

Rio de Janeiro, June 30<sup>th</sup>, 2009

Dear Clients and Friends,

It has been recently announced that Brazil is set to hold its first wind power auction this year. The country has faced some difficulties in meeting its ever increasing power demand, and power produced in wind farms is being considered as an alternative for this problem.

02. The Brazilian government is making a push for wind farms, and the president of the Energy Research Company (*Empresa de Pesquisa Energética* – “EPE”) has announced that the country’s first wind power auction is scheduled for next November. This first auction has a main goal of giving the government the necessary information on the potential market in Brazil for wind power, as well as to start the development of wind farm projects.

03. Reserve Energy Contracts (REC) will be signed in this auction with the winning bidders, taking into account the R\$/MWh offer (which will be annually updated when the REC is signed) and the payments for this energy will be made on a monthly basis, after the start of supply. The RECs will have a supply term of 20 years, starting from 2012.

04. With views of mitigating the risks of these RECs, the contract will be divided into 5 periods of 4 years where the necessary adjustments can be made in order to maintain the contract economically and financially viable (matching the power amount to the actual production).

05. Brazil has the potential for large wind farm complexes, and large scale wind power production, and the State of Ceará, with 570 kilometers of costal area and winds that usually reach speeds of 30 kilometers per hour, is considered an ideal location for the establishment of these large scale wind farm projects.

06. Rio Grande do Sul is the current national leader in wind power production. However, Ceará has 14 new wind farm projects in development and, along with the 3 wind farms that are already in operation, should raise the total generating capacity of the state to 517,93MW (over 35% of the country’s wind power production), more than two times the current Rio Grande do Sul capacity.

07. In a recent article published in the “O Globo” newspaper<sup>1</sup>, Alstom Hydro president, Philippe Cochet, considers that even though at a first glance it might seem more expensive than thermoelectric power, wind power will become increasingly cheaper; it is also less pollutant than thermoelectric plants (which use oil to generate power). He also stated that it is very important for a country to have a diverse energy matrix, making use of alternative power sources (such as wind farms) to complement the main energy sources.

08. Although wind farm generated power (at around R\$200/MW) is still expensive if compared to thermoelectric power (R\$ 140/MW), with these new initiatives in the State of Ceará and other potential projects throughout the country, the price of wind power is expected to be considerably reduced in the near future, through advances in technology.

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<sup>1</sup> Ramona Ordoñez, O Globo, 2<sup>nd</sup> edition, June 14<sup>th</sup>, 2009.

09. New alternative power sources projects could benefit from the Program for the Incentive of Alternative Electrical Power Sources (“Programa de Incentivo às Fontes Alternativas de Energia Elétrica – PROINFA”), which, among other incentives, allows the Brazilian Development Bank (BNDES) to provide 70% of the total financing needs of the projects.

10. Other attractive aspects of wind farms are their low maintenance and running costs, which reduces the risk of relevant impacts in the costs of the plant during a long-term agreement. Also, the investors may review the possibility of obtaining Carbon Credits, under the Clean Development Mechanism established by the Kyoto Protocol of 1997.

11. To mitigate potential risks and to help in negotiations, clients will need legal advice from specialized firms, so as to ensure that they correctly take advantage of all benefits provided by the PROINFA.

12. SVMFA has experience in the development of wind farm projects, and is ready to assist clients in future endeavors in this sector.

Should you need any further information do not hesitate to contact us:

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Best regards,

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