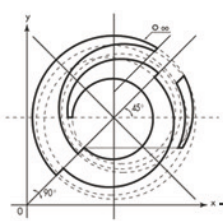


ALSTOM

FINANCING
THE BRAZILIAN ELECTRICITY SECTOR
Rio de Janeiro - April 6, 2004

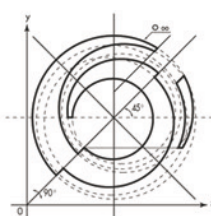
José Luiz Alquéres
Member of the Board of Administrator
ALSTOM, MDU Brazil, HOLCIM
Crédit Lyonnais, AREVA, NEXANS,
ALCOA

ALSTOM



Summary

- 1. Electricity Sector investment challenge**
- 2. Funds required for expansion**
- 3. The project developer dilemma**
- 4. Who are going to be the guarantors**
- 5. A positive agenda**



1. Electricity Sector Investment Challenge

**BRAZILIAN
ECONOMY GDP**

US\$ 560 Billion



**Public Sector
Investments**

**Private Sector
Investments**



**Education
Public Health
Social and Public Security
Infrastructure**

**“Driven by
Reward/Risk”**

FOREIGN INVESTMENT (FDI)

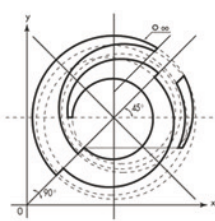
US\$ 10 Bi / Year

**“Driven by
Reward/Risk”**

MULTILATERALS

US\$ 1,0 Bi / Year

**Growing orientation for
Poverty Reduction
Programs or “Social
Infrastructure Programs”**



2. Funds required for expansion

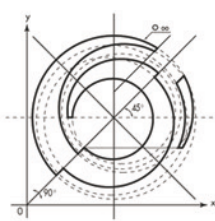


**Average Requirement
per year (3.000 MW/year)**

R\$ 20 Billion per year:
Generation : 13,6 Billion
Transmission : 3 Billion
Distribution : 3,4 Billion

- **Electricity Sector reinvestment:
*R\$ 3 Bi/ year***
- **Subsides RGR, CDE, ECE)
*R\$ 2,0 Bi/year***
- **Third parties: BNDES, Multilaterals:
*R\$ 2,5 Bi/year***
- **Competitive financing for new projects
(commercial Banks / Capital Markets)
*R\$ 12,5 Bi/year***

Most of the funds should be raised in the competitive capital markets



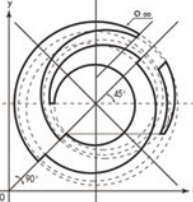
3. The energy investor dilemma



Think that you should be prepared to:

- 1. commit to invest in a developing country**
- 2. add sovereign risks**
- 3. add sector risks (international)**
- 4. add regulatory risks (local)**
- 5. add “rest of the government” risks: “environmental, judiciary”, political lack of stability;**
- 6. add “right choice of the developer” risk**
- 7. add project natural risks (cost overruns, postponement of financial closing, etc.)**
- 8. add commissioning risks**
- 9. add “commercial” and “credit of the clients” risks**

or compare this to just lending the money to the same government in the capital markets at an interest rate at least twice the accepted by the regulator



4. Who are going to be the guarantors

New and old Energy Long Term Contracts

**GENERATING
COMPANIES**



new
pool

**TRANSMISSION
COMPANIES**

**BOT TYPE
CONTRACTS**

Charges of
the system

OPEX
Essential

Past Financial
Burden

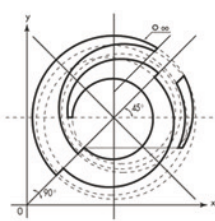
CAPEX

as residual

**DISTRIBUTION
UTILITIES**

- Regulatory Board ANEEL - Federal
- Local Regulators
- Tariff control
- Tax collecting

Low quality guarantor: The distribution utilities, the weakest agent of the system, today in private hands, carry the key responsibilities



5. A positive agenda

- **Welcoming Profit (price-cap systems)**
- **Strong investment in rebuilding customers confidence in the utilities**
- **“Risk Mitigation Agency” (to reduce the cost of funds)**
- **Limited government voice in the public - private partnership (public investments should receive guarantee)**
- **End use: Rational and efficient use of energy promotion**
- **Efficient interface with regulators (ANEEL, ANP, IBAMA, State Secretaries, etc.)**