of the ongoing comprehensive sectorial reform. The basic transmission grid includes all transmission lines with a

voltage equal to or higher than 230kV, as defined by ANEEL Resolution N°245 of July 31, 1998. In addition, certain other unbundled facilities related to transmission must be available to interested parties at regulated rates as part of open access to the transmission grid.

Distribution Tariffs

Tariffs charged by distribution companies are subject to price regulations in order to protect captive retail customers ("price-caps") from the monopoly power of the distribution companies, except for unregulated tariffs charged to large customers that are eligible for purchasing bulk energy supplies from generation companies and energy retailers.

The price regulations applicable to the captive customer base of distribution companies allows for unmanageable increases in costs to be passed through to consumers. These costs include, for example, the cost of energy from Itaipu (since distributors are obliged to purchase certain specified energy requirements from Itaipu). Any increase in real term in tariffs requires the approval of the Federal Government acting through ANEEL. The regulation is based on the "RPI-X" criteria, RPI representing the inflation value measured by the *Índice de Preços de Atacado* — IPA-FGV, the wholesale price index published by the *Fundação Getúlio Vargas* for inflation measurement purposes ("IPA-FGV"), with X as the efficiency parameter. The X value varies depending on each company.

Distribution companies will face additional price competition from energy retailers for large customers (3MW to 69kV). They have been assured open access to the basic transmission grid and to the distribution grid in order to permit competition in the retailing segment of the energy supply chain. Energy retailers may offer energy supplies that will be delivered through another company's transmission or distribution lines subject to payment of regulated tariffs established by ANEEL.

Recent Events/Energy Rationing in Brazil

The Brazilian interconnected system is expected to start rationing energy by June 1, 2001. The need for rationing is due to: (i) the continued growth of the demand for electricity, fueled by economic expansion; (ii) the fact that investment in new generating facilities has not kept pace with demand, thus creating a gap between demand and supply; and (iii) an extremely weak rain season, which has ended last April.

As the Brazilian system is over 90% hydroelectric, the gap between demand and supply did not create an immediate scarcity situation. A hydroelectric system can meet its demand even in unfavorable hydrological situations (provided these are not extreme), and a hydroelectric system can still meet its demand even if demand exceeds its "firm" supply, provided inflows are average or almost average. As the last few years have not been very dry in Brazil, rationing has not been needed. However, in each year, the system's reservoirs have reached levels that were lower than the previous years'. This situation has changed in 2001, because the rain season (November 2000 to April 2001) was much drier than usual in the Southeast, Center-West and Northeast regions, with the implication that the reservoirs started the rain season at unusually low levels due to the emptying in the previous years. The reservoirs at the end of April were below 35% of their capacity in these regions, while the minimum recommended level is of about 50%. In these circumstances, it is imperative that rationing be declared as soon as possible, in order to avoid the risk of emptying the system's reservoirs before the end of the dry season, in which case supply would depend almost solely on dry-season inflows, resulting in unpredictable and possibly much harsher cuts.

Rationing is expected to start by June 1st, 2001. At first, it should take the form of quotas: each consumer will be assigned a quota based on previous year's consumption (e.g., a consumer might receive a quota of 80% of his consumption during the same month last year), with different reductions according to the type of consumer (i.e., different percentages for industrial, residential, etc.), and heavy fines assigned to consumers who exceed their quotas. The idea is to start with a 15% to 20% cut in the Southeast, Center-West, Northeast, North (probably) regions. As for the South region, the decision to ration depends on its own hydrologic conditions and on the possibility of transmitting the surplus produced by rationing to other areas.

If the quota system does not work, or if it cannot be implemented for any reason, then rationing will have to be put into practice by rotating cuts. This will also happen if the hydrologic situation deteriorates further, requiring cuts above the 20% level.

Rationing is expected to go on until the end of 2001, and might continue through early 2002, in order to fill up the system's reservoirs and thus avoid a repetition of extreme conditions during the dry season of 2002. As for its further extension into 2002, or the possibility of its early termination, both depend on the next rain season (November 2001 – April 2002, peaking in January and February 2002).

BUSINESS DESCRIPTION

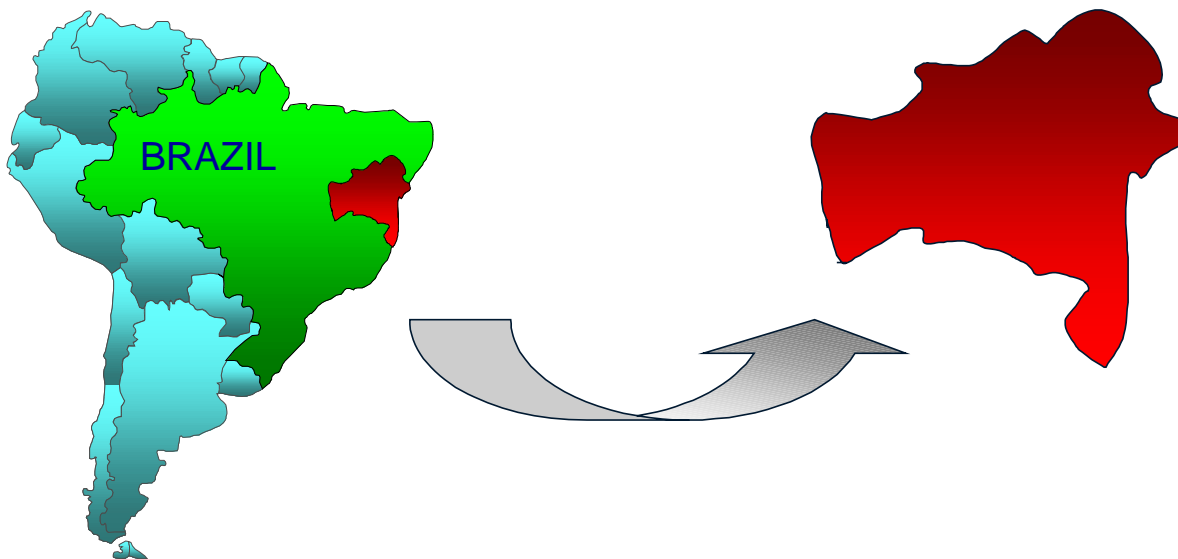
General

The principal business of Coelba is that of an electricity distribution utility, which transmits and distributes electricity throughout the state of Bahia, located in the Northeast region of Brazil. The Company also owns and operates minor electricity generation plants in Bahia with an aggregate installed capacity as of December 31st, 2000 of 27.1 MW, which supply less than 1% of Coelba's power requirement. Coelba holds a controlling interest of 60.3% in Cosern, which transmits and distributes electricity throughout the state of Rio Grande do Norte, also located in Brazil's Northeast region. In addition, Coelba holds a 42% interest in Itapebi, a Hydro-electric generation plant with installed capacity of 450MW, which is expected to start operations by January 2003.

The State of Bahia

The State of Bahia — General Information

Bahia forms part of the Northeast region of Brazil, which also includes the states of Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, Piauí and Maranhão. Bahia covers an area of approximately 567,295.3 km², an area 12.4% and 3.7% bigger than that of Spain and France, respectively.



Bahia is the most industrialized state in the Northeast region and, over the last 4 years, its GDP grew 12.9%, compared to 8.7% for Brazil as a whole in the same period. Bahia's economy has historically been based on agriculture (livestock, sugar cane, bitter cassava, beans, corn, cocoa and coconut), chemical and petrochemical industries and mining. During 2000, the state of Bahia exported US\$ 1.94 billions, which represents a 22.9% increase over the amount exported in 1999, while Brazil increased exports in 14.7%. Thus, Bahia increased its participation in the Country's exports from 3.3% to 3.5%.

Bahia's state government has adopted plans for the development of its infrastructure, including plans to transfer 1,266.6 km of state highways to private enterprises, and has encouraged Brazilian and Large multinational companies to establish business within Bahia. This effort has been focused on the automobile, chemical, petrochemical, pulp and paper, beverage and footwear industries. The

privatization programs of the Federal Government and Bahia's state government have resulted in the privatization of important sectors of the state's economy including the metallurgical, petrochemical and energy industries and the transfer of ownership of public companies operating within Bahia to private entities such as USIBA (Bahia Iron and Steel Plant), Caraíba Metais and RFFSA (Railway Federal Network), amongst others.

Set forth below, we have certain information about the State of Bahia comparing it to Brazil:

	Brazil	Bahia	%
Population (in millions)¹	169.6	13.1	12.9%
GDP (in R\$ billions)²	960.9	49.1	5.1%
GDP per Capita (in R\$)²	5,860.75	3,759.00	64.1%
Exports (in US\$ millions)³	55,086	1,943	3.5%

1) Preliminary data for year 2000.

2) Actual data for 1999.

3) Actual data for 2000.

Sources: IBGE; Secretaria da Indústria, Comércio e Mineração (Bahia's Trade, Industry and Mining Department); Coelba.

Concession Contract

Coelba holds concessions from the Brazilian Federal Government pursuant to the Coelba Concession Contract dated August 8, 1997 to provide, electric power distribution and transmission services to 414 of the 416 municipalities of the state of Bahia and to operate two hydroelectric generation plants which it presently operates. The term of the concession is 30 years from August 8th, 1997 and may be renewed, at the discretion of the Brazilian Federal Government, acting through its regulatory authorities, for an additional period of up to 30 years.

Except for electricity supply contracts in effect prior to Coelba's Concession Contract, the concession does not vest in Coelba exclusive distribution rights in respect of electricity consumers located within its concession area, who are permitted under the general law, to have access to the electricity provided by other suppliers. In addition, under the Power Sector Law, as of July 7, 1998, Coelba, as the holder of an electricity concession, can supply electricity to Free Customers outside its concession area. However, Coelba's main focus is to grow in its concession area and not to focus on Free Customers outside its concession area.

Coelba is required, within certain established deadlines, to provide electricity supply services to interested parties located within its concession area. With the exception of the tariffs applied to Free Customers, ANEEL must approve all tariffs charged by Coelba.

In operating its concession, Coelba must meet certain quality standards specified in its Concession Contract and/or by ANEEL including:

- (i) specified requirements in relation to the quality level of the electricity supplied;
- (ii) compliance with certain indices relating to the continuity of electricity supply;
- (iii) not having tension variations in excess of certain specified limits;
- (iv) keep detailed records of customer requests and complaints and the responses of Coelba to these requests and complaints; and
- (v) the establishment of a consumer council composed of members of various consumer classes which will act as a consultative body providing guidance and evaluation of the quality of service provided by Coelba.

In addition, Coelba, among other things,

- (i) May not dispose, assign, pledge or encumber the properties and facilities used by the Company to perform its duties under its concession without the prior and express consent of ANEEL;
- (ii) Must provide its services in accordance with the general norms and rules which apply to all electricity public service carriers and which are established by ANEEL from time to time;
- (iii) May not cease to provide electricity services to persons within its concession area other than for, among other things, failure to make due payment for electricity supplied or improper use of the electricity supply;
- (iv) Must, in the event of non-renewal of its concession, transfer all assets used in connection with the concession services to the Federal Government against payment by the Federal Government to Coelba of an amount equal to the value of such assets in order to ensure the continuation and upgrading of the concession services and which Coelba has not fully recovered less any depreciation and special obligations relating to such investment.

Under the terms of the Coelba Concession Contract, no amendment may be made to Coelba's articles of association or by laws and no action may be taken involving a change of control of Coelba without the prior approval of ANEEL. The transfer of Coelba's rights under the Coelba Concession Contract or a change of control with respect to Coelba without the prior approval of ANEEL could result in the forfeiture of Coelba's concessions.

Coelba will be subject to penalties under the Coelba Concession Contract if it fails, (i) to comply with certain indices established by ANEEL relating to the continuity of supply and supply tension or other requirements established by ANEEL relating to the quality of Coelba's service, (ii) to supply certain information in connection with any inspection of Coelba carried out by ANEEL, (iii) to comply with certain requirements established by ANEEL following an inspection of Coelba or (iv) to comply with any other legal or regulatory requirement of ANEEL or any other provision of the Coelba Concession Contract. Under the terms of the Coelba Concession Contract and the Public Concessions Law, a concession may be terminated (i) upon lapse of its contractual term, (ii) upon a duly authorized expropriation for public interest reasons, (iii) by forfeiture, (iv) by Coelba, following a judicial ruling permitting such a termination, (v) by annulment due to corruption or other irregularities in relation to the procedure for, or the granting of, the relevant concession and (vi) by the bankruptcy or dissolution of Coelba.

Forfeiture of the Coelba Concession Contract may be declared by ANEEL (i) if inadequate or deficient service is rendered by Coelba, based on rules, criteria, indices and parameters established by ANEEL or other authorized regulatory bodies, (ii) for failure to comply with the terms of the Coelba Concession Contract or the laws or rules relating to such contract, (iii) for failure to provide service, except in the event of an act of God or force majeure, (iv) if Coelba no longer has the economic, technical or operating resources to maintain an adequate level of services, (v) for failure to pay or comply in a timely manner with any penalties imposed on Coelba by ANEEL following a breach of the Coelba Concession Contract, (vi) for failure to respond to notification by the authorities to regularize service rendering, or (vii) if Coelba is convicted in a final and unappealable decision for tax evasion, including social contribution taxes. In the case of forfeiture, the concessionaire is entitled to notification, a right to cure and due process.

In the event of a termination of the Coelba Concession Contract, Coelba would be entitled to receive an amount from the Federal Government equal to the non-depreciated and non-amortized value of its investment in assets which revert to the Federal Government and which have not been fully recovered by Coelba less any depreciation and any special obligation relating to such investment. Coelba believes that it is in material compliance with the Coelba Concession Contract.

Distribution and Transmission Network

General

Electricity in Brazil is transmitted at varying levels of high voltage (750 kV, 600 kV, 500 kV, 450 kV, 230 kV 138 kV and 69 kV). Coelba's distribution and transmission network involves the transmission of high-voltage power (230 kV, 138 kV, 69 kV, 44 kV and 34.5 kV), its transformation and distribution on medium-voltage (13.8 kV and 11.9 kV) and low-voltage (380/220 V and 220/127 V) lines. Substantially all of Coelba's distribution and transmission lines are aerial. The following table sets out certain information regarding the distribution and transmission network of Coelba as of December 31 in each of the last five years.

<i>in Km</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
230 KV	158,5	158,5	158,5	158,5	158,5
138 KV	2147,06	2147,06	2400,29	2400,29	2406,72
69 KV	4923,93	4964,63	5045,63	5132,58	5228,08

Coelba's distribution and transmission network is connected to CHESF's generation system by two principal transmission lines originating in CHESF's Paulo Alfonso generation complex located on the São Francisco river in the north of Bahia and CHESF's generation plant located further upstream the São Francisco river in Sobradinho. The 230 kV transmission line originating from the Sobradinho generation plant supplies the central and western region of Bahia. The southern and northeastern regions of Bahia are supplied by four circuits, two 500 kV and two 230 kV transmission lines, originating from the Paulo Alfonso generation complex and which converge at the Cicero Dantas, Catu and Camaçari substations. From these substations, 230 kV transmission lines supply the southern region of Bahia. The Camaçari substation supplies electricity to the metropolitan region of Salvador, Coelba's primary load center.

Coelba is connected to CHESF's Xingó generation plant, which became operational during 1997, upon the completion of CHESF's 500 kV transmission line between Camaçari and the Xingó generation plant. This 500 kV transmission line was completed in the last quarter of 1998.

Transmission Network

Coelba's transmission system consists of radial regional subsystems emanating from CHESF's substations. As of December 31, 2000, Coelba's transmission network consisted of 7,713 km transmission lines, primarily 138 kV and 69 kV lines. In addition Coelba had 236 substations with total installed capacity of 3,417 MVA.

Coelba currently operates its transmission network along traditional lines, with operators in its substations carrying out instructions issued by the relevant regional operating center. Instructions are communicated primarily by Coelba's own communication system which is a VHF radio system. A small number of Coelba's substations are operated by way of a telephone alarm system which detects any alteration in the state of the equipment and sends a corresponding standard VHF radio message to the relevant regional dispatch office. Coelba has some fully automated substation which is operated and controlled by Coelba's central dispatch office in Salvador. Coelba intends to automate all of its 230 kV to 69 kV substations, 236 in total, by the end of 2002.

Distribution Network

As of December 31, 2000, Coelba's distribution network was composed of both urban and rural distribution systems, which included 1,592,477 electric poles carrying approximately 136,909 km of distribution lines with a total installed capacity of 2,740 MVA.

Coelba's distribution network services an area equal to approximately 560,110 square kilometers and consists predominantly of aerial lines. Electricity is supplied to 27 of its large industrial customers at a high voltage range (69 kV) and to the remainder of its customers at high or medium voltage ranges (34.5 kV, 13.8 kV and 11.9 kV) and low voltage ranges (380/220V and 220/127V). Coelba's primary load center is Salvador which represents 45% of Coelba's entire market. Instructions are issued by distribution operating centers by way of VHF radio messages.

Operation and Maintenance

Coelba's system operating center (the "COS"), located at its head office in Salvador, coordinates the operation and maintenance of its whole network. In addition, the COS operates Coelba's interconnections with CEMIG, Energipe and CELPE and coordinates with CHESF through CHESF's dispatch centers located at Paulo Alfonso and Matahi.

Investment in Distribution and Transmission Network

Investment in Coelba's distribution and transmission network is needed in order (i) to expand the network to rural areas of Bahia, in particular the western region of Bahia which is currently under-served, (ii) to meet expected market growth and (iii) to modernize the network. Coelba's investment plan for the next three years includes expenditure on the construction, upgrading and repair of transmission lines, construction and automation of substations, expansion of the distribution network, rural electrification and the connection of new customers to the network. Major investments for the next four years include an increase in the length of Coelba's transmission lines by 1,034.2km, the automation of all substations between 230 kV and 69 kV and the expansion of the distribution network by an estimated 84,504.1 km.

Network Performance

Scheduled interruptions in customer service represented 9% of all interruptions for 2000 compared to 10% for 1999. Scheduled interruptions include interruptions relating to the maintenance and/or expansion of Coelba's distribution and transmission network. Unscheduled interruptions represented 91% of all interruptions in 2000 compared to 90% in 1999. Unscheduled interruptions include interruptions due to equipment failure or accidents, including lightning, fire, wind and corrosion. The relative high proportion of unscheduled interruptions is a result of certain limitations in Coelba's network due to (i) the large area covered by the network and the costs of maintaining such a network, (ii) the location of large sections of the network by coastal areas and the resulting corrosion to the network caused by salt, and (iii) the overloading of low voltage distribution lines and transformers due to excessive demand.

The following table shows the average frequency of and duration of interruptions across Coelba's customer for each of the last four years:

	1997	1998	1999	2000
Frequency of interruption per customer (number) ⁽¹⁾	13,4	15,7	14,38	11,68
Duration of interruption per customer (hours) ⁽²⁾	31,56	32,55	24,99	24,91

(1) Frequency of interruptions per customer ("FEC") indicates the average number of interruptions in electricity supply that each customer group has experienced during the relevant period.

(2) Duration of interruptions per customer ("DEC") indicates the average length of time in hours during which electricity supply to each customer group is interrupted during the relevant period.

The maximum limits of frequency of interruptions per customer ("FEC") and duration of interruptions per customer group ("DEC") which Coelba is permitted were established by ANEEL. These maximum limits vary from a FEC of 90 interruptions per year and a DEC of 120 hours for a customer group of less than 1,000 customers to a FEC of 45 interruptions per year and a DEC of 30 hours for a customer group of more than 50,000 customers. In 2000, Coelba did not breach any of ANEEL's prescribed limits for FEC and DEC within any of its customers groups. The Company believes that the implementation and completion of its investment plans for the improvement of its distribution and transmission network will help further lower its average FEC and DEC and its average response time to unscheduled interruptions.

Purchases of Electricity

General

Coelba's electricity supply needs are primarily supplied by CHESF under a long-term supply contract. Coelba also purchases electricity supplies from electricity distributors of neighboring states, including Energipe and CELPE, under long-term supply contracts. Purchases made by Coelba from neighboring electricity distributors are used by Coelba to service customers located along the borders of Coelba's concession area and such neighboring electricity distributors' concession area. The tariffs paid by Coelba are established by ANEEL. The following table sets out Coelba's principal suppliers and electricity purchases in each of the last five years.

Empresa	2000		1999		1998		1997		1996	
	GWh	%	GWh	%	GWh	%	GWh	%	GWh	%
Chesf	11.044,5	99,55	10.453,3	99,49	10.561,7	99,45	9.868,6	99,47	9.468,1	99,47
Energipe	15,6	0,14	14,7	0,14	20,4	0,19	23,3	0,23	21,1	0,22
Celpe	25,7	0,23	30,6	0,29	30,7	0,29	22,7	0,23	23,5	0,25
Others	8,7	0,08	7,9	0,08	7,6	0,07	6,4	0,06	5,6	0,06
TOTAL	11.094,5	100,00	10.506,5	100,00	10.620,4	100,00	9.921,0	100,00	9.518,30	100,00

CHESF Supply Contract

Pursuant to Law 8,631 of March 4, 1993, Coelba entered into a 10 year take or pay contract with CHESF dated May 27, 1993 (the "Supply Contract") for the purchase of electricity. The Supply Contract, the terms of which are mandated by federal law, sets forth Coelba's obligations (i) to purchase certain amounts of electricity generated by CHESF and (ii) to agree to an annual addendum to the Supply Contract.

The annual addendum to the Supply Contract sets out the energy contracted and demand contracted by Coelba from CHESF for each month in the following year. Energy contracted covers the volume of electricity to be supplied by CHESF in the relevant month. Demand contracted establishes the maximum amount of electricity to be supplied in any one hour period during peak time, which is between 5.30 p.m. and 9.30 p.m. in such month. Prior to Law No. 9,648 of May 27, 1998 (“Law No. 9,648”), each annual addendum contained details of the annual energy contracted by Coelba for the following 10 year period. The level of energy contracted was based on projections contained in either the Operation Plan of CCON or the Ten Year Expansion Plan of GCPS (both of which are updated annually).

Law No. 9,648 was introduced as part of the transitional arrangements relating to the liberalization of the wholesale electricity market in Brazil. Following Law No. 9,648, CHESF is required to supply to Coelba in 2001 the relevant energy contracted and demand contracted set out in the Operation Plan of CCON. In 1999 and 2000, it is required to supply the volume of electricity set out in the Ten Year Expansion Plan of GCPS for such periods and in 2001 and 2002, the volume of electricity set out in the Ten Year Expansion Plan of GCPS for 2001. Beginning in 2003, the volume of electricity which CHESF will be required to make available to Coelba will be reduced on an annual basis by 25% of the volume of electricity supplied by CHESF. The table below sets out the annual volume of electricity which CHESF will supply to Coelba through to 2006.

Year	2001	2002	2003	2004	2005
Volume(MWh)	12.430.440	12.430.440	9.332.830	6.215.220	3.107.610

Coelba will compensate for such reductions by entering into long-term supply arrangements with other suppliers or even with CHESF as the Company is required, under the terms of Law No. 9,648, to ensure that 90.0% of its electricity requirements are supplied under long-term arrangements.

Supply Tariffs

The tariffs for electricity supplied by CHESF or other electricity distributors are established on an annual basis pursuant to regulations implemented by ANEEL and are denominated in Reais. In 2000, the CHESF tariffs were increased by 9.84% in August 25th. In 2001 there was the unification of the readjustment date to April 22nd, when CHESF tariffs were increased by 10.52%. Coelba’s purchases of electricity are paid for on the basis of both an energy charge and a demand charge.

Until April 1997, the tariff applicable to the supply of electricity by CHESF to electricity distributors in the Northeast region of Brazil was a uniform tariff irrespective of the voltage at which the electricity was delivered. This placed Coelba at a disadvantage compared to other electricity distributors as it was the only electricity distributor which received electricity from CHESF at 230 kV. However, since April 1997, ANEEL permitted CHESF to have different tariffs for electricity supplied at a voltage level of 230 kV and at a voltage level below 230 kV.

Electricity distributors who purchase electricity in excess of the amounts which they have agreed with CHESF may be subject to penalty tariffs. Whether penalty tariffs are imposed on the relevant electricity distributor will generally depend on whether there are sufficient hydro-resources available to meet CHESF’s other customers’ electricity requirements at such time.

CHESF bills Coelba on the fifth day of each month for electricity generated. Each bill is payable in three equal installments; the first installment becomes due on the fifteenth day of such month, the second on the twenty-fifth day of such month and the third on the fifth day of the following month.

The Supply Contract provides for a 10% penalty in respect of late payments by Coelba as well as monetary correction of the outstanding amounts.

Generation

Coelba holds the concession for two hydroelectric power plants in Bahia. The installed capacity of these hydroelectric plants is approximately 18.0 MW. Coelba's hydroelectric plants primarily operate at times of peak demand and also act as a reserve in the case of interruptions of supplies of electricity from CHESF. Coelba also operates 8 mobile thermal generators which have an installed capacity of approximately 10.7MW. These thermal generators are fueled by diesel and only operate on an emergency or contingency basis.

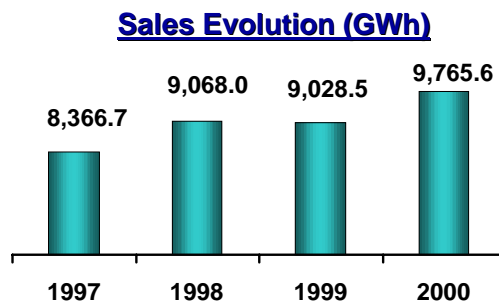
Expansion of Generation Capacity

Due to the privatization in 1997, 1998 and 1999 of the Brazilian power industry, government-owned generation companies have not increased their capacity in order to meet anticipated increases in demand by the distribution companies. It is estimated that projected electricity demand will exceed electricity supply in the North-Northeast regions of Brazil, which includes Coelba's and Cosern's concession areas, by 2002. Accordingly, in order to ensure sufficient availability of supply and to protect its market share, the Company is exploring the possibility of expanding its generation capacity by pursuing opportunities in conjunction with other partners in natural gas-powered thermal and hydroelectric generation projects. Coelba intends to participate in generation projects as a non-controlling equity member of a joint venture or consortium. It is not Coelba's intention to operate any of the generation plants in which it may invest. The participants in these joint ventures or consortia may include construction companies, other electricity companies, Free Customers and/or financial investors. Coelba believes that it is an attractive potential partner for generation projects established in the Northeast of Brazil because it is one of the largest purchasers of electricity in that region.

In line with such strategy, Coelba, in conjunction with Iberdrola, joined the consortium that won the bid for the Itapebi hydroelectric generation project. This project involves the construction of a 450 MW plant in the south of Bahia at an estimated cost of approximately \$ 450.0 million which is expected to become operational in January 2003.

Sales

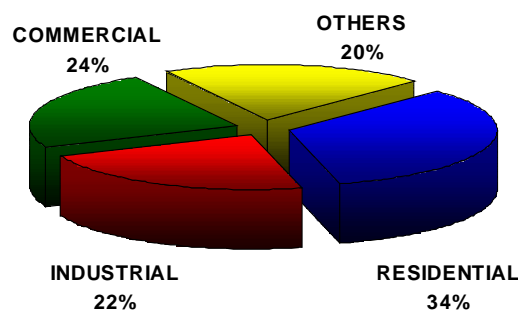
As of December 31st, 2000, Coelba had 2,893,603 customers. In the year ended December 31st, 2000, the volume of invoiced electricity sold by Coelba was 9,765.6 GWh of electricity. The remainder of the electricity market consisted mainly of large industrial consumers who were supplied directly by CHESF or by COPENE - Petroquímica do Nordeste S.A. ("COPENE").



Categorization of Customers

Customers of Coelba are classified into seven principal categories; residential, commercial (including service-oriented businesses, universities and hospitals), industrial (comprising manufacturing and processing activities), public power (comprising federal, state, municipal and other public buildings), public lighting, public services (comprising water and sanitation services) and rural. In 2000, residential, commercial, industrial, public power, public lighting, public service and rural represented 34.2%, 20.2%, 23.9%, 4.3%, 5.9%, 5.2% and 6.1%, respectively, of Coelba's electricity sales by volume of electricity sold. Coelba's most important category of customers is its residential customers. Coelba's residential customers have historically consumed more electricity than any other category of customer. In addition, Coelba also charges this category of customer higher tariffs than those attributable to other categories of customers.

Sales Breakdown Volume (MWh)



Levels of Sales

For the five year period ended December 31st 2000, the volume of electricity sold by Coelba grew 22.3% led by residential and commercial customers, which required additional 810.4 GWh, and 551.2 GWh, respectively. The average monthly consumption level of Coelba customers in 2000 was 292.4 kWh.

The following table sets out the volume of electricity invoiced to each of Coelba's customer categories, the percentage volume of such sales to each customer category for each of the last five years and the growth year over year in each category:

(GWh)	1996	%	1997	%	yoy	1998	%	yoy	1999	%	yoy	2000	%	yoy
Residential	2,529.7	31.7%	2,701.0	32.3%	6.8%	3,018.7	33.3%	11.8%	3,113.4	34.5%	3.1%	3,340.1	34.2%	7.3%
Commercial	1,424.4	17.8%	1,536.9	18.4%	7.9%	1,692.2	18.7%	10.1%	1,748.6	19.4%	3.3%	1,975.6	20.2%	13.0%
Industrial	2,250.6	28.2%	2,307.4	27.6%	2.5%	2,256.4	24.9%	-2.2%	2,068.3	22.9%	-8.3%	2,329.9	23.9%	12.6%
Public Power	296.8	3.7%	326.6	3.9%	10.0%	364.7	4.0%	11.7%	380.4	4.2%	4.3%	418.6	4.3%	10.0%
Pub. Lighting	480.6	6.0%	502.8	6.0%	4.6%	531.3	5.9%	5.7%	555.1	6.1%	4.5%	577.0	5.9%	3.9%
Pub. Services	513.1	6.4%	502.5	6.0%	-2.1%	541.1	6.0%	7.7%	522.0	5.8%	-3.5%	505.3	5.2%	-3.2%
Rural	472.0	5.9%	468.5	5.6%	-0.7%	642.2	7.1%	37.1%	620.1	6.9%	-3.4%	599.0	6.1%	-3.4%
Own cons.	18.9	0.2%	21.0	0.3%	11.1%	21.5	0.2%	2.4%	20.6	0.2%	-4.2%	20.1	0.2%	-2.4%
Total	7,986.1		8,366.7		4.8%	9,068.1		8.4%	9,028.5		-0.4%	9,765.6		8.2%

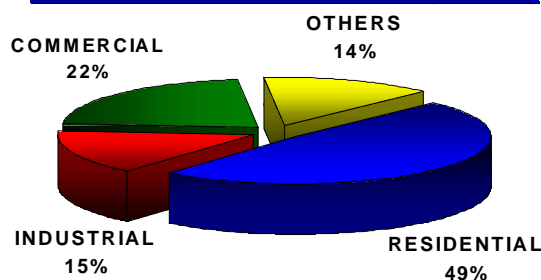
Note: The table sets out the volume of electricity invoiced by Coelba during the relevant period. The volume of electricity actually consumed by customers is different from the volume of electricity invoiced due to (i) the time lag between recording customers' consumption and invoicing such customers and (ii) the minimum consumption amounts which are levied on customers even though their actual consumption for the relevant period may be lower.

Coelba's revenues have increased by 74.2% over the last four years. Volume increases have occurred across all of Coelba's principal customer categories. The level of the Company's sales to residential, commercial and industrial customers account for nearly 90% of the increased amount. Residential sales volume has increased due to the increase in the number of residential consumers, higher overall levels of consumption and increased tariffs. Commercial and Industrial revenues increase reflect higher levels of economic activity in Bahia and, in particular for Commercial customers, the growth of tourism.

The following table summarizes the Company's sales in millions of Reais and the importance of the residential customers stands out:

R\$ millions	1996	%	1,997	%	yoy	1,998	%	yoy	1,999	%	yoy	2,000	%	yoy
Residential	380.8	44%	464.7	46%	22%	538.2	47%	16%	594.3	48%	10%	724.5	48%	22%
Commercial	193.0	22%	222.9	22%	15%	250.3	22%	12%	272.7	22%	9%	344.7	23%	26%
Industrial	161.4	19%	175.4	17%	9%	181.9	16%	4%	184.4	15%	1%	233.8	15%	27%
Public Power	34.2	4%	38.8	4%	13%	44.6	4%	15%	49.7	4%	11%	62.7	4%	26%
Pub.Lighting	30.3	4%	33.4	3%	10%	37.9	3%	13%	42.4	3%	12%	51.6	3%	22%
Pub.Services	31.4	4%	33.9	3%	8%	44.2	4%	31%	44.3	4%	0%	50.5	3%	14%
Rural	35.8	4%	37.6	4%	5%	38.3	3%	2%	37.7	3%	-2%	42.6	3%	13%
Total	867.0		1,006.6		16%	1,135.5		13%	1,225.6		8%	1,510.4		23%

Sales Breakdown Revenues (R\$ MM)

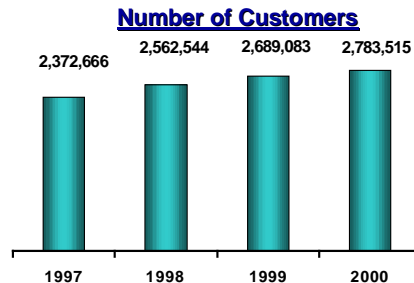


Customers

The following table sets out the number of Coelba's customers in each customer category for the last four years excluding resales to other concessionaires and self-consumption:

	1996	%	1997	%	yoy	1998	%	yoy	1999	%	yoy	2000	%	Yoy
Residential	1,983,729	86%	2,049,422	86%	3%	2,229,304	87%	9%	2,352,058	87%	6%	2,435,184	87%	4%
Commercial	190,381	8%	197,272	8%	4%	205,335	8%	4%	211,530	8%	3%	217,642	8%	3%
Industrial	13,653	1%	14,111	1%	3%	14,646	1%	4%	15,197	1%	4%	15,129	1%	0%
Public Power	25,220	1%	26,005	1%	3%	27,466	1%	6%	28,980	1%	6%	28,067	1%	-3%
Pub.Lighting	3,524	0%	4,600	0%	38%	7,846	0%	78%	10,821	0%	40%	15,193	1%	42%
Pub.Services	1,327	0%	1,405	0%	6%	1,486	0%	6%	1,555	0%	5%	1,669	0%	7%
Rural	78,486	3%	79,851	3%	2%	76,462	3%	-4%	68,942	3%	-10%	70,631	3%	2%
Total	2,296,317		2,372,666		3%	2,562,544		8%	2,689,083		5%	2,783,515		4%

Over the last four years, the overall number of customers increased by 21.2%. This increase primarily reflects the expansion of the Company's network during this period. Residential consumers as at December 31, 2000 comprised 87.5% of all of Coelba's customers, and the number of residential customers increased by 23% over the last four years.



Largest Customers

Coelba's 20 largest customers in terms of volume accounted for approximately 6% of sales during 2000. In 2000, Coelba's largest customer in terms of volume was Petrobras' Parque Santiago complex located in Salvador and White Martins, both accounted for approximately 1.7% of Coelba's sales while accounting for almost 4% of the energy consumption.

Billing and Collection Procedures

Coelba bills each of its customers on a monthly basis. Customers who fail to pay their bills on a due date are subject to a penalty for late payment consisting of 2.0% of the relevant bill per month. Coelba is focusing on improving its collection methods in relation to customers to whom Coelba distributes electricity below 11.8 kV and who historically have had much higher payment default rates than Coelba's other customers.

Under administrative rules issued by ANEEL, electricity distribution companies, including Coelba, are authorized to suspend the supply of electricity to customers whose bills are 10 days overdue, in the case of customers who receive electricity at or above 11.8 kV, and 20 days overdue, in the case of customers who receive electricity below 11.8 kV. Coelba may not disconnect service to a customer unless it has given such customer 15 days' notice of its intention to disconnect. Currently, it is Coelba's policy to issue a disconnection notice to those customers whose bills are still outstanding before the time of the next billing date and who have failed to pay a previous bill within 10 days of its due date in the previous six month period.

In 2000, Coelba disconnected 553,782 customers for non-payment of their bills compared to 1,260,585 in 1999. This decrease reflects the SIC system implementation period, when the company halted the disconnection process. If disconnected, Customers are required to pay a separate fee to Coelba in order to have their service reconnected. In addition, Coelba follows up customers that were disconnected, if they do not contact Coelba in the following months Coelba will check every month for eventual unauthorized connection through a site visit by a Coelba's technician.

During the periods of high inflation in Brazil prior to the introduction of the Real Plan, the majority of Coelba's residential customers paid their bills at banks located throughout Bahia. Following the Introduction of the Real Plan and the resulting lower levels of inflation, banks have significantly increased their charges for handling bill payment transactions. As a result of the increases in these charges, Coelba has attempted to develop alternative payment mechanisms for its customers including (i) direct mail, (ii) post office, (iii) payment at certain retail outlets and (iv) direct debit.

Bad Debts and Restructuring of Outstanding Bills

As of December 31st, 2000, Coelba had past due customer accounts totalling R\$134.6 million (including R\$22.8 million owed by government or public sector entities). It is Coelba's policy to write-off amounts payable by customers which are overdue for six months or more, provided the customer is no longer being supplied with electricity by Coelba and the meter has been removed.

Under rules introduced by ANEEL and its predecessors, electricity concessionaires may not establish an allowance for doubtful debts in connection with amounts overdue by government or public sector customers or write-off as bad debts amounts overdue by a customer who is still receiving electricity supplies. Coelba calculates its allowance for doubtful debts on the basis of the annual average of bad debts incurred by Coelba in relation to its non-government or public sector customers in the preceding three year period. As of December 31st, 2000, Coelba's allowance for doubtful debts totalled R\$15.6 million compared to R\$3.5 million for the year ended December 31, 1999. This increase is primarily due to the effect of the halted disconnection process, which generated several past due and enlarged provisions accordingly.

Tariffs

Tariff Structure

All electricity distribution companies in Brazil are subject to extensive regulation of their tariffs. The tariffs which Brazilian electricity distribution companies may charge their consumers are subject to the approval of ANEEL. The Coelba Concession Contract sets out a price cap tariff mechanism and other tariff arrangements which apply to Coelba. For tariff purposes, Coelba's customers are classified according to the voltage level at which electricity is supplied to them. High voltage customers are classified as Group A customers and its remaining customers are classified as Group B customers. Group B customers are further classified into customer type; including (i) residential, (ii) low income residential, (iii) rural, (iv) rural electrification cooperative (an entity which buys electricity through the wholesale market and sells it to its members through a private distribution network), (v) irrigation public services (small government irrigation projects), (viii) public illumination and (ix) others.

Two tariff systems apply to Group A customers; the conventional tariff system and the time/season tariff system. Under the conventional tariff system, Group A customers are charged a tariff based on (1) the amount of electricity they consume and (ii) the highest level of their electricity demand during a relevant period. The demand tariff is applied to the relevant Group A customers' (i) highest demand in a 3 hour period between 6:00 p.m. and 9:00 p.m., the peak period, during the month in question or (ii) 85.0% of such highest monthly demand during the preceding 11 months, whichever is higher. Under the time/season tariff structure, tariffs are based on four factors: (i) consumption, (ii) demand, (iii) seasonal variation, and (iv) time of day variation. Seasonal variation refers to the dry season (December to April in each year) and the rain season (May to November). Time of day variation refers to peak hours (between 6:30 p.m. and 9:30 p.m.) and off-peak hours of demand (all other times). Under the time/season tariff structure, tariffs are higher during the dry season, when hydro-electric generation capacity tends to be lower, and during peak hours of demand. The time/season tariff structure, separates Group A customers into two further categories: Blue Tariff and Green Tariff. The Blue Tariff category is mandatory for Group A customers served at voltage levels equal to or greater than 69 kV with a demand equal to or greater than 500 KW. Group A customers served at voltage levels below 69 kV with a demand equal or greater than 50 KW can choose between the Blue Tariff and the Green Tariff. Under the Blue Tariff category, Group A customers are charged differential tariffs for peak and non-peak electricity demand, while under the Green Tariff there is no such distinction.

Only one tariff system, the conventional tariff system, applies to Group B customers. Under the conventional tariff system, Group B customers' tariffs are based only upon their consumption of electricity. However, even though their actual consumption may be lower, each Group B customer is subject to a minimum monthly charge based on a minimum consumption of 30 KWh, 50 KWh or 100 KWh per month depending on the number of connections supplying the relevant customer's premises.

Coelba is required to apply subsidized or discounted tariffs to certain categories of customers. Low income residential customers are entitled to electricity at subsidized tariffs. If a low income residential customer's consumption exceeds 140KWh per month, they become ineligible to receive the subsidized tariffs for one year. Customers classified as rural (i.e. most of their electricity consumption is applied in agricultural activities), rural electricity cooperatives and customers who provide water supply, sewage and sanitation services receive a 10.0%, 50.0% and 15.0% discount, respectively, on both their consumption tariff and demand tariff (if any). Rural Irrigation customers have a discount of 90% during the reserved time, i.e., from 23:00 to 5:00 and a 10% discount on the regular time. On 1998, ANEEL approved a proposal by Coelba to reclassify certain low income residential customers as residential customers. Under the proposal approved by ANEEL, a residential customer must meet the following criteria before it can be classified as a low income residential customer:

such customer (i) is served by a monophase connection, (ii) consumed up to 140 KWh of electricity per month over the preceding 12 months, (iii) is located in a slum or other poor residential district, (iv) the construction of its dwelling is without plaster, mud, wood or zinc and (v) the size of its dwelling is less than 45m², with a cement floor and not more than one bathroom. Following ANEEL's approval of such criteria, Coelba began, in July 1996, a reclassification of its customers which resulted in a reduction of Coelba's low income residential customer base from 500 thousand to 70 thousand and a substantial tariff increase in real terms.

Coelba Tariffs

The following table shows the average tariff for the main customer categories over the last four years:

R\$/MWh	1996	1997	yoy	1998	yoy	1999	yoy	2000	yoy
Residential	150,54	172,06	14,3%	178,27	3,6%	190,87	7,1%	216,91	13,6%
Commercial	135,49	145,01	7,0%	147,92	2,0%	155,94	5,4%	174,47	11,9%
Industrial	71,71	76,01	6,0%	80,63	6,1%	89,16	10,6%	100,36	12,6%
Public Power	115,24	118,73	3,0%	122,38	3,1%	130,72	6,8%	149,83	14,6%
Pub. Lighting	63,14	66,47	5,3%	71,34	7,3%	76,47	7,2%	89,41	16,9%
Pub. Services	69,85	74,80	7,1%	70,80	-5,3%	72,25	2,1%	84,27	16,6%
Rural	66,50	72,30	8,7%	68,86	-4,8%	71,51	3,8%	84,25	17,8%
Coelba's Avg.	108,76	120,59	10,9%	125,21	3,8%	135,74	8,4%	154,66	13,9%

Tariffs Adjustment

The Coelba Concession Contract establishes the circumstances under which Coelba's tariffs can be adjusted. Coelba is required to apply to ANEEL for a tariff adjustment annually. This tariff adjustment is carried out pursuant to a formula in the Coelba Concession Contract (the "Formula") as set out and described below.

$$IRT = \frac{VPA_1 + VPB_0 \times (IVI \pm X)}{RA_0}$$

IRT is the adjustment factor to be applied to the previous tariffs in order to establish the new tariffs; VPA1 is defined as Coelba's non-manageable costs, including the cost of its electricity purchases and industry regulatory charges (the "Non-manageable Costs"), limited to the pre-set value of R\$ 72/MWh updated using the IGPM, taking into account the conditions in force at the date of the current tariff adjustment; VPB0 is defined as the remaining value of Coelba's service income after the deduction of non-manageable Costs and ICMS sales tax, taking into account the conditions in force at the time of the immediately preceding tariff adjustment; IVI is the IGPM inflation rate in the period between the month prior to the immediately preceding tariff adjustment and the month prior to the current tariff adjustment; X is the efficiency and productivity coefficient described below; and RA0 is defined as Coelba's service income, calculated taking into account the tariffs in force at the time of the immediately preceding tariff adjustment but excluding ICMS sales tax.

Under the Formula, Coelba is allowed to fully pass through to its customers its cost of electricity purchases and other non-manageable costs as well as inflation on its controllable costs. Under the terms of the Coelba Concession Contract, the X Factor for the first five annual tariff adjustments will be zero. Thereafter, the value of the X Factor will be determined by ANEEL taking into consideration changes in Coelba's cost structure and its market (including efficiency gains or technological improvements made by Coelba), the average tariffs charged by other electricity distributors both in Brazil and internationally and the level of tariffs required to stimulate operating efficiencies and to ensure tariff moderation. ANEEL has not provided any further clarification as to how it intends to determine the X Factor nor has it given any indication as to what percentage of any efficiency gains or savings made by Coelba should be reflected in the X Factor. On or prior to the fifth anniversary of the first tariff adjustment of the Coelba Concession Contract, ANEEL will establish a new X Factor to apply for the following five annual tariff adjustments. However, ANEEL has not clarified whether the X Factor which will apply to each such annual tariff adjustment in such five year period will be the same or whether it will vary from year to year.

The first tariff adjustment under the Coelba Concession Contract took place in April 1998 and resulted in a tariff increase of 3.53% across all of Coelba's tariff categories. The last readjustments applied to Coelba's tariff were made on April 22nd of 2000 and 2001, respectively 11.09% and 14.84%. Coelba is also entitled under the Coelba Concession Contract to request an adjustment in its tariffs following a significant alteration in the cost of Coelba's operation, including increases in the tariffs which apply to Coelba's electricity supplies. In addition, ANEEL may also carry out a tariff adjustment at any time in order to maintain or re-establish the economic or financial balance of the Coelba Concession Contract or to reflect, or compensate for, any tax or legal charges other than income tax charges.

Electricity Losses

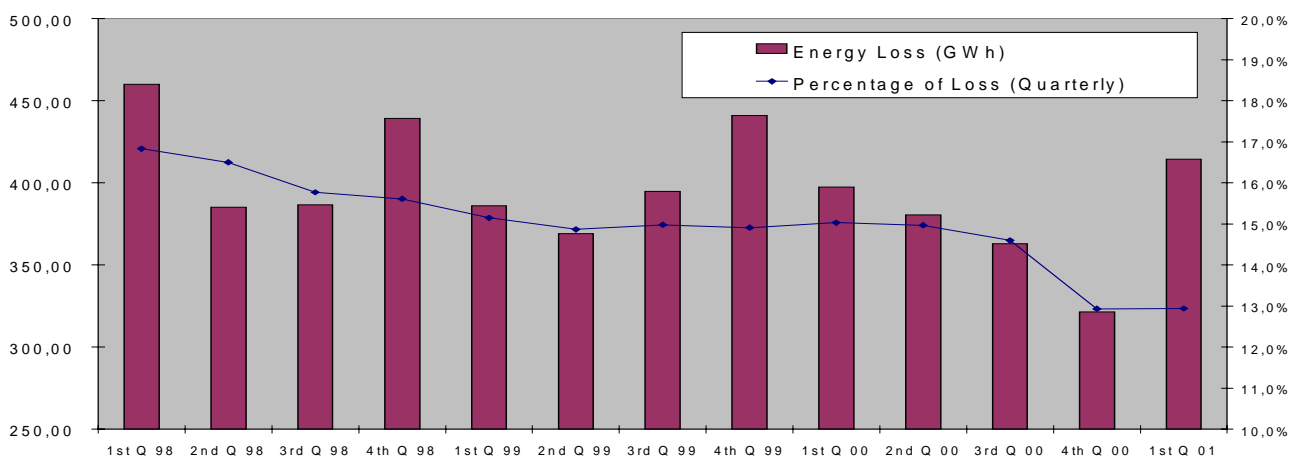
Electricity losses represent the difference between the volume of (i) electricity purchased and generated and (ii) electricity consumed by customers and used for internal consumption. They can be divided into two broad categories: technical losses and non-technical losses.

Technical losses are those which result from a loss of energy in distribution and transmission, arising mainly because: (i) conductors that transport electricity from generating plants to customers undergo a natural heating, and (ii) of the use of aging equipment. Such losses can be reduced by continued investment in the distribution and transmission network.

Non-technical losses arise principally from (i) fraud, such as tampering with meters, (ii) illegal connections, and (iii) administrative problems such as incorrect metering or billing and customers without meters.

All losses have dual consequences for Coelba: first, they are obliged to purchase electricity to satisfy apparent demand thereby increasing costs; second, they are unable to recover the cost of electricity purchased with a corresponding effect on revenues earned. These adverse effects are further aggravated by the fact that illegally connected customers typically register abnormally high levels of electricity consumption.

The following chart sets out the total loss and the percentage of Coelba's electricity losses for each quarter since the beginning of 1998:



Coelba is not able to accurately record the breakdown between technical and non-technical losses, but it estimates that of its 13% electricity losses in 2000, roughly 10% was due to technical losses with the remainder due to non-technical losses. Coelba believes that the high level of its technical losses was due to the large area covered by its distribution and transmission network. Coelba has focused efforts to reduce its electricity losses by concentrating on reducing its non-technical losses because it believes that such losses can be reduced more rapidly than its technical losses, as evidenced by the evolution of the losses during 2000, and at a lower cost. The main reasons for non-technical losses were due to the following factors: (i) illegal connections by individuals who were never customers of Coelba, (ii) unauthorized reconnections carried out by previous customers who had been disconnected, (iii) fraud, involving customers tampering with meters or diverting electricity before it is metered, (iv) losses due to errors in reading meters, billing or recording and (v) out of date records in relation to public lighting.

Following these studies, the Company has begun to take the following steps in order to reduce its non-technical losses: (i) a detailed program of on-site inspections of customers, but with priority being given to those customers who have a voltage installed capacity equal to or in excess of 11.9 kV in order to locate and remedy any faults in their metering systems or the electrical lines or other equipment used in servicing these clients, (ii) the installation of meters in premises of customers whose previous consumption levels had not been recorded, (iii) the reduction of illegal connections or unauthorized reconnections through the increase of on-site inspections and, where necessary, the lodging of civil and criminal complaints, (iv) better training for personnel who measure, record and/or bill electricity consumption, as well as better planning of meter reading routes and recording of new customers, and (v) improved recording of the number of public lights. Through these and other continued measures, the Company expects to further reduce the level of its electricity losses to approximately 11% by the end of 2003.

Capital Expenditure

Coelba's business is capital-intensive and the principal capital requirements of Coelba in recent years have been to finance the expansion, replacement and maintenance of their electricity distribution and transmission systems. Due to the limited availability of financing for the Brazilian electricity sector in recent years, Coelba has financed its capital investment programs primarily with cash provided by operations, by restructuring its current liabilities so as to constitute long-term liabilities and, by external financing.

Coelba plans to increase the levels of its capital expenditures between 2001 and 2003 in order to expand its network and to improve the efficiency of its operations and network. Coelba's investment plan calls for capital expenditures of over R\$ 1 billion over the next three years, including maintenance and upgrading costs.

Destination	2001	2002	2003
Network Expansion	60.362	45.057	45.090
Automation Systems	12.900	17.159	14.004
Telecom. Systems	12.000	17.635	16.083
New Connections	39.636	39.332	35.387
Distribution Network Improvement	22.953	24.998	26.693
Software & Hardware	11.317	8.537	5.446
Other	18.632	20.282	27.797
Special Program*	172.087	221.215	256.948
TOTAL	349.887	394.215	427.448

*Investments which will have a considerable participation of the Government, through subsidies or direct investments

Coelba's three year investment plan includes roughly R\$ 130 million of discretionary capex, in order to improve or expand its network. In addition, R\$ 650 million will be directed to special program, which is expected to be borne by way of subsidies from the state government of Bahia and those customers who will be directly benefiting from the expansion of Coelba's distribution and transmission network. This expansion will involve increasing Coelba's transmission lines and distribution lines by 703.3km and 66,032.1km, respectively during the next three years. Coelba also plans to invest in maintaining and improving its distribution operations including the installation of duplicate lines, the upgrading of lines, the replacement of transformers and reducing illegal connections.

Coelba's investment plan is expected to be financed by cash flow from operating activities and external financing and, in relation to the expansion of its distribution and transmission network, by subsidies from the state government of Bahia, BNDES, Eletrobrás, and its customers. The execution of Coelba's investment plans is contingent upon a variety of factors, including the ability of Coelba to maintain an adequate tariff level, regulatory and environmental authorizations, access to external finance, and a variety of other contingencies.

Competition

As a consequence of recent legislation, IPPs will be authorized to generate electric power, other than nuclear power, if they obtain a license from ANEEL (for thermal plants) or successfully bid for a concession (for hydroelectric plants). The new electricity generated by IPPs, unlike Coelba's existing electricity sales and purchases, is not subject to full tariff regulation and accordingly IPPs may offer large customers electricity at tariffs below those which Coelba is currently required to charge. Although the Company believes that ANEEL would permit Coelba to lower its tariffs to compete against a lower offer from an IPP, Coelba does not have the right to do so without

ANEEL's approval and there can be no assurance that ANEEL would grant such approval. Alternatively, Coelba or Cosern could create their own IPPs to compete with any such IPPs. Furthermore, distribution and transmission companies such as Coelba are now required to permit the use of their facilities for the transmission of electricity upon payment of a toll, known as a "wheeling charge". In addition, any consumer may develop self-generation capacity, although the Company expects that only large consumers will consider such an investment. As a result, large consumers of electricity within Coelba's concession areas now have significant alternatives to purchasing power from Coelba or Cosern, respectively.

The Company expects that competition and self generation may adversely affect the prices it can charge certain large customers and, consequently, its revenues. However, the Company also believes that several factors will inhibit the development of IPPs and self-generation for customers in Coelba's or Cosern's concession areas. For hydroelectric generation, IPPs and self-generators face several disadvantages. First, hydroelectric generation is extremely capital-intensive, although it has a relatively low cost of generation because there is no fuel cost. Hence, hydroelectric projects tend to be less attractive to IPPs than less capital-intensive thermal projects. In addition, Brazil has already invested heavily in hydroelectric power and many of the most favorable sites in Bahia have already been developed. Many of these plants are already fully depreciated and operate at very low costs. As a result, most of the hydroelectric facilities already in use produce electricity at a lower cost than is expected for new hydroelectric facilities. In addition, if an IPP were to bid on a hydroelectric concession, it would need to consider the fact that it will have to pay wheeling charges.

Nevertheless, Coelba does anticipate that certain of its industrial customers will either engage in self-generation for strategic reasons or purchase power from other suppliers. As a result, the Company believes IPPs and self-generation could have an adverse effect on its revenues. However, although there can be no assurance in this regard, Coelba believes this competition may only have a limited effect on its operations because (i) large users generate relatively low margins, (ii) demand from residential and small and medium-sized commercial users (who generate higher margin business and who are not permitted to buy from IPPs) is growing and (iii) to the extent that IPPs build generating facilities, Coelba is likely to gain revenues from wheeling charges and contracts to supply back-up electricity.

Coelba currently has 2 customers with demand greater than 10MW that are supplied at a voltage level equal to or greater than 69 kV and, as a result, constitute large customers entitled to buy from IPPs under the Public Concessions Laws. Such customers represented approximately 4% of Coelba's total volume of electrical power, and approximately 1.7% of Coelba's revenues.

Environment and Resettlement

Coelba's distribution, transmission and generation activities are subject to comprehensive federal and state legislation relating to the preservation of the environment. Coelba is not aware of any costs or liabilities relating to environmental matters which Coelba has incurred or may incur which would have a material adverse effect on Coelba's financial condition or results of operation.

Properties

The principal properties of Coelba consist of its distribution and transmission network and its five generation facilities, all of which are located in Bahia. The net book value of the Company's total consolidated plant, property and equipment as of December 31st, 2000 was R\$1,594.9 million. Apart from the distribution and transmission network, no single property produces more than 10% of total revenues.

Easements granted to the Company for an undetermined period of time underlie the Company's transmission and distribution lines. No assurance can be given as to the benefit of any such easements to the Company or as to the duration thereof. The Company's headquarters buildings are owned by the Company. Pursuant to Brazilian law, certain properties and facilities used by the Company to perform its duties under the Coelba Concession Contract cannot be transferred, assigned, pledged, sold or encumbered without the consent of ANEEL.

Litigation and Contingent Liabilities

Coelba is party to certain lawsuits and administrative proceedings before various courts and governmental agencies arising from the ordinary course of business involving labor disputes, civil liabilities and other matters. For civil liabilities, the company is currently covered by a R\$ 1.8 million insurance.

The Company is not aware of any actual or pending litigation or other contingencies affecting it or its subsidiaries which have not been adequately provided for it in its financial statements as of and for the year ended December 31st, 2000 or which would have a material adverse effect on its financial condition or results of operations.

Insurance

Coelba is required by law to maintain insurance for losses resulting from fire at its various substations and for losses to equipment during transportation, the contracted insurance covers up to R\$ 1.5 million and US\$ 5 million for domestic and international issues, respectively. In addition, Coelba has a Civil Obligation or Responsibility Insurance covering obligations up to R\$ 1.8 million. Coelba currently maintains insurance with Aliança Seguros and Unibanco. Coelba does not have insurance coverage for business interruption risk. Coelba believes that it maintains insurance that is customary in Brazil for the type of business in which it is engaged and which complies with its obligations under the Coelba Concession Contract.

Related Party Transactions

All related party transactions entered into by the Company are approved by its Board of Directors. The Company has recently had a number of dealings and entered into transactions with members of the Iberdrola Group. These dealings and transactions are carried out on an arm's length basis and were approved by Coelba's Board of Directors.

Pursuant to a technical assistance and know-how agreement dated August 12, 1997, Iberdrola was appointed by Coelba to provide technical assistance and know-how to Coelba and its operations.

The Iberdrola Group also won the tender to provide and install Coelba's new commercial information technology system, concluded in 2000. Iberdrola competed with five other bidders in this tender process.

The Guarani Shareholders Agreement authorizes Coelba and the Iberdrola Group to enter into certain specified transactions where mutual services are rendered, without a pre-established agreement.

BUSINESS OF COSERN

General

Cosern is the principal subsidiary of Coelba and is an electricity distribution utility, which transmits and distributes electricity throughout the state of Rio Grande do Norte.

Rio Grande do Norte

Rio Grande do Norte forms part of the Northeast Region of Brazil and covers an area of approximately 53,306.8 km². It had an estimated population of 2.77 million in 2000 according to the most recent data from IBGE. Rio Grande do Norte is the largest salt producer in Brazil, is the second largest producer of oil and the third largest producer of natural gas. Rio Grande do Norte's economy has historically been based on agriculture, petrochemical and textile industries and mining.

Cosern Concession Contract

Cosern holds a concession from the Federal Brazilian Government pursuant to a Concession Contract dated December 31st 1997 to provide electricity distribution services throughout all of the state of Rio Grande do Norte. The terms of the Cosern Concession Contract (including Cosern duties and obligation and the termination provisions) are substantially the same as the corresponding terms of the Coelba Concession Contract.

Distribution and Transmission Network

General

Cosern's distribution and transmission network involves the transmission of high voltage power (69 kV) and its transformation and distribution on medium voltage (13.8 kV) and low voltage (220/127V and 380/220V) lines. All of Cosern's distribution and transmission lines are aerial. Cosern distributes electricity to 167 municipalities in the State of Rio Grande do Norte, with a concession area of 53,167 km². Cosern sold 2,775 GWh during 2000 to a total of 688,303 consumers.

Interconnection with CHESF

Cosern's distribution and transmission network is connected with CHESF's generation and transmission system by way of supply lines running from six CHESF operated substations; the Açú II, the Currais Novos II, the Mossoró II, the Natal II, the Santa Cruz II and Santana do Matos II substations.

Network Performance

The high level of unscheduled interruptions was primarily due to historical underinvestment in its network, the peripheral location of its network and the location of its inter-connections with CHESF on the outer limit of CHESF's transmission network.

From 1995 to 1997 Cosern's DEC has exceeded the prescribed regulatory limits. Under the terms of the Cosern Concession Contract, Cosern was given 3 years from December 31, 1997 to ensure that its DEC falls below these prescribed limits. After the privatization, relevant investments were made and as of December 1999, Cosern was already in compliance with the required standard. Besides

the investments in its own transmission and distribution lines, CHESF's new transmission line between Recife and Natal, which became operational in 1999, helped improve this efficiency ratio. Now, the company presents one of the best ratios in the Country and is the first energy distributor to have all its transformers automated, in a total of 43 along its concession area.

The following table shows the improvement of Cosern's performance regarding the frequency and duration of interruptions per customer for each of the last four years.

	1997	1998	1999	2000
Frequency of interruption per customer (number) ⁽¹⁾	24.7	22.7	22.7	11.8
Duration of interruption per customer (hours) ⁽²⁾	39.1	35.1	23.8	14.2

(1) Frequency of interruptions per customer ("FEC") indicates the average number of interruptions in electricity supply that each customer group has experienced during the relevant period.

(2) Duration of interruptions per customer ("DEC") indicates the average length of time in hours during which electricity supply to each customer group is interrupted during the relevant period.

Purchases of Electricity

Cosern's electricity supply needs are primarily supplied by CHESF under a long-term supply arrangement. Cosern also purchases electricity from its neighboring electricity distributor, Saelpa, in order to supply customers who are located alongside the area serviced by such electricity distributor. Such supply represent less than 1% of Cosern's total supply.

Cosern's agreement for the purchase of energy from CHESF has substantially the same terms as Coelba's Supply Contract with CHESF. In addition, Cosern's agreement with CHESF is also subject to the terms of Law No. 9,648. The tariffs payable by Cosern to CHESF for its electricity purchases are the same as those payable by Coelba.

Sales

General

As of December 31st, 2000, Cosern had 688,303 customers. In the year ended December 31st 2000, Cosern supplied 2,775.0 GWh of electricity and had a 100.0% share of the electricity market in Rio Grande do Norte.

Categorization of Customers

Customers of Cosern are classified into the same customer categories as Coelba's customers. In 2000, residential, commercial, industrial, and others represented 32.0%, 16.0%, 30.3%, 21.7%, respectively, of Cosern's electricity sales by volume of electricity sold.

Levels of Sales

For the three year period ended December 31st, 2000, the average annual growth in the volume of electricity sold by Cosern was 7.1%. The average consumption level of a Cosern customer in 2000 was 336 KWh /month increasing 6.0% from the 317 KWh /month of 1997.

Cosern's energy sales volume has increased by 22.7% over the last three years. Volume increases have occurred across all of Cosern's customer categories. The percentage composition of Cosern's volume sales per customer category has remained relatively constant during the last years. Cosern's sales volume increases have primarily been driven by increased levels of consumption and economic activity in Rio Grande do Norte during this period in addition to tariffs readjustments.

Tariffs

The tariff structure which applies to Cosern is under the Cosern Concession Contract and is substantially similar to the tariff structure which applies to Coelba.

Electricity Losses

Due to Cosern's investments in its network and several actions similar to those of Coelba to reduce losses, the percentage of total losses have been falling constantly since 1997 from 18.5% as of December 1997 to 12.8% as of December 2000.

Employee and Labor Relations

Cosern's workforce as of December 31st 2000 consisted of 597 employees, down from 1270 in December 31st 1997. Such reduction was obtained basically through voluntary dismissal programs without impairing Cosern's operations.

MANAGEMENT AND EMPLOYEES

Management

Coelba is managed by an administrative council and a board of directors. The board of directors has six effective members, and their alternates, who are elected by the administrative counsel for two-year mandates. Minority shareholders are assured the right to elect at least one director, this right was not exercised in the last shareholders meeting. The same right is assured to Coelba's employees, which have indicated their director.

The board of directors has the following functional members: President - Director, Economy Director, Finance and Investor Relationship, Human Resources and General Services Director, Assets Management Director, Commercial Director and Territorial Coordination Director. The Administrative Council has to choose one of the Directors to be the Vice-President Director, with the exception of the President Director.

Administrative Council:

Antonio Batista Brito: Economist Licensed at "Universidade Federal do Acre". Mr. Brito is the Administrative Manager of Previ - Banco do Brasil's pension fund.

Esteban Serra Mont: Economist Licensed at Barcelona's Central University. Mr. Mont has been the Commercial and Distribution Director of the Hydroelectric of Catalunha S.A, and is currently the Director of Iberdrola's International Unit which is responsible for Iberdrola's international operations.

German Parga Fernandez: Ports, Channels and Roads Engineer, graduated at the "Escola de Madrid". Mr. Fernandez has been Iberdrola's Communication and Human Resources Director, and currently is responsible for Iberdrola's International Grids.

Helaine Annita Tissiane: Business Administration, Finance Specialist, graduated at FGV, and an MBA from the "Universidade de São Paulo". Ms. Tissiane is the Executive Supervisor of Federal District Unity for Banco do Brasil.

Veroilson Lima Martins: Electricity Engineer graduated by "Universidade Federal da Bahia". Mr. Martins has been Coelba's Planning Distribution Coordinator and is currently in charged of Coelba's New Business Unit.

Hayton Jurema da Rocha: Economist graduated at "Universidade Federal do Alagoas" Federal University and a MBA from the "Universidade Federal de Pernambuco". Mr. Rocha has held several functions during his career at Banco do Brasil including assignments PREVI. He is currently based in Brasilia as Executive Superintendent of Banco do Brasil.

Board of Directors:

José Ignacio Lázaro Estarta: *President Director.* - Ports, Channels and Roads Engineer graduated at “Escola Politecnica de Madrid”.

Juan Luís Doncel Agúndes: *General Services and Human Resources Director* – Economist, has been the Production and Personnel Manager at Hidroeletrica Espanhola S/A, and Safety Manager during the construction of the nuclear power plant of Cofrentes Valencia in Spain.

Moisés Afonso Sales Filho: *Assets Management Director* - Electricity Engineer graduated at the “Universidade Federal da Bahia” Mr. Sales has been responsible for the maintenance of Coelba’s Transmission Systems and Director of the Operation Center.

Aldo Ramon Brito de Almeida: *Commercial Director* - Electricity Engineer graduated by “Universidade Federal da Bahia”. Mr. Ramon has been with Coelba for several years including a long period prior to privatization. He participated of the preparation of Coelba for the privatization program and currently is the Commercial Director

Arnaldo José Vollet: *Investor Relations and Finance Director* – Mathematician, graduated at the “Universidade de São Paulo” and a MBA from IBMEC of Rio de Janeiro. Mr. Vollet has developed his career at Banco do Brasil, in the last year he has been assigned as Coelba’s CFO.

Wilson Couto Oliveira: *Territorial Coordination Director* - Electricity Engineer graduated at “universidade Federal da Bahia”. Mr. Oliveria has been Energipe’s Distribution Director and Coelba’s Inspection Department Manager prior to his current function at Coelba.

Employees and Labor Relations

Coelba’s workforce as of December, 2000 consisted of 2956 full-time employees. Coelba’s workforce decreased by 11.6%, 9.6% and 11.6% in 1998, 1999 and 2000, respectively. Coelba also has a number of third party contractors who provide it with services, including Iberdrola personnel made available to Coelba under the terms of the Technical Assistance Agreement. Coelba’s total costs of employment decreased to R\$119.8 million for the year ended December 31, 2000 from R\$111.8 million for the year ended December 31, 1999.

There have been no strikes or work stoppages at any of the Company’s plants or facilities since an official five day strike in November 1996, which is prior to the privatization process. Coelba believes that current relations with its employees and their labor union are very good.

The Company has one pension plan, FAELBA, available to all employees. FAELBA is a non-profit private welfare entity, whose objective is the provision of welfare benefits to its employees and has Coelba as its single sponsor. The pension plan is financed by the employees in conjunction with the Company, in the proportion of one third and two thirds, respectively. It is worth mentioning that Coelba’s contribution are limited and that FAELBA will not represent any material future expense.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis on the Consolidated Financial Information and the Operational Results for the years ended on December 31st 1999 and 2000

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA S/A - COELBA

This analysis should be read along with the Consolidated Financial Statements of the Company, which are an integral part of this Information Memorandum. The Financial Statements were prepared according to the Brazilian GAAP.

General Considerations

The consolidated Financial Statements include:

Companhia de Eletricidade do Estado da Bahia S/A - COELBA, an open capital corporation founded in 1960, the public electricity concessionaire of the State of Bahia, privatized on July 1997;

Companhia Energética do Rio Grande do Norte - Cosern, the public electricity concessionaire of the State of Rio Grande do Norte, created on 1962 and privatized on December 1997, date it was acquired by Coelba;

Garter Properties Inc., a BVI corporation which is a fully owned subsidiary of Coelba;

Tracol Serviços Elétricos S.A., a maintenance company that services Coelba and other electricity concessionaires in the northeast region;

Itapebi Geração de Energia S.A., a pre-operating hydroelectric generation company located in the south region of the Bahia State. With installed capacity to generate 450MW, Itapebi will become operational in January of 2003.

The Company is currently audited by Arthur Andersen S/C

Coelba - Companhia de Eletricidade do Estado da Bahia S/A - Consolidated Audited Statements of Income for the fiscal years of 1999 and 2000 as of December 31st, respectively.

	Consolidated (In R\$ 000)	
	2000	1999
OPERATING REVENUES:		
Electricity sales	1,896,336	1,558,182
Electricity supply	87,094	22,183
Use of transmission network	1,141	567
Other	24,702	33,612
	2,009,273	1,614,544
DEDUCTIONS FROM OPERATING REVENUES:		
Global reserve for reversion quota – RGR	(28,851)	(27,637)
Taxes on revenue	(446,525)	(365,376)
	(475,376)	(393,013)
NET OPERATING REVENUES	1,533,897	1,221,531
OPERATING EXPENSES:		
Personnel	(145,417)	(135,390)
Management compensation	(4,820)	(2,621)
Material	(22,209)	(17,868)
Outsourced services	(107,517)	(97,411)
Fuel for energy production	(225)	(376)
Electricity purchased for resale	(489,711)	(445,836)
Transmission system usage charges	(98,789)	(48,553)
Subsidy - fuel usage quota	(42,711)	(19,966)
Inspection fees	(3,675)	(2,813)
Depreciation and amortization	(145,495)	(109,716)
Reversal of (Provisions for) contingencies	7,013	(14,569)
Other provisions	(31,871)	(29,145)
Leases and rents	(10,404)	(11,526)
Taxes	(11,569)	(7,788)
Other operating expenses	(24,015)	(12,493)
	(1,131,415)	(956,071)
Income from public electric utility service	402,482	265,460
FINANCIAL INCOME (EXPENSE):		
Interest Income	45,045	29,429
Charges on late payments of energy bills	20,439	15,334
Interest and commissions	163	416
Monetary variations, net	(47,700)	(262,617)
Interest Expenses	(136,215)	(111,702)
Interest on capital	(83,169)	(9,400)
Other expenses	(23,588)	(9,358)
	(225,025)	(347,898)
EQUITY IN SUBSIDIARIES:		
Equity pick-up	-	-
Amortization of goodwill on investments	(22,540)	(13,679)
	(22,540)	(13,679)
INCOME (LOSS) FROM OPERATIONS	154,917	(96,117)

	Consolidated (In R\$ 000)	
	2000	1999
INCOME (LOSS) FROM OPERATIONS	154,917	(96,117)
NONOPERATING INCOME (EXPENSE):		
Nonoperating income	12,283	25,860
Nonoperating expense	(22,037)	(33,820)
	(9,754)	(7,960)
INCOME (LOSS) BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES, PROFIT SHARING AND REVERSAL OF INTEREST ON CAPITAL	145,163	(104,077)
Income and social contribution taxes - current	(28,837)	3,467
Income and social contribution taxes - deferred	(21,242)	24,434
INCOME (LOSS) BEFORE REVERSAL OF INTEREST ON CAPITAL	95,084	(76,176)
Reversal of interest on capital	83,169	9,400
Reversal of interest on capital received	-	-
INCOME (LOSS) BEFORE MINORITY INTEREST	178,253	(66,776)
Employee profit sharing	-	(390)
Minority interest	(28,610)	(15,095)
NET INCOME (LOSS)	149,643	(82,261)

Operating Revenue

Operating Revenue increased by 24.5% in 2000, from R\$ 1,614.5 million in 1999 to R\$ 2,009.3 million in 2000 mainly as a result of the increases in the number of: A) customers, which increased 3.5% for Coelba and 5.6% for Cosern; B) physical volume, total volume of energy sold in the year 2000 by the Group was 12,698 GWh, 7.8% higher than the total of 11,782 GWh sold in 1999; C) Average tariff for energy sold, readjusted in April 2000 by 11.04% for Coelba's customers and in April 2000 by 10.57% for Cosern's customers.

Stands out the growth of 12.6% in the commercial consumption, 11.3% in the industrial consumption and 6.8% in the public illumination. The industrial and commercial consumption growth were led by the increased economic activity. The public illumination growth was a result of the increased coverage of Coelba's network, reaching additional villages and far neighborhoods.

Another factor is that the Group currently has an oversupply of energy contracted and is selling it in the wholesale market "MAE", thus the Electricity supply account increased almost four times. The Group is accounting such sales at its cost, i.e., no profits, despite the spot price of energy is being higher. This is a conservative fiscal strategy considering that so far, the financial settlement of energy traded has not taken place. The profit on the energy sold via "MAE" is being accounted for as receivables and will impact sales upon financial liquidation.

Deductions From Operating Revenues (Taxes)

Sales tax expenses (PIS, COFINS and ICMS) increased by approximately 22.2% following the growth in operating revenue.

Net Operating Revenue

The net operating revenue increased by approximately 25.6% in 2000, from R\$ 1,221.5 million in 1999 to R\$ 1,533.9 million in 2000, due to the reasons mentioned above.

Operating Expenses

Operating Expenses increased 18.3%, from R\$ 956.1 million in 1999 to R\$ 1,131.4 million in 2000 as result of the following:

The personnel expenses increased by 7.41%, from R\$ 135.4 million in 1999, to R\$ 145.4 million in 2000. Such difference in the pace of growth in revenues and personnel expenses is a result of the Group's efficiency gains and head-count reductions, reflected in the ever improving ratios of Customers/Employee and GWh/Employee as can be noticed in the table below:

Coelba	1997	1998	1999	2000
Customers/Employee	567	692	804	980
GWh/Employee	2.01	2.48	2.73	3.36

Cosern	1997	1998	1999	2000
Customers/Employee	468	833	1,051	1,153
GWh/Employee	1.78	3.35	4.29	4.64

From 1999 to 2000 Coelba managed to reduce its workforce from 3,345 employees to 2,956 employees through its targeted dismissal program, which is not opened to all employees. Instead, Coelba's plan is focused on dismissing workers with poor performance who do not adjust to the new set of skills which include flexibility and focus on results. The management does not risk losing key employees and thus, have implemented this focused lay-off program. In line with the Group's policy, Cosern is implementing the same strategy.

Outsource services expenses increased by 10.4%, from R\$ 97.4 million in 1999 to R\$ 107.5 million in 2000. The sales growth through efficiency programs, the revision of contracts and standardization of machinery equipment and inventory supply.

The expenses with electricity purchased for resale increased by approximately 9.8%, from R\$ 445.8 million in 1999, when it represented 36.5% of net operating revenues, to R\$ 489.7 million in 2000, when it represented 31.9% of net operating revenues. The variation in a smaller scale than that of revenues is due to an important reduction on losses, both commercial and technical and also due to CHESF's energy supply which is not indexed to the US dollar and was increased only by 9.84% in August'2000.

Transmission system usage charges apparently increased by 103.5%, from R\$ 48.6 million in 1999 to R\$ 98.8 million in 2000. Such increase does not reflect the truth as the separate account for this expenses were initiated in July 1999 (6 months) while in 2000 a full year has been accounted for. The increase was also justified by the higher amount of energy sold, which rose from 11,781.9 GW/h in 1999 to 12,698.2 GW/h in 2000.

Depreciation and amortization expenses increased by 32.6%, from R\$ 109.7 million in 1999 to R\$ 145.5 million in 2000, as a result of the increase of the Group's fixed asset base, which increased by 17%, and part of the goodwill amortization which was accounted for as depreciation and amortization.

Financial Revenue (Expense)

The net financial expense decreased by 35.3% in 2000, from R\$ 347.9 million in 1999 to R\$ 225.0 million in 2000. This decrease was attributable in major part to the effect of a substantially lower currency exchange rates devaluation on the Company's debt indexed to the US dollar. The Real devaluation was 9.30% in 2000 and 48.01% in 1999, generating a negative result from currency exchange variations of R\$ 47.7 million and a negative result R\$ 262.6 million in 2000 and 1999 respectively.

Interest revenues increased 53.1% from R\$ 29.4 million in 1999 to R\$ 45.1 million in 2000 as result of higher cash marketable securities position held during 2000 and positive adjustments received on currency swaps.

Interest expenses (excluding monetary variations) increased 15.7% from R\$ 111.7 million in 1999 to R\$ 136.2 million in 2000 reflecting the increase in the total indebtedness of the Group which increased 30.2% from R\$ 1,031.5 million in 1999 to R\$ 1,342.7 million in 2000.

Coelba and Cosern issued, respectively, R\$120 million and R\$ 75 million in Brazilian debentures and increased working capital loans to fund capital expenditures and the increase in receivables

Amortization of Goodwill on Investments

In order to benefit from the goodwill paid on Coelba's acquisition, the management promoted a societary restructuring where Coelba incorporated its controlling company, Nordeste Participações S/A, a SPC, allowing for a faster amortization and more adequate fiscal situation.

The management promoted the same restructuring on Cosern, which incorporated its controlling company, Ibdem S/A, a SPC.

Both restructuring processes were concluded upon the approvals of ANEEL (Brazilian Government Regulatory Agency) and CVM (Brazil's SEC equivalent).

The goodwill arising from the merger is economically based on the concession rights are being amortized over the remaining concession period according to the Amortization Curve authorized by ANEEL as follows:

Ratios (%)			Ratios (%)			Ratios (%)		
Year	COELBA	COSERN	Year	COELBA	COSERN	Year	COELBA	COSERN
2000	0.02567	0.03621	2011	0.03466	0.03983	2022	0.04540	0.02666
2001	0.02766	0.04654	2012	0.03552	0.03842	2023	0.04653	0.02551
2002	0.03128	0.04344	2013	0.03640	0.03705	2024	0.04769	0.02442
2003	0.02900	0.04667	2014	0.03731	0.03741	2025	0.04887	0.02336
2004	0.02704	0.04707	2015	0.03823	0.03575	2026	0.05009	0.02235
2005	0.02851	0.04656	2016	0.03918	0.03430	2027	-	0.02137
2006	0.02958	0.04547	2017	0.04016	0.03289			
2007	0.03135	0.04455	2018	0.04116	0.03153			
2008	0.03222	0.04297	2019	0.04218	0.03022			
2009	0.03300	0.04118	2020	0.04323	0.02907			
2010	0.03382	0.04133	2021	0.04430	0.02784			

The merged tax benefit, represented by the goodwill net of the reserve to maintain the integrity of shareholders' equity, is presented as "Recoverable deferred taxes", segregated into current assets and permanent assets based on the expectation of realization.

Net Income (Loss)

Group's net result presented strong improvement in the year 2000, compared to 1999 as result of the much lower impact of the Brazilian currency devaluation on the Group's dollar indexed indebtedness. Net result increased from a net loss of R\$ 82.3 million in 1999 to a net profit of R\$ 149.6 million in 2000.

Excluding the effects of the devaluation on the Group's income statements, the net income in 2000 and in 1999 would be, respectively, R\$ 197.3 million and R\$ 180.4 million, or a 9.4% increase denoting the Group's operational and financial efficiency gains.

Main Consolidated Balance Sheet Accounts for the fiscal Years ended on December 31st, 1999 and 2000 respectively

Cash and Equivalents

The Group's cash and equivalents include marketable securities which are accounted for at their original value plus respective accrued and received interest until the closing date for the period. On December 31st, 2000, the cash and equivalents totaled R\$ 68.4 million, while on December 31st, 1999, it totaled R\$ 12.3 million. This 458% increase results from Group's cash generation and new loans including the Brazilian debentures issued by Coelba. A portion of this cash will be used to pay dividends and fund part of Group's capital expenditures during 2001.

Receivables

The accounts receivable on December 31st, 2000 totaled R\$ 471.8 million, representing an increase of 104.2% over the R\$ 231.0 million on December 31st, 1999. The table below shows the evolution of accounts receivables from consumers divided by class:

	Consolidated				
	2000				
	Current	Past due		Total	1999
Up to 90d		Over 90d			
Private sector	110,853	97,565	51,818	260,236	127,879
Residential	52,224	36,563	28,687	117,474	68,451
Industrial	10,683	21,224	5,533	37,440	21,338
Retail, services and other	47,946	39,778	17,598	105,322	38,090
Public sector	28,881	28,956	44,622	102,459	61,350
Government	8,996	14,668	11,474	35,138	21,507
Public lighting	11,225	6,862	27,468	45,555	31,625
Public service	8,660	7,426	5,680	21,766	8,218
	139,734	126,521	96,440	362,695	189,229
Taxed services and other				5,296	5,583
Unclassified payments				(21,388)	(46,060)
Unbilled energy sold				52,654	63,646
Financial interest - construction				20,419	6,349
Concessionaire - billed supply				15,944	12,187
Concessionaire - unbilled supply				30,130	-
Other				6,039	70
				471,789	231,004

The Group has past-due receivables from consumers in the amount of R\$222.9 million as of December, 31st 2000 while in the previous year the position was only R\$ 88.5 million. There are four main driving factors leading to such increase in receivables:

Implementation of the new Commercial Information System “SIC”. During the implementing phase, the Group was not able to cut the energy distribution to delinquent customers. Such action is key to maintain adequate levels of delinquency. In the 1st quarter of 2001 the Group resumed the remittance of the notice of cutting and the cut action itself. The level of delinquency is expected to return to acceptable levels by the 2nd half of 2001;

Increased level of economic activity and consequent increase in demand in second semester of 2000. The increased volume of energy sold coupled with an increased average tariff naturally increased the receivables

Strong program of regularization of unauthorized connections (theft) and the billing of the prior 24 estimated consumption of the unauthorized connections. The current regulation allows the Group to charge unauthorized customers up to 60 months of its average usage when regularizing its connection. Coelba’s policy is to bill unauthorized connections for a period of 24 months. In the second semester of 2000, when technical teams were unable to disconnect delinquent customers, the technical department relocated efforts to regularize unauthorized connections. The success of this program meant a significant increase of Group’s receivables as the Group finances such re-billing in up to 12 months;

Re-classification of R\$ 30.1 million formerly registered as “notes receivables”.

The Groups’ management considers the allowance for doubtful accounts sufficient to cover potential losses, and do not expect significant losses on the realization of these assets.

Indebtedness

Total debt on December 31, 2000 was R\$ 1,342.7 million which corresponds to an increase of 30.16% compared to R\$ 1,031.5 million, on December 31st, 1999. Nearly 82% of total indebtedness or R\$ 1,095.8 was represented by long term debt and the remainder by short term debt and charges. The following table shows the Company’s debt breakdown on December 31st, 2000 and on December 31st, 1999.

Source	Consolidated							
	2000				1999			
	Debt charges	Short term	Long term	Total	Debt charges	Short term	Long term	Total
Foreign currency	4,395	129,381	602,087	731,468	4,444	34,221	580,056	614,277
BID – Interamerican Development Bank	2,426	27,545	106,128	133,673	2,885	33,013	125,552	158,565
Kreditanstalt für Wiederaufbau – KfW	-	1,184	7,109	8,293	1	1,162	7,254	8,416
Chase Manhattan	1,897	-	488,850	488,850	1,555	-	447,250	447,250
Banco Real	-	25,064	-	25,064	-	-	-	-
BBVA	-	13,534	-	13,534	-	-	-	-
Banco Itaú	72	24,848	-	24,848	-	-	-	-
Banco do Brasil	-	37,206	-	37,206	3	46	-	46

Source	Consolidated							
	2000				1999			
	Debt charges	Principal		Total	Debt charges	Principal		Total
Short term		Long term	Short term			Long term		
Local currency	20,764	117,422	493,469	611,191	1,586	172,772	244,470	417,242
Fundação COELBA - FAELBA	-	6,400	21,660	28,060	-	6,406	24,722	31,128
Banco do Brasil	254	2,418	27,017	29,435	241	2,137	25,524	27,661
Eletrobrás	370	28,068	98,412	126,480	15	26,254	67,956	94,210
BANDERN	-	6,597	2,576	9,173	-	5,900	2,576	8,476
Fundação COSERN - FASERN	-	3,157	6,167	9,324	-	2,929	9,087	12,016
Citibank	-	2,500	-	2,500	-	-	-	-
BMC	20	1,809	3,316	5,125	25	1,739	4,893	6,632
Banco Itaú	11	19,000	-	19,000	221	19,400	-	19,400
BNDES	749	27,018	157,591	184,609	484	5,348	108,933	114,281
Brazilian Debentures	19,360	18,750	176,250	195,000	-	-	-	-
Consumers	-	1,705	780	2,485	-	1,867	776	2,643
Other	-	-	-	-	600	100,792	3	100,795
TOTAL	25,159	246,803	1,095,856	1,342,659	6,030	206,993	824,526	1,031,519

The BID loan refers to a program for expansion of network and comprises two tranches with interest rates ranging from 3.00% to 8.25% per annum and final maturity on 2011.

The KfW loan matures on 2007, bearing interests of 6.5% per annum. This loan is funding a program to supply energy to the São Francisco river region.

The Chase Manhattan loan was raised through Garter to finance the acquisition of Cosern. This loan is being refinanced by this proposed facility.

Eletrobrás debt bears interest in the ranges of 6.0% to 8.0% per annum and are funding expansion of distribution lines. Its final maturity is in 2008.

Coelba Foundation "FAELBA" and Cosern Foundation "FASERN" debts refers to renegotiation with the pension funds of existing debt. It is worth mentioning that both plans do not have guaranteed benefits, instead they operate with fixed contributions from both, the employee and the companies of the Group, consequently, there are no unforeseeable pension fund liabilities.

On April 1st 2000, Cosern issued R\$ 75 million of Brazilian debentures with final maturity on April 1st 2003 bearing floating rates of 104.5% of the average interbank deposit rate (CDI). Three months later, on July 1st 2000, Coelba issued R\$ 120 million of Brazilian debentures with final maturity on July 1st 2003 bearing floating rates of 102.5% of the average interbank deposit rate (CDI). Both debentures have semiannual interest payment and principal amortization after a grace period of 18 months. Set forth below we have the debentures consolidated position:

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**APPENDIX A – COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA
QUARTERLY INFORMATION REPORT AS OF MARCH 31ST, 2000 AND 2001**

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Report of Independent Public Accountants

(Translation of the report originally issued in Portuguese.

See Note 13 to the financial statements.)

To the Management and Shareholders of

Companhia de Eletricidade do Estado da Bahia - COELBA:

(1) We have made a special review of the quarterly report of COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA (a Brazilian corporation), which includes the balance sheet as of March 31, 2001, the related statement of income for the quarter then ended, pertinent information and management's comments thereon, all prepared under the responsibility of the Company's management.

(2) Our review was conducted in accordance with specific standards established by the Brazilian Institute of Accountants – IBRACON, together with the Federal Accounting Council, and comprised: (a) inquiries of and discussions with Company management responsible for the accounting, financial and operating areas as to the principal criteria adopted in the preparation of the quarterly information; and (b) review of information and subsequent events that had or might have had significant effects on the financial position and operations of the Company.

(3) The financial statements as of and for the quarter ended March 31, 2001 of the subsidiary Companhia Energética do Rio Grande do Norte – COSERN were reviewed by other independent public accountants whose special review report thereon dated April 20, 2001 did not contain qualifications. The investment in Companhia Energética do Rio Grande do Norte – COSERN represents 8.14% of the Company's total assets as of March 31, 2001 and the equity pick-up in this subsidiary represents 80.01% of the total equity income for the quarter ended March 31, 2001.

(4) Based on our special review and on the report of the other independent public accountants, we are not aware of any material modification that should be made to the information contained in the quarterly report referred to above, for it to be in accordance with accounting practices emanating from corporate law in Brazil and presented in accordance with standards established by the Brazilian Securities Commission - CVM, specifically applicable to the preparation of quarterly information.

(5) The balance sheet as of December 31, 2000, presented for comparative purposes, was audited by us and our report thereon, dated February 9, 2001 (also dated March 7, 2001 for certain specific information), included reference to the fact that the financial statements of subsidiaries, Companhia Energética do Rio Grande do Norte – COSERN, Garter Properties Inc. and Itapebi Geração de Energia S.A., had been audited by other independent public accountants. The statement of income for the quarter ended March 31, 2000, presented for comparative purposes, was reviewed by other independent public accountants, whose special review report thereon, dated May 8, 2000, did not contain qualifications.

Salvador, Bahia

April 24, 2001

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

BALANCE SHEETS--MARCH 31, 2001 AND DECEMBER 31, 2000

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

A S S E T S

	<u>March 31, 2001</u>	<u>December 31, 2000</u>
	<u>(Unaudited)</u>	
CURRENT ASSETS:		
Cash and banks	13,603	18,472
Temporary cash investments	20	20
Consumers, concessionaires and permissionaires	335,200	319,630
Notes receivable	26,877	25,235
Allowance for doubtful accounts	(24,654)	(15,562)
Service in progress	24,684	18,027
Inventories	3,671	2,936
Dividends and interest on capital	32,059	43,389
Repass of loans and financing	7,562	6,567
Marketable securities	126	162
Recoverable taxes	22,734	21,185
Deferred income and social contribution taxes	3,518	4,040
Recoverable deferred taxes	10,649	10,312
Other receivables	56,883	26,947
Prepaid expenses	-	64
	-----	-----
	512,932	481,424
	-----	-----
NONCURRENT ASSETS:		
Notes receivable	17,675	25,460
Repass of loans and financing	12,065	10,513
Deferred income and social contribution taxes	150,577	136,800
Recoverable deferred taxes	350,022	352,938
Other	9,233	6,227
	-----	-----
	539,572	531,938
	-----	-----
PERMANENT ASSETS:		
Investments-		
Investments in subsidiaries	751,106	734,776
Other investments	11,091	10,849
	-----	-----
	762,197	745,625
Property, plant and equipment-		
In service	2,268,837	2,252,531
Accumulated depreciation	(894,964)	(873,005)
Construction in progress	249,861	215,432
	-----	-----
	1,623,734	1,594,958
Deferred charges	1,838	2,042
	-----	-----
	2,387,769	2,342,625
	-----	-----
Total assets	3,440,273	3,355,987
	=====	=====

The accompanying notes are an integral part of these balance sheets.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

BALANCE SHEETS--MARCH 31, 2001 AND DECEMBER 31, 2000

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>March 31, 2001</u>	<u>December 31, 2000</u>
	<u>(Unaudited)</u>	
CURRENT LIABILITIES:		
Suppliers	87,998	89,519
Accrued payroll	1,213	936
Loans and financing	197,206	135,875
Debt charges	3,810	3,474
Debentures and related charges	34,380	9,661
Taxes and social charges	36,705	51,681
Regulatory charges	16,062	18,403
Other payables	28,898	25,736
Tax installments	8,534	8,353
Payables to related parties	14,084	13,072
Interest on capital and proposed dividends	48,749	80,951
Accrued liabilities	10,497	12,617
Reserves for contingencies	22,469	22,445
Advances and other liabilities	17,008	13,634
	-----	-----
	527,613	486,357
	-----	-----
LONG-TERM LIABILITIES:		
Loans and financing	326,561	321,113
Debentures	90,000	120,000
Tax installments	25,603	27,149
Payables to related parties	656,739	595,372
Reserves for contingencies	22,884	21,770
Other	8,887	8,894
	-----	-----
	1,130,674	1,094,298
Special liabilities	287,128	281,580
	-----	-----
	1,417,802	1,375,878
	-----	-----
SHAREHOLDERS' EQUITY:		
Capital	1,068,297	1,068,297
Capital reserves	399,530	399,530
Profit reserves	7,536	7,536
Profit retention reserve	18,389	18,389
Retained earnings	1,106	-
	-----	-----
	1,494,858	1,493,752
	-----	-----
	3,440,273	3,355,987
	-----	-----
equity	=====	=====

The accompanying notes are an integral part of these balance sheets.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

STATEMENTS OF INCOME

FOR THE QUARTERS ENDED MARCH 31, 2001 AND 2000

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

(Unaudited)

	Quarters ended March 31,	
	2001	2000
OPERATING REVENUES:		
Electricity sales	377,885	336,782
Electricity supply	1,580	8,455
Use of transmission network	295	263
Other	4,027	3,327
	-----	-----
	383,787	348,827
	-----	-----
DEDUCTIONS FROM OPERATING REVENUES:		
Global reserve for reversion quota - RGR	(5,964)	(5,432)
Taxes on revenue	(89,754)	(82,350)
	-----	-----
	(95,718)	(87,782)
	-----	-----
NET OPERATING REVENUES	288,069	261,045
	-----	-----
OPERATING EXPENSES:		
Personnel and management compensation	(28,292)	(30,290)
Material	(3,213)	(3,017)
Outsourced services	(21,370)	(17,140)
Fuel for energy production	(74)	(31)
Electricity purchased for resale	(103,928)	(88,359)
Transmission system usage charges	(20,852)	(17,089)
Subsidy - fuel usage quota	(7,079)	(9,190)
Inspection fees	(891)	(729)
Depreciation and amortization	(27,841)	(24,384)
Provisions for contingencies	(2,069)	(4,071)
Other provisions	(9,286)	(1,249)
Leases and rents	(2,460)	(2,417)
Taxes	(2,746)	(2,885)
Other operating expenses	(2,446)	(2,828)
	-----	-----
	(232,547)	(203,679)
	-----	-----
Income from public electric utility service	55,522	57,366
	-----	-----

	Quarters ended March 31,	
	2001	2000
FINANCIAL INCOME (EXPENSE):		
Income from temporary cash investments	296	101
Charges on late payments of energy bills	3,554	3,076
Interest and commissions	4	135
Other income	50,838	4,066
Monetary variations, net	(84,549)	14,151
Debt charges	(35,799)	(25,607)
Other expenses	(1,936)	(4,949)
	-----	-----
	(67,592)	(9,027)
	-----	-----
EQUITY IN SUBSIDIARIES:		
Equity pick-up	8,277	7,370
Amortization of goodwill on investments	(3,433)	(3,420)
	-----	-----
	4,844	3,950
	-----	-----
INCOME (LOSS) FROM OPERATIONS	(7,226)	52,289
	-----	-----
NONOPERATING INCOME (EXPENSE):		
Nonoperating income	183	1,931
Nonoperating expense	(5,105)	(4,871)
	-----	-----
	(4,922)	(2,940)
	-----	-----
INCOME (LOSS) BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES	(12,148)	49,349
Income and social contribution taxes - current	-	(22,404)
Income and social contribution taxes - deferred	13,254	-
	-----	-----
NET INCOME	1,106	26,945
	=====	=====
EARNINGS PER THOUSAND SHARES - R\$	0.06	1.43
	====	====

The accompanying notes are an integral part of these statements.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

NOTES TO THE FINANCIAL STATEMENTS

AS OF MARCH 31, 2001 AND DECEMBER 31, 2000

(Amounts in thousands of Brazilian reais, unless otherwise indicated)

(Translation of the original in Portuguese)

1. OPERATIONS

Companhia de Eletricidade do Estado da Bahia - COELBA is a publicly-traded company, engaged in the production, transmission and distribution of electric energy and, additionally, is an investor in subsidiaries and affiliated companies. The Company is authorized to operate as a concessionaire of electric energy utility services in the State of Bahia. Its activities are regulated and inspected by the National Electric Energy Agency (ANEEL), an agency of the Ministry of Mines and Energy.

2. PRESENTATION OF INTERIM FINANCIAL STATEMENTS

The financial statements are presented in accordance with accounting practices emanating from Brazilian corporate law, and supplementary regulations established by the Brazilian Securities Commission (CVM) and ANEEL. Such regulations do not provide for recognition of the effects of inflation, as established by Law No. 9,249/95, which eliminated the monetary restatement of balance sheets for tax and corporate purposes starting in 1996.

The accounting practices applied in the preparation of these interim financial statements are consistent with those applied in the financial statements as of December 31, 2000.

3. ACCOUNTS RECEIVABLE

3.1 Consumers, concessionaires and permissionaires

	<u>March 31, 2001</u>	<u>December 31, 2000</u>
Billed energy		
Industrial	109,189	101,289
Retail, services and other	26,910	26,649
Public sector (government, public lighting and service)	73,664	82,694
	52,711	43,666
	-----	-----
	262,474	254,298
Unclassified payments	(11,614)	(22,121)
	-----	-----
	250,860	232,177
Unbilled energy supplied	46,150	41,664
Financial interest – construction	8,272	16,574
Concessionaire – billed supply	12,277	11,564
Concessionaire – unbilled supply	12,228	12,228
Other	5,413	5,423
	-----	-----
	335,200	319,630
	=====	=====

The Company has past-due receivables from consumers in the amount of R\$ 181,520 (R\$112,442 as of December 31,2000), net of unclassified payments. The Company's management considers the allowance for doubtful accounts sufficient to cover possible losses, and do not expect significant losses on the realization of these assets.

3.2. Notes receivable

The Company has past-due notes receivable in the amounts of R\$3,840, mostly related to past due installments for energy sold.

	<u>March 31, 2001</u>	<u>December 31, 2000</u>
Past due		
Public sector	2,566	2,381
Private sector	1,274	1,231
	-----	-----
	3,840	3,612
Current notes	40,712	47,083
	-----	-----
	44,552	50,695
Current assets	(26,877)	(25,235)
	-----	-----
Noncurrent assets	17,675	25,460
	=====	=====

4. TAX CREDITS

4.1. Deferred income and social contribution taxes

The Company has deferred income tax assets calculated at the base rate of 15%, plus the surtax of 10%, and deferred social contribution tax assets recognized at the rates of 8% and 9%.

The composition of deferred income and social contribution taxes, as of March 31, 2001 and December 31, 2000, is as follows:

	<u>March 31, 2001</u>		<u>December 31, 2000</u>		<u>Expected realization</u>
	<u>Calculation basis</u>	<u>Deferred tax assets</u>	<u>Calculation basis</u>	<u>Deferred tax assets</u>	
Income tax	528,429	132,103	485,353	121,314	
	-----	-----	-----	-----	
Tax loss carryforwards	440,199	110,046	404,184	101,026	2005
Temporary differences	88,230	22,057	81,169	20,288	2005
	-----	-----	-----	-----	
Social contribution tax	265,905	21,992	234,407	19,526	
	-----	-----	-----	-----	
Tax loss carryforwards	177,675	14,933	153,238	13,033	2005
Temporary differences	88,230	7,059	81,169	6,493	2005
	-----	-----	-----	-----	
Total		154,095		140,840	
Current		(3,518)		(4,040)	
		-----		-----	
Noncurrent		150,577		136,800	
		=====		=====	

4.2. Recoverable deferred taxes

The financial statements prepared for official corporate and tax purposes include specific accounts related to merged goodwill, reserves to maintain the integrity of shareholders' equity, amortization, reversal and the corresponding tax credit. These balances as of March 31, 2001 and December 31, 2000 are as follows:

	<u>March 31, 2001</u>	<u>December 31, 2000</u>
Goodwill – merged	1,090,149	1,097,941
Reserves	(729,478)	(734,691)
	-----	-----
Merged tax credit, net	360,671	363,250
Current	(10,649)	(10,312)
	-----	-----
Noncurrent	350,022	352,938
	=====	=====

Quarter ended

March 31, 2001

Statement of income:

Amortization of goodwill	7,792
Reversal of reserve	(5,214)
Tax credit	(2,578)

Net impact	-
	=====

As shown above, the goodwill amortization, net of reversal of the reserve and the corresponding tax credit, has no impact on the Company's results of operations and, therefore, on the calculation basis of minimum mandatory dividends.

For a better presentation of the financial position of the Company in its financial statements, the total net amount of R\$360,671 as of March 31, 20001, which essentially represents the merged tax credit, was recorded under the caption "recoverable deferred taxes" in current and noncurrent assets, based on the expectation of realization of such tax credit.

5. INVESTMENTS

	<u>March 31, 2001</u>	<u>December 31, 2000</u>
Investment in subsidiaries	466,864	447,100
Goodwill in COSERN	297,997	297,997
Amortization of goodwill in COSERN	(13,755)	(10,321)
	-----	-----
Other	751,106	734,776
	11,091	10,849
	-----	-----
	762,197	745,625
	=====	=====

Investment in Subsidiaries

	Number of shares held					
	Common	%	Preferred	%	Total	%
Cosern	80,945,650	65.21	32,339,679	79.57	113,285,329	67.40
Garter	50,000	100.00	-	-	50,000	100.00
Tracol	99,995	99.99	-	-	99,995	99.99
Itapebi	63,000,000	42.00	-	-	63,000,000	42.00

Itapebi Geração de Energia S.A., founded on January 21, 1999 by the consortium COELBA - Guaraniana, with present paid-up capital of R\$150,000, is engaged in the study, projection, construction and future operation of the Itapebi hydroelectric power plant. The subsidiary will have a four-year term to construct the power plant, with forecasted investments of approximately R\$500,000, the funds for which will be obtained from the shareholders and in the market. Currently, the project is in the preoperating stage.

	Changes in investments				
	COSERN	Garter	Tracol	Itapebi	Total
Balances as of December 31, 2000	561,093	108,917	1,766	63,000	734,776
Amortization of goodwill (1)	(3,433)	-	-	-	(3,433)
Equity pick-up	6,623	1,584	71	-	8,278
Exchange variation	-	11,485	-	-	11,485
Balances as of March 31, 2001	564,283	121,986	1,837	63,000	751,106

(1) In accordance with CVM Instruction 285, of July 31, 1998, the Company is amortizing the goodwill under the straight-line method over the concession period granted to COSERN of 30 years.

	COSERN	Garter	Tracol	Itapebi
Updated capital	140,413	108	2,246	150,000
Shareholders' equity	415,476	121,986	1,837	150,000
Net income	9,823	1,584	71	-
Investment in subsidiaries	280,041	121,986	1,837	63,000
Unamortized goodwill paid on the acquisition of investment, net	284,242	-	-	-

6. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rates (%)	March 31, 2001			December 31, 2000
		Cost	Depreciation	Net	Net
In service:					
Generation	3.19	86,832	(23,324)	63,508	63,676
Transmission	3.29	14,978	(5,805)	9,173	9,585
Distribution	4.40	2,047,691	(818,616)	1,229,075	1,232,460
Administrative	9.33	119,336	(47,219)	72,117	73,805
		-----	-----	-----	-----
		2,268,837	(894,964)	1,373,873	1,379,526
		-----	-----	-----	-----
In progress:					
Generation		387	-	387	372
Transmission		3,262	-	3,262	2,988
Distribution		232,336	-	232,336	197,180
Administrative		13,876	-	13,876	14,892
		-----	-----	-----	-----
		249,861	-	249,861	215,432
		-----	-----	-----	-----
		2,518,698	(894,964)	1,623,734	1,594,958
		=====	=====	=====	=====

Property, plant and equipment in progress refers substantially to construction to expand the electric energy generation, transmission and distribution system.

In accordance with articles 63 and 64 of Decree No. 41,019 of February 26, 1957, assets and installations used in generation, transmission and distribution are linked to these services and cannot be retired, sold or pledged in guarantee without the prior express consent of the competent authorities. ANEEL Resolution No. 20/99 regulates the electric energy utility concession assets, giving prior authorization for not restricting assets not tied to the concession, when intended for sale, and determining that the proceeds from the sale of such assets be deposited in a restricted bank account and invested in the concession.

7. LOANS AND FINANCING

	March 31, 2001			December 31, 2000		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Foreign currency						
Interamerican Development Bank – BID	29,870	105,496	135,366	27,545	106,128	133,673
Kreditanstalt für Wiederaufbau – KFW	1,223	7,340	8,563	1,184	7,109	8,293
Banco do Brasil	38,277	-	38,277	37,206	-	37,206
Deutsche	44,322	-	44,322	-	-	-
BBVA	3,537	-	3,537	-	-	-
Citibank	23,131	-	23,131	-	-	-
	-----	-----	-----	-----	-----	-----
	140,360	112,836	253,196	65,935	113,237	179,172
	-----	-----	-----	-----	-----	-----
Local currency						
Fundação COELBA – FAELBA	6,395	20,414	26,809	6,400	21,660	28,060
Eletrobrás	12,519	85,291	97,810	14,008	71,798	85,806
Banco Itaú S.A.	7,200	-	7,200	19,000	-	19,000
BMC	1,822	2,886	4,708	1,809	3,316	5,125
BNDES	-	104,354	104,354	27,018	110,322	137,340
Consumers	1,679	777	2,456	1,705	780	2,485
Banco do Brasil	27,223	-	27,223	-	-	-
Other	8	3	11	-	-	-
	-----	-----	-----	-----	-----	-----
	56,846	213,725	270,571	69,940	207,876	277,816
	-----	-----	-----	-----	-----	-----
	197,206	326,561	523,767	135,875	321,113	456,988
	=====	=====	=====	=====	=====	=====

Of the Company's total debt, R\$253,196 is guaranteed by the Federal and State Governments.

Loan contractual conditions:

Source	Date	Purposes	Interest rates	Maturity
BID	04.05.81	Program for Expansion and Improvement of Transmission and Electric Energy Distribution System in the State of Bahia - 1st stage	8.25% per year 3.00% per year	2001 2001
	03.23.86	Program for Expansion and Improvement of Transmission and Electric Energy Distribution System in the State of Bahia - 2 nd stage	7.75% per year 3.00% per year	2006 2011
KfW	07.15.87	Program for Supply of Electric Energy in the São Francisco region, West of the State of Bahia	6,50% per year	2007
ELETRORBRÁS	Various	Expansion of distribution lines, networks and transmission lines	5.00% to 7.00% per year	2012
FAELBA	05.01.99	Debt renegotiation	90 % of CDI	2004
BMC/BNDES	09.21.98	Coelbanet.	TJLP + 3% Spread	2003
BNDES/FINEM	06.01.99	Electric energy transmission and distribution	TJLP + 3.85 % per year	2006
Other	Various	Working capital	12.5% to 13.0% per year	2001

(*) CDI - Interbank deposit rates.

(**) TJLP - Brazilian long-term interest rate.

The long-term portion matures as follows:

	March 31, 2001	December 31, 2000
2002	79,889	72,527
2003	75,632	70,336
2004	64,395	64,811
2005	53,469	56,914
2006	10,986	20,327
After 2006	42,190	36,198
	----- 326,561 =====	----- 321,113 =====

The composition of the foreign currency balance is as follows (all amounts in thousands):

	March 31, 2001		December 31, 2000	
	Foreign currency	R\$	Foreign currency	R\$
U.S. dollar	97,752	211,302	70,341	137,544
Swiss franc	2,401	2,980	2,353	2,849
German mark	10,526	10,234	10,395	9,788
Japanese yen	1,850,173	31,679	1,833,449	31,319
Dutch florin	207	179	203	170
		-----		-----
		256,374		181,670
		-----		-----
Principal		253,196		179,172
Charges		3,178		2,498
		=====		=====

The principal currencies and indices used for restating loans and financing had the following changes for the quarter ended March 31, 2001:

Currency/Index	Increase %
IGP-M	1.42
TR – Reference Rate	0.35
Japanese yen	0.23
Dutch florin	3.25
German mark	3.25
Swiss franc	2.52
U.S. dollar	10.55

8. RESERVES FOR CONTINGENCIES

a) Consumers - Plano Cruzado tariffs

The Company is a defendant in lawsuits in which certain industrial consumers challenged the legality of the electric energy tariff increases during the Cruzado (economic stabilization) Plan, under DNAEE (predecessor of ANEEL) Administrative Rules No. 38 and No. 45 of January 27 and March 4, 1986, respectively, and demand the refund of the amounts involved. It is not possible to foresee the outcome, but several other energy companies have partially succeeded against these consumer claims. To cover possible contingencies arising from such claims, the Company recognized reserves amounting to R\$20,206 (R\$19,925 as of December 31, 2000) related to differences in the rates charged from March to November 1986 to industrial consumers, plus late payment charges, in amounts considered sufficient.

b) Other

The Company is also involved in other litigation and administrative proceedings on civil, tax and labor issues arising from its normal operations. Based on the opinion of the Company's legal counsel, the reserve recorded is R\$25,147 (R\$24,291 as of December 31, 2000), considered by management to be sufficient to cover eventual losses.

9. RELATED-PARTY TRANSACTIONS

COELBA has transactions with related parties, including the purchase and sale of electricity and services and loans, among others.

Related parties	Transactions	March 31, 2001			December 31, 2000		March 31, 2000
		Assets	Liabilities	Income (Expense)	Assets	Liabilities	Income (Expense)
Fundação COELBA	Installment terms for debts	-	26,809	(846)	-	28,052	(1,291)
Iberdrola Energia S.A.	Technical assistance – “performance fee”	-	7,700	-	-	7,700	(2,008)
	Services rendered	78	-	-	-	-	-
Iberdrola Energia do Brasil	Technical assistance	-	452	(452)	-	-	-
Guaraniana S.A.	Tax credits assigned(REFIS)	-	11,930	-	-	11,669	-
Garner Properties Inc.	Loans	-	651,194	(18,199)	-	589,075	(15,305)
CELPE	Energy supply – purchase	-	-	-	-	-	-
	Energy supply – sale	-	93	(301)	-	102	(228)
Itapebi	Reimbursement of expenses	11	-	31	623	-	-
Iberdrola Empreendimentos	Services rendered	-	-	-	-	78	-
Iberdrola Redes S.A.	Services rendered	215	-	-	-	365	-
Iberdrola Electrica S.A.	Services rendered	-	-	-	-	72	-
Iberdrola Sistemas S.A.	Services rendered	-	-	-	-	-	(691)
COSERN	Dividends and interest on capital	32,030	-	-	43,361	-	-
	Reimbursement of expenses	68	-	12	273	-	-
Tracol Serviços Elétricos	Services rendered	-	194	(1,552)	-	153	(1,963)
	Reimbursement of expenses	21	-	71	20	-	-
	Advances for capital increase	325	-	-	-	-	-
	Dividends	29	-	-	29	-	-
Gamesa Serviços Brasil Ltda.	Services rendered	-	311	(1,986)	-	232	(1,432)
Amara Brasil	Services rendered	-	84	(1,591)	-	193	(20)
	Reimbursement of expenses	13	-	25	-	-	-
Televias	Reimbursement of expenses	6	-	8	-	-	-

10. CAPITAL

The Company's authorized capital is R\$1,300,000. Paid up capital as of March 31, 2001 is R\$1,068,297, represented by 18,817,734,000 shares without par value.

11. NET OPERATING REVENUES

The composition of net sales revenue for the first quarter of 2000 by class of consumers is as follows:

	Number of		Energy Sold			
	Consumers (1)		MWh (1)		Amounts	
	March 2001	March 2000	March 2001	March 2000	March 2001	March 2000
Residential	2,588,223	2,387,430	873,434	864,681	191,792	166,769
Industrial	16,371	15,302	594,579	564,089	50,464	49,885
Commercial	231,040	213,883	467,983	495,649	79,933	79,042
Rural	78,821	69,660	152,895	104,226	12,620	9,067
Government	30,828	29,248	110,133	99,533	15,809	13,385
Public lighting	15,455	12,626	146,500	139,202	12,425	11,093
Public services	1,845	1,583	130,321	128,715	10,356	9,321
Own consumption	524	405	5,650	5,194	-	-
	-----	-----	-----	-----	-----	-----
	2,963,107	2,730,137	2,481,495	2,401,289	373,399	338,562
Unbilled sales					4,486	(1,780)
Supply					1,580	8,455
Use of transmission system					295	263
Other revenues					4,027	3,327
					-----	-----
					383,787	348,827
ICMS (State VAT)					(75,746)	(69,158)
Other deductions					(19,972)	(18,624)
	-----	-----	-----	-----	-----	-----
	2,963,107	2,730,137	2,481,495	2,401,289	288,069	261,045
	=====	=====	=====	=====	=====	=====

(1) Not reviewed by auditors.

12. FINANCIAL INSTRUMENTS

The book values for fixed interest rate investments, transactions with related companies, loans and financing related to financial instruments included in the balance sheet, when compared to the amounts which could be obtained in negotiations in an active market, or, if not available, with the adjusted present value based on the interest rate prevailing in the market, are substantially similar to their corresponding market values.

Accounts receivable from federal, state and municipal governments and from public sector entities are recorded in the balance sheet in the amounts of R\$43.333 (R\$43.666 as of December 31, 2000). It was not possible to estimate the market values of past-due amounts since their receipt dates cannot be projected.

The installment obligations of debt with FAELBA of COELBA and with FASERN of COSERN, in compliance with standards established for private pension plan entities, are equivalent to market values for this type of operation.

The book values of long-term loans and financing linked to specific basic infrastructure projects, made in foreign currency with international development institutions, as well as those for loans and financing linked to electrification projects, made in local currency, with Centrais Elétricas Brasileiras S.A. - Eletrobrás and consumers, are equivalent to market values for these transactions, not available in the financial market.

The Company has swap transactions to ensure that significant variations in the U.S. dollar exchange rate, to which its liabilities in foreign currency are subject, do not affect its results and cash flows. As of March 31, 2001, the Company had hedge contracts in the total amount of R\$425,848 (R\$411,901 as of December 31, 2000). The Company's results in swap transactions for the quarter ended March 31, 2001 amounted to R\$37,923.

13. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

The accompanying financial statements are presented on the basis of accounting practices emanating from corporate law in Brazil. Certain accounting practices applied by the Company and its subsidiaries that conform with those accounting practices in Brazil may not conform with generally accepted accounting principles in the countries where these financial statements may be used.

* * * * *

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

MANAGEMENT COMMENTS ON THE COMPANY'S PERFORMANCE

FOR THE QUARTER ENDED MARCH 31, 2001

(Amounts in thousands of Brazilian reais)

The first quarter net income, which amounted to R\$1,106, was significantly affected by the following factors:

- Net operating revenue reached R\$288,069, an increase of 10.4% in comparison with the same period of the prior year. This increase originated from a tariff adjustment in April 2000, together with an increase in energy supplied.
- Income from electric utility service (generation activity, transmission and energy distribution) of R\$55,522 was 3.2% lower than that registered in the same period of 2000, mainly because of the increase in operating costs, especially for service expenses:

Energy purchased – tariff adjustment of approximately 15% in June 2000;

Depreciation/amortization – goodwill amortization because of the merger of Nordeste Participações S.A. and the increase of 13.3% in depreciation expenses;

Provisions – more conservatism in the recognition of the allowance for doubtful accounts.

- Financial items (financial expenses and income), show net expenses of R\$67,592, 648.8% higher than the same period of the prior year, originated mainly from the monetary restatement of foreign currency debt, influenced by the unfavorable exchange rate variation, in spite of being partly offset with gains on swap transactions and due to the increased indebtedness level.
- The net equity pick-up on investments in subsidiaries (COSERN, Garter, Tracol and Itapebi) totaled income of R\$4,844.
- Nonoperating expense, net of R\$4,922 was due mainly to a loss on the disposal of assets in the period, goodwill amortization and the reversal of the reserve to maintain the integrity of shareholders' equity as a consequence of the merger of Nordeste Participações S.A.

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**APPENDIX B – COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA
CONSOLIDATED FINANCIAL INFORMATION FOR THE YEARS ENDED DECEMBER
31ST, 1999 AND 2000**

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Companhia de Eletricidade do Estado da Bahia - COELBA

Financial Statements Together with
Report of Independent Public Accountants

December 31, 2000 and 1999

Salvador, February 9, 2001

(except for the matters discussed in Notes 2 and 32, as to which the date is March 7, 2001)

Report of Independent Public Accountants

(Translation of the report originally issued in Portuguese.
See Note 33 to the financial statements.)

To the Management and Shareholders of

Companhia de Eletricidade do Estado da Bahia - COELBA:

(1) We have audited the accompanying individual (Company) and consolidated balance sheets of COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA (a Brazilian corporation) and subsidiaries as of December 31, 2000, and related statements of income, changes in shareholders' equity, and changes in financial position for the year then ended, prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

(2) Our audit was conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.

(3) The financial statements for the year ended December 31, 2000 of the subsidiaries Companhia Energética do Rio Grande do Norte - COSERN, Garter Properties Inc. and the jointly-controlled subsidiary Itapebi Geração de Energia S.A., the assets and net income of which represented 27.2% and 28.9% of the total consolidated assets and net income, respectively, were audited by other auditors. Our opinion, insofar as it relates to the balances included in the consolidated financial statements for these subsidiaries and for investments recorded under the equity method in the Company's financial statements for the year ended December 31, 2000, is based solely on the reports of the other auditors, which were unqualified.

(4) In our opinion, based on our audits and on the reports of the other auditors, the financial statements referred to in paragraph (1) present fairly, in all material respects, the individual and consolidated financial positions of Companhia de Eletricidade do Estado da Bahia - COELBA and subsidiaries as of December 31, 2000, and the results of their operations, the changes in shareholders' equity, and the changes in their financial positions for the year then ended in accordance with accounting practices emanating from Brazilian corporate law.

(5) The accompanying individual (Company) and consolidated financial statements of Companhia de Eletricidade do Estado da Bahia - COELBA and subsidiaries, as of and for the year ended December 31, 1999, presented for comparative purposes, were audited by others auditors, whose report thereon, dated January 20, 2000, was unqualified.

Salvador, Brazil

February 9, 2001 (except for the matters discussed in Notes 2 and 32, as to which the date is March 7, 2001)

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

BALANCE SHEETS--DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

A S S E T S

	Company		Consolidated	
	2000	1999	2000	1999
CURRENT ASSETS:				
Cash and banks	18,472	7,917	44,132	12,260
Temporary cash investments	20	-	24,228	-
Consumers, concessionaires and permissionaires	319,630	150,017	471,789	231,004
Notes receivable	25,235	53,980	35,604	79,972
Allowance for doubtful accounts	(15,562)	(3,531)	(32,495)	(21,371)
Service in progress	18,027	24,098	19,140	24,569
Inventories	2,936	2,786	4,501	5,790
Dividends and interest on capital	43,389	14,662	-	-
Repass of loans and financing	6,567	2,839	6,567	4,297
Marketable securities	162	820	162	820
Recoverable taxes	21,185	8,067	29,036	11,214
Deferred income and social contribution taxes	4,040	8,399	24,773	19,092
Recoverable deferred taxes	10,312	-	20,408	-
Other receivables	26,947	5,724	29,465	4,599
Prepaid expenses	64	95	354	514
	-----	-----	-----	-----
	481,424	275,873	677,664	372,760
	-----	-----	-----	-----
NONCURRENT ASSETS:				
Notes receivable	25,460	32,263	70,713	78,374
Repass of loans and financing	10,513	11,459	10,513	11,459
Receivables from related parties	-	16,974	-	-
Deferred income and social contribution taxes	136,800	144,999	161,448	188,903
Recoverable deferred taxes	352,938	-	551,914	-
Other	6,227	4,869	18,702	13,118
	-----	-----	-----	-----
	531,938	210,564	813,290	291,854
	-----	-----	-----	-----
PERMANENT ASSETS:				
Investments-				
Investments in subsidiaries	734,776	601,528	-	-
Other investments	10,849	7,738	10,998	7,888
	-----	-----	-----	-----
	745,625	609,266	10,998	7,888
Property, plant and equipment-				
In service	2,252,531	2,003,692	2,714,190	2,371,254
Accumulated depreciation	(873,005)	(785,818)	(1,024,165)	(917,647)
Construction in progress	215,432	250,462	427,970	356,754
	-----	-----	-----	-----
	1,594,958	1,468,336	2,117,995	1,810,361
Deferred charges	2,042	806	311,827	403,475
	-----	-----	-----	-----
	2,342,625	2,078,408	2,440,820	2,221,724
	-----	-----	-----	-----
Total assets	3,355,987	2,564,845	3,931,774	2,886,338
	=====	=====	=====	=====

The accompanying notes are an integral part of these balance sheets.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

BALANCE SHEETS--DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Company		Consolidated	
	2000	1999	2000	1999
CURRENT LIABILITIES:				
Suppliers	89,519	68,930	115,278	91,206
Accrued payroll	936	419	2,571	850
Loans, financing and related charges	139,349	126,653	233,852	213,023
Debentures and related charges	9,661	-	38,056	-
Taxes and social charges	51,681	28,576	67,527	46,110
Regulatory charges	18,403	21,402	21,870	24,266
Other payables	25,736	20,551	25,736	20,551
Tax installments	8,353	5,592	10,046	9,263
Payables to related parties	13,072	8,653	16,459	8,160
Interest on capital and proposed dividends	80,951	619	100,173	14,009
Accrued liabilities	12,617	41,917	14,268	52,433
Reserves for contingencies	22,445	53,542	53,943	81,579
Advances and other liabilities	13,634	21,420	19,042	25,260
	486,357	398,274	718,821	586,710
LONG-TERM LIABILITIES:				
Loans and financing - local currency	321,113	305,000	919,606	824,526
Debentures	120,000	-	176,250	-
Tax installments	27,149	14,407	32,417	23,653
Payables to related parties	595,372	536,700	13,810	-
Deferred social contribution tax	-	-	2,322	-
Reserves for contingencies	21,770	-	21,770	-
Other	8,894	7,735	8,894	12,338
	1,094,298	863,842	1,175,069	860,517
Special liabilities	281,580	220,026	327,054	257,202
	1,375,878	1,083,868	1,502,123	1,117,719
MINORITY INTEREST				
	-	-	217,078	99,206
SHAREHOLDERS' EQUITY:				
Capital	1,068,297	1,068,297	1,068,297	1,068,297
Capital reserves	399,530	14,406	399,530	14,406
Profit reserves	7,536	-	7,536	-
Profit retention reserve	18,389	-	18,389	-
	1,493,752	1,082,703	1,493,752	1,082,703
Total liabilities and	3,355,987	2,564,845	3,931,774	2,886,338
shareholders' equity				

The accompanying notes are an integral part of these balance sheets.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

	Company		Consolidated	
	2000	1999	2000	1999
OPERATING REVENUES:				
Electricity sales	1,498,158	1,229,259	1,896,336	1,558,182
Electricity supply	41,561	14,864	87,094	22,183
Use of transmission network	1,141	567	1,141	567
Other	17,264	30,164	24,702	33,612
	-----	-----	-----	-----
	1,558,124	1,274,854	2,009,273	1,614,544
	-----	-----	-----	-----
DEDUCTIONS FROM OPERATING REVENUES:				
Global reserve for reversion quota - RGR	(23,723)	(22,905)	(28,851)	(27,637)
Taxes on revenue	(363,109)	(293,570)	(446,525)	(365,376)
	-----	-----	-----	-----
	(386,832)	(316,475)	(475,376)	(393,013)
	-----	-----	-----	-----
NET OPERATING REVENUES	1,171,292	958,379	1,533,897	1,221,531
	-----	-----	-----	-----
OPERATING EXPENSES:				
Personnel	(119,802)	(111,832)	(145,417)	(135,390)
Management compensation	(2,428)	(1,207)	(4,820)	(2,621)
Material	(15,453)	(11,333)	(22,209)	(17,868)
Outsourced services	(87,558)	(81,725)	(107,517)	(97,411)
Fuel for energy production	(225)	(376)	(225)	(376)
Electricity purchased for resale	(372,070)	(341,183)	(489,711)	(445,836)
Transmission system usage charges	(74,239)	(36,525)	(98,789)	(48,553)
Subsidy - fuel usage quota	(33,380)	(15,702)	(42,711)	(19,966)
Inspection fees	(2,916)	(2,228)	(3,675)	(2,813)
Depreciation and amortization	(114,434)	(91,523)	(145,495)	(109,716)
Reversal of (Provisions for) contingencies	8,716	(10,980)	7,013	(14,569)
Other provisions	(29,103)	(21,777)	(31,871)	(29,145)
Leases and rents	(9,128)	(10,013)	(10,404)	(11,526)
Taxes	(9,497)	(6,400)	(11,569)	(7,788)
Other operating expenses	(16,567)	(8,649)	(24,015)	(12,493)
	-----	-----	-----	-----
	(878,084)	(751,453)	(1,131,415)	(956,071)
	-----	-----	-----	-----
Income from public electric utility service	293,208	206,926	402,482	265,460
	-----	-----	-----	-----

	Company		Consolidated	
	2000	1999	2000	1999
FINANCIAL INCOME (EXPENSE):				
Income from temporary cash investments	968	2,931	9,072	8,144
Charges on late payments of energy bills	16,439	11,261	20,439	15,334
Interest and commissions	163	416	163	416
Interest on capital	13,330	9,579	-	-
Other income	35,971	16,235	35,973	21,285
Monetary variations, net (net of R\$12 transferred to construction in progress of company - R\$26 in 1999)	(56,130)	(257,282)	(47,700)	(262,617)
Debt charges (net of R\$67 transferred to construction in progress of company - R\$99 in 1999)	(111,313)	(94,249)	(136,215)	(111,702)
Interest on capital	(76,722)	-	(83,169)	(9,400)
Other expenses	(8,559)	(1,645)	(23,588)	(9,358)
	(185,853)	(312,754)	(225,025)	(347,898)
EQUITY IN SUBSIDIARIES:				
Equity pick-up	42,582	16,702	-	-
Amortization of goodwill on investments	(22,540)	(13,679)	(22,540)	(13,679)
	20,042	3,023	(22,540)	(13,679)
INCOME (LOSS) FROM OPERATIONS				
	127,397	(102,805)	154,917	(96,117)
NONOPERATING INCOME (EXPENSE):				
Nonoperating income	9,492	25,429	12,283	25,860
Nonoperating expense	(18,329)	(32,419)	(22,037)	(33,820)
	(8,837)	(6,990)	(9,754)	(7,960)
INCOME (LOSS) BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES, PROFIT SHARING AND REVERSAL OF INTEREST ON CAPITAL				
	118,560	(109,795)	145,163	(104,077)
Income and social contribution taxes - current	(18,714)	11,525	(28,837)	3,467
Income and social contribution taxes - deferred	(12,526)	24,434	(21,242)	24,434
INCOME (LOSS) BEFORE REVERSAL OF INTEREST ON CAPITAL				
	87,320	(73,836)	95,084	(76,176)
Reversal of interest on capital	76,722	-	83,169	9,400
Reversal of interest on capital received	(13,330)	(9,579)	-	-
INCOME (LOSS) BEFORE MINORITY INTEREST				
	150,712	(83,415)	178,253	(66,776)
Employee profit sharing	-	-	-	(390)
Minority interest	-	-	(28,610)	(15,095)
NET INCOME (LOSS)				
	150,712	(83,415)	149,643	(82,261)
EARNINGS (LOSS) PER THOUSAND SHARES - R\$				
	8.01	(4.43)		

The accompanying notes are an integral part of these statements.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

	Capital reserves				Profit reserves			Total
	Capital	Interest on construction from capital	Special reserve for goodwill	Effect of reserve for premium on debenture issue - COSERN	Legal reserve	Profit retention reserve	Retained earnings	
BALANCES AS OF DECEMBER 31, 1998	1,068,297	10,345	-	-	14,112	64,220	-	1,156,974
Interest on construction in progress (JOA)	-	9,144	-	-	-	-	-	9,144
Net loss	-	-	-	-	-	-	(83,415)	(83,415)
Offset of loss	-	(5,083)	-	-	(14,112)	(64,220)	83,415	-
BALANCES AS OF DECEMBER 31, 1999	1,068,297	14,406	-	-	-	-	-	1,082,703
Interest on construction in progress (JOA)	-	12,115	-	-	-	-	-	12,115
Nordeste Participações S.A. - Special reserve for goodwill	-	-	372,820	-	-	-	-	372,820
Premium on debenture issue - COSERN	-	-	-	189	-	-	-	189
Net income	-	-	-	-	-	-	150,712	150,712
Allocations:								
Legal reserve	-	-	-	-	7,536	-	(7,536)	-
Profit retention reserve	-	-	-	-	-	18,389	(18,389)	-
Proposed dividends	-	-	-	-	-	-	(48,065)	(48,065)
Interest on capital	-	-	-	-	-	-	(76,722)	(76,722)
BALANCES AS OF DECEMBER 31, 2000	1,068,297	26,521	372,820	189	7,536	18,389	-	1,493,752

The accompanying notes are an integral part of these statements.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(In thousands of Brazilian reais)

(Translation of the original in Portuguese)

	Company		Consolidated	
	2000	1999	2000	1999
SOURCES OF FUNDS:				
From operations-				
	150,712	(83,415)	149,643	(82,261)
	Net income (loss)			
Items not affecting working capital--				
	114,434	91,523	145,495	109,716
	Depreciation and amortization			
	60,102	54,459	59,815	99,557
	Long-term interest and monetary			
variations	(42,582)	(16,702)	-	-
	Equity pick-up			
	22,540	13,679	22,540	13,679
	Amortization of goodwill			
	18,476	27,282	28,826	28,764
	Disposals of permanent assets and other			
	-	-	-	143
	Provision for losses on investments			
	12,526	(24,434)	21,242	(24,670)
	Deferred income and social contribution			
taxes	(524)	-	(524)	-
	Reversal of provision			
	-	-	28,610	15,095
	Minority interest			
	335,684	62,392	455,647	160,023

From shareholders-				
	-	-	116,205	-
	Capital contribution			
	21	-	22	-
	Effect of merger			
	-	-	752	-
	Other			
	21	-	116,979	-

From third parties-				
	187,173	697,546	243,891	709,404
	Increase in long-term liabilities			
	39,434	123,211	70,457	134,455
	Transfer to current assets			
	45,360	14,639	-	-
	Dividends and interest on capital			
	120,000	-	195,000	-
	Debentures issued			
	-	-	-	(1,281)
	Effect of exchange variation on subsidiary			
	381,655	835,396	509,348	842,578

	717,360	897,788	1,081,974	1,002,601

	Total sources			

	Company		Consolidated	
	2000	1999	2000	1999
USES OF FUNDS:				
In noncurrent assets	23,037	39,769	31,994	47,073
In permanent assets-				
Investments	135,258	153,216	135,258	153,216
Property, plant and equipment	238,869	241,707	444,221	301,408
Deferred charges	3,281	1,068	13,145	9,194
Transfer from long-term to current liabilities	84,972	86,153	119,535	114,642
Dividends and interest on capital	124,787	-	146,724	28,981
Advance for future capital increase	-	-	17,187	-
Related companies	-	-	1,117	-
Payment of long-term tax installments	-	-	-	10,372
	-----	-----	-----	-----
Total uses	610,204	521,913	909,181	664,886
	-----	-----	-----	-----
INCREASE IN WORKING CAPITAL	117,468	375,875	172,793	337,715
	=====	=====	=====	=====
REPRESENTED BY:				
Ending current assets	481,424	275,873	677,664	372,760
Ending current liabilities	486,357	398,274	718,821	586,710
	-----	-----	-----	-----
Ending working capital	(4,933)	(122,401)	(41,157)	(213,950)
Beginning working capital	(122,401)	(498,276)	(213,950)	(551,665)
	-----	-----	-----	-----
INCREASE IN WORKING CAPITAL	117,468	375,875	172,793	337,715
	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA - COELBA

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2000 AND 1999

(Amounts in thousands of Brazilian reais, unless otherwise indicated)

(Translation of the original in Portuguese)

1. OPERATIONS

Companhia de Eletricidade do Estado da Bahia - COELBA is a publicly-traded company, engaged in the production, transmission and distribution of electric energy and, additionally, is an investor in subsidiaries and affiliated companies. The Company is authorized to operate as a concessionaire of electric energy utility services in the State of Bahia. Its activities are regulated and inspected by the National Electric Energy Agency (ANEEL), an agency of the Ministry of Mines and Energy.

The Company is active in the study, projection, construction and management of production, transmission, and distribution systems, and sale of electricity and related services to be granted or authorized by the appropriate authority, and other activities related to electric energy service.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements are presented in accordance with accounting practices emanating from Brazilian corporate law, and supplementary regulations established by the Brazilian Securities Commission (CVM) and ANEEL. Such regulations do not provide for recognition of the effects of inflation, as established by Law No. 9,249/95, which eliminated the monetary restatement of balance sheets for tax and corporate purposes starting in 1996.

The individual (Company) and consolidated financial statements for the year ended December 31, 1999 were reclassified, when applicable, for comparative purposes.

The accompanying Company and consolidated financial statements are being republished to recognize the benefits allowed by CVM Instruction No. 349 of March 6, 2001, authorized by Instruction SFF/ANEEL No. 172 of March 7, 2001. The effects of such changes, as well as the amounts involved, are set forth in Note 32.

3. PRINCIPAL ACCOUNTING PRACTICES

(a) Temporary Cash Investments--Stated at cost, plus income earned to the balance sheet date, not exceeding market value.

(b) Consumers, Concessionaires and Permissionaires--The sale and supply of electricity unbilled to the balance sheet date are estimated and recognized on the accrual basis.

(c) Allowance for Doubtful Accounts--Determined in an amount considered sufficient to cover probable losses on the realization of accounts receivable from consumers.

In accordance with the Chart of Accounts for Electric Energy Public Service, established by ANEEL Resolution No. 001/97, past-due receivables from federal, state and municipal governments were excluded for allowance recognition purposes.

(d) Inventories--Stated at average acquisition cost, less than replacement costs or realizable values, net of allowance for losses, when applicable.

(e) Investments--Permanent investments in subsidiaries and jointly-controlled subsidiaries are accounted for under the equity method. Other investments are stated at cost, net of allowance for losses, when applicable.

(f) Property, Plant and Equipment--Stated at acquisition and/or construction cost, monetarily restated to December 31, 1995, net of accumulated depreciation.

Depreciation is calculated on property, plant and equipment in service, under the straight-line method, at applicable rates, as determined by ANEEL Resolution No. 044/97, classified as operating expenses or system expansion costs, based on the use of the related assets.

Annual depreciation rates by type of asset are:

	%
Generation:	
Hydraulic turbines	2.50
Generators	3.30
Buildings	4.00
Reservoirs, dams and watermains	2.00
Transmission:	
Power transformers	2.50
Structures	2.50
Conductors	2.50
Distribution:	
Conductors	5.00
Structures	5.00
Distribution transformers	5.00
Power transformers	2.50
Circuit breakers	3.00
Sales:	
Meters	4.00
Transformers	3.00
Administration:	
Buildings	4.00
Vehicles	20.00

As established by ANEEL Resolution No. 001/97 (General Instruction No. 35 of Chart of Accounts for Electric Energy Public Service) and CVM Resolution No. 193/96, capital funds are remunerated based on the Brazilian long-term interest rate (TJLP), limited to 10% per year, capitalized in construction in progress and credited to shareholders' equity.

In conformity with General Instruction No. 36 of the Chart of Accounts for Electric Energy Public Service and CVM Instruction No. 193/96, the remuneration paid on outside capital (financial charges and inflationary effects based on contractual clauses), related to financing applied in the acquisition/construction of property, plant and equipment, is also added to property, plant and equipment while in progress.

(g) Special Liabilities Related to the Concession of Public Electric Energy Service--Recorded in long-term liabilities, as an offset to property, plant and equipment, for funds arising from the financial participation of consumers and the federal government, as well as donations and investment grants, destined for the execution of projects necessary to meet electricity supply requests.

(h) Other Current and Noncurrent Assets--Other assets are stated at realizable value or, in case of prepaid expenses, at cost, including, when applicable, income and monetary variations to the balance sheet date.

(j) Other Current and Long-term Liabilities--Other liabilities are stated at known or estimated amounts, plus related charges and monetary variations, when applicable.

4. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were prepared in accordance with standards established by CVM Instruction No. 247/96 and include the accounts of the Company and its subsidiaries, as follows:

Companhia Energética do Rio Grande do Norte - COSERN.

Garter Properties Inc.

Tracol Serviços Elétricos S.A.

Itapebi Geração de Energia S.A.

The balance sheets as of December 31, 2000 and 1999 and the statements of income for the years then ended of Companhia Energética do Rio Grande do Norte - COSERN, Garter Properties Inc., Tracol Serviços Elétricos S.A. and the jointly-controlled subsidiary Itapebi Geração de Energia S.A. (in a preoperating stage) are condensed as follows:

	COSERN		Garter		Tracol		Itapebi	
	2000	1999	2000	1999	2000	1999	2000	1999
Assets	843,226	505,969	599,664	548,531	3,341	3,197	214,891	54,889
Current	232,801	108,531	10,825	3,706	1,600	1,639	473	779
Noncurrent	281,347	98,259	586,620	536,700	-	-	5	5
Permanent	329,078	299,179	2,219	8,125	1,741	1,558	214,413	54,105
Liabilities	843,226	505,969	599,664	548,531	3,341	3,197	214,891	54,889
Current	213,559	200,847	1,897	1,556	1,575	800	64,891	3,167
Long term	224,015	122,182	488,850	447,250	-	-	-	17,927
Shareholders' equity	405,652	182,940	108,917	99,725	1,766	2,397	150,000	33,795

For presentation of the consolidated financial statements, net goodwill paid on the acquisition of investments is reclassified to deferred charges.

	Statements of income					
	COSERN		Garter		Tracol	
	2000	1999	2000	1999	2000	1999
Net operating revenue	361,134	262,951	-	-	7,319	5,750
Costs of goods and services sold	-	-	-	-	6,942	(4,852)
Gross profit	361,134	262,951	-	-	377	898
Operating (expense) income	(251,271)	(204,437)	67,641	62,067	(964)	(895)
Operating results	109,863	58,514	67,641	62,067	(587)	3
Financial (expense) income	(38,863)	(37,521)	(67,724)	(63,873)	(226)	24
Income (Loss) from operations	71,000	20,993	(83)	(1,806)	(813)	27
Nonoperating income (expense)	(2,874)	(1,095)	-	-	182	155
Income (Loss) before taxes on income	68,126	19,898	(83)	(1,806)	(631)	182
Effect of option for REFIS	1,777	-	-	-	-	-
Income and social contribution taxes	(18,840)	(8,011)	-	-	-	(31)
Employee and management profit sharing	-	(390)	-	-	-	(30)
Income (Loss) before reversal of interest on capital	51,063	11,497	(83)	(1,806)	(631)	121
Reversal of interest on capital	19,777	18,979	-	-	-	-
Net income (loss)	70,840	30,476	(83)	(1,806)	(631)	121

The reconciliation between the Company's net results and the consolidated results for the years ended December 31, 2000 and 1999 is as follows:

	2000	1999
Net income (loss) - Company	150,712	(83,415)
Equity pick-up on subsidiary's shareholders' equity	(1,069)	(1,475)
Exchange variation on subsidiary's shareholders' equity	-	2,629
Net income (loss) - Consolidated	149,643	(82,261)

5. CONCESSIONS

The Company, its subsidiary COSERN and the jointly-controlled subsidiary Itapebi have the following concessions granted by ANEEL:

Company/Concession	Location/Installed capacity	Concession date	Maturity
COELBA:			
Power plants-			
Alto Fêmeas	São Desidério - State of Bahia - 10 MW	08.08.1997	08.07.2027
Presidente Goulart	Correntina - State of Bahia - 8 MW	08.08.1997	08.07.2027
Distribution	415 municipalities in the State of Bahia	08.08.1997	08.07.2027
COSERN:			
Distribution	167 municipalities in the State of Rio Grande do Norte	12.31.1997	12.31.2027
Itapebi:			
Itapebi power plant	Itapebi - State of Bahia - 450 MW	5.28.1999	5.28.2034

According to the concession contracts of the Company and its subsidiary COSERN, energy supply tariffs are adjusted annually, based on the IRT (Tariff Adjustment Rate), defined in the concession contracts.

6. CORPORATE RESTRUCTURING

COELBA

Due to the interest in transferring to COELBA the tax benefit arising from the amortization of goodwill paid by its shareholders upon its acquisition, the majority shareholders made a capital increase in Nordeste Participações S.A., a special-purpose entity, through the transfer of shares issued by COELBA.

As approved by the Extraordinary Shareholders' Meeting on June 7, 2000, the parent company Nordeste Participações S.A. was merged into the Company. This transaction was approved by ANEEL and CVM.

Upon the merger of Nordeste Participações S.A. into the Company, the goodwill remaining from the privatization auction on July 31, 1997, and from the public offer to purchase the Company's shares on July 24, 2000, in the amount of R\$1,126,868, was recognized in deferred charges with an offset to a capital reserve.

The goodwill arising from the merger is economically based on the concession rights and is being amortized over the remaining concession period since June 2000 in 319 monthly installments, and based on the annual projection of future profitability shown below, as determined by ANEEL Resolution No. 195/00. The amortization method may be reviewed annually, at the discretion of the Superintendency of Economic and Financial Inspection of ANEEL.

The merged net assets of Nordeste Participações S.A. are as follows:

Assets	2,104,536

Current	22
Permanent	2,104,514

Investment in COELBA	977,646
Goodwill paid on acquisition of investment, net of accumulated amortization	1,126,868
Liabilities	3

Current	1
Long term	2

Merged net assets	2,104,533
	=====

COSERN

Also due to the interest in transferring to COSERN the tax benefit arising from the amortization of goodwill paid by its shareholders upon its acquisition, the majority shareholders increased the capital of IBIDEM S.A., a special-purpose entity, through the transfer of shares issued by COSERN, in conformity with ANEEL Resolution No. 337 of August 30, 2000.

The merger of the parent company IBIDEM S.A. into COSERN was approved by the Extraordinary Shareholders' Meeting on December 29, 2000. The transaction did not result in a capital increase of the Company nor a dilution of the minority shareholders' interest. The transaction was approved by ANEEL and CVM.

To avoid the amortization of goodwill impairing the flow of dividends to COSERN's shareholders, a reserve was recognized by IBIDEM to maintain the merging company's shareholders' equity.

IBIDEM's net assets, merged into COSERN, were as follows:

Assets	850,753
Current	1
Permanent	850,752
Investment in COSERN	212,734
Goodwill paid net of accumulated amortization	638,018
Liabilities	(421,092)
Reserve to maintain the integrity of shareholders' equity	(421,092)
Merged net assets	429,661
Net balance of reserve for goodwill	216,926

The financial statements of COSERN prepared for official corporate and tax purposes include specific accounts related to merged goodwill and, reserves, amortization, reversal and the corresponding tax credit.

The amortization of goodwill, net of the reversal of the reserve and the corresponding tax credit, has an offsetting effect on results for the year, and, consequently, on the minimum compulsory dividend calculation basis.

The goodwill arising from this merger is economically based on the perspective of results during the concession period and is being amortized over the remaining concession period starting in December 2000 in 325 monthly installments and based on the annual projection for future profitability shown below, as determined by ANEEL Resolution No. 474/00.

The merged tax benefit, represented by the goodwill net of the reserve to maintain the integrity of shareholders' equity, is presented as "Recoverable deferred taxes", segregated into current and noncurrent based on the expectation of realization.

Amortization Curve for Merged Goodwill

The curves authorized by ANEEL Resolutions No. 195, of June 7, 2000, and No. 474, of November 30, 2000, respectively, related to the amortization curve for goodwill in COELBA and in COSERN, respectively, are shown as follows:

Year	Ratios (%)		Year	Ratios (%)		Year	Ratios (%)	
	COELBA	COSERN		COELBA	COSERN		COELBA	COSERN
2000	0.02567	0.03621	2011	0.03466	0.03983	2022	0.04540	0.02666
2001	0.02766	0.04654	2012	0.03552	0.03842	2023	0.04653	0.02551
2002	0.03128	0.04344	2013	0.03640	0.03705	2024	0.04769	0.02442
2003	0.02900	0.04667	2014	0.03731	0.03741	2025	0.04887	0.02336
2004	0.02704	0.04707	2015	0.03823	0.03575	2026	0.05009	0.02235
2005	0.02851	0.04656	2016	0.03918	0.03430	2027	-	0.02137
2006	0.02958	0.04547	2017	0.04016	0.03289			
2007	0.03135	0.04455	2018	0.04116	0.03153			
2008	0.03222	0.04297	2019	0.04218	0.03022			
2009	0.03300	0.04118	2020	0.04323	0.02907			
2010	0.03382	0.04133	2021	0.04430	0.02784			

7. TEMPORARY CASH INVESTMENTS

Financial institution	Type of investment	Rate	Maturity	Company		Consolidated	
				2000	1999	2000	1999
Banco do Brasil	Fixed interest fund	Variable	On demand	-	-	15,844	-
Banco Chase	Time deposit	6.37% per year	01.26.01	-	-	8,364	-
Other	Other	-	-	20	-	20	-
				---	---	-----	---
				20	-	24,228	-
				==	==	=====	==

8. CONSUMERS, CONCESSIONAIRES AND PERMISSIONAIRES

	Company				
	Current	Past due		2000	1999
		Up to 90 days	Over 90 days		
Private sector	93,566	73,272	38,498	205,336	100,635
	-----	-----	-----	-----	-----
Residential	43,641	27,263	25,089	95,993	55,713
Industrial	8,956	15,134	2,559	26,649	16,305
Retail, services and other	40,969	30,875	10,850	82,694	28,617
Public sector	20,873	16,884	5,909	43,666	24,689
	-----	-----	-----	-----	-----
Government	6,572	10,192	3,089	19,853	11,993
Public lighting	9,791	3,187	1,144	14,122	8,146
Public service	4,510	3,505	1,676	9,691	4,550
	-----	-----	-----	-----	-----
	114,439	90,156	44,407	249,002	125,324
	=====	=====	=====		
Taxed service and other				5,296	4,701
Unclassified payments				(22,121)	(46,719)
Unbilled energy sold				41,664	53,897
Financial interest - construction				16,574	2,480
Concessionaire - billed supply				11,564	10,334
Concessionaire - unbilled supply				12,228	-
Other				5,423	-
				-----	-----
				319,630	150,017
				=====	=====

	Consolidated				
	Current	Past due		2000	1999
		Up to 90 days	Over 90 days		
Private sector	110,853	97,565	51,818	260,236	127,879
Residential	52,224	36,563	28,687	117,474	68,451
Industrial	10,683	21,224	5,533	37,440	21,338
Retail, services and other	47,946	39,778	17,598	105,322	38,090
Public sector	28,881	28,956	44,622	102,459	61,350
Government	8,996	14,668	11,474	35,138	21,507
Public lighting	11,225	6,862	27,468	45,555	31,625
Public service	8,660	7,426	5,680	21,766	8,218
	139,734	126,521	96,440	362,695	189,229
Taxed services and other				5,296	5,583
Unclassified payments				(21,388)	(46,060)
Unbilled energy sold				52,654	63,646
Financial interest - construction				20,419	6,349
Concessionaire - billed supply				15,944	12,187
Concessionaire - unbilled supply				30,130	-
Other				6,039	70
				471,789	231,004

The Company and its subsidiary COSERN have past-due receivables from consumers in the amounts of R\$112,442 (R\$37,674 in 1999) and R\$89,131 (R\$50,778 in 1999), respectively, net of unclassified payments. The Companies' managements consider the allowance for doubtful accounts sufficient to cover possible losses, and do not expect significant losses on the realization of these assets.

9. NOTES RECEIVABLE

	Company				
	Current	Past due		2000	1999
		Up to 90 days	Over 90 days		
Public sector	32,013	1,586	795	34,394	75,036
Private sector	15,070	158	1,073	16,301	11,207
	47,083	1,744	1,868	50,695	86,243
Current assets				(25,235)	(53,980)
Noncurrent assets				25,460	32,263

	Consolidated				
	Current	Past due		2000	1999
		Up to 90 days	Over 90 days		
Public sector	77,671	3,450	2,660	83,781	139,838
Private sector	16,060	1,193	5,283	22,536	18,508
	-----	-----	-----	-----	-----
	93,731	4,643	7,943	106,317	158,346
	=====	=====	=====		
Current assets				(35,604)	(79,972)
				-----	-----
Noncurrent assets				70,713	78,374
				=====	=====

The Company and its subsidiary COSERN have past-due notes receivable in the amounts of R\$3,612 (R\$5,785 in 1999) and R\$8,974 (R\$9,919 in 1999), respectively. The Companies' managements consider the allowance for doubtful accounts sufficient to cover possible losses, and do not expect significant losses on the realization of these assets.

10. MARKETABLE SECURITIES

Investment	Rate	Maturity	Company		Consolidated	
			2000	1999	2000	1999
Bank deposit certificate - BANEBC	1.26% per month	01.30.01	150	625	150	625
Tele Norte-Leste shares	-	-	12	195	12	195
			-----	-----	-----	-----
			162	820	162	820
			====	====	====	====

11. DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

The Company and its subsidiary COSERN have deferred income tax assets calculated at the base rate of 15%, plus the surtax of 10%, and deferred social contribution tax assets recognized at the rates of 8% and 9%.

The composition of deferred income and social contribution taxes, as of December, 31, 2000 and 1999, is as follows:

	Company				
	2000		1999		Expected realization
	Calculation basis	Deferred tax assets	Calculation basis	Deferred tax assets	
Income tax	485,353	121,314	519,991	129,974	
	-----	-----	-----	-----	
Tax loss carryforwards	404,184	101,026	437,001	109,250	2005
Temporary differences	81,169	20,288	82,990	20,724	2005
Social contribution tax	234,407	19,526	269,336	23,424	
	-----	-----	-----	-----	
Tax loss carryforwards	153,238	13,033	187,670	16,319	2005
Temporary differences	81,169	6,493	81,666	7,105	2005
Total		140,840		153,398	
Current		(4,040)		(8,399)	
		-----		-----	
Noncurrent		136,800		144,999	
		=====		=====	
	Consolidated				
	2000		1999		Expected realization
	Calculation basis	Deferred tax assets	Calculation basis	Deferred tax assets	
Income tax	635,465	158,842	701,877	175,445	
	-----	-----	-----	-----	
Tax loss carryforwards	479,312	119,808	533,336	133,333	2005
Temporary differences	156,153	39,034	168,541	42,112	2005
Social contribution tax	321,668	27,379	374,787	32,550	
	-----	-----	-----	-----	
Tax loss carryforwards	192,905	16,603	245,321	20,240	2005
Temporary differences	128,763	10,776	129,466	12,310	2005
Total		186,221		207,995	
Current		(24,773)		(19,092)	
		-----		-----	
Noncurrent		161,448		188,903	
		=====		=====	

Deferred tax benefits on the accumulated amortization of goodwill for the ownership interest in COSERN were not recognized.

Below is a reconciliation of tax expense (credits) on reported income and the amounts calculated by applying the combined official rates of 34% in 2000 (Company) and 35.68% in 1999:

	Company		Consolidated	
	2000	1999	2000	1999
Income (Loss) before taxes, profit sharing and reversal of interest on capital	118,560	(109,795)	145,163	(104,077)
Management and employee profit sharing	-	-	-	390
Income (Loss) after management and employee profit sharing	118,560	(109,795)	145,163	(103,687)
	-----	-----	-----	-----
Income and social contribution tax calculated at the official rates	40,310	(39,504)	49,335	(37,274)
Tax effects on:				
Additions-				
Nondeductible expenses	12,942	14,986	14,086	17,641
Exclusions-				
Equity pick-up	(17,853)	(6,604)	(4,408)	(5,242)
Other	(8,337)	(5,038)	(13,521)	(5,038)
Other:				
Recognition of prior years' tax credits	(5,729)	-	(10,183)	(1,877)
Offset of tax loss carryforwards	12,031	-	16,876	3,688
Effect of rate change in recognition of tax credits	(1,638)	-	(1,638)	-
Other	(486)	201	(288)	201
	-----	-----	-----	-----
Income and social contribution tax expense (credits) reflected in the financial statements	31,240	(35,959)	50,279	(27,901)
	=====	=====	=====	=====

12. INVESTMENTS

	Company		Consolidated	
	2000	1999	2000	1999
Investment in subsidiaries	447,100	219,651	-	-
Goodwill in COSERN	297,997	410,375	-	-
Amortization of goodwill in COSERN	(10,321)	(28,498)	-	-
	-----	-----	-----	-----
	734,776	601,528	-	-
Other	10,849	7,738	10,998	7,888
	-----	-----	-----	-----
	745,625	609,266	10,998	7,888
	=====	=====	=====	=====

Investment in Subsidiaries

In its meetings on July 11 and December 13, 2000, respectively, the Company's Board of Directors approved its participation in the first and second public offerings of COSERN's shares, on May 12 and December 22, 2000, respectively, offered and acquired at a unit price of R\$3.90 each. In these public offerings, 13,552,767 common shares and 14,906,307 preferred shares were acquired; goodwill arising from these share purchases was R\$59,341.

Itapebi Geração de Energia S.A., founded on January 21, 1999 by the consortium COELBA - Guaraniana, with present paid-up capital of R\$150,000, is engaged in the study, projection, construction and future operation of the Itapebi hydroelectric power plant. The subsidiary will have a four-year term to construct the power plant, with forecasted investments of approximately R\$500,000, the funds for which will be obtained from the shareholders and in the market. Currently, the project is in the preoperating stage.

Shares/Capital	Company							
	COSERN		Garter		Tracol		Itapebi	
	2000	1999	2000	1999	2000	1999	2000	1999
Common (in thousands)	80,945,650	79,331,132	50,000	50,000	99,995	99,995	63,000,000	25,200,419
Ownership interest (%)	65.21	55.70	100.00	100.00	99.99	99.99	42.00	42.00
Preferred (in thousands)	32,339,679	5,495,123	-	-	-	-	-	-
Ownership interest (%)	79.57	21.43	-	-	-	-	-	-
Total (in thousands)	113,285,329	84,826,255	50,000	50,000	99,995	99,995	63,000,000	25,200,419
Ownership interest -								
total (%)	67.40	50.47	100.00	100.00	99.99	99.99	42.00	42.00
Paid-up capital	140,413	140,413	98	89	2,246	2,246	150,000	33,795

	Changes in investments					
	COSERN	IBIDEM	Garter	Tracol	Itapebi	Total
Balances as of December 31, 1998	457,730	-	5,099	1,258	-	464,087
Additions	26,380	-	100,590	1,046	25,200	153,216
Amortization of goodwill	(13,679)	-	-	-	-	(13,679)
Equity pick-up	18,387	-	(1,806)	121	-	16,702
Exchange variation	-	-	(4,158)	-	-	(4,158)
Interest on capital	(9,579)	-	-	-	-	(9,579)
Dividends	(5,033)	-	-	(28)	-	(5,061)
Balances as of December 31, 1999	474,206	-	99,725	2,397	25,200	601,528
Additions	52,150	-	-	-	37,800	89,950
Amortization of goodwill	(22,540)	-	-	-	-	(22,540)
Goodwill on acquisition of shares	59,341	-	-	-	-	59,341
Transfer of investment to IBIDEM	(555,996)	555,996	-	-	-	-
Investment transferred to COSERN	272,161	(272,161)	-	-	-	-
Goodwill transferred to COSERN	283,835	(283,835)	-	-	-	-
Equity pick-up	43,296	-	(83)	(631)	-	42,582
Exchange variation	-	-	9,275	-	-	9,275
Interest on capital	(13,330)	-	-	-	-	(13,330)
Dividends	(32,030)	-	-	-	-	(32,030)
Balances as of December 31, 2000	561,093	-	108,917	1,766	63,000	734,776

13. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rates (%)	Company		Consolidated	
		2000	1999	2000	1999
In service:					
Generation	3.19	86,176	85,537	86,176	85,537
Transmission	3.29	15,344	16,185	15,344	16,185
Distribution	4.40	2,031,948	1,812,536	2,480,598	2,172,164
Administrative	9.33	119,063	89,434	132,072	97,368
		-----	-----	-----	-----
		2,252,531	2,003,692	2,714,190	2,371,254
		-----	-----	-----	-----
Less- Accumulated depreciation:					
Generation		22,500	19,762	22,500	19,762
Transmission		5,759	5,523	5,759	5,523
Distribution		799,488	724,812	947,171	854,458
Administrative		45,258	35,721	48,735	37,904
		-----	-----	-----	-----
		873,005	785,818	1,024,165	917,647
		-----	-----	-----	-----
In progress:					
Generation		372	547	193,515	547
Transmission		2,988	65	2,988	65
Distribution		197,180	212,617	216,030	272,693
Administrative		14,892	37,233	15,437	83,449
		-----	-----	-----	-----
		215,432	250,462	427,970	356,754
		-----	-----	-----	-----
Property, plant and equipment, net		1,594,958	1,468,336	2,117,995	1,810,361
		=====	=====	=====	=====

Property, plant and equipment in progress refers substantially to construction to expand the electric energy generation, transmission and distribution system.

In accordance with articles 63 and 64 of Decree No. 41,019 of February 26, 1957, assets and installations used in generation, transmission and distribution are linked to these services and cannot be retired, sold or pledged in guarantee without the prior express consent of the competent authorities. ANEEL Resolution No. 20/99 regulates the electric energy utility concession assets, giving prior authorization for not restricting assets not tied to the concession, when intended for sale, and determining that the proceeds from the sale of such assets be deposited in a restricted bank account and invested in the concession.

There is no record of the federal government's assets in use by the Company. For COSERN, federal government assets under a special use regime in the distribution activity are controlled off-books, and are composed as follows:

	COSERN	
	2000	1999
Land (lines), networks and substations	52	52
Urbanization and improvements in substations	34	34
Buildings and substations	79	79
Machinery and equipment (lines), networks and substations	1,069	1,069
	-----	-----
	1,234	1,234
	=====	=====

14. DEFERRED CHARGES

	Company		Consolidated	
	2000	1999	2000	1999
Goodwill on acquisition of investments, net	-	-	295,840	410,375
Amortization of goodwill	-	-	(10,321)	(28,498)
	-----	-----	-----	-----
	-	-	285,519	381,877
Deferred costs	2,450	806	26,716	21,598
Accumulated amortization	(408)	-	(408)	-
	-----	-----	-----	-----
	2,042	806	311,827	403,475
	=====	=====	=====	=====

15. SUPPLIERS

	Company		Consolidated	
	2000	1999	2000	1999
Suppliers:				
Energy purchased	53,585	46,245	71,471	59,860
	-----	-----	-----	-----
Energy supply - CHESF	46,557	38,758	62,170	51,894
Energy supply - other	5,555	6,210	7,828	6,689
Use of transmission system	1,473	1,277	1,473	1,277
	-----	-----	-----	-----
Materials and services	35,934	22,685	43,807	31,346
	-----	-----	-----	-----
	89,519	68,930	115,278	91,206
	=====	=====	=====	=====

16. LOANS, FINANCING AND RELATED CHARGES

Source	Company							
	2000				1999			
	Debt charges	Principal		Total	Debt charges	Principal		Total
Short term		Long term	Short term			Long term		
Foreign currency	2,498	65,935	113,237	179,172	2,889	34,221	132,806	167,027
Interamerican Development Bank - BID	2,426	27,545	106,128	133,673	2,885	33,013	125,552	158,565
Kreditanstalt fur Wiederaufbau - KfW	-	1,184	7,109	8,293	1	1,162	7,254	8,416
Banco do Brasil	72	37,206	-	37,206	3	46	-	46
Local currency	976	69,940	207,876	277,816	1,329	88,214	172,194	260,408
Fundação COELBA - FAELBA	-	6,400	21,660	28,060	-	6,406	24,722	31,128
Eletrobrás	370	14,008	71,798	85,806	-	10,591	32,867	43,458
Banco Itaú	11	19,000	-	19,000	221	19,400	-	19,400
BMC	20	1,809	3,316	5,125	25	1,739	4,893	6,632
BNDES	575	27,018	110,322	137,340	484	5,348	108,933	114,281
Consumers	-	1,705	780	2,485	-	1,867	776	2,643
Other	-	-	-	-	599	42,863	3	42,866
	3,474	135,875	321,113	456,988	4,218	122,435	305,000	427,435

Source	Consolidated							
	2000				1999			
	Debt charges	Principal		Total	Debt charges	Principal		Total
Short term		Long term	Short term			Long term		
Foreign currency	4,395	129,381	602,087	731,468	4,444	34,221	580,056	614,277
Interamerican Development Bank - BID	2,426	27,545	106,128	133,673	2,885	33,013	125,552	158,565
Kreditanstalt fur Wiederaufbau - KfW	-	1,184	7,109	8,293	1	1,162	7,254	8,416
Chase Manhattan	1,897	-	488,850	488,850	1,555	-	447,250	447,250
Banco Real	-	25,064	-	25,064	-	-	-	-
BBVA	-	13,534	-	13,534	-	-	-	-
Banco Itaú	72	24,848	-	24,848	-	-	-	-
Banco do Brasil	-	37,206	-	37,206	3	46	-	46
Local currency	1,404	98,672	317,519	416,191	1,586	172,772	244,470	417,242
Fundação COELBA - FAELBA	-	6,400	21,660	28,060	-	6,406	24,722	31,128
Banco do Brasil	254	2,418	27,017	29,435	241	2,137	25,524	27,661
Eletrobrás	370	28,068	98,412	126,480	15	26,254	67,956	94,210
BANDERN	-	6,597	2,576	9,173	-	5,900	2,576	8,476
Fundação COSERN - FASERN	-	3,157	6,167	9,324	-	2,929	9,087	12,016
Citibank	-	2,500	-	2,500	-	-	-	-
BMC	20	1,809	3,316	5,125	25	1,739	4,893	6,632
Banco Itaú	11	19,000	-	19,000	221	19,400	-	19,400
BNDES	749	27,018	157,591	184,609	484	5,348	108,933	114,281
Consumers	-	1,705	780	2,485	-	1,867	776	2,643
Other	-	-	-	-	600	100,792	3	100,795
	5,799	228,053	919,606	1,147,659	6,030	206,993	824,526	1,031,519

Loan contractual conditions - Company and consolidated:

Source	Date	Purposes	Interest rates	Maturity
COELBA: BID	04.05.81	Program for Expansion and Improvement of Transmission and Electric Energy Distribution System in the State of Bahia - 1 st stage	8.25% per year 3.00% per year	2001 2001
	03.23.86	Program for Expansion and Improvement of Transmission and Electric Energy Distribution System in the State of Bahia - 2 nd stage	7.75% per year 3.00% per year	2006 2011
KfW	07.15.87	Program for Supply of Electric Energy in the São Francisco region, West of the State of Bahia	6.50% per year	2007
Eletrobrás	Various	Expansion of distribution lines, networks and transmission lines	5.00% per year 7.00% per year	2012
FAELBA	05.01.99	Debt renegotiation	90% of CDI (*)	2004
BMC/BNDES	09.21.98	Coelbanet	(**) TJLP + 3.00% spread	2003
BNDES/FINEM	06.01.99	Electric energy transmission and distribution	TJLP + 3.85% per year	2006
Others	Various	Working capital	12.50% to 13.00% per year	2001
Garter: Chase	12.20.99	Acquisition of COSERN	LIBOR + variable spread	2002
COSERN: Banco do Brasil	03.30.94	Installment terms for debt related to projects - BNDES	10.136% per year	2014
Eletrobrás	Various	Expansion of distribution lines, networks and transmission lines	6.00% to 8.00% per year	2008
BANDERN	Various	Electrification of housing developments	2.00% to 5.00% per year	2006
BNDES/FINEM	06.01.00	Investment - transmission/distribution system	TJLP + 4.50% per year	2008
FASERN	Various	Private agreement for payment and receipt of debt	TR + 6.00% per year	2002 and 2004
Citibank	12.06.00	Secured account	102.00% of CDI	2001
Others	Various	Working capital	Various	2001
Itapebi: Various	Various	Financing of investments	1.90% to 7.00% per year	2001

(*) CDI - Interbank deposit rates.

(**) TJLP - Brazilian long-term interest rate.

The long-term portion matures as follows:

	Company		Consolidated	
	2000	1999	2000	1999
2001	-	68,483	-	85,469
2002	72,527	59,394	583,664	522,200
2003	70,336	56,453	94,668	70,949
2004	64,811	50,126	81,768	58,262
2005	56,914	43,262	69,323	50,008
2006	20,327	13,413	32,629	18,310
After 2006	36,198	13,869	57,554	19,328
	-----	-----	-----	-----
	321,113	305,000	919,606	824,526
	=====	=====	=====	=====

The composition of the foreign currency balance is as follows (all amounts in thousands):

Currency	Company					
	2000			1999		
	In foreign currency	In reais	%	In foreign currency	In reais	%
U.S. dollar	70,341	137,544	75.70	81,223	145,307	85.50
Swiss franc	2,353	2,849	1.60	7,059	7,940	4.70
German mark	10,395	9,788	5.40	13,871	12,814	7.50
Japanese yen	1,833,449	31,319	17.30	192,178	3,355	2.00
Dutch florin	203	170	-	610	500	0.30
		-----	-----		-----	-----
		181,670	100.00		169,916	100.00
		-----	=====		-----	=====
Principal		179,172			167,027	
Charges		2,498			2,889	
		=====			=====	
Currency	Consolidated					
	2000			1999		
	In foreign currency	In reais	%	In foreign currency	In reais	%
U.S. dollar	353,758	691,737	94.00	332,092	594,112	96.50
Swiss franc	2,353	2,849	0.40	7,059	7,940	1.10
German mark	10,395	9,788	1.30	13,871	12,814	1.80
Japanese yen	1,833,449	31,319	4.30	192,178	3,355	0.50
Dutch florin	203	170	-	610	500	0.10
		-----	-----		-----	-----
		735,863	100.00		618,721	100.00
		-----	=====		-----	=====
Principal		731,468			614,277	
Charges		4,395			4,444	
		=====			=====	

The composition of balances by local currency is as follows:

Subject/Indexed by	Company				Consolidated			
	2000		1999		2000		1999	
	Reais	%	Reais	%	Reais	%	Reais	%
Prefixed interest rate	2,485	0.90	218,276	83.4	2,485	0.60	218,276	52.10
UFIR	72,059	25.80	24,492	9.4	75,793	18.20	29,695	7.10
FINEL	14,117	5.10	18,969	7.2	19,822	4.80	26,194	6.20
TR	-	-	-	-	16,892	4.00	12,016	2.90
IGP-M	-	-	-	-	50,191	12.00	61,463	14.70
TJLP	143,060	51.30	-	-	203,065	48.60	4,778	1.10
CDI	47,071	16.90	-	-	49,347	11.80	56,936	13.60
Others	-	-	-	-	-	-	9,470	2.30
	-----	-----	-----	-----	-----	-----	-----	-----
	278,792	100.00	261,737	100.00	417,595	100.00	418,828	100.00
	-----	=====	-----	=====	-----	=====	-----	=====
Principal	277,816		260,408		416,191		417,242	
Charges	976		1,329		1,404		1,586	
	=====		=====		=====		=====	

The principal currencies and indices used for restating loans and financing had the following changes for the years ended December 31, 2000 and 1999:

Currency/Index	Increase (Decrease)	
	2000	1999
Japanese yen	(2.16)	62.55
German mark	1.93	26.74
Swiss franc	7.66	28.36
Dutch florin	1.93	28.04
U.S. dollar	9.30	48.01
IGP-M	9.95	20.10
FINEL	1.93	3.76
TJLP	10.75	13.22
CDI	17.33	25.13
UFIR	8.92	8.91
TR - Reference Rate	2.10	5.73

17. DEBENTURES

Debt charges	2000						
	Company			Consolidated			
	Short term	Principal		Debt charges	Principal		
Long term		Total	Short term		Long term	Total	
9,661	-	120,000	120,000	19,306	18,750	176,250	195,000

COELBA

The Company's Extraordinary Shareholders' Meeting on July 3, 2000 approved the issuance of nonconvertible debentures for public subscription, for the purpose of restructuring debt and financing investments, as follows:

Form and type:	Registered/Floating guarantee
Quantity:	12,000 nonconvertible debentures, second issue, single series
Par value:	R\$10,000
Issue date:	July 1, 2000
Maturity:	July 1, 2003
Yield:	102.5% of average interbank deposit rate (CDI)
Payment of interest:	Semiannual, starting January 2001
Scheduled amortization:	Four semiannual and consecutive installments of R\$2,500.00 starting January 2002

COSERN

For the purpose of increasing funds for the liquidation of promissory notes (commercial paper) and increasing investments, COSERN issued 7,500 debentures on April 1, 2000, as follows:

Form and type:	Nonconvertible/Registered
Quantity:	7,500 nonconvertible debentures
Par value:	R\$10,000
Issue date:	April 1, 2000
Maturity:	April 1, 2003
Yield:	104.5% of average interbank deposit rate
Payment of interest:	Semiannual, starting October 2001
Scheduled amortization:	Four semiannual and consecutive installments of R\$2,500.00 starting October 2001

18. REGULATORY CHARGES

	Company		Consolidated	
	2000	1999	2000	1999
Global reserve for reversion quota - RGR	11,544	16,234	12,973	18,388
Fuel usage quota - CCC	3,941	872	5,043	1,108
Inspection fee - ANEEL	243	186	306	235
National Fund for Technological and Scientific Development - FNDCT	730	-	960	-
Interest on compulsory loan - Eletrobrás	1,945	4,110	2,588	4,535
	-----	-----	-----	-----
	18,403	21,402	21,870	24,266
	=====	=====	=====	=====

19. TAX INSTALLMENTS

On April 28, 2000, the Company opted for the Federal Government Tax Recovery Program (REFIS), approved by Law No. 9,964 of April 10, 2000, declaring its tax and social security debts to the Federal Revenue Service (SRF) and National Institute of Social Security (INSS). The favorable conditions for debt amortization, including the extension of the payment period and change in the indexing unit (from the Central Bank Overnight Rate (SELIC) to the Brazilian long-term interest rate (TJLP)), were important factors in making the option for the program.

The consolidated debt will be paid in 60 consecutive monthly installments starting April 2000, updated based on the TJLP. The program rules establish as a mandatory condition for continuation the regular payment of the related taxes.

The tax and social security debts, including the amount of R\$12,034, related to the offset of tax losses acquired from Guaraniana S.A. included in the program, are as follows:

Taxes and social security	Company			
	Amounts due - April 2000	Discharged interest/fines	Amounts due - 12.31.00	1999
IRPJ (corporate income tax)	15,817	(4,302)	11,515	-
CSLL (social contribution tax)	12,266	(3,882)	8,384	-
FINSOCIAL (tax on billing)	5,011	-	5,011	4,092
INSS (social security)	22,419	(755)	21,664	15,583
PIS and COFINS (taxes on revenue) on RGR	4,556	-	4,556	324
Consolidated debt	60,069	(8,939)	51,130	19,999
Credits from third parties			(12,034)	-
Restatement - TJLP			2,475	-
Amortization April - December			(6,069)	-
Short term			35,502	19,999
Long term			(8,353)	(5,592)
			27,149	14,407

Taxes and social security	Consolidated			
	Amounts due - April 2000	Discharged interest/finances	Amounts due - 12.31.00	1999
IRPJ (corporate income tax)	23,269	(7,697)	15,572	-
CSLL (social contribution tax)	12,266	(3,882)	8,384	-
FINSOCIAL (tax on billing)	5,011	-	5,011	4,092
INSS (social security)	29,430	(755)	28,675	21,997
PIS and COFINS (taxes on revenue) on RGR	8,346	-	8,346	6,827
Consolidated debt	78,322	(12,334)	65,988	32,916
Credits from third parties			(18,981)	-
Restatement - TJLP			3,146	-
Amortization April - December			(7,690)	-
Short term			42,463	32,916
			(10,046)	(9,263)
Long term			32,417	23,653

As a result of the option for REFIS, the previously recognized reserves for contingencies were adjusted. The related debts as of April 28, 2000, as well as the effects on income, classified as nonoperating income, are as follows:

Debts	Company			Consolidated		
	REFIS	Reserves	Effect on income	REFIS	Reserves	Effect on income
IRPJ - injunction	11,515	15,817	4,302	15,572	23,269	7,697
CSLL - injunction	8,384	12,266	3,882	8,384	12,266	3,882
COFINS, and PIS	4,556	-	(4,556)	8,346	3,790	(4,556)
FINSOCIAL - installments	5,011	5,011	-	5,011	5,011	-
INSS - installments	16,476	16,687	211	16,476	16,687	211
INSS	5,188	5,732	544	12,199	12,743	544
Total	51,130	55,513	4,383	65,988	73,766	7,778

COSERN recorded R\$2,536 as income tax expense.

The expected maturities of long-term installments are as follows:

	Company		Consolidated	
	2000	1999	2000	1999
2001	-	1,176	-	3,144
2002	8,353	1,176	9,974	3,144
2003	8,353	1,176	9,974	2,037
2004	8,353	1,176	9,974	1,667
2005	2,090	1,176	2,495	1,667
After 2005	-	8,527	-	11,994
	-----	-----	-----	-----
	27,149	14,407	32,417	23,653
	=====	=====	=====	=====

Due to the adoption of REFIS, the Company elected to expressly and irrevocably cancel the following legal actions:

- a. Injunction granting COELBA the right to fully offset the tax loss carryforwards as of December 31, 1995, granted by the 5th Federal Justice District Court.
- b. Appeal for suspending the effects of lawsuit No. 1997.33.00.004447-8 and affirming the right of paying the FINSOCIAL tax in installments, annulled by a court decision in August 1998.

COSERN opted for the Tax Recovery Program - RN established for the State of Rio Grande do Norte, through Law No. 7,875 of October 13, 2000.

Accordingly, on November 28, 2000, COSERN made the payment of R\$1,044, related to ICMS (state VAT) debt remaining from January 1997, as follows:

	COSERN
	2000
Restated debt	1,044

ICMS nominal debt - January 1997	893
Monetary restatement	151
Charges	918

Total debt	1,962
Amount paid	(1,044)

Effect on income	918
	=====

The gain arising from the discharge of fine and interest, in the amount of R\$918, was recorded as nonoperating income.

20. RELATED-PARTY TRANSACTIONS

COELBA has transactions with related parties, including the purchase and sale of electricity and services and loans, among others.

Related parties	Transactions	Company					
		2000			1999		
		Assets	Liabilities	Income (Expense)	Assets	Liabilities	Income (Expense)
Fundação COELBA	Installment terms for debts	-	28,052	(4,308)	-	31,123	(4,694)
Iberdrola Energia S.A. (1)	Technical assistance - "performance fee"	-	7,700	(9,194)	-	6,407	(8,468)
	Services rendered	-	-	-	-	793	-
Guaraniana S.A. (2)	Tax credits assigned (REFIS)	-	11,669	(431)	-	-	-
Garter Properties Inc. (3)	Loans	-	589,075	(67,641)	-	538,946	(35,363)
CELPE (4)	Energy supply - purchase	-	102	(1,140)	-	113	(1,204)
	Energy supply - sale	-	-	34	-	-	55
Itapebi Geração de Energia S.A.	Reimbursement of expenses	623	-	-	-	-	-
	Advance for capital increase	-	-	-	16,974	-	-
Iberdrola Empreendimentos S.A.	Services rendered	-	78	(8,535)	-	947	(1,464)
Iberdrola Redes S.A.	Services rendered	-	365	(365)	-	-	-
Iberdrola Electrica S.A.	Services rendered	-	72	(72)	-	-	-
Iberdrola Sistemas S.A.	Services rendered	-	-	(7,592)	-	554	(4,859)
COSERN	Dividends and interest on capital	43,361	-	-	-	-	-
Tracol Serviços Elétricos S.A.	Services rendered	-	153	(3,675)	-	207	(4,534)
	Reimbursement of expenses	273	-	-	166	-	-
	Dividends	29	-	-	29	-	-
Gamesa Serviços Brasil Ltda.	Services rendered	-	232	(6,186)	-	58	(1,864)
Amara Brasil	Services rendered	-	193	(626)	-	-	(2)
Televias	Reimbursement of expenses	201	-	-	-	-	-
Related parties	Transactions	Consolidated					
		2000			1999		
		Assets	Liabilities	Income (Expense)	Assets	Liabilities	Income (Expense)
Fundação COELBA	Installment terms for debts	-	28,052	(4,308)	-	31,123	(4,694)
Fundação FASERN	Installment terms for debts	-	9,324	(1,215)	-	12,016	(1,137)
Iberdrola Energia S.A. (1)	Technical assistance - "performance fee"	-	11,590	(13,773)	-	8,160	(11,774)
Guaraniana S.A. (2)	Tax credits assigned (REFIS)	-	18,541	(675)	-	-	-
CELPE	Energy supply - purchase	-	102	(1,140)	-	113	(1,204)
	Energy supply - sale	-	-	34	-	-	55
Iberdrola Empreendimentos S.A.	Services rendered	-	78	(8,535)	-	2,351	(1,464)
Iberdrola Redes S.A.	Services rendered	-	365	(365)	-	-	-
Iberdrola Electrica S.A.	Services rendered	-	72	(72)	-	-	-
Iberdrola Sistemas S.A.	Services rendered	-	203	(7,592)	-	773	(4,859)
Gamesa Serviços Brasil Ltda.	Services rendered	-	251	(6,258)	-	183	(2,077)
Amara Brasil	Services rendered	-	220	(1,525)	-	27	(417)
Televias	Reimbursement of expenses	201	-	-	-	-	-

(1) The amounts owed to operator Iberdrola Energia S.A., in accordance with the technical assistance and transfer of know-how contract, are determined in a different manner each year, based on the gross operating margin (Earnings Before Interest, Taxes, Depreciation and Amortization - EBITDA on net operating revenue), for each period, based on performance (performance fee). It is computed by applying a percentage of the actual margin which exceeds the minimum percentage for the year, limited to a maximum percentage of the EBITDA amount for the year:

Year	Minimum % of margin for the year	Maximum fee as % of EBITDA
1999	32.5	3.0
2000	34.0	2.0

- (2) The assignment and transfer of tax credits by Guaraniana S.A. to offset tax debt of the Company and COSERN, under REFIS, is financed based on the same conditions as the REFIS installment payments.
- (3) The Company has a loan agreement (Intercompany Notes) with its subsidiary Garter Properties Inc., in the amount of US\$300 million, equivalent to R\$586,620 and R\$2,455 related to interest, respectively, for acquisition of the investment in COSERN. The loan balance is subject to exchange variation plus interest of 11.5% per year. Maturity is contractually scheduled for 2005 and the payment of interest is made on a quarterly basis. Garter Properties Inc. paid US\$50 million and renegotiated US\$250 million in debt maturing on December 20, 2002. The Company is the guarantor of this financing obtained by Garter Properties Inc. from Chase Manhattan Bank.
- (4) Energy supply is based on tariffs approved by MAE Services Administrator - ASMAE.

The other transactions were made in a form similar to market practices.

21. PAYABLES TO RELATED PARTIES

	Company							
	2000				1999			
	Debt charges	Short term	Long term	Total	Debt charges	Short term	Long term	Total
Garter Properties Inc.	2,455	-	586,620	589,075	2,246	-	536,700	538,946
Iberdrola Energia S.A.	-	7,700	-	7,700	-	6,407	-	6,407
Guaraniana S.A.	-	2,917	8,752	11,669	-	-	-	-
	-----	-----	-----	-----	-----	-----	-----	-----
	2,455	10,617	595,372	608,444	2,246	6,407	536,700	545,353
	=====	=====	=====	=====	=====	=====	=====	=====
	Consolidated							
	2000				1999			
	Debt charges	Short term	Long term	Total	Debt charges	Short term	Long term	Total
Guaraniana S.A.	-	4,731	13,810	18,541	-	-	-	-
Iberdrola Energia S.A.	-	11,590	-	11,590	-	8,160	-	8,160
Others	-	138	-	138	-	-	-	-
	---	-----	-----	-----	---	-----	---	-----
	-	16,459	13,810	30,269	-	8,160	-	8,160
	==	=====	=====	=====	==	=====	==	=====

22. RESERVES FOR CONTINGENCIES

The provisions recognized for contingencies and the respective escrow deposits are composed as follows:

Contingencies	Company					
	Reserves			Reserves		
	Charged (Credited) to income	Accumulated	Escrow deposits (1)	Charged (Credited) to income	Accumulated	Escrow deposits (1)
Labor	(8,169)	11,543	4,655	5,487	19,712	3,249
Civil	4,182	30,008	828	4,693	25,826	877
Consumers	1,804	19,925	828	2,359	18,121	877
Other	2,378	10,083	-	2,334	7,705	-
Tax	(4,729)	2,664	-	1,423	8,004	-
ISS	375	1,773	-	549	1,398	-
INSS	(5,452)	517	-	870	6,580	-
Other	348	374	-	4	26	-
	(8,716)	44,215	5,483	11,603	53,542	4,126
Current liabilities		(22,445)	-		(53,542)	-
Long-term liabilities		21,770	5,483		-	4,126

Consolidated

Contingencies	Reserves			Reserves		
	Charged (Credited) to income	Accumulated	<u>Escrow deposits (1)</u>	Charged (Credited) to income	Accumulated	<u>Escrow deposits (1)</u>
Labor	(9,306)	21,961	12,804	6,865	31,267	8,731
Civil	4,374	36,502	828	6,281	32,128	877
Consumers	(725)	21,976	828	3,728	22,701	877
Other	5,099	14,526	-	2,553	9,427	-
Tax	(934)	17,250	-	4,771	18,184	-
ISS	375	1,773	-	549	1,398	-
INSS (2)	(5,377)	1,204	-	977	7,192	-
COFINS (2)	943	8,135	-	2,417	7,192	-
CSLL (2)	420	958	-	-	-	-
IRPJ (2)	(6,376)	1,804	-	-	-	-
Other (2)	974	3,376	-	828	2,402	-
	(11,638)	75,713	13,632	17,917	81,579	9,608
Current liabilities		(53,943)	-		(81,579)	-
Long-term liabilities		21,770	13,632		-	9,608

(1) Amounts included in other noncurrent assets.

(2) In the subsidiary COSERN, the reversals of provisions, in the total amount of R\$4,625, related to COFINS, INSS, CSLL, IRPJ and others were recorded under specific captions in the income statement, and are not included in the reserve for contingencies.

Labor - Refers to several labor claims filed against the Company and its subsidiary COSERN, involving overtime, risk exposure, salary equalization and others.

Consumers - Plano Cruzado tariffs - The Company and its subsidiary COSERN are defendants in lawsuits in which certain industrial consumers challenged the legality of the electric energy tariff increases during the Cruzado Plan, under DNAEE (predecessor of ANEEL) Administrative Rules No. 38 and No. 45 of January 27 and March 4, 1996, respectively, and demand the refund of the amounts involved. It is not possible to foresee the outcome, but several other energy companies have partially succeeded against these consumer claims. To cover possible contingencies arising from such claims, the Company and its subsidiary recognized reserves amounting to, respectively, R\$19,925 (R\$18,121 in 1999) and R\$2,051 (R\$4,580 in 1999) related to differences in the rates charged from March to November 1986 to industrial consumers, plus late payment charges, in amounts considered sufficient.

Other (Civil) - Refers to several civil and commercial lawsuits, by individuals and legal entities, in which the Company or its subsidiary COSERN are defendants, involving moral and material damages.

Other (Tax) - Refers to IPTU (municipal real estate tax) and LTF assessments challenged in court by the Company.

ISS (municipal service tax) - Refers to a tax conflict involving state VAT (ICMS) related to the accessory activity of energy sales.

INSS - Refers to assessments to the Company as the sole taxpayer in contracting outside contractors services. The Company has demanded that the contractors provide evidence of the payments to cancel the assessments. There are no risks to the REFIS program.

Management of the Company and its subsidiary COSERN, based on the opinion of legal counsel as to chances of a favorable outcome in several lawsuits, consider the reserves recognized in the balance sheet as sufficient to cover possible losses arising from these cases.

23. SPECIAL LIABILITIES

	Company		Consolidated	
	2000	1999	2000	1999
Consumers' contributions	196,510	164,993	196,510	164,993
Federal government investment	16,641	16,666	60,862	52,589
Donations and grants	68,429	38,367	69,062	39,000
Other	-	-	620	620
	-----	-----	-----	-----
	281,580	220,026	327,054	257,202
	=====	=====	=====	=====

Due to their nature, these contributions do not represent effective financial obligations and, accordingly, should not be considered as liabilities in determining economic and financial ratios. In the event the Company is liquidated, they would represent installments to be reverted to the federal government.

24. CAPITAL

The Company's authorized capital as of December 31, 2000 is R\$1,300,000.

The capital composition by type of share and the principal shareholders are as follows:

Shareholders	Common		Preferred				Total	
	Single	%	A	%	B	%	Total	%
Guaraniana S.A. Iberdrola Energia do Brasil Ltda.	9,812,072	89.7	786,354	40.2	5,931,526	100.0	16,529,952	87.8
Previ	559,791	5.1	1,039,420	53.1	-	-	1,599,211	8.5
State of Bahia	331,780	3.0	99,440	5.1	-	-	431,220	2.3
Other	270	0.1	-	-	-	-	270	-
	226,539	2.1	30,542	1.6	-	-	257,081	1.4
	-----	-----	-----	-----	-----	-----	-----	-----
	10,930,452	100.0	1,955,756	100.0	5,931,526	100.0	18,817,734	100.0
	=====	=====	=====	=====	=====	=====	=====	=====

Common shares have voting rights and preferred shares of both classes do not have this right, but have priority in capital redemption in the event the Company is liquidated. Class A preferred shares have priority to dividend distributions.

In compliance with the provisions of the Company's bylaws, the minimum compulsory dividend is 25% of net income, adjusted under the terms of corporate law, observing the minimum amounts of 10% on capital for preferred shares and 6% for common shares.

25. DIVIDENDS AND INTEREST ON CAPITAL

	Company	
	2000	1999
Net income (loss)	150,712	(83,415)
Legal reserve	(7,536)	-
Amortization of merged goodwill	28,927	-
Reversal of reserve to maintain the integrity of shareholders' equity	(19,357)	-
Tax benefit from amortization of goodwill	(9,570)	-
	-----	-----
Dividend calculation basis	143,176	(83,415)
Minimum compulsory dividends	35,794	-
Dividends and interest on capital proposed and paid:		
Dividends - R\$2.55 per thousand shares	48,065	-
Interest on capital	76,722	-
	-----	-----
Gross	124,787	-
	-----	-----
Withholding income tax on interest on capital - 15%	(11,508)	-
	-----	-----
Total dividends and interest on capital	113,279	-
	=====	=====

The Extraordinary Shareholders' Meetings on August 28 and December 29, 2000 decided to pay the shareholders interest on capital, which was calculated based on income before taxes for the first semester and projected for the year ended December 31, 2000.

The amount paid to the shareholders was R\$76,722, equivalent to R\$2.07 and R\$2.01 per thousand shares. Interest on capital is considered at yearend in the computation of the minimum compulsory dividend.

27. FINANCIAL CHARGES AND INFLATIONARY EFFECTS

In accordance with General Instruction No. 36 of the Chart of Accounts for Electric Energy Public Service and CVM Instruction No. 193 of July 11, 1996, the following amounts were capitalized as construction in progress in 2000:

	Distribution	
	Company	Consolidated
Financial charges for the year	111,503	111,503
Transfers to construction in progress	(67)	(67)
	-----	-----
Net financial charges in income	111,436	111,436
	=====	=====
Inflationary effects for the year	65,417	65,417
Tranfers to construction in progress	(12)	(12)
	-----	-----
Net inflationary effects charged to income	65,405	65,405
	=====	=====

28. PENSION PLAN

The Company and its subsidiary COSERN sponsor Fundação COELBA de Assistência e Seguridade Social - FAELBA and Fundação Assistencial e Seguridade Social dos Empregados da COSERN - FASERN, respectively, private nonprofit foundations, engaged in providing their participants and beneficiaries with a supplementary pension plan, in accordance with the benefit plan to which they are linked.

The pension plans adopt the financial capitalization method to calculate and accumulate the funds necessary for the plans. Current contributions (from sponsors and participants) are used to cover benefits to be paid to participants, accumulated since their admission to the plan. In the defined benefit plans, the sponsors are responsible for eventual deficits.

The contributions from COELBA and COSERN to FAELBA's and FASERN's defined benefit plans correspond to 7.80% and 7.00%, respectively, of total monthly gross payroll (actual contribution salary) of active participants, plus 2.05% to cover FAELBA's administrative expenses.

FASERN has only four active participants in its defined benefit plan.

As to the assisted participants (retired and pensioners) and the active participants who remained in the defined benefit plan, the foundations' technical reserves exceed the mathematical reserves for these groups of participants.

FAELBA, in October 1988, and FASERN, in March 1999, adopted new defined contribution plans, selected by more than 98% of active employees.

The plan comprises risk benefits with coverage for disability and death fully funded by the sponsors for active employees participating in the plan. These benefits are granted in a single payment. Due to its characteristics, the defined contribution plan does not have a deficit or surplus, since investment results are fully passed on to the participants.

The contributions of COELBA and COSERN to FAELBA's and FASERN's defined contribution plans are equal to those of the participants plus 4.47% for COELBA and 5.82% for COSERN, respectively, of the participants' total actual monthly contribution salary for risk benefits (disability/death) and other.

The actuarial reports for FAELBA and FASERN, issued by independent actuaries, based on the financial position of the foundations as of December 31, 2000 and 1999, indicate a technical surplus.

As of December 31, 2000 and 1999, the composition of FAELBA's and FASERN's technical reserves is as follows:

	FAELBA				FASERN			
	2000		1999		2000		1999	
	CD (1)	BD (2)	CD (1)	BD (2)	CD (1)	BD (2)	CD (1)	BD (2)
Technical reserves	192,789	120,984	169,158	119,195	16,558	29,438	17,315	27,898
Vested benefits	-	118,216	-	115,234	-	31,927	-	29,516
Unvested benefits	192,789	10,433	169,158	12,822	16,558	181	17,315	1,214
Unamortized reserve	-	(7,665)	-	(8,861)	-	(2,670)	-	(2,832)
Mathematical reserves	192,789	166,240	169,158	169,023	16,558	41,397	17,315	39,053
Technical surplus	-	45,256	-	49,828	-	11,959	-	11,155
Sponsors' contributions	6,351		7,122		1,215		1,137	

(1) Defined contribution plan.

(2) Defined benefit plan.

29. FINANCIAL INSTRUMENTS

The book values for fixed interest rate investments, transactions with related companies, loans and financing related to financial instruments included in the balance sheet, when compared to the amounts which could be obtained in negotiations in an active market, or, if not available, with the adjusted present value based on the interest rate prevailing in the market, are substantially similar to their corresponding market values.

Accounts receivable from federal, state and municipal governments and from public sector entities are recorded in the balance sheet in the amounts of R\$43, 666 for the Company and R\$102,459 in consolidated. It was not possible to estimate the market values of past-due amounts since their receipt dates cannot be projected.

The installment obligations of debt with FAELBA of COELBA and with FASERN of COSERN, in compliance with standards established for private pension plan entities, are equivalent to market values for this type of operation.

The book values of long-term loans and financing linked to specific basic infrastructure projects, made in foreign currency with international development institutions, as well as those for loans and financing linked to electrification projects, made in local currency, with Centrais Elétricas Brasileiras S.A. - Eletrobrás and consumers, are equivalent to market values for these transactions, not available in the financial market.

The Company has swap transactions to ensure that significant variations in the U.S. dollar exchange rate, to which its liabilities in foreign currency are subject, do not affect its results and cash flows. As of December 31, 2000, the Company had hedge contracts in the total amount of R\$411,091.

30. INSURANCE

All COELBA and COSERN assets are insured in accordance with the Companies risk management policy; the principal coverages by type of risk are as follows:

Insured	Type of coverage	Insured amount
COELBA:		
Buildings and contents, inventories and storerooms	Fire, lightning, explosion and electrical damage	76,772
Substation and power plant equipment	Fire, lightning, explosion and electrical damage	122,359
Certified agents	Fire, lightning, explosion and theft	1,140
Vehicles	Theft, fire, collision and civil liability	Market value
Directors, interns and minors	Personal accident	3,321
COSERN:		
Buildings and substations, inventories and storerooms	Fire, lightning, explosion and electrical damages	41,877
Vehicles	Theft, fire, collision and civil liability	Market value

The Company also has domestic and international transportation policies, with insured amounts limited to R\$1.5 million and R\$5.0 million, respectively.

COELBA and COSERN also have civil liability coverage for employees and third parties, to protect their operations, in the amount of R\$1,200 per occurrence, with an aggregate limit of R\$1,800.

31. STATEMENT OF INCOME PER ACTIVITY

COELBA's income per activity is as follows:

	Generation	Transmission	Distribution	Other	Total	1999
OPERATING REVENUES	142	1,141	1,556,841	-	1,558,124	1,274,854
Electricity sales	-	-	1,498,158	-	1,498,158	1,229,259
Electricity supply	-	-	41,561	-	41,561	14,864
Use of transmission network	-	1,141	-	-	1,141	567
Other	142	-	17,122	-	17,264	30,164
Deductions from operating revenues	-	(41)	(386,791)	-	(386,832)	(316,475)
Global reserve for reversion quota - RGR	-	-	(23,723)	-	(23,723)	(22,905)
Taxes on revenues	-	(41)	(363,068)	-	(363,109)	(293,570)
Net operating revenues	142	1,100	1,170,050	-	1,171,292	958,379
OPERATING EXPENSES	(4,813)	(796)	(862,905)	(9,570)	(878,084)	(751,453)
Personnel	(1,008)	(51)	(121,171)	-	(122,230)	(113,039)
Material	(45)	(6)	(15,402)	-	(15,453)	(11,333)
Outside services	(487)	(193)	(86,878)	-	(87,558)	(81,725)
Fuel for energy production	(225)	-	-	-	(225)	(376)
Electricity purchased for resale	-	-	(372,070)	-	(372,070)	(341,183)
Charges for use of transmission system	-	-	(74,239)	-	(74,239)	(36,525)
Fuel usage quota	-	-	(33,380)	-	(33,380)	(15,702)
Depreciation and amortization	(2,854)	(509)	(101,501)	(9,570)	(114,434)	(91,523)
Provisions	-	-	(20,387)	-	(20,387)	(32,757)
Other expenses	(194)	(37)	(37,877)	-	(38,108)	(27,290)
INCOME FROM PUBLIC ELECTRIC UTILITY SERVICE	(4,671)	304	307,145	(9,570)	293,208	206,926
EQUITY IN SUBSIDIARIES	-	-	-	20,042	20,042	3,023
FINANCIAL INCOME (EXPENSE)	-	-	(48,976)	(136,877)	(185,853)	(312,754)
INCOME (LOSS) FROM OPERATIONS	(4,671)	304	258,169	(126,405)	127,397	(102,805)
NONOPERATING EXPENSE	-	-	(8,837)	-	(8,837)	(6,990)
INCOME (LOSS) BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES	(4,671)	304	249,332	(126,405)	118,560	(109,795)
Income and social contribution taxes - current					(18,714)	11,525
Income and social contribution taxes - deferred					(12,526)	24,434
INCOME (LOSS) BEFORE REVERSALS					87,320	(73,836)
Reversal of interest on capital					76,722	-
Reversal of interest on capital - received					(13,330)	(9,579)
NET INCOME (LOSS)					150,712	(83,415)
NET INCOME (LOSS) PER THOUSAND SHARES - R\$					8.01	(4.43)

Income and expense related to generation, transmission and distribution activities are allocated directly to the operating units and those linked to central management are allocated to administrative units. The central administration expenses remaining after the apportionment to orders in progress are allocated to the operating activities on a proportionate basis. Income and expense involving ownership interests are recorded as "Other". This procedure complies with the provisions of the Chart of Accounts for Electric Energy Public Service, established by Resolution ANEEL No. 001/97.

32. SUBSEQUENT EVENT

On March 2, 2001 the Company released to the general public its financial statements for the year ended December 31, 2000 and, as disclosed at that time, there had been an uncertainty over the procedure to be applied to the goodwill merged into the Company, since the instructions provided by CVM and ANEEL were conflicting.

On March 6, 2001, CVM published Instruction No. 349 and on March 7, 2001, ANEEL released Instruction SFF/ANEEL No. 172, which the Company believes are no longer conflicting.

In order to conform to the aforementioned Instructions, the following changes were made to the financial statements:

	<u>Amount</u>
1. Reserve to maintain the integrity of shareholders' equity, retroactive to June 30, 2000	754,048
2. Proportional reversal of reserve to maintain the integrity of shareholders' equity	19,357
3. Reclassification of net goodwill to-	
Current assets - recoverable deferred taxes	10,312
Noncurrent assets - recoverable deferred taxes	352,938

The reserve to maintain the integrity of shareholders' equity represents the difference between the merged goodwill and the tax benefit which the Company expects to obtain on the transaction.

The classification between current and noncurrent assets is based on the expectation of realization of such tax benefit.

After recognition of the reserve to maintain the integrity of shareholders' equity, the amortization of merged goodwill, net of reversal of the reserve and the related tax benefit, will not impact the future results of the Company and, therefore, the flow of dividends.

33. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

The accompanying financial statements are presented on the basis of accounting practices emanating from corporate law in Brazil. Certain accounting practices applied by the Company and its subsidiaries that conform with those accounting practices in Brazil may not conform with generally accepted accounting principles in the countries where these financial statements may be used.

* * * * *

APPENDIX C – GARTER PROPERTIES INC. FINANCIAL INFORMATION FOR THE YEARS ENDED DECEMBER 31ST, 1999 AND 2000

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GARTER PROPERTIES INC.

FINANCIAL STATEMENTS

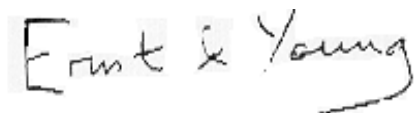
YEARS ENDED DECEMBER 31.2000 AND 1999

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholder

Garter Properties Inc.

1. We have audited the accompanying balance sheets of Garter Properties Inc. as of a December 31, 2000 and 1999, and the related statements of operations, shareholders' equity and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting and principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.
3. As more fully described in note 3, the financial position at December 31, 2000 and 1999 and the result of operations for the years then ended were significantly impacted by transactions with related parties.
4. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Garter Properties Inc. at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with International Accounting Standards.



Ernst & Young

CHARTERED ACCOUNTANTS

Barbados
January 12, 2000

GARTER PROPERTIES INC.

STATMENTS OF OPERATIONS

December 31 , 2000 and 1999
(Expressed in Thousand of U.S dollars)

	2000	1999
Income	\$	\$
Interest Received	<u>34.592</u>	<u>34.694</u>
Expenses		
Interest Paid	30.999	35.607
Commission Paid	3.407	46
General and Administrtrtive expense	<u>229</u>	<u>42</u>
	34.635	35.695
Net loss for the year	(43)	(1.001)

GARTER PROPERTIES INC.

STATMENTS OF SHAREHOLDER'S EQUITY

December 31, 2000 and 1999
(Expressed in Thousand of U.S dollars)

	Share Capital (NOTE 5) \$	Capital reserve \$	Retained earnings \$	Total \$
Balance at December 31,1998	50	-	4.169	4.219
Capital contribution	-	52.525	-	52.525
Loss for the year	-	-	(1.001)	(1.001)
Balance at December 31,1999	50	52.525	3.168	55.743
Loss for the year	-	-	(43)	(43)
Balance at December 31,2000	50	52.525	3.125	55.700

GARTER PROPERTIES INC.

STATEMENTS OF CASH FLOWS

December 31 , 2000 and 1999
(Expressed in Thousand of U.S dollars)

Cash flows from operating activities	2000	1999
	\$	\$
Net loss for the year	(43)	(1.001)
Adjustment for:		
Interest Income	(34.592)	(34.694)
Interest expense	30.999	35.607
Operating Losses before working capital changes	(3.636)	(88)
Increase (decrease) in deferred asset	3.407	(4.542)
Net cash used in operating activities	(229)	(4.630)
Cash flow from investing activities		
Interest received	34.621	34.694
Net cash from investing activities	34.621	34.694
Cash flow from financing activities		
Capital contribution	-	52.525
Payment of loan	-	(50.000)
Interest Paid	(30.898)	(35.865)
Net change in cash and cash equivalents	3.494	(3.276)
Cash and cash equivalents, begining of the year	786	4.062
Cash and cash equivalents, end of year	4.280	786

GARTER PROPERTIES INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999
(Expressed in Thousand of U.S dollars)

1. Organization, principal activity and ownership

Garter Properties Inc. was incorporated in the British Virgin Islands on November 7, 1997 as an International Business Company under the provisions of the International Business Company Act of the BVI. The company principally engages in giving and receiving loans, since the objective of its incorporation was receiving a US\$ 300,000 loan from Chase Manhattan Bank and giving intercompany notes in the same amount to its parent company. The company is a wholly owned subsidiary of Companhia de Eletricidade do Estado da Bahia (COELBA), a company registered in Brazil.

2. Summary of significant accounting practices

- a) Basis of accounting
These financial statements are prepared under the historical cost convention, and in accordance with International Accounting Standards.

- b) Currency
The financial statements are expressed in U.S dollars, since the majority of its transactions are reported in that currency.

- c) Commission expense
The Company has incurred an up-front fee by way of a commission from Chase Manhattan Bank as part of the re-negotiation of the loan agreement, as more fully explained in note 4. This expense has been deferred and will be written off over a sixteen-month period.

3. Notes Receivable

The Company issued notes receivable to its parent company (COELBA) in the amount of US\$ 300,000. The notes were used by the parent company to acquire Companhia Energética do Rio Grande do Norte (COSERN). The notes bear interest at the rate of 11.5% per annum and are repayable in 2005.

GARTER PROPERTIES INC.

NOTES TO FINANCIAL STATEMENTS

December 31 , 2000 and 1999
(Expressed in Thousand of U.S dollars)

4.Loan Payable

The Company had a loan agreement with Chase Manhattan Bank, in the amount of US\$ 300.000, wich matured in december 1999. The loan was re-negotiated by the Company, wich resulted in a repayment to the Bank of US\$ 50.000 and a commission chrgе to the Company in the amount of US\$ 4.542. The balance owing to the Bank of US\$ 250.000 matures in december 2002 and interest is charged in LIBOR plus a variable Spread. The loan is secured by a guarantee from the parent company.

5.Share Capital

Authorised:

Issued:	2000	1999
	<u>\$</u>	<u>\$</u>
Share capital (50.001 shares)	<u>50</u>	<u>50</u>

6.Financial Instruments

Fair Values:

The metods and assumptions used to estimmate the fair value of each class of financial instruments for wich it is practical to estimate a value are as follows:

i) Short- term financial assets and liabilities:

The carrying value of these assets and liabilities is a reasonable estimate of their fair because of the short maturity of these instruments. Short-term financial assets comprise cash and interest receivable. Short-term financial liabilities comprise interest payable.

GARTER PROPERTIES INC.

NOTES TO FINANCIAL STATEMENTS

December 31 , 2000 and 1999
(Expressed in Thousand of U.S dollars)

ii) Long-term financial assets and liabilities:

The carrying value of the notes receivable and the loan payable is a reasonable estimate of their fair value.

Credit Risk:

The company is exposed to credit risk on the notes receivable from its parent company, and the interest receivable thereon.

Interest Rate Risk:

The company is exposed to differences in interest rates arising on the notes receivable and the loan payable, details of which are shown in Note 3 and 4 respectively.

**APPENDIX D – COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA COELBA -
PROJECTED FINANCIAL DATA**

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PROJECTED FINANCIAL DATA – NON CONSOLIDATED

The following Summary of Projected Financial Data, which covers a period of five years, from the year 2001 to 2005, is derived from management's Financial Projections included herein. In the opinion of the Company's management the following unaudited credit statistics present, to the best of management's knowledge and belief, the expected results of operations for the periods presented below. There will be differences between the projections and actual results achieved because events and circumstances frequently do not occur as expected.

Coelba's projections presented below (on a non consolidated basis), do not include any impact of the rationing. However, the following aspects should be noted in connection with the rationing:

Industry Outlook

- Uncertainty still exists as important details of the rationing are pending from government decisions yet to be made. Therefore Coelba has no defined scenario for rationing.
- It is now very likely that rationing will start in June 1st, and last some time during 2001.
- The length of rationing is hard to predict, as it depends on:
 - Return to average rainfall levels
 - Evolution of demand in the face of economic slowdown
 - Availability of new generation facilities presently in construction

Coelba's Situation

- Will be selling surplus electricity to the MAE
- Has a PPA with a new 450MW hydro plant (Itapebi), due to enter into operation in 2003
- Enjoys a sound credit position, especially relative to some industry peers
- Its service area is less dependent on customers that are energy-intensive industries

Therefore, Coelba is in a position of relative comfort:

Coelba's (Non-Consolidated) economic sensitivity for full year projected 2001		
<i>R\$ MM</i>	No Rationing	20% Rationing
Net Sales	1,347	1,229
EBITDA	457	386
EBITDA Margin	33.9%	31.4%

PROJECTED FINANCIAL DATA – NON CONSOLIDATED

R\$ 000's	2001	2002	2003	2004	2005
Balance Sheet					
Cash & Marketable Securities	43.603	27.818	24.443	24.443	24.443
Long Term Assets	262.004	367.912	349.822	337.255	327.040
Net Fixed Assets	2.800.739	3.033.005	3.284.677	3.533.007	3.767.031
Total Assets	3.603.025	3.968.370	4.261.804	4.567.128	4.868.900
Total Debt (Short + Long Term Debt)	1.224.947	1.312.128	1.308.761	1.312.669	1.320.028
Long Term Debt	1.053.585	1.114.349	1.097.126	1.079.023	1.071.681
Shareholders Equity	1.549.799	1.678.394	1.768.266	1.779.910	1.793.373
Total Capitalization (Shareholders Equity + Total Debt)	2.603.383	2.792.743	2.865.391	2.858.933	2.865.054
Income Statement					
Net Sales	1.347.214	1.572.970	1.733.682	1.963.267	2.293.421
% Growth	15,3%	16,8%	10,2%	13,2%	16,8%
Gross Profit	791.774	925.408	852.433	872.418	960.516
% Margin	58,8%	58,8%	49,2%	44,4%	41,9%
EBITDA	456.916	561.673	458.662	449.908	506.417
% Margin	33,9%	35,7%	26,5%	22,9%	22,1%
Interest Income	57.104	34.284	46.121	49.347	54.421
Interest Expense	136.899	131.132	131.929	136.865	150.618
Net Profit	206.486	300.392	247.435	232.881	269.270
Capital Expenditures	349.887	394.215	427.448	442.498	443.568
Dividends (Interest on Own Capital)	113.029	123.120	124.350	125.363	126.316
Ratios					
Total Debt / EBITDA	2,68	2,34	2,85	2,92	2,61
EBITDA / Interest Expense	3,34	4,28	3,48	3,29	3,36
Total Debt / Total Capitalization	47,1%	47,0%	45,7%	45,9%	46,1%