



**Equatorial Energia S.A.**  
Publicly-held Company  
Corporate Taxpayer's ID (CNPJ/MF): 03.220.438/0001-73

## **MATERIAL FACT**

Pursuant to the material fact of November 5, 2007, Law 6404/76 ("Brazilian Corporate Law") and CVM Instructions 358/2002 and 319/1999, Equatorial Energia S/A ("Equatorial") hereby informs the Brazilian Securities and Exchange Commission (the "CVM") and the public in general of the following:

The merger into Equatorial of PCP Energia Participações S/A ("PCP Energia"), which holds a 13.06% interest in Light S/A ("Light"), through RME – Rio Minas Energia Participações S/A ("RME"), and which, through a shareholders' agreement, shares the control of said company, shall be submitted to Equatorial and PCP Energia shareholders at an Extraordinary Shareholders' Meeting to be held on February 12, 2008 (the "Merger").

1.1 Main Objectives: The Merger will permit the concentration in Equatorial of investments in the Brazilian energy industry, making it a single vehicle for the expansion of its presence in the domestic electricity market through new investments and acquisitions, in addition to the creation of value through the exchange of the best investment management practices, which will result in benefits for Equatorial and, consequently, its shareholders.

1.2 Acts Preceding the Merger: As a prior measure for the implementation of the Merger, on November 5, 2007, Equatorial's Board of Directors approved the execution of the Protocol of Merger and Justification, entered into on said date between Equatorial and PCP Energia and amended on January 25, 2008.

1.3 Base Date and Subsequent Events: For all legal purposes, the Merger shall make reference to September 30, 2007 (the "Base Date") and shall take into account the effects of the following subsequent events: (i) the payment of dividends by RME in the amount of R\$270,605,076.83 (two hundred and seventy million, six hundred and five thousand and seventy-six Reais and eighty-three centavos) arising from the payment of dividends by Light; and (ii) the payment of dividends by PCP Energia in the amount of R\$68,100,000.00 (sixty-eight million and one hundred thousand Reais) (the "Subsequent Events"). In light of the Subsequent Events, a balance sheet of PCP Energia, with December 31, 2007 as its base date, was especially prepared in accordance with the applicable accounting and fiscal regulations for the purpose of the Company's capital increase mentioned in item 1.8 below.

1.4 Exchange Ratio: As a result of the Merger, 0.3197 common and 0.3197 preferred Equatorial shares shall be attributed to each common PCP Energia share, which shall be

subsequently canceled. Said exchange ratio is equivalent to 0.6934 Equatorial Unit for each common Light share.

The exchange ratio was established: (i) based on the weighted average price of Equatorial's Units (each Unit comprising 1 (one) common and 2 (two) preferred shares, with both common and preferred shares having the same market value) and Light's common shares (taking into account that Light shares are, indirectly, the sole assets of PCP Energia) on the Bovespa over the last ninety (90) trading sessions prior to November 11, 2007, the date on which the Protocol of Merger and Justification was entered into by Equatorial's management; and (ii) based on the understanding that the criterion adopted reflects the fair price of the shares issued by the companies that are the object of the Merger and shall be submitted for the approval of the Equatorial's common and preferred shareholders.

1.5 Appraisal Criterion of the Companies: For the purposes of Equatorial's capital increase, PCP Energia's net assets were appraised at their book value, taking into account the balance sheet especially prepared on December 31, 2007 and duly audited by *Performance Auditoria e Consultoria Empresarial S/S (Corporate Taxpayer's ID: 41.968.512/0001-23)* (the "Appraisal Report"). The management of each of the Parties hired the specialized firm *ACAL Consultoria e Auditoria S/S (Corporate Taxpayer's ID: 28.005.734/0001-82)* ("ACAL") to carry out said appraisal, as provided for by article 226 of the Brazilian Corporate Law.

In order to provide the shareholders of PCP Energia and Equatorial with additional information on the value of the companies involved in the Transaction and to establish the reimbursement value to be paid to the shareholders of PCP Energia as a result of the Merger, Equatorial hired *PricewaterhouseCoopers Corporate Finance & Recovery Ltda. (Corporate Taxpayer's ID: 05.487.514/0001-37)* ("PricewaterhouseCoopers"), in order to appraise both Equatorial and PCP Energia by the discounted cash flow method, based on prospects of future profitability of said companies on the Base Date ("Additional Report").

1.6 Compliance with Article 264 of the Brazilian Corporate Law. After an inquiry by Equatorial to the Brazilian Securities and Exchange Commission ("CVM") on December 27, 2007, registered under CVM case record no. 2007-15051, the CVM's joint committee approved the adoption of the discounted cash flow criterion for appraising Equatorial and PCP Energia, pursuant to article 264 of Law 6404/76.

1.7 Rights of the Shares to be Attributed to PCP Energia's Shareholders. Equatorial's common and preferred shares, to be attributed to the shareholders of PCP Energia in place of the shares that will be canceled, shall be entitled to the same rights as Equatorial's current outstanding shares, fully participating in the Company's results for the current fiscal year. The following table shows the rights attributed to the shares of the controlling and other shareholders of Equatorial before and after the Merger:

	<u>Before the Merger</u>			<u>After the Merger</u>	
	<b>Common Shares</b>	<b>Preferred Shares</b>		<b>Common Shares</b>	<b>Preferred Shares</b>
<b>PCP Energia</b>	<ul style="list-style-type: none"> <li>• Voting rights in the decisions of General Shareholders' Meetings</li> </ul>		<b>Equatorial</b>	<ul style="list-style-type: none"> <li>• Voting rights in the decisions of General Shareholders' Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• The right to be included in the public offerings referred to under Chapters VII (transfer of control), VIII (cancellation of registration as a publicly-held company) and IX (withdrawal from Level 2) of the Company's By-laws, under the same conditions as the common shares.</li> </ul>
<b>Equatorial</b>	<ul style="list-style-type: none"> <li>• Voting rights in the decisions of General Shareholders' Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• The right to be included in the public offerings referred to under Chapters VII (transfer of control), VIII (cancellation of registration as a publicly-held company) and IX (withdrawal from Level 2) of the Company's By-laws, under the same conditions as the common shares.</li> <li>• Voting rights in the following matters: (a) the transformation, merger, consolidation or spin-off of the Company; (b) the approval of agreements between the Company and its Controlling Shareholder, directly or through third parties, as well as other companies in which the Controlling Shareholder has interests, whenever, by force of legal or statutory provisions, the approval of said agreements is decided by a General Shareholders' Meeting; (c) the appraisal of assets earmarked for payment of the Company's capital increase; (d) the appointment of a specialized company for establishing the economic value of the Company's shares, for the purposes of the public offering provided for under Chapter VIII; and (e) any amendments to or revocations of the By-laws that change or modify any of the requirements provided for under Section IV, item 4.1 of the Regulations of Differentiated Corporate Governance Practices – Level 2, instituted by the São Paulo Stock Exchange ("BOVESPA").</li> </ul>		<ul style="list-style-type: none"> <li>• Voting right in the following matters: (a) the transformation, merger, consolidation or spin-off of the Company; (b) the approval of agreements between the Company and its Controlling Shareholder, directly or through third parties, as well as other companies in which the Controlling Shareholder has interests, whenever, by force of legal or statutory provisions, the approval of said agreements is decided by a General Shareholders' Meeting; (c) the appraisal of assets earmarked for the payment of the Company's capital increase; (d) the appointment of a specialized company for establishing the economic value of the Company's shares, for the purposes of the public offering provided for under Chapter VIII; and (e) any amendments to or revocations of provisions of the By-laws that change or modify any of the requirements provided for under Section IV, item 4.1 of the Regulations of Differentiated Corporate Governance Practices – Level 2, instituted by the São Paulo Stock Exchange ("BOVESPA").</li> </ul>	

1.8 Capital Increase of Equatorial. As a result of the Merger, Equatorial's capital stock will increase by R\$273,811,736.36 (two hundred and seventy-three million, eight hundred and eleven thousand, seven hundred and thirty-six Reais and thirty-six centavos), from the issue of 114,984,004 new shares, 57,492,002 of which common and 57,492,002 preferred, all registered book-entry shares with no par value, at R\$2.3813 each, to be allocated to the shareholders of PCP Energia, replacing the shares held by them, in accordance with the exchange ratio set forth in item 1.4 above. As a result, Equatorial's capital stock will increase from R\$713,217,112.44 (seven hundred and thirteen million, two hundred and seventeen thousand, one hundred and twelve Reais and forty-four centavos) to R\$987,028,848.80 (nine hundred and eighty-seven million, twenty-eight thousand, eight hundred and forty-eight Reais and eighty centavos), and shall comprise 161,421,890 common and 154,118,854 preferred shares, all of which registered book-entry shares with no par value.

1.9 PCP Energia's Shareholders. Taking into account the current shareholding distribution of PCP Energia, 99.99% of the shares to be issued by Equatorial as a result of the Merger shall be attributed to PCP Latin America Power Fund Limited ("PCP Fund"), which already controls Equatorial indirectly through Brasil Energia I LLC. Once the Merger is concluded, PCP Fund will retaining a direct interest of approximately 36.44% in Equatorial,

1.10 Changes in Shareholders' Equity. Any changes in shareholders' equity subsequent to December 31, 2007 and up to the date on which the Merger is approved by the shareholders of Equatorial and PCP Energia shall be absorbed by Equatorial.

1.11 Right of Withdrawal: In accordance with the prevailing legislation, Equatorial shareholders will not have the right to withdraw from the Merger . PCP Energia shareholders will not exercise their right of withdrawal since they have unanimously approved the Merger.

1.12 Off-book Liabilities and Contingencies. PCP Energia has no off-book liabilities or contingencies to be assumed by Equatorial, as PCP Energia's legal successor.

1.13 Specialized Companies Hired. To the best knowledge of the Company's management, there are no conflicts or communitons of interest, current or potential, between the controlling and minority shareholders of the companies involved in the Merger and ACAL and PricewaterhouseCoopers.

1.14 Conditions of the Merger: The Merger will only be implemented after approval of the following matters by an extraordinary meeting of the shareholders of Equatorial and PCP Energia: (a) ratification of the hiring of ACAL and PricewaterhouseCoopers as the specialized companies to prepare the Appraisal Report and the Additional Report, respectively; (b) ratification of the appraisal criteria to be adopted in the reports referred to under item (a) above; (c) approval of the exchange ratio of PCP Energia shares for Equatorial shares; (d) approval of the Protocol of Merger and Justification and of the amendment to same entered into by the

shareholders of PCP Energia and Equatorial on November 5, 2007 and January 25, 2008, respectively, as well as the reports referred to under item (a) above; (e) approval of the Merger; and (f) approval of Equatorial's capital increase as a result of the Merger.

1.15 Approval Quorum and Preferred Share Voting Rights at the Extraordinary Meeting of Equatorial's Shareholders: The Merger must be approved by a majority vote of those Equatorial shareholders present at the meeting. In addition, for the purposes of approving the Merger, as well as the exchange ratio of PCP Energia shares for Equatorial shares, preferred shareholders shall have the same voting rights as common shareholders, in accordance with paragraph four of article V of Equatorial's By-laws.

1.15 Costs. The costs of implementing the Merger are estimated at R\$700,000.00 (seven hundred thousand Reais) and include expenses related to publications, auditors, appraisers, lawyers and other technical staff hired to assist with the Transaction.

## **2. Corporate Restructuring and Equatorial's listing on the Novo Mercado:**

Pursuant to the Material Facts published on July 10, September 24, and November 5, 2007, and the Notices to the Market published on July 11 and September 25, 2007, the Extraordinary Meeting of Equatorial Shareholders to decide on the Merger shall deliberate on the following: (a) the conversion of all preferred shares into common shares in the proportion of 1 (one) preferred share to 1 (one) common share; (b) a reverse share split in the proportion of 1 (one) common share for every 3 (three) common shares; (c) the listing of Equatorial's shares on the Novo Mercado trading segment of the Bovespa and adherence to the rules of said segment; (d) amendments to the Company's By-laws, ensuring the highest standards of corporate governance in Equatorial.

For the purposes of approving the conversion of all preferred shares into common shares, Equatorial's preferred shareholders will meet at an extraordinary meeting to be called opportunely in accordance with the Brazilian Corporate Law.

Those shareholders opposed to or abstaining from the decision to convert all preferred shares into common shares may exercise their right of withdrawal, being reimbursed pursuant to Equatorial's shareholders' equity approved by the Extraordinary Meeting of February 12, 2007.

## **3. Availability of Documents and Additional Information:**

The following documents were forwarded to the CVM and the Bovespa and are available at Equatorial's headquarters, located at Avenida Colares Moreira, 477, Renascença II, CEP 65.075-028, in the city of São Luís, state of Maranhão, as of the present date: (i) Protocol of Merger and Justification entered into on November 5, 2007 between Equatorial and PCP Energia; (ii) Amendment to the Protocol of Merger and Justification entered into on January 25, 2008 between Equatorial and PCP Energia; (iii) the appraisal of PCP Energia's shareholders'

equity, prepared by ACAL; (iv) the appraisal of Equatorial and PCP Energia, based on the discounted cash flow method, prepared by PricewaterhouseCoopers; and (v) a draft of Equatorial's By-laws amended to take account of the rules of the Novo Mercado.

São Luís, January 28, 2008.

**Equatorial Energia S.A.**