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MESSAGE FROM THE BOARD OF EXECUTIVE OFFICERS

Companhia Hidro Elétrica do São Francisco - Chesf presents its results for 2012.

During the year, Chesf recorded consolidated losses of R\$ 5,341.3 million, as a result of accounting adjustments related to the renewal of concessions maturing in 2015, based on the Provisional Measure (MP) 579/2012, converted into Law 12,783/2013. This Law establishes that the indemnity for concession assets not yet amortized should be based on replacement cost. The difference between the indemnity calculated as determined by the referred to MP and the amount recorded in the books was written off as a loss in the statement of operations.

In 2012, the Company gave continuity to the large transmission expansion project, which it has been implementing over the last 10 years, achieving significant progress. The transformation capacity of its Transmission System was expanded by 6,295 MVA, including eight new substations and 241 km of transmission lines.

During the year Chesf's investments in the expansion and modernization of its production capacity totaled R\$ 1,388.9 million.

Prospecting for new business is part of Chesf's strategy to expand its Generation and Transmission systems. In 2012, the Company participated and was successful in various auctions for new undertakings, held by the National Electric Power Agency (ANEEL), which will increase its transmission lines and transformation capacity by approximately 320 km and 3,010 MVA, respectively.

In the generation segment, Chesf started the implementation of its own wind farm, the 180 MW Wind Power Plant (UEE) Casa Nova, located in the State of Bahia, projected to be completed in 2013. Also in 2012, the Company's projects for wind power generation expansion advanced, with the wind power plants Casa Nova II and III, which represented an increase of 52 MW. The Company has requested ANEEL for authorization for these plants to operate as Energy Independent Producers. The construction should be initiated in 2013, immediately after the completion of Casa Nova.

Also, through its interests in 10 Special Purpose Entities (SPEs) in generation enterprises, Chesf has added 2,597.4 MW to its power generation park, an amount equivalent to the Company's interest in the entities, of which the following should be highlighted: 20% in UHE Jirau, of 3,750 MW, and 15% in UHE Belo Monte, of 11,233.1 MW, with commercial operations starting in 2013 and 2015, respectively.

Chesf develops regional projects and actions in support of the guidelines and actions established by the National Electrical Energy Conservation Program (PROCEL) and the National Plan for Energy Efficiency (PNEf). In particular, Chesf acts with the municipalities in the development of projects linked to the National Program for Efficient Public Lighting (Procel Reluz), which fosters a more efficient use of electrical energy and provides benefits for tourism, commerce and night leisure activities, contributing to the social and economic development of the population. More than R\$ 7.4 million was financed in 2012, in partnership with Procel Reluz, for projects developed together with the Municipality of Recife (state of Pernambuco), with over 4.5 thousand points of public lighting made efficient, and the Municipality of Teresina (state of Piauí), with over 18 thousand points made efficient.

The Company produced 50,113 GWh in 2012, up 3.0% from the prior year. The operating indicators also point to an improvement in performance to meet the load demand in comparison with the last three years.

In 2012, all the requirements of the Occupational Health and Safety Management System were implemented under the international standard "Occupational Health and Safety Assessment Series - OHSAS 18.001:2007" at the Xingó Power Plant, which was awarded with the corresponding certification, also in relation to the corporate governance requirements. This accomplishment represented a milestone for Chesf and Eletrobras.

In the Research & Development + Innovation (R&D+I) area, the investment plan encompassed solar thermal energy, nanotechnology and equipment and facilities management projects. In the solar generation area, the Company received the approval from ANEEL to install a 3MWp photovoltaic plant connected to the energy grid in an area near the city of Petrolina, State of Pernambuco. This plant, which is intended to propose technical and commercial arrangements for inclusion of solar photovoltaic projects in the Brazilian energy matrix, should be completed up to middle of 2014. Chesf also participates, in partnership with Cepel, in a heliotherm

project of 1 MWp to be implemented in Petrolina and is implementing 15 solarimetric stations in the Northeast region, aiming at the use of the solar energy through photovoltaic and heliotherm technologies.

In 2012, the Company continued to invest in the social and environmental areas. Chesf's operations are governed by business efficiency, profitability and social-environmental responsibility, as the Company is committed to the conservation of environmental resources and the reduction of social and regional inequalities.

Because the Company has understood the necessity to review its Corporate Planning, a strategic realignment process was carried out in the management area, which considered the new context introduced by MP 579/2012 and Law 12,783/2013. This process resulted in the definition of Chesf Strategic Map 2013-2017. The new map presents the Company more focused on its fundamental issues, with the ultimate objectives representing the Company's business and the management objectives representing the Company's performance in activities that provide support for its core business.

In respect of people management, the Company's headcount at the end of 2012 totaled 5,631, of which 1,167 were women and 4,464 men, with an employee turnover of 0.64%.

In 2013, the year of its 65th anniversary, Chesf will continue to rely on its ability to face challenges and comply with the new rules for the electrical sector, while maintaining its successful pattern of sustainable growth, in accordance with Eletrobras' guidelines.

Chesf's Board of Directors and Board of Executive Officers express their unrestricted confidence in the competence of their employees.

CHESF AND THE ELECTRICAL SECTOR TODAY

The Provisional Measure (MP) 579/2012, converted into Law 12,783/2013, introduced changes to the current legislation with the objective of viabilizing the reduction of electric energy cost for the consumer through more reasonable tariffs and to ensure the electric energy supply. This Law also intends to provide the production sector with more competitiveness, thereby contributing to increase the employment and income levels in Brazil.

This legislation addresses the concession contracts for electric energy generation, transmission and distribution granted before the enactment of Law 8,987/1995 and establishes the regime for selling the energy generated by hydroelectric plants, as a supplement to the New Model of the Electric Sector established by Law 10,848/2004.

The changes introduced in the legislation aim at capturing the amortization and depreciation of investments made in generation enterprises and facilities of electrical energy transmission and distribution.

Decree-Law 8,031, which created Chesf in 1945, authorized the progressive use, during 50 years, of the energy potential of the São Francisco River, in the area between Juazeiro (State of Bahia) and Piranhas (State of Alagoas), which comprises the Xingó, Paulo Afonso Complex, Apolônio Sales (Moxotó) and Luiz Gonzaga (Itaparica) power plants. The concession for the construction of the Sobradinho power plant was granted later, on February 10, 1972, through Decree 70,138. In addition to these power plants, other hydroelectric plants, in different rivers, have been merged into Chesf: Boa Esperança, Funil, Pedra, Araras and Curemas. In 1995, the concession terms for the Chesf power plants were extended for another 20 years, after which a new concession would be granted through a public bidding process. Accordingly, the concessions granted to Chesf power plants would expire between July and October 2015, except for the concessions of the Sobradinho and Curemas power plants, which expire on February 9, 2022 and November 25, 2024, respectively. The concession of 97% of Chesf's transmission assets would also expire in 2015.

By adhering to the mentioned MP, the concession for Chesf's assets, which would expire in 2015, was extended for a non-renewable period of 30 years, as from 2013, subject to the acceptance of the following conditions: remuneration rate for operation and maintenance services calculated by ANEEL, compliance with the new quality standards established by ANEEL and allocation of energy quotas to the distributors. The regulatory framework was also changed, with the reduction or elimination of charges, reversal of assets and indemnification of part of non-depreciated assets.

In addition to the concession that was extended, Chesf has other 23 concessions, obtained through its participation in auctions.

Due to the renewal of the concessions, Chesf will receive an indemnity, relating to the generation and transmission assets, of R\$ 6.765 billion, of which R\$ 1.587 billion for the transmission facilities and R\$ 5.178 billion for the hydroelectric power plants. Also, in accordance with article 15, paragraph 2 of Law 12,783/2013, Chesf will receive an indemnity relating to transmission assets considered as non-depreciated existing at May 31, 2000, recorded by the concessionaire and recognized by ANEEL, as well as to the assets relating to the New Investments in Generation, which, according to article 2 of Decree 7,850/2012, should be submitted up to December 2013 to ANEEL for evaluation and possible recognition for indemnity or inclusion in the tariff basis.

According to the First Amendment to the Transmission Concession Contract No. 061/2001-ANEEL, Chesf will receive as remuneration the Authorized Annual Revenue - RAP of R\$ 590.6 million in 2013, including taxes and charges, and according to the First Amendment to the Generation Concession Contract No. 006/2004-ANEEL, Chesf's remuneration will be the Generation Annual Revenue - RAG, which includes regulatory charges and taxes, calculated at R\$ 1,077,8 million in 2013.

In view of the perspective that the concession contracts will terminate in 2015, Chesf started to invest in the improvement of its operational efficiency since the beginning of 2012, when guidelines were established, aimed at a global cost reduction of 15% up to the termination date of the concessions. Among these guidelines is the detailed review of all the contracts for the supply of goods and services and the systematic monitoring of variable costs such as extra working hours, travel, hazardous duty premium, on-call allowance, transportation, communication, sponsorship and publicity, supported by an in-depth evaluation of the organizational processes and the establishment of policies and guidelines for the renewal of staff members.

Chesf's adherence to MP 579/2012 has required that many of the already planned actions to streamline processes and reduce costs be intensified and brought forward, in order to permit the Company's growth and expansion.

ECONOMIC SITUATION

The Brazilian trade balance recorded the lowest surplus in 10 years in 2012, due to the fall in the international demand. This year was marked by the effects of the international financial crisis, mainly by the indebtedness of the United States and many countries in Europe, where the unemployment rates have reached record levels.

An expansionary monetary policy was adopted in Brazil to combat the international crisis and the historical reduction of interest rates by private and state banks increased bank credit to 53.5% of GDP. The maintenance of the basic interest rate (Selic) at 7.25% p.a., the lowest level since 1999, tax exemption/reduction and the creation of a progressive income tax system are examples of the monetary policy adopted by the Government.

Additional measures should be highlighted, such as those established by MP 579/2012, converted into Law 12,783/2013, of January 11, 2013, which aimed at a substantial reduction in electric energy cost for industrial and residential consumers, through the anticipated renewal of concessions for energy generation, transmission and distribution that would expire in 2015 and 2017. Although these measures may have increased the competitiveness of Brazilian industries abroad, they also resulted in a sharp fall in the market value of energy companies (-17%) at São Paulo Stock Exchange (BOVESPA).

The actions implemented by the Government have proven to be insufficient to heat up the economy. In the first quarter of 2012, Brazilian GDP grew only 0.2% in relation to the fourth quarter of 2011. The growth in the second quarter of 2012 was only slightly better than that of the same quarter of 2011 (0.4%). Brazilian GDP is not expected to grow by more than 1% in 2012. At the end of the year, inflation in Brazil reached 5.3% according to the Extended Consumer Price Index (IPCA) and the real interest rate was closed to 2% p.a. The Long-term Interest Rate (TJLP) was reduced from 5.5% to 5% p.a.

Despite the unfavorable international scenario, Brazil did not experience economic recession. In accordance with the International Monetary Fund (FMI), Brazil is expected to grow by 3.5% in 2013.

COMPANY PROFILE

Chesf, an electric energy public service concessionaire controlled by Eletrobras, is a mixed private/state publicly-held company, formed pursuant to Decree-Law 8,031, of October 3, 1945, and constituted at the First Annual Stockholders' Meeting held on March 15, 1948. Its aim is to generate, transmit and sell electric energy.

Its generation system is comprised of hydrothermal plants, with a predominance of hydroelectric power plants that are responsible for nearly 97% of the Company's total production. Its current generating complex with 10,615 MW of installed capacity comprises 14 power plants supplied by nine reservoirs with a maximum storage capacity of 56.8 billion cubic meters of water, and one dual-fuel thermoelectric power plant with 346.8 MW of installed capacity, as detailed below:

| Power Plants | River | Installed Capacity (MW) |
|--------------------------|---------------|-------------------------|
| HYDROELECTRIC: | - | 10,268.328 |
| Sobradinho | São Francisco | 1,050.300 |
| Luiz Gonzaga (Itaparica) | São Francisco | 1,479.600 |
| Apolônio Sales (Moxotó) | São Francisco | 400.000 |
| Paulo Afonso I | São Francisco | 180.001 |
| Paulo Afonso II | São Francisco | 443.000 |
| Paulo Afonso III | São Francisco | 794.200 |
| Paulo Afonso IV | São Francisco | 2,462.400 |
| Piloto | São Francisco | 2.000 |
| Xingó | São Francisco | 3,162.000 |
| Funil | de Contas | 30.000 |
| Pedra | de Contas | 20.007 |
| Boa Esperança | Parnaíba | 237.300 |
| Curemas | Piancó | 3.520 |
| Araras | Acaraú | 4.000 |
| THERMOELECTRIC: | | 346.803 |
| Camaçari | - | 346.803 |
| TOTAL | | 10,615.131 |

Also, through its participation in Specific Purpose Entities in the generation business, Chesf has 2,597.4 MW, as shown below:

| SPECIFIC PURPOSE ENTITIES (SPE) | PLANT | LOCATION | MW | INTEREST | START-UP OF OPERATIONS | MW _{Equiv} |
|---------------------------------|-----------------------|---------------------------|----------|----------|------------------------|---------------------|
| Energética Águas da Pedra S.A. | HP Dardanelos | Aripuanã/MT | 261.0 | 24.50% | Aug/2011 | 63.9 |
| ESBR Participações S.A. | HP Jirau | Porto Velho/RO | 3,750.0 | 20.00% | Apr/2013 | 750.0 |
| Norte Energia S.A. | HP Belo Monte | Altamira/PA | 11,233.1 | 15.00% | Feb/2015 | 1,685.0 |
| Pedra Branca S.A. | UEE Pedra Branca | Sento Sé/BA | 30.0 | 49.00% | Jan/2013 | 14.7 |
| Sete Gameleiras S.A. | UEE Sete Gameleiras | Sento Sé/BA | 30.0 | 49.00% | Jan/2013 | 14.7 |
| São Pedro do Lago S.A. | UEE São Pedro do Lago | Sento Sé/BA | 30.0 | 49.00% | Jan/2013 | 14.7 |
| U. E. Eólica Junco I S.A. | UEE Junco I | Jijoca de Jericoacoara/CE | 30.0 | 49.00% | Jan/2016 | 14.7 |
| U. E. Eólica Junco II S.A. | UEE Junco II | Jijoca de Jericoacoara/CE | 30.0 | 49.00% | Jan/2016 | 14.7 |
| U. E. Eólica Caiçara I S.A. | UEE Caiçara I | Cruz/CE | 30.0 | 49.00% | Jan/2016 | 14.7 |
| U. E. Eólica Caiçara II S.A. | UEE Caiçara II | Cruz/CE | 21.0 | 49.00% | Jan/2016 | 10.3 |
| Total equivalent in SPEs | | | | | | 2,597.4 |

Chesf's transmission system is composed of 18,973.8 km of transmission lines in operation, of which 5,163.8 km are 500 kV transmission circuits, 13,019.0 km are 230 kV transmission circuits, 791.0 km are lower voltage transmission circuits; 110 substations (including the Sapeaçu and Brumado substations) and 510 transformers in operation with higher than 69 kV voltage, with a total transformation capacity of 45,744 MVA, plus 6,337 km of optical fiber cables.

Chesf has also participations in transmission lines through the SPEs, totaling approximately 1,600.4 km, as shown below:

| Company | Transmission Line | Circuit | Voltage (kV) | Length (Km) | Length (Equiv.) |
|--|---|---------|--------------|----------------|-----------------|
| Sistema de Transmissão Nordeste S.A. | Teresina II/Fortaleza II | DC | 500 | 327.0 | 160.2 |
| Sistema de Transmissão Nordeste S.A. | Sobral III/Fortaleza II | DC | 500 | 219.0 | 107.3 |
| TOTAL | | | | 546.0 | 267.5 |
| Integração Transmissora de Energia S.A. | Colinas/Miracema | SC | 500 | 173.0 | 20.8 |
| Integração Transmissora de Energia S.A. | Miracema/Gurupi | SC | 500 | 255.0 | 30.6 |
| Integração Transmissora de Energia S.A. | Gurupi/Peixe II | SC | 500 | 72.0 | 8.6 |
| Integração Transmissora de Energia S.A. | Peixe II/Serra da Mesa II | SC | 500 | 195.0 | 23.4 |
| TOTAL | | | | 695.0 | 83.4 |
| Manaus Transmissora de Energia S.A. | Oriximiná/Silves | DC | 500 | 335.0 | 65.3 |
| Manaus Transmissora de Energia S.A. | Silves/Lechuga | DC | 500 | 224.0 | 43.7 |
| TOTAL | | | | 559.0 | 109.0 |
| Interligação Elétrica do Madeira S.A. | Porto Velho/Araraquara II | SC | 600 | 2,375.0 | 581.9 |
| TOTAL | | | | 2,375.0 | 581.9 |
| TDG - Transmissora Delmiro Gouveia S.A. | São Luiz II/São Luiz III | SC | 230 | 36.0 | 17.6 |
| TDG - Transmissora Delmiro Gouveia S.A. | Sect. Sobral III/Fortaleza II C1/C2 | SC | 230 | 120.0 | 58.8 |
| TOTAL | | | | 156.0 | 76.4 |
| Interligação Elétrica Garanhuns S.A. | Luiz Gonzaga/Garanhuns | SC | 500 | 224.0 | 109.8 |
| Interligação Elétrica Garanhuns S.A. | Garanhuns/Pau Ferro | SC | 500 | 239.0 | 117.1 |
| Interligação Elétrica Garanhuns S.A. | Garanhuns/Campina Grande III | SC | 500 | 190.0 | 93.1 |
| Interligação Elétrica Garanhuns S.A. | Garanhuns/Angelim | SC | 230 | 13.0 | 6.4 |
| TOTAL | | | | 666.0 | 326.3 |
| Extremoz Transmissora do Nordeste - ETN S.A. | Ceará Mirim/João Câmara II | SC | 500 | 64.0 | 31.4 |
| Extremoz Transmissora do Nordeste - ETN S.A. | Ceará Mirim/Campina Grande III | SC | 500 | 201.0 | 98.5 |
| Extremoz Transmissora do Nordeste - ETN S.A. | Ceará Mirim/Extremoz II | SC | 230 | 26.0 | 12.7 |
| Extremoz Transmissora do Nordeste - ETN S.A. | Campina Grande III/Campina Grande II | SC | 230 | 8.5 | 4.2 |
| Extremoz Transmissora do Nordeste - ETN S.A. | Sect. J.Camara II/Extremoz/SE Ceara Mirim | SC | 230 | 6.0 | 2.9 |
| Extremoz Transmissora do Nordeste - ETN S.A. | Sect. C. Grande II/Extremoz II C1/C2 | SC | 230 | 12.5 | 6.1 |
| TOTAL | | | | 318.0 | 155.8 |
| Total transmission lines in operation - SPE | | | | 1,241.0 | 350.9 |
| Total transmission lines under construction - SPE | | | | 4,074.0 | 1,249.5 |
| Grand Total | | | | 5,315.0 | 1,600.4 |

RELATIONSHIP WITH THE STOCKHOLDERS

As a publicly-traded company, Chesf is subject to the rules of the Brazilian Securities Commission (CVM).

The Company's relationship policy is based on the disclosure of information with transparency, characterized by the respect for legal and ethical principles, and in line with the rules to which it is subject as a utility service concessionaire.

The Company discloses information on its homepage, www.chesf.gov.br, under the link "Investor Relations". The Company communicates with its stockholders by telephone, regular mail, e-mail and personal contact.

OWNERSHIP CONTROL

The Company's capital, in the amount of R\$ 9,753.9 million, is represented by 55,905 thousand nominative shares, of which 54,151 thousand are common and 1,754 thousand, preferred shares, with no par value. 99.5781% of the total shares are held by Eletrobras, 0.3467% by the Ministry of Finance, 0.0154% by Light, and 0.0598% by other stockholders.

CORPORATE GOVERNANCE

Administration

The Company is managed by a Board of Directors, a collective decision-making body, whose responsibilities are determined by law and the Company's bylaws, and by a Board of Executive Officers.

Only Brazilians can hold management positions with the Company, and the members of the Board of Directors must be stockholders, while the members of the Board of Executive Officers can be stockholders or not.

The Board of Directors consists of up to six members with a reputation for integrity and honesty and adherence to high ethical standards, elected at the General Meeting of Stockholders for a one-year term, being eligible for reelection. The Board designates one of its members as Chairman.

Pursuant to a resolution approved at the Stockholders' Meeting in 2011, one of the members of the Board of Directors is appointed by the Minister of Planning, Budgeting and Management and another member is elected from the active employees by the direct votes of his peers to be a representative of the employees, in an election organized by the Company together with the respective labor unions, in accordance with prevailing legislation. The first election occurred in 2012 and the employee elected to be a member of the Board of Directors took office at the 2012 Ordinary Stockholders' General Meeting.

The Board of Executive Officers is made up of a President and up to five members, elected by the Board of Directors for a three-year term on a full-time basis and eligible for reelection. The President is elected from among the members of the Board of Directors and cannot also serve as the Chairman of the Board of Directors.

The Statutory Audit Board is of a permanent character and made up of three effective members and three alternate members, one of whom is appointed by the Ministry of Finance as a representative of the National Treasury.

Code of Ethics

This code explains the ethical principles and commitments which govern the Company's conduct in its interactions with different stakeholders, as well as the behavior expected of its employees and the whole internal public. Chesf, through its Ethics Commission, endeavors to disseminate to the internal public the ethical principles and commitments, since it believes that this procedure contributes to improving practices and behavior that ensure individual and collective rights and preserve the Company's interests. In 2012, the Company conducted an internal campaign for ethical behavior awareness and formulated a policy for the "Promotion of Respect, Prevention and Confrontation of Violence and Moral Harassment at Work", effective as from January 1, 2013. In addition to acting regularly to disseminate the ethical principles and commitments stated in the Code, the Ethics Commission monitors its compliance, identifies and evaluates deviations from appropriate ethical conduct and takes preventive measures.

Ombudsman's Office

Chesf's Ombudsman's Office is a permanent channel of communication between the Company and its stakeholders, which seeks to respond to all the requests received in a prompt, objective and transparent manner.

Since it started operating in 2009, the Ombudsman's Office has received 5,505 communications, of which 1,257 occurred in 2012.

The demands from the external public represented 85% of the total received during the year.

The most recurring themes during the year related to Human Resources (24%), including requests for information on job opportunities and internships in the Company, and the Public Selection Process(22%), comprising both the process realized in 2012 and prior processes.

The average response time in 2012 was eight days, which is within the parameter established by the Company (15 days).

In compliance with Law 12,527/2011, in force as from May 16, 2012, which regulates the Access to Information, ensuring to any citizen the right to request information of private or public interest, Chesf implemented, in May 2012, the Service of Information to the Citizen (SIC), incorporated to the Ombudsman's Office.

This new service has specific rules, procedures and terms for disclosing information and responding to the requests and is monitored by the Federal Government's Controllorship (CGU).

In the period between May and December 2012, Chesf's SIC received 58 communications, which, together with those received by the Ombudsman's Office, totaled 1,257 communications received during this year.

The requests for information based on the referred to Law were responded within the legal time frame - 20 days, with the possibility of being extended for another 10 days, upon justification. Approximately 70% of these requests concerned matters related to Human Resources, particularly in relation to information about the public selection process and certain job positions in the Company, which were included in the public selection process.

Internal Audit

The Internal Audit Department, which reports to the Board of Directors, plans and carries out the internal audit activities, performing independent, impartial and timely evaluations of the effectiveness and adequacy of the internal controls, as well as of the compliance with standards, regulations and legislation related to the Company's operations. The Internal Audit planning, based on the Annual Plan of Internal Audit Activities (PAINT), is submitted to the Federal Government's Controllorship (CGU) for approval and subsequently to the Statutory Audit Board and Board of Directors.

Corporate Sustainability

In 2012, the Company issued the Sustainability Report, following the Global Reporting Initiative (GRI) guidelines, with a self-declared Application Level B, and the Global Communication on Progress (COP). In addition, the Company developed initiatives to comply with the Women's Empowerment Principles launched by UN Women, the Gender and Race Equity Program, of the Secretary of Policies for Women of the Presidency of the Republic, and the National Pact for the Eradication of Slave Labor. The Company also prepared a "Social Project Manual" and continued with the development of a computer system to provide the information required for the corporate sustainability management. A campaign to disclose the Sustainability Policy was also conducted. Chesf was present at the conference Rio+20.

As a member of the Team of Coordinators of the Sustainability Committee of the Eletrobras System, Chesf participated actively in the preparation of the Holding Company's Sustainability Report and in the responses to the questionnaires of the Dow Jones Sustainability Index (DJSI) and the BM&F Bovespa Corporate Sustainability Index (ISE).

Corporate Risk Management

Chesf has been developing and implementing a corporate risk management policy, coordinated by Eletrobras, which covers a number of risks to which the Company is exposed and which could cause significant impacts on corporate results. These risks require constant monitoring in view of the Company's growth targets and profitability expectations.

In 2012, Chesf continued with the management of risks associated with:

- a) production process (operational risks);
- b) obligations to third parties (credit risk);
- c) negative exposure of the brand (reputation and image risks);
- d) environmental impacts caused by operations (environmental risks);
- e) impacts on production or business caused by natural disasters (natural disaster risks); and

f) problems caused by violations of regulations and/or legislation (compliance risks).

Through the purchase of insurance policies, Chesf transfers to an insurance company those risks that must be insured, according to legal or regulatory provisions.

The Company also has a Risk Committee composed of representatives from all of its Directorates, which is responsible for defining, approving and understanding the main risks to the Company arising from internal and external factors, in order to ensure that these risks are identified, evaluated, controlled and tested in an efficient manner by the Company's hierarchical structure.

Management of Internal Controls

As a publicly-traded company, Chesf is subject to the rules of the Brazilian Securities Commission (CVM). However, as a wholly-owned subsidiary of Eletrobras, it is also subject to the rules of the U.S. Securities and Exchange Commission (SEC), the agency which regulates the stock market of the United States of America.

The Company's internal controls are reviewed, audited and certified at each year-end. These certifications include Chesf's main corporate and business processes, in accordance with the CVM and Sarbanes-Oxley Act (SOX) requirements, so as to guarantee the compliance of Eletrobras with SOX, which is necessary to maintain its registration of American Depositary Receipts (ADR) level II.

In 2012, the annual certification process involved four stages:

- a) self-assessment (review) of entity-level controls to diagnose the corporate governance environment;
- b) self-assessment (review) of the business' internal controls (narratives, control matrix and segregation of functions);
- c) management test (internal audit); and
- d) certification test (external audit). These actions aim at ensuring compliance with the laws and regulations of local and foreign oversight bodies, as well as the adherence to the Company's policies and procedures.

Corporate Planning

With respect to corporate planning, in 2012, the Company focused on monitoring the implementation of the actions planned, pursuant to the Corporate Management Systematization Resolution. The monitoring was realized through bi-monthly meetings, which had the participation of Directors and first tier managers, with the results transmitted to all the employees in their workstations.

This initiative permitted Chesf's corporate planning to be realigned during the year, in order to redirect the actions whenever any deviation was noted between what was foreseen and what had actually been done, as well as to identify new corporate needs. The monitoring also not only permitted the improvement in the planning, but also significantly contributed to consolidating the employees' knowledge of corporate management, which is essential to the continuity of this process in the Company.

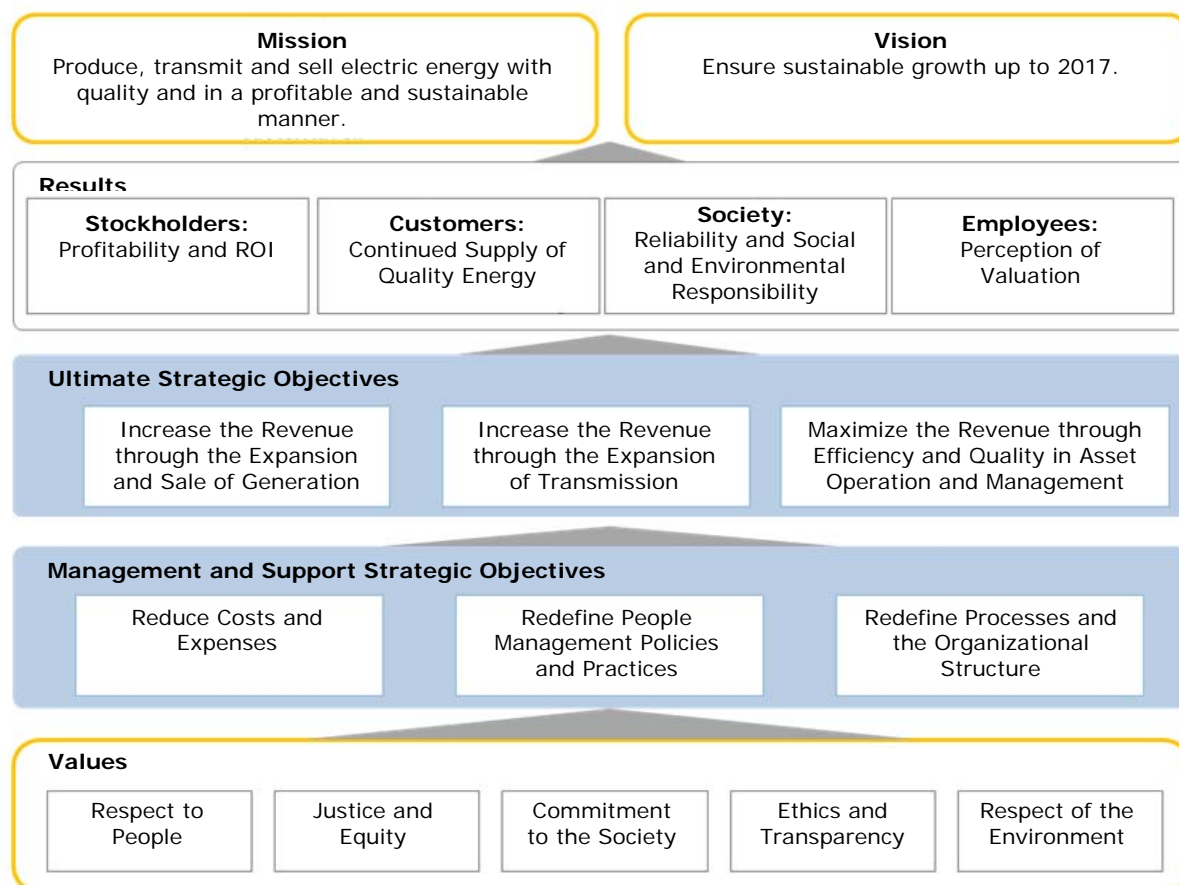
As from September, with the issue of MP 579/2012, Chesf understood the necessity to review its corporate planning in view of the significant changes that were introduced into the electrical sector regulatory framework.

Consequently, a strategic realignment process was carried out, which considered the new context introduced by MP 579/2012 and Law 12,783/2013.

As a result of this realignment, Chesf Strategic Map 2013-2017 was defined and approved at a meeting of the Board of Executive Officers with all the first tier managers.

In compliance with one of the guidelines established at the realignment process, the new map presents the Company more focused on its fundamental issues, in which the "Ultimate Strategic Objectives" represent the Company's business and the "Management and Support Strategic Objectives" represent the Company's performance in activities that provide support for its core business.

CHEST STRATEGIC MAP 2013-2017



These new Strategic Objectives will be monitored during 2013, based on the experience acquired by the Company in 2012, through the Corporate Planning Monitoring process.

Internal developments of the Strategic Map re-configuration are still to be implemented, while Chesf Corporate Planning will be maintained as a constantly updated management tool, in order to reflect the Company's challenges posed by both the internal and external scenarios.

THE ELECTRIC ENERGY MARKET

In 2012, electric energy consumption in Brazil totaled 448,293 GWh, up 3.5% from 2011. Commercial and Residential are to be highlighted among the consumer classes, which increased by 7.9% and 5.0%, respectively, and together represented approximately 44% of total consumption. On the other hand, the consumption of the Industrial class did not change significantly in relation to 2011.

The growth achieved in 2012 was below that recorded in 2011 (4.17%) and in 2010 (8.16%), reflecting the cooling of the energy market. In fact, the less expressive performance relates to the current economic scenario in Brazil, which has presented a decreased investment level, fall in industrial production, deterioration in the trade balance and low GDP growth.

However, this situation is not observed uniformly throughout Brazilian territory. The Central-West region, for example, presented a 9.0% increase in consumption, reaching 30,735 GWh, and the Northeast region consumed 75,294 GWh, a 4.7% growth in relation to 2011. Among other aspects, these variations reflect the increase in household income and of employment, which has sustained the growth in these regions, above the national levels.

In the geo-electric subsystem, the consumption in the Northeast region (excluding the State of Maranhão) totaled 63,721 GWh, which corresponded to 14.2% of the total national consumption, registering an increase of 6.5% when compared to 2011. To meet the energy needs of this subsystem, Chesf contributed with 65% of the energy, whereas the interchanges with the North and Southeast subsystems accounted for 16%, and the other generation systems (hydro, thermal and wind power plants) accounted for 19%.

As regards the market perspectives, projections disclosed by the Electric Power Research Company (EPE) for the period from 2011 to 2021, indicate a growth of approximately 4.4% per year in the national consumption of electric energy in the regions served by the National Interconnected System (SIN). This performance is supported by the expansion of the commercial (5.9% per year), residential (4.6% per year) and industrial (3.9% per year) classes. The participation of the residential class in total consumption is expected to increase from 25.9% in 2012 to 26.4% in 2021. The participation of the commercial class will increase from 17.1% in 2012 to 19.6% at the end of the period. On the other hand, the industrial class is expected to decrease its participation, from 43% in 2012 to 40.7% in 2021.

The growth in electric energy will be around an average of 30,684 MW by the end of 2021, evolving from the current average of 58,237 MW to an average of 88,921 MW, considering the interconnection of isolated systems in the North Region. Among the electric subsystems, the North region presents the highest growth (7.1% per year), justified by the interconnection of the isolated systems Tucuruí-Macapá-Manaus and Boa Vista, besides the large new demand from industrial load. The subsystem of the Northeast region will see an average expansion of 4.6% per year, with a growth above that foreseen for Brazil as a whole, increasing from an average of 8,405 MW to an average of 13,144 MW in 2021, representing an average increase of 4,739 MW at the end of the last year.

SALE OF ELECTRIC ENERGY

The electric energy sold by Chesf in 2012 attained a total of 49,089 GWh, distributed between 22 Brazilian States and the Federal District. Of this amount, 42,963 GWh related to sales to distributors within the Regulated Contracting Environment (ACR) to serve captive distributors and consumers, which represented 87.52% of the total amount sold, whereas 6,126 GWh were distributed to the Free Contracting Environment (ACL), to serve free traders and consumers, which represented 12.48% of the total.

In 2012, the sale of electric power to distributors represented 74.42% of the total sold by Chesf. The States with the largest share of sales in the segment of distribution were: São Paulo (23.00%), Rio de Janeiro (12.08%), Paraná (10.97%), Minas Gerais (6.92%), Bahia (6.33%) and Rio Grande do Sul (6.33%).

In the Free Contracting Environment (ACL), the business process for the sale of electric power is realized by the Company by means of auctions. In order to do this, Chesf has the support of a computer platform.

Chesf carried out 14 auctions in 2012, which resulted in 112 new contracts with free traders and consumers. These new contracts in the free environment represented 33.21% of the energy contracted in the year within this segment.

The Northeast region, where the Company is based, was responsible for 30.92% of Chesf's sales in 2012. Part of this energy was destined to serve 21 large-scale industrial consumers in the region.

NEW BUSINESSES

Prospecting for new business is part of Chesf's strategy to expand its Generation and Transmission systems. During the year 2012, the Company participated and was successful in various auctions for new undertakings, held by the National Electric Power Agency (ANEEL), listed below:

- Auction 002/2012, Batch D, for the following facilities in the State of Bahia:

- 230 kV transmission line Camaçari IV/Pirajá, 45 km;
- 230 kV transmission line Pituaçu/Pirajá, 5 km;
- 230/69 kV Pirajá substation - 2x180 MVA.

Description: Transmission Facilities comprising the 230 kV simple circuit transmission line Camaçari IV/Pirajá, with an extension of approximately 45 km, from the Camaçari IV substation to the Pirajá substation; the 230 kV simple circuit transmission line Pituaçu/Pirajá, with an extension of approximately 5 km, from Pituaçu to the Pirajá substation, with a transformation capacity of 230/69 kV - 2x180 MVA.

- Auction 003/2012, Batch A, for the following facilities in the State of Pernambuco:

- Mirueira II substation, 230/69 kV, 2 x 150 MVA; and
- Jaboatão II substation, 230/69 kV, 2 x 150 MVA.

Batch A also comprises:

- Jaboatão II substation: a section of approximately 14 Km in the 230 kV double circuit transmission line, between the sectionalizing point of the 230 kV transmission line Recife II/Pirapama II and the Jaboatão II substation, two corresponding line entries at Jaboatão II substation and the acquisition of equipment necessary for the modifications, replacements and adjustments at the line entry of the Recife II and Pirapama II substations.
- Mirueira II substation: two line entries in 230 kV at the Mirueira II substation, associated with the 230 kV double circuit transmission line Pau Ferro/Mirueira II .

- Auction 003/2012, Batch B, for the following facilities in the States of Rio Grande do Norte and Ceará:

A) Basic Network facilities:

- 230 kV simple circuit transmission line Mossoró II/Mossoró IV;
- 230 kV simple circuit transmission line Ceará-Mirim II/Touros;
- 230 kV simple circuit transmission line Russas/Banabuiu C2;
- 230 kV Touros substation; and
- 230 kV Mossoró IV substation.

Description: Basic Network Transmission facilities comprising: 230 kV simple circuit transmission line Russas/Banabuiu C2, with an extension of approximately 110 km, from the Russas substation to the Banabuiu substation, located in the State of Ceará; 230 kV simple circuit transmission line Touros/Ceará Mirim II, with an extension of approximately 56.17 km, from the Touros substation to the Ceará Mirim II substation, located in the State of Rio Grande do Norte; 230 kV simple circuit transmission line Mossoró IV/Mossoró II, with an extension of approximately 40 km, from the Mossoró IV substation to the Mossoró II substation, located in the State of Rio Grande do Norte; and 230 kV substations Touros and Mossoró IV, located in the State of Rio Grande do Norte.

B) Transmission Facilities of Exclusive Interest to Generation Plants for Shared Connection (ICG):

- 230/69 kV 1 x 150 MVA transformer at Touros substation;
- 69 kV Touros substation;
- 230/69 kV 1 x 100 MVA transformer at Mossoró IV substation; and
- 69 kV Mossoró IV substation.

Description: ICG formed by the 230/69 kV, 150 MVA transformer at the Touros substation, the 230/69 kV, 100 MVA transformer at the Mossoró IV substation, both located in the State of the Rio Grande do Norte.

- Auction 003/2012, Batch C, for the following facilities in the State of Bahia:

A) Basic Network facilities:

- 230 kV simple circuit transmission line Igaporã II/Igaporã III C1;
- 230 kV simple circuit transmission line Igaporã II/Igaporã III C2;
- 230 kV simple circuit transmission line Igaporã III/Pindaí II;
- 500/230 kV, (6+1) x 250 MVA Igaporã III substation; and
- 230 kV Pindaí II substation.

Description: Basic Network Transmission facilities comprising: 230 kV simple circuit transmission line Igaporã III/Pindaí II, with an extension of approximately 46 km, from the Igaporã III substation to the Pindaí II substation; 230 kV simple circuit transmission lines Igaporã III/ Igaporã II C1 and C2, with an extension of

approximately 2 km, from the Igaporã III substation to the Igaporã II substation; 500/230 kV Igaporã III substation and 230 kV Pindaí II substation, both located in the State of Bahia.

Batch C also comprises, as a Basic Network:

Igaporã III substation: two sections of approximately 39 Km each in the 500 kV simple circuit transmission line between the sectionalizing point of the 500 kV transmission line Bom Jesus da Lapa II/Ibicoara and the Igaporã III substation, the corresponding line entries at the Igaporã III substation and the acquisition of the equipment necessary for the modifications, replacements and adjustments at the line entries of the Bom Jesus da Lapa II and Ibicoara substations.

B) ICG facilities:

- 230/69 kV, 2 x 150 MVA transformer at Pindaí II substation; and
- 69 kV Pindaí II substation.

Description: ICG formed by two 230/69 kV, 150 MVA transformers at the Pindaí II substation, located in the State of Bahia.

In the generation area, the Company has developed new projects of its own, the Casa Nova II and III Wind Power Plants, which total over 52 MW. The corresponding authorization for Energy Independent Production was requested to ANEEL in August 2012 and the construction is projected to be initiated during 2013, immediately after the completion of the Casa Nova Wind Power Plant.

Also in respect of wind power generation, Chesf has been realizing wind measurements in various areas in the Northeast region, totaling 20,000 ha, for the development of projects with a potential of up to 1,000 MW, to be implemented through future ANEEL energy auctions for sale in the regulated environment (ACR), or in the free market (ACL). The Company also seeks to amplify the number of partnerships for exploring the large wind power potential of the referred to region.

OPERATING PERFORMANCE

Chesf is part of the National Interconnected System (SIN), and exchanges energy with the North, South and Southeast/Central West systems.

Considering the localization of its main power plants in the São Francisco River basin, the generation of energy is influenced by the hydrological systems of the Northeast and Southeast regions. Due to this localization and the rainfall in the 2011/2012 wet season, the main reservoir of the Northeast Region, Sobradinho, attained, in April 2012, a storage of 76.02% and, on December 31, 2012 the storage reached 27.14 % of its utilizable volume.

The Company generated 50,113 GWh, in 2012, as compared with 48,663 GWh in 2011, representing an increase of 3.0%. This increase resulted from the energy conditions of the National Interconnected System (SIN) and the exchange of energy with the other regions, due to the centralized dispatch policy exercised by the National Electric System Operator (ONS).

Investments continued in the improvement of tools for planning interventions and the implementation of new techniques and maintenance processes for equipment, transmission lines and devices for protection, control and supervision and in the training of human resources.

The Company continued to implement improvements in 2012 in the transmission and generation systems, with the replacement of obsolete equipment, digitalization of protection systems and installation of new devices to supervise and control the electric energy system, especially for the Oscillography, Qualimetry and Protective networks, amplifying the controlling and monitoring levels of its facilities.

Also in 2012, the monitoring and management of electric energy consumption in the Company's facilities was improved, through the launching of 15 Projects for Energy Efficiency Improvement (PMEE), the benefits of which will increase the business results and the offer of energy and operational safety.

In order to reinforce Chesf's telecommunications network, new support and services were made available to the optic digital transmission system. Highlights were the activation of Bahia's Southwest Route, through the 622 Mbits/s SDH links between Senhor do Bonfim- Irecê - Brotas de Macaúbas - Bom Jesus da Lapa, as well as to the new locations Natal III, Santa Rita, Zebu and Brumado, in addition to the by-pass route via digital

radio to serve the Pilões substation. Another important service objective involved the new facilities of Suape II and Suape III substations, which implied major changes to the telecommunication architecture configuration of the substations Recife II, Ribeirão and Messias. Also, WLAN networks for voice and data were activated in Campina Grande II and Rio Largo II, with coverage for both the operating and administrative areas.

In relation to the Federal Government's National Broadband Plan (PNBL), the Company completed the retrofits and adjustments which permitted the release of the optical fibers and infrastructure to Telebras' stations in the route Presidente Dutra - Fortaleza - Natal - Campina Grande - Recife - Xingó - Jardim (Aracaju) - Camaçari - Salvador.

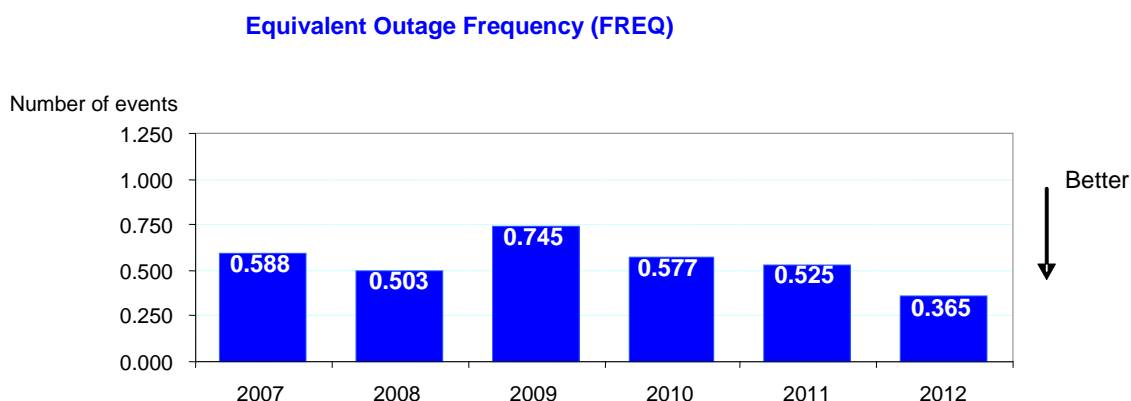
Performance Indicators

The results of the Equivalent Outage Frequency (FREQ) and Power Outage Duration (DREQ) of 2012 indicate one of the best service performances in the Company's operating history. The incidence of interrupted demand below 50 MW, corresponding to 85% of occurrences, continuous improvements in intervention planning and prompt responses to unexpected power outages have contributed to improve these indicators.

The indicators of the Operational Availability of Generation and of Transmission Lines present values close to the average achieved in the last years, which indicate a good performance in service rendering.

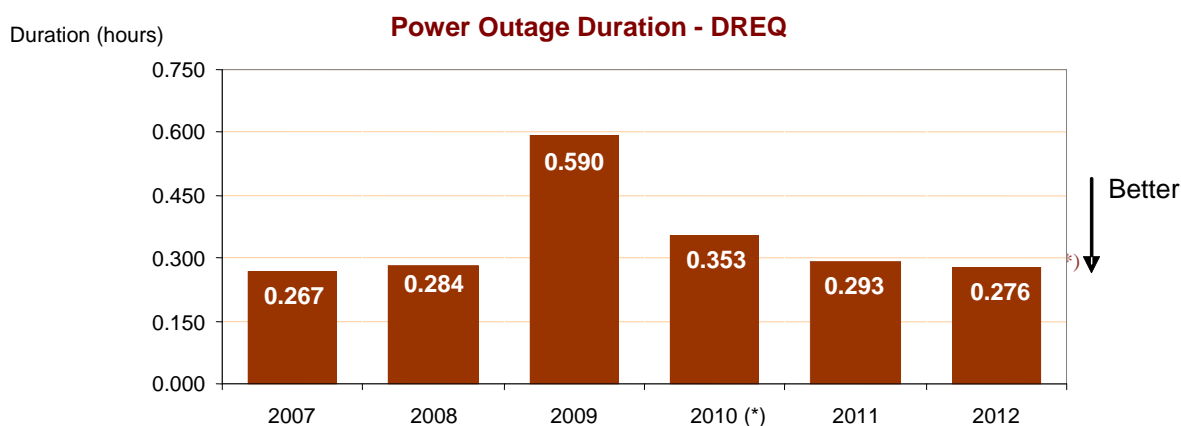
Equivalent Outage Frequency (FREQ)

This indicates the number of times, during the period, when a load equivalent to the maximum demand provided by Chesf has been interrupted, considering all the interruptions which occurred in the period.



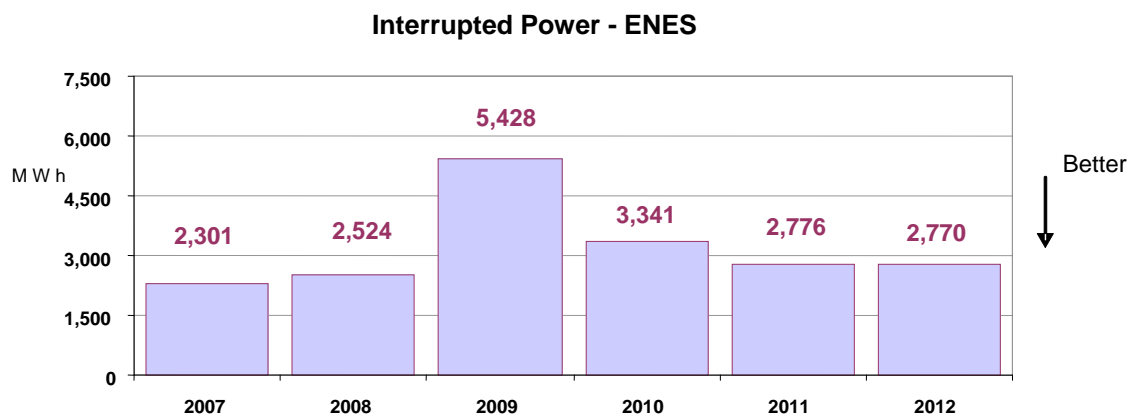
Power Outage Duration - DREQ

This indicates the time in which a load equivalent to the maximum demand provided by Chesf would have remained interrupted, considering all the interruptions which occurred in the period.



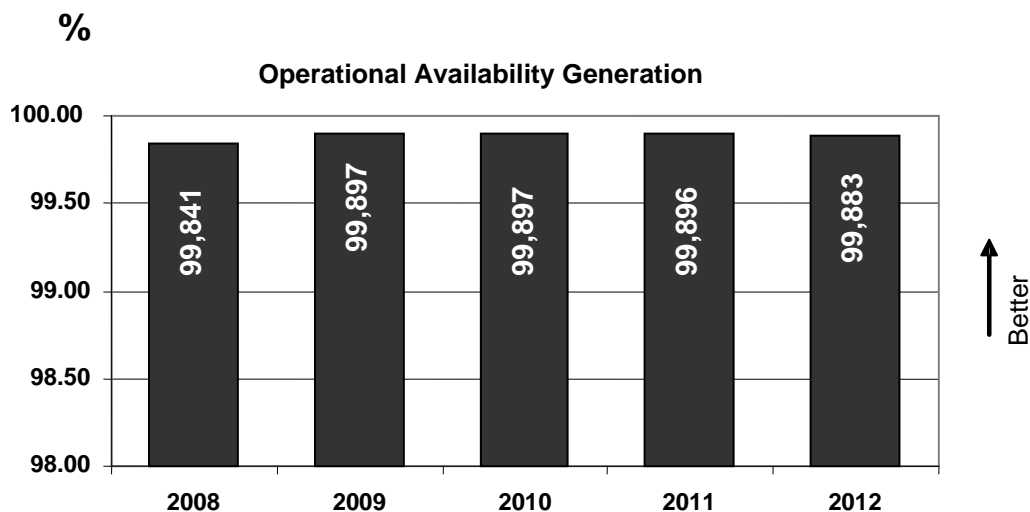
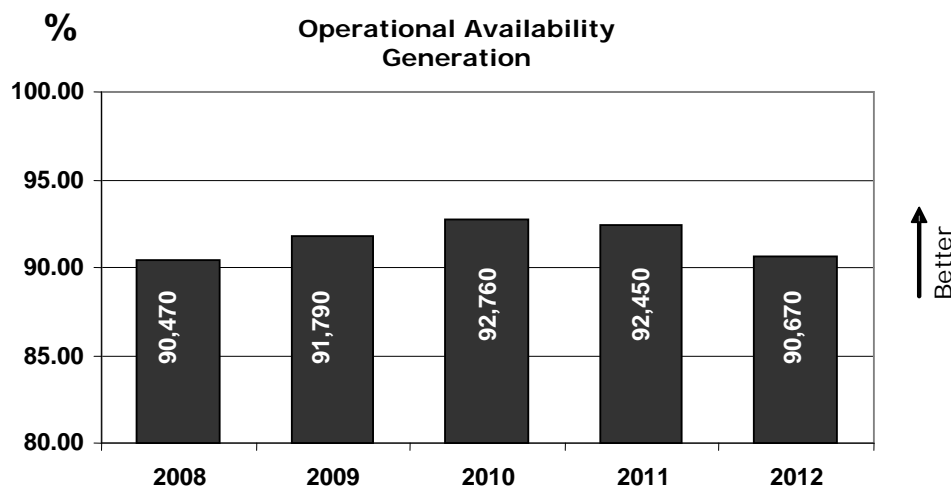
Interrupted Power - ENES

This indicates the amount of electric energy not supplied due to an interruption caused by events originated in the Chesf System.



Operational Availability - OA

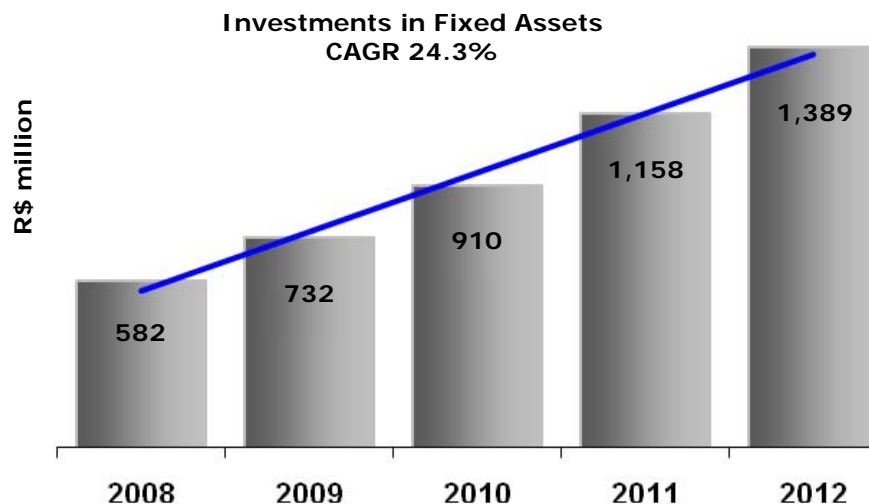
This indicates the likelihood that the equipment, at any given moment, is operational, performing its function, or ready to operate.



INVESTMENTS

During 2012, Chesf's investments in property, plant and equipment for the expansion and modernization of its production capacity totaled R\$ 1,388.9 million. This amount was allocated as follows: R\$ 352.1 million to energy generation; R\$ 826.5 million to transmission system projects; R\$ 105.4 million to the Itaparica Resettlement Program; and R\$ 104.9 million to infrastructure. The Compound Annual Growth Rate (CAGR) from 2008 to 2012 was 24.3%.

The graph below presents the total investments made over the last five years.



Generation System

R\$ 138.8 million was invested in 2012 in order to maintain the hydroelectric generation system at satisfactory continuity and availability levels to meet demand, principally in the following:

- Revision of generation unit No. 4, of the Apolônio Sales Power Plant.
- Modernization of the generation units, changing the generators' isolation class from B to F: completed in generation units 1 and 2 of the Paulo Afonso II Power Plant; and in progress in the generation units 3 of the Paulo Afonso I and II Power Plants.
- Installation of Digital Systems (MPCCSR) in the power plants: completed in Paulo Afonso I and III; and in progress in Paulo Afonso II and Boa Esperança.
- Preparation of the Basic Project of Digital Systems (MPCCSR) for the Sobradinho Power Plant.
- Monitoring and treatment of water infiltration in the upstream concrete slab of the Xingó Hydroelectric Power Plant.
- Modernization of four overhead cranes in the Paulo Afonso I and III power plants, of three rail-cleaning machines at the water inlets of the Paulo Afonso I, II and III power plants and of a portal crane at the gate-structure dam of Moxotó.
- Installation of supplementary civil auscultation instruments at the spillway of the Paulo Afonso IV Power Plant.
- Implementation of an oil and water separator tank in the transformers of the pumping substations Paulo Afonso I, II and III.

With respect to the new hydroelectric power plants, the Company had already concluded, in partnership with private companies, the Technical and Economic Feasibility Studies (EVTE) of five hydroelectric projects on the Parnaíba River: Ribeiro Gonçalves (113 MW), Uruçuí (134 MW), Cachoeira (63 MW), Estreito (56 MW) and Castelhana (64 MW). The Brazilian Institute for the Environment and Natural Renewable Resources (Ibama) has denied the Preliminary License (LP) for Uruçuí, and issued LPs for Estreito and Cachoeira in December 2010; for Castelhana, in November 2011; and for Ribeiro Gonçalves, in June 2012. However, as the ceiling prices stipulated in ANEEL's Auctions for the four power plants with preliminary licenses would result in insufficient profitability, no interested parties bid for the plants.

The Company has completed the EVTE on the potential of Riacho Seco (276 MW), in the sub-medium São Francisco River and, after having complied with the adjustments requested in the study and report on the environmental impact (EIA/RIMA) and held public hearings, it awaits the receipt of IBAMA's preliminary license by the third quarter of 2013, so that these hydroelectric resources can be included in Auction A-5 of 2013.

In the wind power area, the Company invested R\$ 148.4 million in 2012, in the implementation of the 180 MW Casa Nova Wind Power Plant, located in the municipality of Casa Nova, State of Bahia. It also made progress in its contacts with entrepreneurs, in studies and field activities, aiming at the implantation of new wind power parks in the Northeast Region.

In the solar energy generation area, the Company received, in March 2012, the approval from ANEEL to install, in the ambit of the Research and Development Program (P&D+I), a 3MWp photovoltaic plant connected to the energy grid in an area near the city of Petrolina, State of Pernambuco, under ANEEL Strategic Project Call 013/2011. This plant is intended to propose technical and commercial arrangements for inclusion of solar photovoltaic projects in the Brazilian energy matrix, through a R&D project named "Central Photovoltaic Solar Platform of Petrolina", developed in partnership with Chesf, Cepel, UFPE and UPE. The project is estimated to be completed by the middle of 2014. Chesf is also participating, in partnership with Cepel, in a heliotherm project of 1 MWp to be implemented in Petrolina and is implementing 15 solarimetric stations in the Northeast region, aiming at the use of the solar energy through photovoltaic and heliotherm technologies.

Transmission System

The Company continued with the large transmission expansion project in 2012, which it has been implementing over the last 10 years, achieving significant progress. Chesf's Transmission System was expanded by 6,295 MVA in its transformation capacity and 241 km of new lines.

The table below shows the new substations that were energized in 2012:

| SUBSTATION | TYPE | TRANSFORMATION CAPACITY |
|-------------------|--------|-------------------------|
| Camaçari IV | 500 kV | 2800 MVA |
| Suape II | 500 kV | 800 MVA |
| Suape III | 230 kV | 200 MVA |
| Zebú II | 230 kV | 200 MVA |
| Santa Rita II | 230 kV | 300 MVA |
| Natal III | 230 kV | 300 MVA |
| Brotas do Macaúba | 230 kV | Sectionalizer |
| Pilão | 138 kV | Sectionalizer |

New ground transformers were also implemented at the Sobral II, Russas II, Pituaçu, Goianinha and Penedo substations and those installed at the Bom Nome, Cícero Dantas and Banabuiú substations were replaced.

The table below details the substations that had their transformation capacity expanded in 2012.

| SUBSTATION | TYPE | INCREASE OF TRANSFORMATION CAPACITY |
|---------------------|--------|-------------------------------------|
| Milagres | 230 kV | 100 MVA |
| Catú | 230 kV | 100 MVA |
| Sobral III | 500 kV | 600 MVA |
| Funil | 230 kV | 100 MVA |
| Picos | 230 kV | 50 MVA |
| Santana do Matos II | 138 kV | 50 MVA |
| Modelo Reduzido | 69 kV | 12 MVA |
| Jardim | 500kV | 600 MVA |
| Cícero Dantas | 230 kV | 50 MVA |
| Bom Jesus da Lapa | 230 kV | 33 MVA |

The following three new transmission lines were constructed and energized:

| LINE | TYPE | KM |
|--------------------------|-------------|--------|
| Ibicoara/Brumado II | 230 kV | 95 KM |
| Paulo Afonso III/Zebú II | 230 kV | 6 KM |
| Casa Nova/Sobradinho | Underground | 0.5 KM |

Also, the 230 kV transmission line Camaçari/Cotegipe was repowered and the following sectionalizing points were implemented in Chesf's transmission lines:

| LINE | SECTIONALIZING DESTINATION | TYPE | KM |
|------------------------------|----------------------------|--------|--------|
| Campina Grande II/Santa Cruz | Pilões | 230 kV | 70 KM |
| Campina Grande II/Natal II | Natal III | 230 kV | 2 KM |
| Goianinha/Mussurê | Santa Rita II | 230 kV | 14 KM |
| Termopernambuco/Pirapama | Suape II and III | 230 kV | 5.5 KM |
| Messias/Recife II | Suape II | 500 kV | 46 KM |
| Milagres/Banabuiú | Icó | 230 kV | 2 KM |

The construction of the 230 kV transmission line Picos/Tauá II, with a total length of 183 km, is in progress, of which 149 km have been already completed, as well as the sectionalizing of the 230 kV transmission line Rio Largo/Penedo.

The main events of the Facilities Improvement Program (PMI) authorized by ANEEL which were completed in 2012 were:

- Two 69 kV line entries at Zebu II substation, to Delmiro Gouveia
- One 60 kV line entry at Rio Largo II substation, to São Luis do Quitunde
- One 60 kV line entry at Juazeiro II substation, to Petrolina I
- One 60 kV line entry at Joairam substation, to Tejió
- One 60 kV line entry at Eliseu Martins, to Bom Jesus
- Substitutions of OPGW cable and the grounding system due to overload of short-circuit current in five 230 kV substations.
- Installation of energy quality recorders in various substations, to provide support for the disturbance analysis.

The following commissioning processes were also completed: teleprotection system of Campina Grande II/Natal III/Natal II transmission lines and level 2 network of the system; differential protection of CMD/CMQ/JRD transmission line, level 2 network of the MPCCS digital system and structured cabling for voice and data at Pilões II substation.

The application of regulation and parallelism for power autotransformers (500/230/13,8 kV) via Sage was completed, with practical application at the Camaçari IV and Suape II substations.

With the objective of recovering delays in construction and improving the management of new undertakings, Chesf's Superintendency of Projects and Construction of Transmission (SPT) adopted new management practices in 2012, among which:

- implementation of the Committee for Monitoring Transmission Developments (CMET), which has the participation of SPT representatives and of all Chesf's organizational units involved in the developments, such as the legal, environment and supply areas;
- modeling of the Management of Implementation of Transmission Developments macro process. The purpose of this macro process is to monitor the entire implementation cycle of Chesf's transmission developments, from the studies and project up to the energization and the solution of pending issues, in order to ensure that the main stages of the development are properly planned, monitored and controlled, in addition to providing consistent and consolidated information, able to support senior management's decision-making aimed at minimizing the risks and maximizing the results of Chesf's transmission business;

- implementation of the function of the Developments Manager, through a normative resolution and preparation of the Transmission Developments Manager's Guide, which addresses all the information required for the good performance of the function, based on the modeled process.

ECONOMIC AND FINANCIAL PERFORMANCE

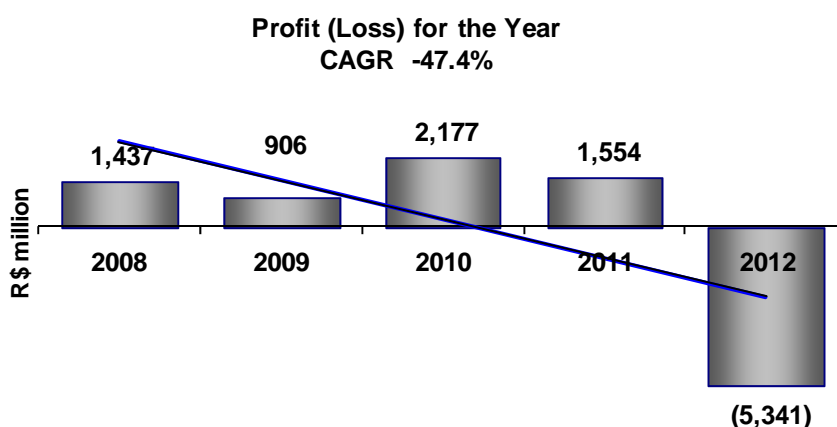
The economic and financial performance is presented in conformity with the Company's consolidated financial statements for 2011 and 2012.

Profit (loss) for the year

The Company recorded losses of R\$ 5,341.3 million in 2012, against a profit of R\$ 1,554.1 million in 2011.

In contrast to this loss, the Company recorded the highest gross operating revenue in its history, R\$ 7,672.1 million, representing a growth of 18.0% in relation to 2011, whereas the regulatory and tax charges increased by 10.2% and operating costs and expenses by 14.7%. Considering only these numbers, it is possible to note that the negative result was not a consequence of an unsatisfactory operating performance.

The Compound Annual Growth Rate (CAGR) from 2008 to 2012 was 47.4%.

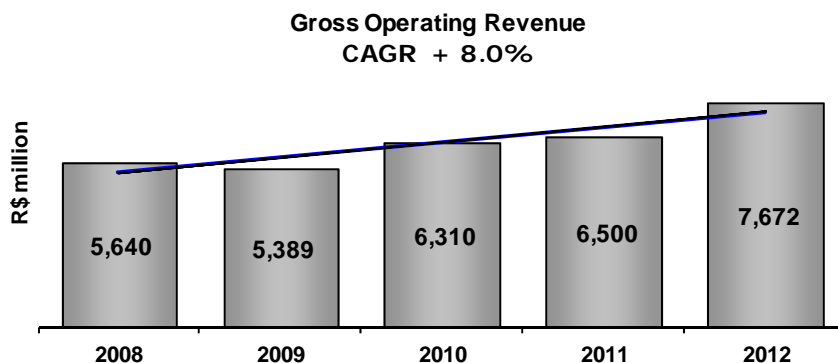


The decisive factor for the occurrence of this result was the issue of MP 579, of September 11, 2012, converted into Law 12,783/2013, which established the rules for the accelerated renewal of concessions of the electrical sector maturing in 2015 and 2017, for the purpose of reducing energy tariffs as from January 2013. One of the rules established that the assets not yet amortized would be indemnified at replacement cost.

The utilization of this criterion resulted in the write-off of a significant portion of assets as a loss against the result. The negative impact on the Company's result amounted to R\$ 8,245.2 million. Without this effect, the Company's operating profit before taxation would have corresponded to R\$ 1,829.9 million.

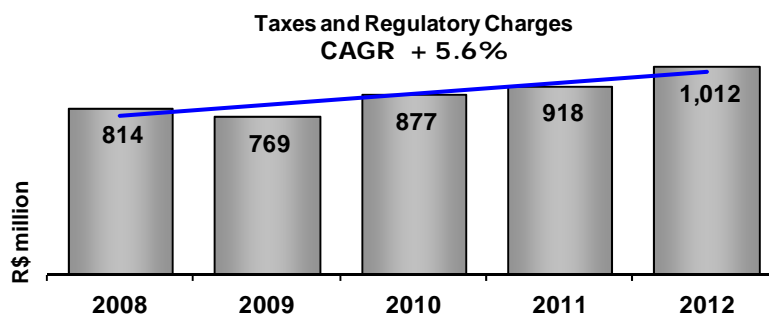
Gross Operating Revenue

Chesf's gross operating revenue in 2012 amounted to R\$ 7,672.1 million, representing an increase of 18.0% when compared to the R\$ 6,500.4 million in 2011. This result was due to the following variations: electric energy sales/supply (+6.7%); transmission revenue (-3.8%); construction revenue (+20,0%); and increase of R\$ 630.5 million in electric energy sales in the short-term market. The positive variation in the revenues from supply and sales at the Electric Energy Trading Chamber (CCEE) was due to new contracts, revision of existing contracts and an increase in the price of energy traded under the scope of CCEE. The Compound Annual Growth Rate (CAGR) from 2008 to 2012 was +8.0%.



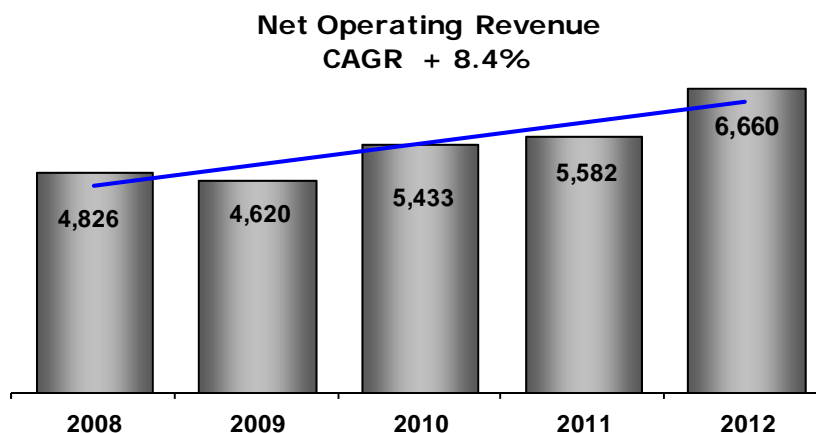
Taxes and Regulatory Charges on Sales

Taxes and regulatory charges on sales totaled R\$ 1,011.7 million in 2012 (+10.2% in comparison to 2011). Of this total, R\$ 619.2 million related to taxes and social contributions (+11.7% in comparison to 2011) and R\$ 392.5 million to regulatory charges (+8% in comparison to the previous year). The Compound Annual Growth Rate (CAGR) from 2008 to 2012 was +5.6%.



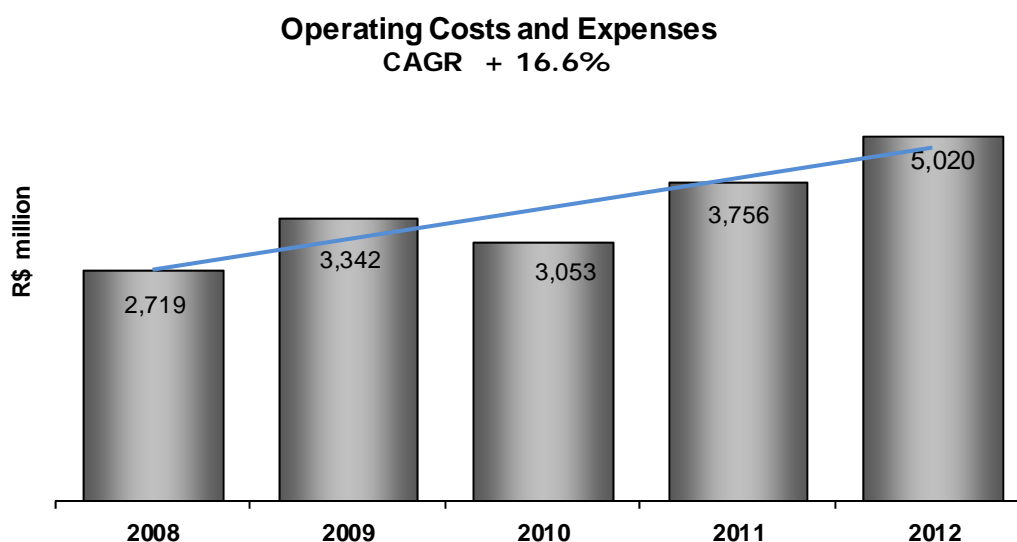
Net Operating Revenue

Net operating revenue, less taxes and regulatory charges, increased by 19.3% (+ R\$ 1,078 million) as compared to 2011, attaining R\$ 6,660.4 million in 2012. The Compound Annual Growth Rate (CAGR) from 2008 to 2012 was +8.4%.



Operating Costs and Expenses

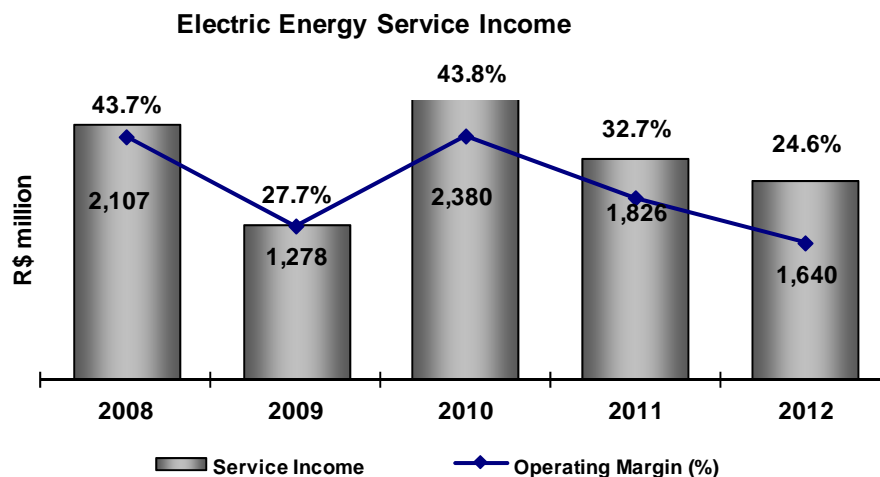
Operating costs and expenses, less the effects of the Provisional Measure 579/2012, totaled R\$ 5,020.4 million, an increase of 33.7% in relation to previous year. This increase mainly reflected the following variations: +8.2% in the personnel account; +20.0% in construction costs; +7.8 in charges for electricity network usage; +7.0% in financial compensation for use of water resources; and +31.7% in provision for contingencies. The Compound Annual Growth Rate (CAGR) from 2008 to 2012 was +16.6%.



These operating costs and expenses totaled R\$ 13,265.7 million, including the effects of the above mentioned Provisional Measure.

Electric Energy Service Result and Operating Margin

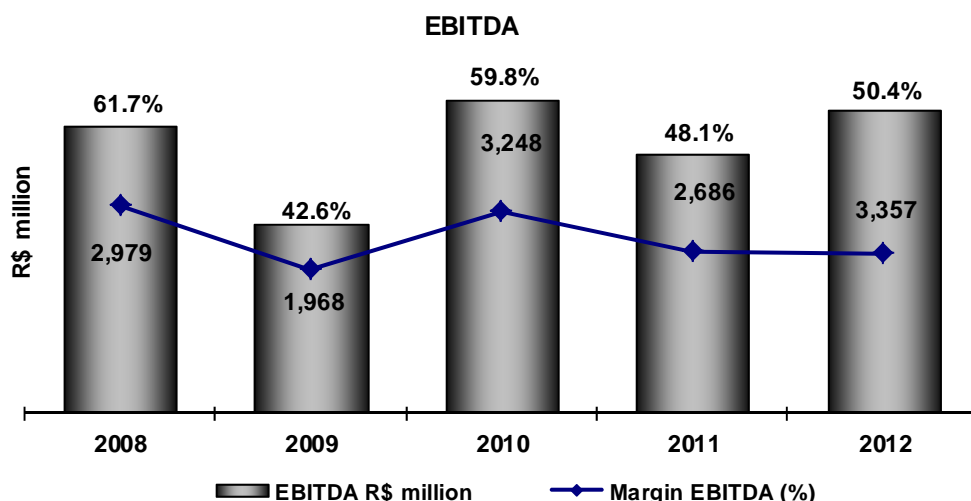
As a consequence of the facts mentioned above, the operating profit of the service (EBIT), without the effects of the Provisional Measure 579/2012, was R\$ 1,640.0 million, 10.2% lower than the R\$ 1,825.9 million achieved in 2011. With this result, the operating margin of the service (service income/net operating revenue) decreased from 32.7% in 2011 to 24.6% in 2012, a decrease of 8.1%.



Considering the effects of the Provisional Measure 579/2012, the result of the service and the operating margin would be negative by R\$ 6,605.3 and 99.2%, respectively.

Operating Cash Generation (EBITDA)

The operating cash generation, expressed by EBITDA (earnings before interest, taxes, depreciation and amortization), adjusted by finance income, provision for contingency, onerous contract - Jirau and the effects of MP 579/2012, was R\$ 3,357.5 million, representing an increase of 25.0% in relation to the R\$ 2,686.4 million recorded in 2011. The EBITDA margin (EBITDA/Net operating revenue) was 50.4%, which represents an increase of 2.3% when compared to the 48.1% in 2011.



| | (R\$ million) | |
|--|------------------|----------------|
| EBITDA Calculation | 2012 | 2011 |
| Profit (loss) | (5.341,3) | 1.554,1 |
| (+) Income tax and social contribution on net income | (10.704,0) | 256,9 |
| (+) Finance costs (income), net | (175,4) | 33,5 |
| (+) Depreciation | 409,2 | 418,1 |
| (=) EBITDA | (6.181,6) | 2.262,7 |

| Adjusted EBITDA Calculation | 2012 | 2011 |
|--|------------------|----------------|
| EBITDA | (6.181,6) | 2.262,7 |
| (+) Finance income | 373,3 | 264,9 |
| (+) Provision for contingencies | 209,2 | 158,8 |
| (+) Onerous contract - Jirau | 711,4 | 0,0 |
| (+) Effects of Provisional Measure (MP) converted into Law 12,783/13 | 8.245,2 | 0,0 |
| (=) Adjusted EBITDA | 3.357,5 | 2.686,4 |

Finance income (costs)

Chesf recorded net finance income of R\$ 175.4 million in 2012, whereas in 2011 it recorded net finance costs of R\$ 33.5 million. This result was mainly due to the restatement of amounts receivable referring to the renewal of concessions, in accordance with Law 12,783/2013. Finance income (costs) consisted of the following:

| | (R\$ million) | |
|--|---------------|---------------|
| Finance income (costs) | 2012 | 2011 |
| Income from financial investments | 125.9 | 144.9 |
| Income from refinancing granted to customers | 65.6 | 87.0 |
| Debt charges on borrowings | (56.9) | (69.8) |
| Monetary variations on borrowings | (7.0) | (12.3) |
| Interest on dividends | (70.1) | (179.1) |
| Restatement of amounts receivable | 203.2 | - |
| Other finance income (costs) | (85.3) | (4.2) |
| (=) Net finance income (costs) | 175.4 | (33.5) |

Borrowings and Debentures

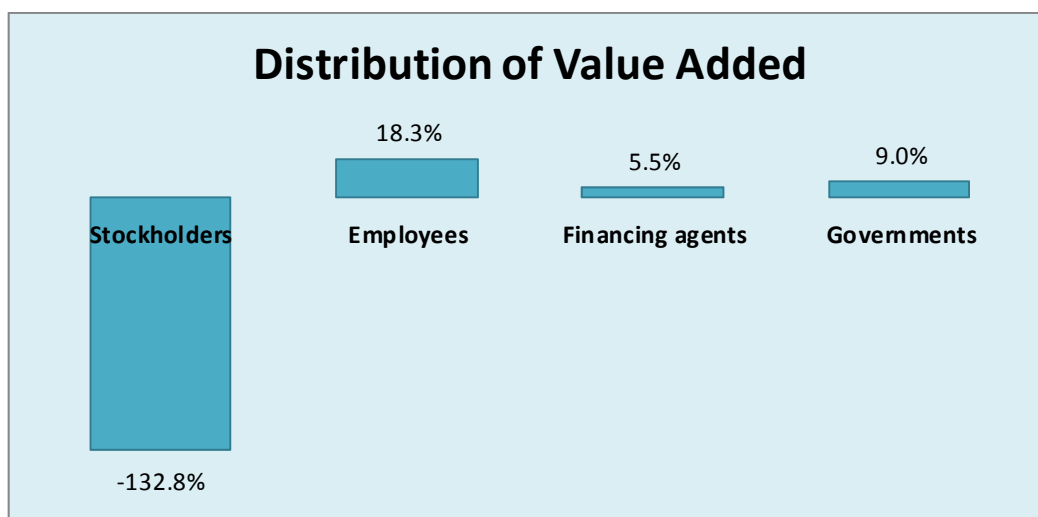
Consolidated gross indebtedness, which includes charges recorded and the principal of the debt to Eletrobras and financial institutions, in addition to debentures issued by the jointly-controlled subsidiary, was R\$ 3,876.2 million at the end of the year, 38.4% higher than the R\$ 2,800 million at the end of 2011.

The Company's net indebtedness (borrowings and debentures less cash and cash equivalents) was R\$ 3,448.6 million at the end of the year, as shown below:

| | (R\$ million) | | |
|---------------------------------|----------------|----------------|--------------|
| Consolidated debt | 2012 | 2011 | Δ% |
| Short-term - local currency | 976.7 | 884.3 | 10.4% |
| Long-term - local currency | 2,899.5 | 1,915.7 | 51.4% |
| Total gross indebtedness | 3,876.2 | 2,800.0 | 38.4% |
| (-) Cash and cash equivalents | 427.6 | 564.0 | -24.2% |
| Net indebtedness | 3,448.6 | 2,236.0 | 54.2% |

Value Added

The economic value generated by the Company in 2012, as per the consolidated balance sheet, was R\$ 4,023.1 million (negative), due to the effects of Law 12,783/2013, as compared to R\$ 4,057.62 (positive) generated in 2011. The amount generated, although negative, added value to some segments, and was distributed as follows: salaries, social charges and employee benefits (18.3%); taxes and contributions to the federal, state and municipal governments (9.0%); interest paid to financing agents (5.5%); and offset of stockholders' losses (-132.8%).



CORPORATE PARTICIPATIONS

Chesf held minority interests in the following companies at December 31, 2012:

- **STN - Sistema de Transmissão Nordeste S.A.**

49% interest in the share capital of STN - Sistema de Transmissão Nordeste S.A., established on October 27, 2003, whose purpose is the construction, implementation, operation and maintenance of the 500 kV transmission line Teresina II (Piauí State)/Sobral III (Ceará State)/Fortaleza II (Ceará State), operating since January 2006, with a concession period of thirty (30) years.

- **Integração Transmissora de Energia S.A.**

12% interest in the share capital of Integração Transmissora de Energia S.A., established on December 20, 2005, whose purpose is the construction, implementation, operation and maintenance of the 500 kV transmission line Colinas /Serra da Mesa 2, 3rd circuit, in operation since May 2008, with a concession period of thirty (30) years.

- **Energética Águas da Pedra S.A.**

24.5% interest in the capital of Energética Águas da Pedra S.A., established on April 3, 2007, the purpose of which is the implementation of the Dardanelos Hydroelectric Power Plant on the Aripuanã River, located in the State of Mato Grosso, with an installed capacity of 261 MW, in operation since August 2011 and a concession period of thirty-five (35) years.

- **ESBR Participações S.A.**

20% interest in the share capital of ESBR Participações S.A., established on February 12, 2009, which, as from May 2009, became the holder of all the shares of Energia Sustentável do Brasil S.A., and whose purpose is the installation of the Jirau Power Plant on the Madeira River in the city of Porto Velho, State of Rondônia, with an installed capacity of 3,750 MW and a concession period of thirty-five (35) years. The amount of energy relating to this expansion was sold at ANEEL Auction 02/2011. The start-up of the first unit is expected for April 2013.

- **Norte Energia S.A.**

15% interest in the share capital of Norte Energia S.A., established on July 21, 2010, the purpose of which is the implementation of the Belo Monte Hydroelectric Power Plant with a capacity of 11,233.1 MW, on the Xingu River, State of Pará, and a concession period of thirty-five (35) years.

This hydroelectric power plant is composed of two powerhouses: the main powerhouse, called Belo Monte, with 18 generation units with a capacity of 611.1 MW each with Francis turbines; the second powerhouse, called Pimental, with 6 generating units with a capacity of 38.85 MW each with Bulbo turbines. The start-up of the first generating unit of Pimental and Belo Monte is expected for February 2015 and March 2016, respectively.

- **Pedra Branca S.A.**

49% interest in the share capital of Pedra Branca S.A., established in October 2010, whose purpose is the installation of the Pedra Branca Wind Power Plant with a capacity of 30 MW, in the municipality of Sento Sé, State of Bahia, under a 20-year Authorization, with the start-up of operations estimated for January 2013.

- **São Pedro do Lago S.A.**

49% interest in the share capital of São Pedro do Lago S.A., established in October 2010, whose purpose is the installation of the São Pedro do Lago Wind Power Plant with a capacity of 30 MW, in the municipality of Sento Sé, State of Bahia, under a 20-year Authorization, with the start-up of operations estimated for January 2013.

- **Sete Gameleiras S.A.**

49% interest in the share capital of Sete Gameleiras S.A., established in October 2010, whose purpose is the installation of the Sete Gameleiras Wind Power Plant with a capacity of 30 MW, in the municipality of Sento Sé, State of Bahia, under a 20-year Authorization, with the start-up of operations estimated for January 2013.

- **Manaus Transmissora de Energia S.A.**

19.5% interest in the share capital of Manaus Transmissora de Energia S.A., established on April 22, 2008, whose purpose is the construction, implementation, operation and maintenance of the 500 kV transmission line Oriximiná/Silves/Lechuga, of the Silves 500/138 kV (150 MVA) substation (formerly Itacoatiara) and the Lechuga 500/230 kV (1,800 MVA) substation (formerly Cariri). The start-up is expected for March 2013 and the concession term is thirty (30) years.

- **Manaus Construtora Ltda.**

19.5% interest in the share capital of Manaus Construtora S.A., established on January 30, 2009, whose purpose is the construction, assembly and supply of materials, labor and equipment to the 500 kV Oriximiná/Silves/Lechuga, double circuit transmission line, the 500/138 kV Silves substation (formerly Itacoatiara) and the 500/230 kV Lechuga substation (formerly Cariri), line entries and related facilities, as well as other facilities required for the measurement, supervision, protection, command, control and telecommunication functions, to be integrated into the Basic Network of the National Interconnected System.

- **Interligação Elétrica do Madeira S.A.**

24.5% interest in the share capital of Interligação Elétrica do Madeira S.A., established on December 18, 2008, whose purpose is the construction, implementation, operation and maintenance of the 600 kV Coletora Porto Velho (State of Rondônia)/Araraquara 2 (State of São Paulo) transmission line, in direct current, the 500/600 kV DC-AC converter station located at the Coletora Porto Velho Substation, with a capacity of 3,150 MW, and the 600/500 kV DC-AC converter station located at Araraquara 2 Substation, with a capacity of 2,950 MW. The start-up of operations is expected for April 2013 and the concession period is thirty (30) years.

- **TDG - Transmissora Delmiro Gouveia S.A.**

49% interest in the share capital of TDG - Transmissora Delmiro Gouveia S.A., established on January 12, 2010, whose purpose is the construction, implementation, operation and maintenance of the electric energy transmission facilities of the Basic Network of the National Interconnected System, specifically the São Luiz II - São Luiz III 230 kV transmission line, located in the State of Maranhão, Pecém II 500 kV and Aquiraz II 230 kV substations, located in Ceará State. The start-up of operations is expected for July 2013 and the concession period is thirty (30) years.

- **Extremoz Transmissora do Nordeste - ETN S.A.**

49% interest in the share capital of Extremoz Transmissora do Nordeste - ETN S.A., established on July 7, 2011, whose purpose is the construction, assembly, operation and maintenance of the electric energy transmission facilities on the 64 km, 500 kV, simple circuit transmission line Ceará Mirim - João Câmara II; 201 km, 500 kV, simple circuit transmission line Ceará Mirim - Campina Grande III; 26 km, 230 kV, simple circuit transmission line Ceará Mirim - Extremoz II; 8.5 km, 230 kV, simple circuit transmission line Campina Grande III - Campina Grande II; 6 Km, 230 kV, simple circuit sectionalizing transmission line João Câmara II - Extremoz - Ceará Mirim substation; 12.5 Km, 230 kV, simple circuit sectionalizing transmission line C. Grande II - Extremoz II, C1 and C2; 500 kV João Câmara II substation; 500/230 kV Campina Grande III substation; 500/230 kV Ceará Mirim substation and transmission facilities of exclusive interest of generation plants for shared connection (ICG), 500/138 kV transformer bank in the João Câmara II substation. The concession period is thirty (30) years for the transmission facilities that will comprise the Basic Network and eighteen (18) years for transmission facilities of exclusive interest of generation plants for shared connection (ICG). The start-up of operations is expected for August 2013.

- **Interligação Elétrica Garanhuns S.A.**

49% interest in the share capital of Interligação Elétrica Garanhuns S.A., established on September 22, 2011, whose purpose is the construction, assembly, operation and maintenance of the electric energy transmission facilities of the Basic Network of the National Interconnected System, specifically the 224 km, 500 kV Luis Gonzaga - Garanhuns transmission line; the 190 km, 500 kV Garanhuns - Campina Grande III transmission line; the 239 km, 500 kV Garanhuns - Pau Ferro transmission line; the 13 km, 230 kV Garanhuns - Angelim I transmission line; the 500/230 kV Garanhuns substation and the 500/230 kV Pau Ferro substation. The concession period is thirty (30) years and the start-up of operations is scheduled for June 2014.

- **Usina de Energia Eólica Junco I S.A.**

49% interest in the Specific Purpose Entity Wind Power Plant Junco I S.A., arising from ANEEL Auction 007/2011 held on December 20, 2011, established on March 14, 2012, whose purpose is the implementation of the 30 MW Wind Power Plant Junco I, located in the municipality of Jijoca de Jericoacoara, in the State of Ceará. The start-up of operations is expected for January 2016 and the concession period is twenty (20) years.

- **Usina de Energia Eólica Junco II S.A.**

49% interest in the SPE Wind Power Plant Junco II S.A., arising from ANEEL Auction 007/2011 held on December 20, 2011, established on March 15, 2012, whose purpose is the implementation of the 30 MW Wind Power Plant Junco II, located in the municipality of Jijoca de Jericoacoara, in the State of Ceará. The start-up of operations is expected for January 2016 and the concession period is twenty (20) years.

- **Usina de Energia Eólica Caiçara I S.A.**

49% interest in the SPE Wind Power Plant Caiçara I S.A. arising from ANEEL Auction 007/2011 held on December 20, 2011, established on March 12, 2012, whose purpose is the implementation of the 30 MW Wind Power Plant Caiçara I, located in the municipality of Jijoca de Jericoacoara, in the State of Ceará. The start-up of operations is expected for January 2016 and the concession period is twenty (20) years.

- **Usina de Energia Eólica Caiçara II S.A.**

49% interest in the SPE Wind Power Plant Caiçara II S.A., arising from ANEEL Auction 007/2011 held on December 20, 2011, established on March 13, 2012, whose purpose is the implementation of the 21 MW Wind Power Plant Caiçara II, located in the municipality of Jijoca de Jericoacoara, in the State of Ceará. The start-up of operations is expected for January 2016 and the concession period is twenty (20) years.

RELATIONSHIP WITH THE INDEPENDENT AUDITORS

Chesf's policy in relation to its independent auditors is based on principles that safeguard the independence of these professionals. In compliance with Instruction 381 of the Brazilian Securities Commission (CVM), of January 14, 2003, the Company's management informs that, during 2012, its independent auditors PricewaterhouseCoopers Auditores Independentes did not provide any services other than the audit of the financial statements. These independent auditors were engaged under a single contract to serve all the companies of the Eletrobras System for a period of five (5) years, starting in 2009.

In compliance with Brazilian Corporate Law, Chesf's financial statements are audited by independent auditors, who are engaged by means of bidding and approved by the Board of Directors, subject to restrictions on the provision of non-audit services and mandatory rotation every five years.

RESEARCH, DEVELOPMENT AND INNOVATION PROGRAM

Chesf's Research, Development and Innovation Programs have as their objective its technological qualification and the promotion of innovation to generate new processes or products, or the evident improvement of its characteristics, through the execution of research projects contracted together with research and development institutions.

The Company has two project portfolios. The first one (ANEEL portfolio), which meets the requirements of Laws 9,991/2000 and 10,848/2004, focusing on the specific needs of the electric energy production and transmission system, with the participation of a number of well-known teaching and research institutions as executors of the projects. The second project portfolio focuses on matters that are of common interest to the companies of the Eletrobras System and whose executor is the Electric Power Research Center (Cepel).

During 2012, Chesf contracted 51 research projects, of which 13 of the 2006/2007 cycle, 24 of the 2009 Program and 14 of the P&D+I 2011.1 Program, involving actions intended to improve the innovation management.

With a focus on the categories related to sustainable development, the investments were as follows: R\$ 3.4 million in Environment; R\$ 2.6 million in Planning and Operation; R\$ 1.1 million in Renewable or Alternative Sources; R\$ 1.0 million in Supervision, Control and Protection; and R\$ 1.0 million in Quality and Reliability.

In search of large projects, Chesf participated, in 2012, in the ANEEL bidding process to implement a strategic project designed to include in the Brazilian energy matrix the generation of electrical energy arising from biogas produced through the processing of waste and liquid effluents. It also participated in the Project for

Research and Development of Technologies for Ultra High Voltage Transmission Lines, which will involve investments of approximately R\$ 120 million.

The amount invested in 2012 in the above-mentioned portfolios was approximately R\$ 11.1 million. Chesf also made contributions to the National Fund for Scientific and Technological Development (FNDCT) and to the Electric Power Research Company (EPE), totaling approximately R\$ 34 million. Therefore, Chesf invested directly or indirectly in R&D+I the substantial amount of some R\$ 45.1 million.

INFORMATION TECHNOLOGY MANAGEMENT

The actions of Chesf's IT Department are based on the firm understanding that processes and automation solutions have to be closely related, sharing an integrated vision. Accordingly, automation solutions are only defined and developed after the opportunities to streamline the processes have been mapped and all the requirements that will be subsequently translated into functionalities of the automation solution have been identified. Such approach means going out of the purely technological focus, in order to aggregate the process improvement vision as part of an integrated view of the organization.

Taking into consideration the requirements of the current context of the Electric Sector, the solutions start to be developed and delivered in the shortest time possible, while maintaining the quality parameters of the projects and services, and should address the implementation, support and maintenance costs.

In view of such facts, Chesf's IT department established its strategy to expedite the delivery of IT solutions, based on which the following guidelines have been defined:

- Potentialize results with the strategy being conducted by the proper team.
- Consider the possibility of contracting services which address the critical points (bottlenecks) in the processes.
- Balance the performance between the services (exploration) and the project products (expansion).
- Involve the customer in the prioritization of actions and in the project development and decisions.
- Make efficient the management of projects and contracting.
- Create a structure to support the project managers in decision-making and overcoming the challenges.
- Contract specialized services for the critical phases of the systems development life cycle.
- Increase the number of alternatives to be explored at the definition phase of the automation solution.
- Make efficient the execution of services that are critical to the Information Technology Superintendency (STI).
- Provide the staff involved with support to mitigate the effects of the change.
- Monitor, on a continuous basis, the implementation of the strategy of agility.

These guidelines were translated into action plans, which were grouped in four themes, namely: Management guidelines; Review/creation of reference documents; Contracting of services; and Definition/review of operational procedures. Various actions were completed in 2012 and others are in progress.

Also as a result of this strategy, 25 projects were completed by Chesf's IT department. This result represented an increase of 213% in the number of projects completed in relation to the previous year. The projects were as follows: adjust the data structure of the Human Resources Integrated System (RHSIN) to the Career and Salary Plan (PCR) models; automate the operational safety process of maneuvers (SISRTM); certify the high availability environments and services of the corporate network computing infrastructure; consolidate the performance management system (SGD); develop the voice synthesizer and screen reader; structure the data management process; implement the process factory and requirements for automation; manage the service level for maintenance of corporate systems; implement a management presentation layer for Chesf Management; implement energy auction solution - Phase 1 at Chesf infrastructure; implement the Energy Business Management System (GENE); implement the Manual for Control of Electric Sector Assets (MCPSE); implement the service receipt and payment module of Electronic Invoice (NF-e) in the Tax Management System; implement a system to prepare substation projects; migrate from Windows 2003 to Windows 2008; model and automate the process of issuing invoices and controlling remittances; streamline the process to transfer information on transmission constructions to ANEEL; educate the business areas in process-oriented management; model and automate the process to manage the records of facilities of NR-10; review the integrated methodology of modeling and automation of business processes; review the Company's cost

allocation process; centralize the infrastructure for the new version of New Wave and SDDP; update the collaboration environment platform; build the systemic view and value chain; and construct the process map.

PEOPLE MANAGEMENT

The Company's headcount at the end of 2012 totaled 5,631 employees, of which 1,167 were women and 4,464 were men. The employee turnover rate was 0.64%. In the previous year, this rate was 7.16%, mainly resulting from the termination of employees who accepted participation in the 2009-2011 Scheduled Voluntary Termination Program and the admission of new employees, under the Public Selection Process of 2007 and which was in effect until 2011.

The processes of vertical and horizontal progression of the Career and Salary Plan (PCR) and of employees' promotion of the Job Position and Salary Plan (PCS), both referring to the 2011 cycle, were realized in 2012. The PCR vertical and horizontal progression process was based on the evaluation of the performance of 5,554 employees and 1,810 of these were awarded, which represented 32.59% of the total.

The results of the Second Unified Research of Corporate Climate for Eletrobras System's Companies were published in 2012, according to which Chesf achieved a satisfaction rate of 71.18%, an increase of 0.21% in relation to the 2010 survey.

Employee Benefits

In order to improve the quality of life and well-being of its employees, Chesf offers the following benefits under the conditions established in its regulations: Mother-child assistance; Educational assistance; Reimbursement for school uniform and didactic material expenses; Higher education allowance; Medical and nursing care at the Company's outpatient clinics during work hours; Employer's Assistance Plan (PAP), including medical and hospital assistance, dental care, among other healthcare services; Reimbursement for medications; Allowance for purchase of glasses and contact lenses; Disability Assistance (PAPD); Profit sharing; Sick pay supplement; Funeral grant; Lump-sum benefit upon death or disability caused by occupational accidents; Meal tickets; Transportation voucher; Group life insurance; and Private pension plan through Fundação Chesf de Assistência e Seguridade Social (Fachesf).

Qualification and Development

Aware of educational trends and focusing on people management for achieving business sustainability, the Company continued in 2012 to restructure its educational processes through the Eletrobras System University (Unise), based on corporate strategies.

The Corporate Education Plan is Chesf's formal plan aimed at offering scheduled educational opportunities that contribute to the development of professional competences aligned with corporate guidelines. The educational actions are now conceived to develop professional competences, observing the configuration of macro processes set forth in the Career and Compensation Plan (PCR).

This created an opportunity to effectively integrate the Corporate Education Plan (PEC), the Performance Management System (SGD) and the Career and Compensation Plan (PCR). It also provided a better view of educational actions aligned with other corporate processes and people management.

The investment in the professional development of employees is permanent. Total investments in educational actions in 2011 amounted to R\$ 9,075.0 thousand, compared to R\$ 6,707.0 thousand in 2012. Accordingly, the average investment per employee decreased by 26.48%, from R\$ 1,629.70 in 2011 to R\$ 1,198.11 in 2012.

The average number of training hours per employee was 64.97 in 2012, which corresponded to 3.32% of the working hours, whereas this number was 85.6 in 2011.

These reductions were caused by the need to strategically adjust the Company, as a result of the Provisional Measure 579/2012.

Occupational Health and Safety

During 2012, the Company's Health and Occupational Safety areas implemented and continued with a number of specific actions and programs for prevention, risk control and promotion of employees' health and life quality, at the same time working towards an efficient cost/benefit relationship in its Programs.

The Health Promotion Centers (CPS) in Salvador and Sobradinho offer to the employees activities such as weight training, exercise, dance, on-site physical fitness program, physical therapy, nutrition, massage and sports activities, which are well evaluated by the participants. The employees participate in these activities either spontaneously, or by referral after the Periodic Medical Examination or the Biopsychosocial Monitoring Program (MBPS), which, through a multidisciplinary team, evaluates and monitors the health conditions of employees who perform hazardous activities in the maintenance of lines, equipment, protection and telecommunications. Together, these initiatives promote health and prevent and treat diseases.

Chesf participated in the Sesi Games through various sports modalities, including swimming, futsal, master football, beach volleyball, table tennis, tennis, chess and athletics. The participating employees were awarded 57 medals and 11 trophies at the State phase. At the Northeast Region phase, 13 medals and two trophies were awarded, in addition to the classification for the national phase, in swimming and chess, providing the opportunity of participation in the World Swimming Championship in Italy. In the city of Recife, the employees participated in five jogging circuits sponsored by the Company, and this also took place in the cities of Salvador and Fortaleza.

The "Disque Viver Bem" (Live Well Helpline) is a telephone line that provides psychosocial, financial and legal assistance to the employees and their families through an outsourced company. The service was rated as 100% satisfactory by the employees who utilized it. The program also provides support when a critical incident involves various employees at the same time.

The Company gave continuity to the Program for Prevention and Treatment of Problems Related to Alcohol and Other Drugs, through the follow-up of cases detected in all the regional units. The Tobacco Treatment Program continued to offer opportunities for improvement in the employees' health and life style.

The Management of Sickness Absence Project continued to monitor the related indicator, which was at 1.65 at the end of 2012. Also, in relation to the Periodic Medical Examinations, Chesf achieved a rate of 98.66%, surpassing the target of 98%. Other exams were included in the Periodic Medical Examination, and will be implemented in 2013, for employees who work at height - for compliance with NR-35.

In November 2012, the 2012/2013 cycle of the campaign "Fique Alerta para a Segurança Dez" (Stay Alert and Be Safe) was launched. This campaign, which has a permanent and corporate character, aims at fostering the development of a prevention-oriented culture, with a focus on all the employees' Occupational Health and Wellbeing. This cycle of the campaign focused on two themes: Commitment of the Managers and Safety Communication. As from the joint and consolidated action plan involving all the Company's areas, strategies will be defined, with specific measures to achieve the initially proposed objectives.

All the requirements of the Occupational Health and Safety Management System under the internationally recognized standard "Occupational Health and Safety Assessment Series - OHSAS 18.001:2007", including compliance with the corporate governance requirements, were implemented at the Xingó Power Plant in 2012. The plant was awarded the certification, which represented a milestone achievement for Chesf and the Eletrobras System.

The occupational safety area counted on the relevant participation of the Eletrobras System's Work Group in the standardization of technical specifications, updates and insertion of new technologies of Individual Protection Equipment (EPI), to be applied in the prevention of occupational accidents or diseases. The result was the creation of the EPI Specification Manual for the System. The next stage, for 2013, will consist of the unified acquisition of Individual Protection Equipment for all the System's companies.

The system for Control of Incidents and Non-conformities (CNI) was developed and inserted into the Occupational Safety and Health Management System (SGSST) in the Intranet. The objective of this system is to record, classify, treat and monitor the information on incidents, non-conformities, complaints, improvement opportunities and other, on a centralized and concise basis, in order to foresee possible risk situations, which could result in work accidents.

The occupational safety area provides advice for the implementation and development of actions recommended by all the 22 In-house Accident Prevention Commissions (Cipas). In 2012, various Cipas chose as their theme the question of accessibility, aiming at improving the work conditions for disabled people in the Company.

The Accumulated Frequency Rate (TFAT) was 3.27, below the tolerable limit of 3.73 established by the Company. However, a fatal accident which occurred with an employee who was traveling to one of the Company's units increased the Accumulated Severity Rate (TGAT) of Typical Occupational Accidents with Withdrawal to 617, surpassing the established limit of 154.

The external acknowledgment received by Chesf's Health, Life Quality and Occupational Safety areas for the work developed confirms the Company's alignment with the best practices of the market in the area, as presented in the topic "Awards and Recognition" of this Report.

Respect for Diversity and Gender Equity

The Company is permanently committed to create and maintain a workplace free of discrimination on the basis of a person's color, race, ethnicity, sex, age, regional origin, economic/social status, physical or mental condition, political/religious/sexual orientation or on any other grounds. Since 2006, employees who live with a companion of the same gender are entitled to include him/her as a dependent in the Company's health plan. The other benefits are also available to employees with homoaffectional orientation, with no discrimination.

For the past eight years, initiatives have been implemented to promote equality of gender and race/color with impacts both on the area of people management and on aspects of organizational culture. The Company has been twice awarded with the seal "Pro-equity of Gender" from the Secretary of Policies for Women of the Federal Government. Chesf understands that this issue has to involve the whole Company so that the value of diversity is considered in all of the organizational processes that have an impact on people.

During the year, the Company incorporated the gender perspective in the public selection processes and performance management and the gender and race perspective in the process of allocating new employees. In order to raise awareness of gender and race equality among employees, Chesf continued to capacitate the strategic areas for the organizational transformation. The Company has conducted a campaign to disseminate the Women's Empowerment Principles launched by UN Women, produced and disclosed the educational materials "Gender and Ethnic Relations X non-discriminatory utilization of management tools" and "Productive and Reproductive Work and the Challenges for Gender Equality" and involved the employees in the preparation of material to launch the Award "A creative look at gender and ethnic/racial issues". Speeches and workshops on these themes were produced and videos were made available to all the relationship audience.

Chesf now has 192 employees with disabilities, being 37 with hearing impairment, 121 with physical impairment, one with intellectual impairment, one with multiple impairment, 20 with visual impairment and 12 employees rehabilitated by the Social Security.

Maintaining its commitment with the accessibility and inclusion of disabled people, the Company's Accessibility and Inclusion Committee has established an action plan and specific measures for 2012-2013, presented by the Accessibility Program: Strategy for Inclusion (Proacessi), for the purpose of ensuring the required and essential conditions for these professionals to perform their work activities in an independent, autonomous and safe manner.

The following actions implemented according to the referred to planning should be highlighted:

- Workshops, lectures and advisory sessions were held for managers and technicians, aimed at consolidating concepts, clarifying doubts about procedures, interrelations and adjustments, in addition to the required assistive technologies.
- Monitoring meetings were held with managers and disabled employees, by impairment group, for the purpose of identifying difficulties and needs in the exercise of their work activities, to remove possible operational obstacles and barriers to daily interaction and make available the assistive technologies and necessary adjustments.

- The theme "accessibility" was included in the various in-house Seminars on Occupational Accident Prevention and Inter-regional Seminars on Occupational Accident Prevention.
- The instructional video "Recognizing and Valuing Diversity" was produced, which presents statements from disabled employees about their particularities and interaction in the organizational environment.
- The Accessibility Program - Proaccessi was presented at external seminars as a success case of the hiring of disabled people.
- Diagnoses on the lack of physical and environmental accessibility are maintained, as well as the required adjustments, to ensure the access to information and communication within the Company's environment.

SUPPLIERS

The Company periodically updates its suppliers on the procedures utilized for contracting and the management of contracts. It also takes actions to strengthen its partnership with the suppliers and improve the quality of the services and products. To do so, the Meeting of Chesf with Suppliers" in 2012 was held in Recife. The requirements related to sustainability, social and environmental responsibility, ethics and the matters of diversity, gender and race were emphasized as a specific presentation included in the event program.

Chesf's area of supply has been including specific social and environmental criteria in supplier selection and contracting process, with a view to meeting sustainability criteria and legal requirements, requiring suppliers to adopt ethical, social and environmental standards in line with those maintained by the Company through guidelines that establish principles and standards of business conduct expected in relationships and commitments assumed. The parties contracted to provide goods and services have to comply with all applicable requirements, especially those relating to the non-use of child labor and non-exposure of workers to degrading work conditions.

The Supply System has integrated into its Corporate Planning initiatives towards the adoption of good sustainability practices in the Supply Chain, with the further objective of promoting evaluations related to the Performance Management System. For the first cycle, Sustainability was considered in the procurement of goods and services and, as a product, a Technical Report was generated on good current sustainability practices in the procurement process for Chesf's Transmission and Generation Systems. For the second cycle, a report was generated on the Current Good Sustainability Practices for Managing Contracts of Chesf's Transmission Systems and Generation.

RELATIONSHIP WITH THE COMMUNITIES

Chesf understands as a social investment the voluntary transfer of resources in a planned, systematic and controlled manner, to social projects of public interest, i.e. contributions intended to meet the needs and priorities of communities, with a focus on the transformation of the social reality. Accordingly, it has invested in the areas of education, qualification and dissemination of knowledge, job and income generation and regional development and promotion of health and citizenship. The projects are selected based on the benefits that will be provided to the community served.

The practice of the actions in the Social Responsibility area contributes for a fairer and more sustainable society, reduces social inequality, improves the employees' motivation, fosters the recognition and loyalty of the target-customer, in addition to contributing to enhance the value of the image of Chesf and its products. Most programs and projects supported by the Company are developed in communities near its business units and benefit thousands of needy people. R\$ 26,7 million was invested in 2012, benefiting more than 100 thousand people.

The Company supported twelve projects in the area of education, qualification and dissemination of knowledge, which benefitted over 3,000 low-income people, comprising children, adolescents and families. Eight projects intended to supplement the formal education and develop social and educational actions have improved the performance in oral and written language; interpersonal relations; computer-use skills; qualification in various sports, cultural and pedagogical activities; access to universities; vocational orientation; psychosocial support; family integration, internalization of ethic principles and valuation of the environment. The Company continued to support the project "Somos Todos Aprendizes" (We All Are Apprentices), which provided basic education and qualification for the job market for 44 young people with

intellectual deficit (Down's Syndrome). Chesf also provided support to the implementation of two telecenters, contributing to the digital inclusion of the dwellers of Itapajé and Milagres, in the State of Ceará. There is also a project to construct the Environmental Education Center in the semi-arid region of the State of Pernambuco, intended to promote educational actions addressing the environment, formation for citizenship and social responsibility which will attend over 1,700 beneficiaries in the municipality of Ibimirim and the region of Bacia do Jatobá.

Chesf provided support to seven social projects for the generation of jobs and income and regional development. The projects "Winds of Change" and "Professional Education of Youth and Adults" benefited more than 400 people, promoting individual and collective growth, social and professional inclusion, income increase, improved education, professional qualification and insertion into the local job market. An agreement was signed with the municipality of Olindina, State of Bahia for the construction of a sanitary landfill, with all the supplementary infrastructure of an Urban Solid Waste (RSU) landfill, which will benefit the entire population. The Community Vegetable Gardens implemented in Teresina, State of Piauí and in Salvador, State of Bahia, in addition to the benefits provided to the population through income generation, also avoids burning and vandalism acts, since the gardens are planted underneath Chesf's transmission lines.

Two other major projects supported by Chesf and implemented by Embrapa, which are bringing significant improvement to the beneficiaries, by generating jobs and income and regional development are: the Lago de Sobradinho project, which promotes actions for agribusiness producers and fishermen in the neighborhood of the Sobradinho Dam, addressing the implementation of fields for technological learning and training; and the Boa Esperança project, which promotes technological alternatives for the sustainable development of rural communities located in the neighborhood of the Boa Esperança Dam (serving municipalities in the States of Maranhão and Piauí). The project contemplates the development and improvement of the production system of family farms; development and improvement of agribusiness; and meliponiculture, fishing and fish farming actions.

Regarding health promotion, Chesf sponsors projects and promotes various social actions, providing the beneficiaries with a better quality of life and health. Through the social project "Health for All", Chesf maintains an outpatient clinic for needy families in the community of Muribeca, in Jaboatão dos Guararapes, State of Pernambuco. In view of the quality of the service provided and due to the lack of other outpatient clinics in the region, the service has been extended to the communities of Jardim Muribeca and Integração/Extensão, also located in Jaboatão dos Guararapes, serving an average of 1,300 people/day.

In addition to the above mentioned projects, Chesf's regional units and head office also promoted various actions, such as Health, Education and Citizenship Fairs, Lectures on Health and Security, Action and Citizenship, which involved approximately 2,000 people in activities like guidelines on oral health, educational and recreational workshops, nutritional education, medical appointments and examinations (general practitioner, gynecologist and pediatrician), dental appointments (prophylaxis, oral care and tooth extraction), various tests (blood pressure, glycemia, weight/height, BMI, etc.), vaccinations, visual tests, haircuts, lecture on STD, leisure activities with children and snack distribution.

Also in relation to the broad theme of Citizenship, Chesf gave continuity to three social projects: The "Era Uma Vez" (Once Upon a Time) project, which addresses the exploration and sexual abuse of children and teenagers and promotes the empowerment of the Vietnã community, in the suburb of Bongi, Recife, State of Pernambuco for the use of practices to prevent this type of violence; the "Fazendinha" (Little Farm) project, which contemplates the urbanization of 22 housing blocks in 132 low-income homes to be delivered to dwellers of the community of Nossa Senhora das Graças in Piranhas, State of Alagoas (AL); and the "Dignifying the Needy Elderly" which ensures psychosocial, leisure, health and nutrition services to 25 elderly people living in Instituição Abrigo Cristo Redentor, in Jaboatão dos Guararapes.

Besides these projects, several social actions have been implemented, benefiting over 1,000 people, among which: lectures and campaigns promoting the awareness and education on several themes, such as sexual abuse and exploration of children and teenagers, women's empowerment, including the disclosure of the "Women's Empowerment Principles" to the whole Company (head office and regional units) and the campaign "16 Dias de Ativismo pelo Fim da Violência contra a Mulher" (Sixteen Days of Activism for the End of Violence against Women). Chesf has also supported the implementation of 15 municipal councils in areas neighboring Paulo Afonso, State of Bahia; and the Northeast Regional Wheel-chair Basketball Championship, which encourages the participation of handicapped people in basketball in sports competitions; provided a car to support the operations of the Women's Police Station; conducted children's pedagogical visits to its facilities in

Paulo Afonso; collected and donated 3,031 kg of used paper to Paulo Afonso Recycling Association (ARPA), promoted actions to collect toys for children and food, personal hygiene items and cleaning products for the people affected by drought in the State of Pernambuco; collected food for the campaign "Natal Sem Fome" (Christmas Without Hunger); collected invoices to be donated to the entities enrolled in the program "Todos com a Nota" (Everyone with the Invoice). The Third Week of Social Responsibility was held at the head office, for the purpose of presenting to the employees the results obtained by the beneficiaries of the social projects supported by Chesf, and donating, through Tax Incentives from the Childhood and Adolescence Fund (FIA), the amount of R\$ 1,275.500.00 to the Liver Institute of Pernambuco.

Chesf coordinates regional development projects aligned with the Federal Government's social programs. In 2012, the "Luz para Todos" (Light for All) Program realized 60,131 power connections, benefiting 300,655 people in the Northeast.

The Company sponsors the Nair Alves de Souza Hospital in Paulo Afonso, in partnership with the Brazilian Unified Health System (SUS), which serves people from 22 cities of four states in the Northeast region (Alagoas, Bahia, Pernambuco and Sergipe). 93,701 persons received assistance in 2012.

Chesf has 22 Accident Prevention Commissions (Cipas), formed in locations where the Company has offices, which, in 2012, realized various actions that went beyond the specific prevention-related activities of these commissions. These actions aimed at increasing the accessibility and work conditions of disabled employees, who need specific arrangements to develop their activities and potential. Among other actions, the following should be highlighted:

- Blood donation campaign.
- Safety inspections in all the regional units.
- Traffic campaigns to increase safety.
- Campaigns to strengthen the Company's culture of safety, such as: the Safety Pillars and the ABC of Safety.
- Disclosure of several reports and campaigns on safety; accidents involving the hands; abusive use of alcohol; isolation and grounding of areas under intervention; correct attitudes and electric risks, among others.

ENVIRONMENTAL RESPONSIBILITY

Chesf has adopted significant measures to meet requirements for preserving the quality and integrity of the surrounding ecosystems. Pursuant to its Environmental Policy and its Mission, the Company is guided by principles that demonstrate that it is sensitive to social and environmental concerns. Highlights in this area are the Principle for Sustainable Consumption of Energy Resources, which is directed towards exploiting potential local and regional resources while promoting sustainable development and the Environmental Management Principle, which is based on the implementation of an Environmental Management System integrated into the other Corporate Management Systems of the Company. Therefore, with the objective of fulfilling the planned actions for 2012, Chesf provided financial resources of approximately R\$ 18.2 million to eco-sustainability programs, which included maintenance and cultural rescue of communities and their traditional practices and customs, in addition to actions aimed at preserving the environment.

Chesf continued the implementation of the Social and Environmental Action Plan (PAS) in the Paulo Afonso Complex, which has been designed as a process to mediate conflicts, strengthen consensus and contribute to citizenship, thereby able to provide a new vision on the importance of people's cultural traditions and on the value of the preservation of ecological processes and natural resources as the basis for sustainability. This project has been recognized by Ibama as a model of environmental education in hydroelectric power plants in Brazil.

The campaigns to fight burnings in sugarcane plantations continued in 2012 in the States of Pernambuco and Alagoas, in partnership with local institutions and companies, involving more than 1,000 km of transmission

lines. In the State of Alagoas, interruptions were reduced from 14 in 2011 to five in 2012, representing a reduction of 70%.

Educational communication actions continued to be carried out to avoid acts of vandalism in insulators and included 400km of transmission lines in the North Regional Managements and Paulo Afonso. This initiative has significantly reduced the interruptions due to vandalism actions.

The agreement for the Recomposition of the Riparian Forest of Low São Francisco and affluents was signed in 2012, comprising the area from Paulo Afonso (State of Bahia) up to the mouth of the São Francisco River, with the planting of 300,000 seedlings projected for the period from 2013 to 2016.

The Company has signed the agreement for the Inventory of the Aquatic Ecosystems of the Parnaíba River, which includes programs of Inventory, Limnology and Water Quality, Ichthyofauna and Monitoring of Aquatic Macrophytes and is projected to start in 2013.

The Program for Remediation of Damaged Sites was conducted in the developments of Sobradinho, Itaparica, Boa Esperança, Paulo Afonso Complex and Xingó, covering an area of approximately 390 ha. The Erosive Process Program was implemented at Paulo Afonso, where the contention and monitoring work comprised an area of approximately 21 ha. The diagnosis and preparation of an executive project for the recovery of approximately 35 ha was carried out in Itaparica and Sobradinho. The diagnosis was also made for Boa Esperança and the executive project for the recovery of approximately 74 erosion points is being prepared.

The Flora and Fauna Monitoring Program was implemented in Xingó. The floristic and phytosociological inventory realized in the area under the influence of the Xingó Hydroelectric Plant has to date surveyed 2,662 individuals belonging to 47 different species. The studies have identified 18 families and another five are in the identification process, which has increased the records of the region's floristic diversity. The fauna inventory has encountered nine new species of mammals in common with the respective environmental studies (EIA/RIMA) of the Xingó Hydroelectric Plant. In relation to herpetofauna, 11 species of amphibians were encountered in addition to those in the EIA/Rima. The number of reptiles in the area, based on the review of pertinent literature, Environmental Impact Study and the current inventory, totals 47 species. The avifauna inventory recorded 92 species of birds in common with the Environmental Impact Study. This study also addressed ecological data and identified the bioindicator species threatened by economic interests, as well as endemic, disperser and pollinator species.

In respect of environmental management, the highlight in 2012 was the preparation of a plan to implement the Environmental Management System at the Paulo Afonso IV Hydroelectric Plant, aiming at the ISO 14.001 certification.

Pursuing the improvement of environmental management processes, the Technological Park of Campina Grande was contracted to develop the "Environmental Management System with Support to Geospatial Data, Multimedia and Mobile Devices" project, to be concluded in 30 months.

In 2012, Chesf settled the environmental compensation of the Xingó Hydroelectric Plant, by effecting a deposit in a specific environmental compensation account of the Chico Mendes Institute for Biodiversity Preservation (ICMBIO), in the amount of R\$ 3,649,642.34, corresponding to the amount due as monetary restatement.

In relation to environmental licensing, Chesf obtained the renewal of the Operating Licenses for the Camaçari Thermoelectric Power Plant, for the Temporary Askarel Storage Warehouse in Chesf's area, in the municipality of Delmiro Gouveia, State of Alagoas and for the Temporary Askarel Storage Warehouse in the municipality of Abreu e Lima, State of Pernambuco.

In order to comply with the requirements for the Renewal of the Operating License (ROL) of the Camaçari Thermoelectric Power Plant, the following actions were taken: monitoring of the drainage network effluents; preparation of the Atmospheric Emissions Inventory and continuation of the Solid Waste Management Program. This program included the campaign for awareness on selective waste collection and the improvement of the system to record the quantity of waste generated by the undertaking.

Regarding the handling of hazardous waste, 14,172 kg were properly and environmentally disposed at its final destination, of which 13,772 kg referred to lead acid batteries and 400 kg to unusable portable batteries, disposed by the employees in collectors provided at Chesf's head office and regional units.

In order to comply with technical and environmental standards, an Environmental Audit was conducted on the Solid Waste Management Program of the Casa Nova Wind Power Plant. On that occasion, Chesf provided technical support to the construction consortium on the consolidation of the program and has regularly participated in the inspection of the environmental services for the implementation of the Casa Nova Wind Power Plant.

At the North Regional Management, the Company's Environment Program conducted the First Training in Environmental Issues, through which 30 participants received information on themes chosen by means of a prior opinion poll. The Second Luau promoted by the Company's Environment Program took place at Chesf's head office, an action that united the artistic talent of Chesf's employees and the environmental theme. The Environmental Communication of the Company's Environment Program disclosed to all the employees 75 notes in the internal report CER, 11 sustainable actions carried out by Chesf's employees in the "Tell us your Practice", and 18 articles in "To Think and Act" and eight environmental notices were posted in the head office electronic panels.

Another highlight was the enlargement of the communication channel on social and environmental matters between Chesf and its audiences, through the implementation and maintenance of the electronic address meioambiente@chesf.gov.br on the corporate website, which recorded 133 visits in the period.

In the transmission area, Chesf obtained seven Preliminary Licenses, six Installation Licenses and eight Operation Licenses, among other authorizations and permits. Requiring to be highlighted are the undertakings located in the Industrial and Port Complex of Suape, State of Pernambuco, because of the importance of the electro-intensive developments to be installed in the region, in the short and medium terms, such as the implementation of an oil refinery and shipyards.

ITAPARICA RESETTLEMENT PROGRAM

Chesf invested R\$ 105.4 million (73.2% of the budgeted amount) in the Resettlement of Itaparica, referring to construction work, services, purchase of equipment, rural technical assistance, support to the agricultural production of resettled persons, environmental programs, in addition to processes to regularize the land acquired.

The implementation of the Irrigado Jusante Project (Glória/State of Bahia) continues, with the completion, by Coelba, of the 13.8 kV distribution network and the commencement of the 69 kV transmission line and the 69 kV- Jusante substation, necessary to supply power to the project. The contracted construction company started the implementation of the last phase of the perimeter at the end of the year, referring to the distribution networks, and the irrigation of land for agricultural exploration.

Only the process related to the properties destined for the Jusante project has followed the normal course, in relation to the regularization of the land acquired. The process referring to Icó/Mandantes (Petrolândia, State of Pernambuco) still depends on the judgment of the expropriation proceedings, which, in turn, awaits the georeferencing certification from the National Institute for Colonization and Agrarian Reform (Incra) and the issuance of the title documentation for the land of the Pedra Branca Project has been hindered by the proceedings filed by the Brazilian Indian Foundation (FUNAI), requiring that part of that area be declared to be Indigenous Territory of the Tumbalá tribe.

In 2012, Funai submitted to the Ministry of Justice a proposal for the demarcation of that indigenous territory, requesting the dispatch of a declaratory Ordinance confirming the area, which includes around 30% of Pedra Branca Project's land, as indigenous territory. Chesf has taken administrative measures intended to obtain the review of Funai's proposal.

Also in relation to that subject, land was repossessed, with the removal of 43 invaders in the region of the Jusante, Icó/Mandantes and Apolônio Sales Projects. Cases involving financial compensation were resolved through the payment of indemnities and extrajudicial agreements with the beneficiaries. Six families of farmers, whose pieces of land presented partial restrictions to the irrigated exploration were indemnified. Lawsuits filed by people who claim rights to the benefits of the Itaparica Resettlement Program continued.

In the environmental sphere, the operational licenses referring to irrigated projects located in the State of Pernambuco were renewed. At the Jusante project area, the removal of vegetation was monitored and guided, with displacement and the rescue of fauna and the recovery of damaged areas. Environmental studies were also updated for the licensing of the irrigated projects Rodelas and Pedra Branca; and the processes of diagnosis, mapping and preparation of the executive project for erosion contention in the neighborhood of the Itaparica reservoir were initiated.

Regarding the Chesf/Codevasf Cooperation Agreement for the management of irrigated perimeters, adjustments were made to streamline costs and negotiations have been initiated aimed at redefining the role of each party and, principally, to evaluate the costing process and collection of a tariff for the water supplied for irrigation, as well as at the reduction of shading areas arising from the actions, in the same area, of two entities linked to the Federal Government, but with different institutional and legal charges. As the current cooperation agreement expires in March 2013, the alternatives being studied should be implemented after that date.

A greater participation of the Federal Government through Codevasf is currently being sought, so that Chesf can disengage from the management and costing process of those hydro agricultural developments in the near future.

CULTURE

In 2012, Chesf stood out as one of the most energetic promoters of culture in Brazil. The Company sponsored 128 projects, of which 83 in the cultural segment, 30 technical scientific and 15 sports events, totaling an investment of R\$ 16.7 million. Campus Party Recife, International Music festival in Olinda (Mimo), State of Pernambuco; Ibero-American Film Festival, in Ceará; Felipe Camarão Connection, in Rio Grande do Norte; the theater play "Sumiço da Santa", in Bahia; and the film "Gonzaga - De Pai pra Filho", are some of the actions which had expressive repercussions. In addition to the resources destined to cultural productions all over the national territory, which incentivate job and income generation, Chesf elevates the role of culture, providing it with the same dimension as that of the political, economic and social agendas in Brazil.

AWARDS AND RECOGNITIONS

Chesf received the following awards and recognitions in 2012:

- Promotion of Ethnical and Racial Diversity Seal - Commitment Category, granted by the Municipal Department of Reparation of the City of Salvador.
- Certification of the Xingó Hydroelectric Power Plant, based on the international standard Occupational Health and Safety Assessment Series - OHSAS18.001: 2007.
- Recertification of the "Programa Viver Bem" (Live Well Program), focused on the promotion of employees' health and well being, through the Life Quality National Award (PNQV), granted by the Brazilian Association of Life Quality (ABQV).
- Chesf's employees excelled in various sports competitions at the Sesi Games, being awarded 13 trophies, 30 gold medals, 32 silver medals and 15 bronze medals in the State, Northeast and National phases, in addition to participating in the World Swimming Competition in Italy.
- Chesf was ranked by IT Midia as one of the three most innovative companies in the use of IT, in the utilities sector.
- First place among 337 federal public institutions in the research on IT Governance conducted by the Secretary of Inspection of Information Technology of the Federal Court of Accounts (TCU). This result represents an improvement of 40% in relation to the last research, conducted in 2010.

SOCIAL AND ENVIRONMENTAL INFORMATION

The main indicators that represent Chesf's corporate and social and environmental responsibility are as follows:

SOCIAL AND ENVIRONMENTAL INFORMATION

CONSOLIDATED

(Amounts in thousands of reais)

| 1 - Generation and Distribution of Wealth | | In 2012: | | (4,023,075) | | In 2011: | | 4,057,597 | |
|--|--|---|---------|-----------------|--------------|--------------------|---------|-----------------------|--|
| Distribution of Value Added | | 9.0% government | | 18.3% employees | | 37.2% government | | 16.5% employees | |
| The Statement of Value Added is presented in full in the set of financial statements | | -132.8% stockholders agents | | 5.5% financing | | 38.4% stockholders | | 7.9% financing agents | |
| 2 - HUMAN RESOURCES | | In 2012: | | | | In 2011: | | | |
| 2.1 - Compensation | | | | | | | | | |
| Gross payroll (GP) | | 542,825 | | | | 486,935 | | | |
| - Employees | | 534,371 | | | | 481,236 | | | |
| - Management | | 8,455 | | | | 5,699 | | | |
| Ratio between the highest and lowest compensation: | | | | | | | | | |
| - Employees | | 33.7 | | | | 33.8 | | | |
| - Management | | 1.1 | | | | 1.0 | | | |
| 2.2 - Benefits Granted | | Amount (000) | % on GP | % on NI | Amount (000) | % on GP | % on NI | | |
| Social Charges | | 192,613 | 35.5% | 2.9% | 181,814 | 37.3% | 3.3% | | |
| Food | | 49,720 | 9.2% | 0.7% | 48,979 | 10.1% | 0.9% | | |
| Transportation | | 843 | 0.2% | 0.0% | 808 | 0.2% | 0.0% | | |
| Private Pension | | 42,945 | 7.9% | 0.6% | 11,577 | 2.4% | 0.2% | | |
| Health | | 68,083 | 12.5% | 1.0% | 61,488 | 12.6% | 1.1% | | |
| Occupational safety and medicine | | 3,149 | 0.6% | 0.0% | 3,156 | 0.6% | 0.1% | | |
| Education and day care center | | 11,936 | 2.2% | 0.2% | 10,276 | 2.1% | 0.2% | | |
| Culture | | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | | |
| Training and professional development | | 3,598 | 0.7% | 0.1% | 9,101 | 1.9% | 0.2% | | |
| Other | | 44 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | | |
| Total | | 372,931 | 68.7% | 5.6% | 327,198 | 67.2% | 5.9% | | |
| 2.3 - Personnel Information | | | | | | | | | |
| No. of employees at the end of the year | | 5,761 | | | | 5,770 | | | |
| No. of hires | | 55 | | | | 431 | | | |
| No. of dismissals | | 61 | | | | 387 | | | |
| No. of interns at the end of the year | | 109 | | | | 0 | | | |
| No. of employees with special needs at the end of the year | | 193 | | | | 190 | | | |
| No. of outside service providers at the end of the year | | 14 | | | | 12 | | | |
| No. of employees by gender: | | | | | | | | | |
| - Male | | 4,557 | | | | 4,560 | | | |
| - Female | | 1,204 | | | | 1,210 | | | |
| No. of employees by age: | | | | | | | | | |
| - Under 18 | | - | | | | 0 | | | |
| - from 18 to 35 | | 1,033 | | | | 1,166 | | | |
| - from 36 to 60 | | 4,013 | | | | 4,057 | | | |
| - Over 60 | | 715 | | | | 546 | | | |
| No. of employees by education level: | | | | | | | | | |
| - Illiterate | | - | | | | 0 | | | |
| - Elementary school | | 847 | | | | 840 | | | |
| - High school | | 992 | | | | 1,021 | | | |
| - Technical school | | 1,605 | | | | 1,603 | | | |
| - Higher education | | 2,088 | | | | 2,084 | | | |
| - Postgraduate education | | 229 | | | | 221 | | | |
| Percentage of employees in management positions by gender: | | | | | | | | | |
| - Male | | 82.0% | | | | 82.5% | | | |
| - Female | | 18.0% | | | | 17.5% | | | |
| 2.4 - Labor Contingencies and Liabilities: | | | | | | | | | |
| No. of labor lawsuits filed against the entity | | 864 | | | | 925 | | | |
| No. of labor lawsuits deemed valid | | 405 | | | | 446 | | | |
| No. of labor lawsuits deemed unfounded | | 44 | | | | 76 | | | |
| Total amount of indemnities and fines paid under court orders | | 33,905 | | | | 0 | | | |
| 3 - Company's Interaction with the External Environment | | Amount (000) | % on OR | % on NI | Amount (000) | % on OR | % on NI | | |
| 3.1 - Relationship with the community | | | | | | | | | |
| Total investments in: | | | | | | | | | |
| Education | | 2,588 | 0.0% | 0.0% | 5,204 | 0.3% | 0.1% | | |
| Culture | | 16,853 | -0.3% | 0.3% | 17,558 | 1.0% | 0.3% | | |
| Health and infrastructure | | 27,628 | -0.4% | 0.4% | 25,026 | 1.4% | 0.4% | | |
| Sport and leisure | | 711 | 0.0% | 0.0% | 1,512 | 0.1% | 0.0% | | |
| Food | | 219 | 0.0% | 0.0% | 133 | 0.0% | 0.0% | | |
| Job and income creation | | 3,706 | -0.1% | 0.1% | 4,960 | 0.3% | 0.1% | | |
| Resettling of families | | 105,394 | -1.6% | 1.6% | 119,107 | 6.6% | 2.1% | | |
| Total investments | | 157,099 | -2.4% | 2.4% | 173,500 | 9.6% | 3.1% | | |
| Taxes (excluding social charges) | | (466,132) | 7.3% | -7.0% | 754,327 | 41.7% | 13.5% | | |
| Financial compensation for use of water resources | | 240,074 | -3.7% | 3.6% | 224,374 | 12.4% | 4.0% | | |
| Total - Relationship with the community | | (68,959) | 1.1% | -1.0% | 1,152,201 | 63.6% | 20.6% | | |
| 3.2 - Interaction with suppliers | | Controls are required for: | | | | | | | |
| Social responsibility criteria used in the choice of suppliers | | Environmental risks, workplace environment, environmental health hazards, night shift or hazardous conditions for minors under the age of 18. | | | | | | | |

| 4 - Interaction with the Environment | In 2012 | | | In 2011 | | |
|--|---------------|--------------|-------------|---------------|-------------|-------------|
| | Amount (000) | % on OR | % on NI | Amount (000) | % on OR | % on NI |
| Investments and expenditures for maintenance of operating processes to improve the environment | 8,079 | -0.1% | 0.1% | 5,436 | 0.3% | 0.1% |
| Investments and expenditures for preservation and/or remediation of damaged sites | 22,869 | -0.4% | 0.3% | 1,546 | 0.1% | 0.0% |
| Investments and expenditures for environmental education of employees, outside service providers, self-employed workers and management of the entity | 896 | 0.0% | 0.0% | 587 | 0.0% | 0.0% |
| Investments and expenditures for environmental education for the community | 2,561 | 0.0% | 0.0% | 362 | 0.0% | 0.0% |
| Investments and expenditures for other environmental projects | 9,459 | -0.1% | 0.1% | 16,183 | 0.9% | 0.3% |
| Number of environmental, administrative and judicial proceedings filed against the entity | 2 | 0.0% | 0.0% | - | 0.0% | 0.0% |
| Amount of fines and indemnities related to environmental matters, established administratively and/or by court decision | 2,000 | 0.0% | 0.0% | 153 | 0.0% | 0.0% |
| Environmental liabilities and contingencies | 22 | 0.0% | 0.0% | 1,240 | 0.1% | 0.0% |
| Total interaction with the environment | 45,886 | -0.7% | 0.7% | 25,507 | 1.4% | 0.5% |
| 5 - Other information | 2012 | | | 2011 | | |
| Net Revenue (NI) | 6,660,383 | | | 5,582,392 | | |
| Operating Result (OR) | (6,415,340) | | | 1,811,028 | | |

Recife, March 26, 2013

The Board of Executive Officers

BALANCE SHEET AT DECEMBER 31, 2012 AND 2011

(amounts expressed in thousands of reais)

| | | Parent (BRGAAP) | | Consolidated (IFRS and BRGAAP) | |
|---|-------|--------------------|------------|-----------------------------------|------------|
| | Notes | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 6 | 94,745 | 268,638 | 427,647 | 564,024 |
| Marketable securities | 7 | 229,018 | 917,439 | 319,923 | 917,439 |
| Trade receivables | 8 | 734,810 | 745,277 | 741,615 | 752,450 |
| Receivables - Law 12,783/2013 | 9 | 4,736,747 | - | 4,736,747 | - |
| Taxes and social contributions | 10 | 177,508 | 12,898 | 200,041 | 21,964 |
| Pledges and restricted deposits | 12 | 11,003 | 11,003 | 13,653 | 36,297 |
| Inventories | 11 | 85,380 | 85,098 | 85,380 | 85,098 |
| Financial assets – public service concessions | 13 | 77,023 | 258,455 | 199,991 | 332,222 |
| Others | 14 | 175,362 | 189,734 | 211,016 | 204,381 |
| | | 6,321,596 | 2,488,542 | 6,936,013 | 2,913,875 |
| NON-CURRENT ASSETS | | | | | |
| Long-term receivables | | | | | |
| Trade receivables | 8 | 19,571 | - | 19,571 | - |
| Receivables - Law 12,783/2013 | 9 | 2,719,769 | - | 2,719,769 | - |
| Marketable securities | 7 | 4,308 | 5,173 | 4,463 | 5,173 |
| Taxes and social contributions | 10 | 1,857,298 | 566,303 | 1,992,800 | 660,150 |
| Pledges and restricted deposits | 12 | 482,794 | 295,785 | 490,065 | 302,423 |
| Financial assets – public service concessions | 13 | 2,599,705 | 5,813,526 | 4,091,985 | 6,768,014 |
| Others | 14 | 57,906 | 40,697 | 54,812 | 53,888 |
| | | 7,741,351 | 6,721,484 | 9,373,465 | 7,789,648 |
| Investments | 15 | 2,250,456 | 1,408,698 | 90,764 | 79,516 |
| Property, plant and equipment | 16 | 1,371,394 | 11,173,867 | 5,086,435 | 13,263,521 |
| Intangible assets | 17 | 29,458 | 29,566 | 77,258 | 72,124 |
| | | 11,392,659 | 19,333,615 | 14,627,922 | 21,204,809 |
| TOTAL ASSETS | | 17,714,255 | 21,822,157 | 21,563,935 | 24,118,684 |

The accompanying notes are an integral part of these financial statements

BALANCE SHEET AT DECEMBER 31, 2012 AND 2011

(amounts expressed in thousands of reais)

| | | Parent (BRGAAP) | | Consolidated (IFRS and BRGAAP) | |
|--|-------|--------------------|-------------------|-----------------------------------|-------------------|
| | Notes | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| LIABILITIES AND EQUITY | | | | | |
| CURRENT LIABILITIES | | | | | |
| Trade payables | 18 | 321,729 | 370,788 | 557,832 | 562,558 |
| Taxes and social contributions | 19 | 115,895 | 220,996 | 185,296 | 231,765 |
| Borrowings | 20 | 71,017 | 329,699 | 976,650 | 778,842 |
| Debentures | 21 | - | - | - | 105,492 |
| Stockholders' compensation | 36 | 41 | 299,328 | 41 | 299,328 |
| Estimated obligations | 22 | 134,787 | 126,443 | 136,942 | 127,019 |
| Post-employment benefits | 24 | 2,523 | 109,063 | 2,523 | 109,063 |
| Other operating provisions | | 106,461 | 102,451 | 106,461 | 102,451 |
| Regulatory charges | | 201,408 | 162,554 | 203,584 | 164,385 |
| Others | 23 | 67,789 | 77,317 | 79,156 | 83,292 |
| | | 1,021,650 | 1,798,639 | 2,248,485 | 2,564,195 |
| NON-CURRENT LIABILITIES | | | | | |
| Taxes and social contributions | 19 | 67,797 | 81,113 | 134,070 | 110,016 |
| Borrowings | 20 | 398,087 | 462,149 | 2,887,198 | 1,915,691 |
| Post-employment benefits | 24 | 705,788 | 272,497 | 705,788 | 272,497 |
| Regulatory charges | | 151,718 | 167,190 | 151,718 | 167,190 |
| Provision for contingencies | 25 | 1,388,685 | 923,549 | 1,389,660 | 924,508 |
| Provision for onerous contract | 26 | 2,303,556 | - | 2,303,556 | - |
| Concessions payable – Use of Public Assets | 27 | - | - | 45,509 | 41,641 |
| Advance for future capital increase | 28 | - | 1,293,000 | - | 1,293,000 |
| Debentures | 21 | - | - | 12,364 | - |
| Others | 23 | 5,515 | 5,382 | 14,128 | 11,308 |
| | | 5,021,146 | 3,204,880 | 7,643,991 | 4,735,851 |
| EQUITY | | | | | |
| Share capital | 30 | 9,753,953 | 7,720,760 | 9,753,953 | 7,720,760 |
| Capital reserves | 30 | 4,916,199 | 4,916,199 | 4,916,199 | 4,916,199 |
| Revenue reserves | 30 | - | 3,841,698 | - | 3,841,698 |
| Proposed additional dividends | 30 | - | 897,877 | - | 897,877 |
| Other comprehensive income (loss) | 30 | (805,879) | (557,896) | (805,879) | (557,896) |
| Accumulated deficit | | (2,192,814) | - | (2,192,814) | - |
| | | 11,671,459 | 16,818,638 | 11,671,459 | 16,818,638 |
| TOTAL LIABILITIES AND EQUITY | | 17,714,255 | 21,822,157 | 21,563,935 | 24,118,684 |

The accompanying notes are an integral part of these financial statements

STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(amounts expressed in thousands of reais unless otherwise stated)

| | | Parent (BRGAAP) | | Consolidated (IFRS and BRGAAP) | |
|---|-------|--------------------|--------------------|-----------------------------------|--------------------|
| | Notes | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| NET OPERATING REVENUE | 31 | 5,996,028 | 5,118,487 | 6,660,383 | 5,582,392 |
| OPERATIONAL COSTS | 33 | | | | |
| Electric energy costs | | | | | |
| Electric energy purchased for resale | | (19,058) | (7,635) | (19,058) | (7,635) |
| Charges for electricity network usage | | (867,885) | (805,270) | (867,885) | (805,270) |
| Operating costs | | | | | |
| Personnel, material and third-party services | | (407,887) | (390,416) | (413,493) | (393,633) |
| Fuel for electric power production | | (2,522) | (4,793) | (2,522) | (4,793) |
| Financial compensation for use of water resources | | (240,074) | (224,374) | (240,074) | (224,374) |
| Depreciation and amortization | | (339,815) | (342,778) | (339,877) | (342,817) |
| Onerous contract - Jirau | | (711,375) | - | (711,375) | - |
| Others | | 12,942 | 13,799 | 10,743 | 13,245 |
| | | (2,575,674) | (1,761,467) | (2,583,541) | (1,765,277) |
| COST OF SERVICES PROVIDED TO THIRD PARTIES | 33 | (5,371) | (2,838) | (5,408) | (6,923) |
| CONSTRUCTION COSTS | 33 | (603,420) | (581,089) | (1,132,025) | (943,268) |
| GROSS OPERATING PROFIT | | 2,811,563 | 2,773,093 | 2,939,409 | 2,866,924 |
| OPERATING EXPENSES | 33 | (1,278,418) | (1,019,269) | (1,299,451) | (1,040,984) |
| RESULT FROM ELECTRIC ENERGY SERVICE | | 1,533,145 | 1,753,824 | 1,639,958 | 1,825,940 |
| EQUITY IN THE RESULTS OF INVESTEEs | 15 | 46,521 | 58,813 | 14,524 | 18,604 |
| FINANCE RESULT | 34 | 216,261 | (11,524) | 175,420 | (33,516) |
| OPERATING RESULT BEFORE LAW 12,783/2013 | | 1,795,927 | 1,801,113 | 1,829,902 | 1,811,028 |
| Effects of Law 12,783/2013 | | (8,245,242) | - | (8,245,242) | - |
| OPERATING RESULT AFTER LAW 12,783/2013 | | (6,449,315) | 1,801,113 | (6,415,340) | 1,811,028 |
| Income tax and social contribution | | - | (570,107) | (16,600) | (580,037) |
| Deferred income tax and social contribution | | 1,107,078 | 10,296 | 1,082,219 | 5,342 |
| Tax incentives | 35 | 925 | 312,843 | 8,409 | 317,812 |
| PROFIT (LOSS) FOR THE YEAR | | (5,341,312) | 1,554,145 | (5,341,312) | 1,554,145 |
| Basic earnings (loss) per share (R\$) | 37 | (95.54) | 30.14 | (95.54) | 30.14 |
| Diluted earnings (loss) per share (R\$) | 37 | (95.54) | 28.03 | (95.54) | 28.03 |

The accompanying notes are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(amounts expressed in thousands of reais)

| | Notes | Parent and Consolidated (BRGAAP) | |
|---|-------|-------------------------------------|------------------|
| | | 12/31/2012 | 12/31/2011 |
| Profit (loss) for the year | | (5,341,312) | 1,554,145 |
| Other comprehensive income (loss) | | | |
| Share of other comprehensive income (loss) of investees | 30 | (231) | 3,719 |
| Actuarial result on post-employment benefit obligations | 30 | (500,466) | (229,033) |
| Deferred income tax and social contribution | 30 | 252,714 | 34,927 |
| Other comprehensive income (loss) for the year | | (247,983) | (190,387) |
| Total comprehensive income (loss) for the year | | (5,589,295) | 1,363,758 |

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
(amounts expressed in thousands of reais)

| | SUBSCRIBED/ PAID-UP CAPITAL | CAPITAL RESERVES | REVENUE RESERVES | | | | | PROPOSED ADDITIONAL DIVIDENDS | OTHER COMPREHENSIVE INCOME (LOSS) | ACCUMULATED DEFICIT | TOTAL |
|--|-----------------------------------|---------------------|-----------------------|----------------|--------------|---------------------|----------------|-------------------------------------|---|------------------------|-------------------|
| | | | UNREALIZED PROFITS | LEGAL | STATUTORY | PROFIT RETENTION | TAX INCENTIVES | | | | |
| BALANCE AT 12/31/2010 | 7,720,760 | 4,916,199 | 446,532 | 439,822 | 8,179 | 3,503,626 | 380,357 | 168,195 | (367,509) | - | 17,216,161 |
| Realization of revenue reserves | - | - | (17,933) | - | - | - | - | - | - | 17,933 | - |
| Share of other comprehensive income of investees | - | - | - | - | - | - | - | - | 3,719 | - | 3,719 |
| Actuarial result on post-employment benefit obligations | - | - | - | - | - | - | - | - | (194,106) | - | (194,106) |
| Profit for the year | - | - | - | - | - | - | - | - | - | 1,554,145 | 1,554,145 |
| Allocation: | | | | | | | | | | | |
| Legal reserve | - | - | - | 62,064 | - | - | - | - | - | (62,064) | - |
| Minimum dividends - Note 36 | - | - | - | - | - | - | - | - | - | (299,294) | (299,294) |
| Proposed additional dividends - Note 36 | - | - | - | - | - | - | - | 897,877 | - | (897,877) | - |
| Approval of additional dividends by Annual Stockholders' Meeting | - | - | - | - | - | (1,293,792) | - | (168,195) | - | - | (1,461,987) |
| Tax incentive reserve (*) | - | - | - | - | - | - | 312,843 | - | - | (312,843) | - |
| BALANCE AT 12/31/2011 | 7,720,760 | 4,916,199 | 428,599 | 501,886 | 8,179 | 2,209,834 | 693,200 | 897,877 | (557,896) | - | 16,818,638 |
| Capital increase | 2,033,193 | - | - | - | - | - | (693,200) | - | - | - | 1,339,993 |
| Share of other comprehensive loss of investees | - | - | - | - | - | - | - | - | (231) | - | (231) |
| Actuarial result on post-employment benefit obligations | - | - | - | - | - | - | - | - | (247,752) | - | (247,752) |
| Loss for the year | - | - | - | - | - | - | - | - | - | (5,341,312) | (5,341,312) |
| Tax incentive reserve | - | - | - | - | - | - | 925 | - | - | (925) | - |
| Allocation: | | | | | | | | | | | |
| Approval of additional dividends by Annual Stockholders' Meeting | - | - | - | - | - | - | - | (897,877) | - | - | (897,877) |
| Offset of loss for 2012 | - | - | (428,599) | (501,886) | (8,179) | (2,209,834) | (925) | - | - | 3,149,423 | - |
| BALANCE AT 12/31/2012 | 9,753,953 | 4,916,199 | - | - | - | - | - | - | (805,879) | (2,192,814) | 11,671,459 |

(*) In accordance with the provisions of Article 195-A of Law 6,404/1976, included by Law 11,638/2007, the portion of the result for the year arising from tax incentives was allocated to the tax incentive reserve.

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(amounts expressed in thousands of reais)

| Notes | Parent (BRGAAP) | | Consolidated (IFRS and BRGAAP) | |
|--|--------------------|------------------------------|-----------------------------------|------------------------------|
| | 12/31/2012 | 12/31/2011 (Reclassified) | 12/31/2012 | 12/31/2011 (Reclassified) |
| Operating activities | | | | |
| Profit (loss) before income tax and social contribution | (6,449,315) | 1,801,113 | (6,415,340) | 1,811,028 |
| Expenses (income) not affecting cash: | | | | |
| Depreciation and amortization | 408,878 | 418,008 | 409,203 | 418,138 |
| Monetary and exchange variations (net) | (9,777) | (20,191) | (3,287) | (8,434) |
| Equity in the results of investees | (46,521) | (58,813) | (14,524) | (18,604) |
| Provision for contingencies | 209,193 | 158,839 | 209,193 | 158,839 |
| Other operating provisions | 106,461 | 102,451 | 106,461 | 102,451 |
| Provision for impairment of trade receivables | 81,287 | 17,115 | 81,287 | 17,115 |
| Post-employment benefits - actuarial adjustment | 30,651 | (44,101) | 30,651 | (44,101) |
| Adjustment of judicial deposits | (16,869) | (10,523) | (16,869) | (10,523) |
| Adjustment of agrarian debt bonds (TDA) | (206) | (249) | (206) | (249) |
| Finance income - Financial asset | (684,098) | (617,491) | (807,833) | (702,196) |
| Losses on property, plant and equipment - Law 12,783/13 | 4,091,507 | - | 4,091,507 | - |
| Losses on financial assets - Law 12,783/13 | 2,161,420 | - | 2,161,420 | - |
| Provision for onerous contract | 2,303,556 | - | 2,303,556 | - |
| Provision for impairment | 400,135 | - | 400,135 | - |
| Restatement of receivables - Law 12,783/2013 | (203,231) | - | (203,231) | - |
| Finance charges | 40,276 | 65,375 | 63,293 | 78,883 |
| Adjustment of dividends | 70,144 | 179,130 | 70,144 | 179,130 |
| Voluntary termination incentive | - | (53,355) | - | (53,355) |
| Other | - | - | - | (2) |
| | 2,493,491 | 1,937,308 | 2,465,560 | 1,928,120 |
| Finance charges paid to stockholders and related parties | (8,875) | (10,616) | (8,875) | (10,616) |
| Payments to the private pension entity | (204,362) | (152,385) | (204,374) | (152,388) |
| Finance charges paid to financial institutions and others | (42,171) | (51,855) | (52,434) | (63,737) |
| Income tax and social contribution payments | (260,074) | (336,338) | (264,689) | (341,583) |
| Profit sharing payments | (102,451) | (91,241) | (102,613) | (91,372) |
| Judicial deposits | (167,846) | (43,977) | (172,028) | (41,980) |
| Changes in assets and liabilities | | | | |
| Customers | (90,391) | 94,583 | (90,023) | 95,728 |
| Inventories | (282) | 6,465 | (282) | 6,465 |
| Taxes and social contributions | 46,769 | 11,488 | 50,137 | (13,623) |
| Advances to employees | 14,583 | (2,276) | 14,480 | (2,475) |
| Pledges and restricted deposits | (2,294) | 14,274 | 23,899 | 30,969 |
| Services in progress | (8,086) | (11,602) | (10,651) | (12,439) |
| Trade payables | (49,059) | 102,196 | (4,726) | 202,249 |
| Environmental compensation | (13,640) | - | (13,640) | - |
| Estimated obligations | 8,344 | 4,989 | 9,923 | 5,416 |
| Regulatory charges | 23,382 | 27,908 | 23,729 | 28,178 |
| Provision for contingencies | 255,943 | 16,545 | 255,959 | 16,545 |
| Other operating assets and liabilities | (2,147) | 14,579 | 17,506 | (19,484) |
| | (602,657) | (407,263) | (528,702) | (364,147) |
| Total operating activities | 1,890,834 | 1,530,045 | 1,936,858 | 1,563,973 |
| Investing activities | | | | |
| Investments in property, plant and equipment and intangible assets | (774,325) | (580,915) | (2,401,180) | (1,596,620) |
| Realization of financial asset - public service concessions | 330,771 | 221,602 | (132,488) | (69,269) |
| Permanent investments | (817,456) | (596,639) | - | - |
| Dividends | 28,639 | 26,291 | 4,618 | - |
| Marketable securities | 689,286 | 48,097 | 598,226 | 48,097 |
| Disposals of property, plant and equipment and intangible assets | 12,331 | 4,188 | 12,347 | 4,937 |
| Others | - | - | (241) | (183) |
| | (530,754) | (877,376) | (1,918,718) | (1,613,038) |
| Financing activities | | | | |
| Funds from stockholders and related parties | 46,993 | 1,293,000 | 46,993 | 1,293,000 |
| Borrowings | 4,741 | 138,732 | 1,448,672 | 783,787 |
| Repayments of borrowings | (318,417) | (42,798) | (324,880) | (53,235) |
| Stockholders' compensation | (1,267,290) | (2,072,362) | (1,267,290) | (2,072,362) |
| Debentures | - | - | (93,128) | 105,492 |
| Others | - | - | 35,116 | 58,414 |
| | (1,533,973) | (683,428) | (154,517) | 115,096 |
| TOTAL EFFECTS ON CASH | (173,893) | (30,759) | (136,377) | 66,031 |
| Cash and cash equivalents at the beginning of the year | 268,638 | 299,397 | 564,024 | 497,993 |
| Cash and cash equivalents at the end of the year | 94,745 | 268,638 | 427,647 | 564,024 |
| CASH VARIATION | (173,893) | (30,759) | (136,377) | 66,031 |

The accompanying notes are an integral part of these financial statements

STATEMENT OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(amounts expressed in thousands of reais)

| Notes | Parent | | Consolidated | |
|---|--------------------|------------------------------|--------------------|------------------------------|
| | 12/31/2012 | 12/31/2011 (Reclassified) | 12/31/2012 | 12/31/2011 (Reclassified) |
| GENERATION OF VALUE ADDED | | | | |
| Revenues | | | | |
| Sales of electric energy, transmission and others | 7,001,333 | 6,031,251 | 7,672,762 | 6,500,322 |
| Provision for Impairment of trade receivables | (81,287) | (17,115) | (81,287) | (17,115) |
| Losses - customers | (26,591) | (24,367) | (26,591) | (24,367) |
| | 6,893,455 | 5,989,769 | 7,564,884 | 6,458,840 |
| (-) Inputs acquired from third parties | | | | |
| Material | 26,782 | 29,113 | 27,363 | 29,743 |
| Fuel for electric energy production | 2,522 | 4,793 | 2,522 | 4,793 |
| Third-party services | 192,444 | 189,754 | 203,009 | 199,872 |
| Electric energy purchased for resale | 19,058 | 7,635 | 19,058 | 7,635 |
| Charges on electricity network usage | 867,885 | 805,270 | 867,885 | 805,270 |
| Construction costs | 603,420 | 581,089 | 1,132,025 | 943,268 |
| Losses on the realization of assets - Law 12,783/13 | 6,252,927 | - | 6,252,927 | - |
| Provision for impairment | 400,135 | - | 400,135 | - |
| Provision for onerous contract | 2,303,556 | - | 2,303,556 | - |
| Others | 410,447 | 268,546 | 413,401 | 276,668 |
| | 11,079,176 | 1,886,200 | 11,621,881 | 2,267,249 |
| (=) Gross value added | (4,185,721) | 4,103,569 | (4,056,997) | 4,191,591 |
| (-) Retentions | | | | |
| Depreciation and amortization | 408,878 | 418,008 | 409,203 | 418,138 |
| (=) Net value added | (4,594,599) | 3,685,561 | (4,466,200) | 3,773,453 |
| (+) Transferred value added | | | | |
| Equity in the results of investees | 46,521 | 58,813 | 14,524 | 18,604 |
| Dividends and interest on capital | 8,130 | 6,678 | 8,130 | 6,678 |
| Rentals | 71 | 95 | 71 | 95 |
| Restatement of receivables - Law 12,783/2013 | 203,231 | - | 203,231 | - |
| Finance income | 211,910 | 251,059 | 217,169 | 258,767 |
| | 469,863 | 316,645 | 443,125 | 284,144 |
| (=) Value added to distribute | (4,124,736) | 4,002,206 | (4,023,075) | 4,057,597 |
| DISTRIBUTION OF VALUE ADDED | | | | |
| Personnel | | | | |
| Salaries/benefits/FGTS | 697,134 | 628,732 | 707,387 | 636,874 |
| Executive officers' fees | 2,569 | 2,474 | 3,629 | 3,111 |
| Provisions for labor contingencies/indemnities | 23,562 | 30,777 | 23,562 | 30,777 |
| | 723,265 | 661,983 | 734,578 | 670,762 |
| Governments: | | | | |
| Payroll charges | 152,770 | 143,621 | 154,406 | 144,190 |
| Taxes net of tax incentives | (496,284) | 739,029 | (458,362) | 752,062 |
| Regulatory charges | 664,033 | 611,514 | 666,972 | 614,159 |
| | 320,519 | 1,494,164 | 363,016 | 1,510,411 |
| Financing agents: | | | | |
| Financial expenses, monetary variation and other: | | | | |
| Eletrobras | 78,295 | 188,115 | 78,295 | 188,115 |
| Other financing agents | 73,483 | 80,593 | 119,587 | 110,295 |
| Rentals | 21,014 | 23,206 | 22,761 | 23,869 |
| | 172,792 | 291,914 | 220,643 | 322,279 |
| Stockholders: | | | | |
| Proposed minimum dividends | 37 | - | 299,294 | - |
| Proposed additional dividends | 37 | - | 897,877 | - |
| Retained earnings | | - | 356,974 | - |
| Loss for the year | | (5,341,312) | (5,341,312) | - |
| | (5,341,312) | 1,554,145 | (5,341,312) | 1,554,145 |
| | (4,124,736) | 4,002,206 | (4,023,075) | 4,057,597 |

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS**AT DECEMBER 31, 2012 AND 2011**

(amounts expressed in thousands of reais unless otherwise stated)

1 - OPERATIONS

Companhia Hidro Elétrica do São Francisco – Chesf (“Chesf”, “Company” or “Parent”), headquartered at Rua Delmiro Gouveia, 333, Bairro de San Martin, Zip Code 50761-901, in the city of Recife, capital of the State of Pernambuco, is a mixed private/state publicly-held company controlled by Centrais Elétricas Brasileiras S.A.- Eletrobras (Brazilian Electricity Company). The Company was created by Decree-Law 8,031/1945 and started its operations on March 15, 1948. Its main activities comprise electric energy generation and transmission, throughout Brazil, and currently its main markets are the Southeast and Northeast regions.

The Company's electric energy is generated by 14 hydroelectric energy plants and 1 thermoelectric energy plant, with a total installed capacity of 10,615 MW and the electric energy is transmitted by a system composed of 110 substations (including Sapeaçu substation located in the State of Bahia, for which Chesf holds an agreement for the assignment of the right of use) and 18,973.8 km of high-voltage lines.

In addition to its own generation park and transmission systems, previously mentioned, the Company participates, in partnership with other companies, in the construction and operation of hydraulic generation and wind generation plants that will have an installed capacity of 15,244.1 MW and 201.0 MW, respectively, the Company's participation in these plants is equivalent to 2,498.9 MW and 98.5 MW, respectively, and in transmission enterprises comprises 1,241 km of transmission lines in service and 4,074 km of transmission lines under construction.

As from March 1, 1999, the National Electric System Operator (ONS), a private, non-profit entity, whose operations were authorized by Resolution 351/1998 of the National Electric Energy Agency (ANEEL), assumed the control and operation of the National Interconnected System (SIN). In this context, the Company's power plants and basic transmission network are under the coordination, supervision and control of that entity.

2 - CONCESSIONS

2.1 - PARENT COMPANY

The Company holds the following concessions:

• Generation

| CONCESSIONS/PERMISSIONS | River | Installed Capacity (MW) | Capacity utilized in 2011 (average MW/year) | Date of Concession / Permission | Expiry Date |
|-----------------------------------|---------------|-------------------------|---|---------------------------------|-------------|
| Hydroelectric Power Plants | | | | | |
| Paulo Afonso I | São Francisco | 180.001 | 35.929 | 10/3/1945 | 12/31/2042 |
| Paulo Afonso II | São Francisco | 443.000 | 31.511 | 10/3/1945 | 12/31/2042 |
| Paulo Afonso III | São Francisco | 794.200 | 357.989 | 10/3/1945 | 12/31/2042 |
| Paulo Afonso IV | São Francisco | 2,462.400 | 1,457.453 | 10/3/1945 | 12/31/2042 |
| Apolônio Sales (Moxotó) | São Francisco | 400.000 | 104.341 | 10/3/1945 | 12/31/2042 |
| Luiz Gonzaga (Itaparica) | São Francisco | 1,479.600 | 910.912 | 10/3/1945 | 12/31/2042 |
| Xingó | São Francisco | 3,162.000 | 2,198.836 | 10/3/1945 | 12/31/2042 |
| Piloto | São Francisco | 2.000 | - | 2/16/1949 | 7/7/2015 |
| Araras | Acaraú | 4.000 | - | 8/29/1958 | 7/7/2015 |
| Funil | de Contas | 30.000 | 4.111 | 8/25/1961 | 12/31/2042 |
| Pedra | de Contas | 20.007 | 0.205 | 8/25/1961 | 12/31/2042 |
| Boa Esperança (Castelo Branco) | Parnaíba | 237.300 | 130.039 | 10/11/1965 | 12/31/2042 |
| Sobradinho | São Francisco | 1,050.300 | 472.200 | 2/10/1972 | 2/9/2022 |
| Curemas | Piancó | 3.520 | 0.809 | 11/26/1974 | 11/25/2024 |
| Thermoelectric Power Plant | | | | | |
| Camaçari | - | 346.803 | 0.743 | 8/11/1977 | 8/10/2027 |

Wind power

The Company was the winner of ANEEL's auction for alternative sources 007/2010, for the Casa Nova Wind Power Plant, which will be installed in the municipality of Casa Nova, in the State of Bahia, with a capacity of 180 MW. The Installation Permit for the initiation of the project was granted through the Institute of Environment and Water Resources (INEMA) Ordinance 2,656 of the Bahia State Environmental Agency.

Note: The capacity utilized corresponds to the average generation, in MW, during the period.

After the issue of the Provisional Measure 579, of September 11, 2012, converted into Law 12,783, of January 11, 2013, part of these power plants, which were the object of the concession contract 006/2004 and part of the transmission systems, as follows, which were the object of the concession contract 061/2001, were extended as from the amendments to these contracts, which were signed on December 5, 2012, under new conditions, as mentioned in Note 2.3.

• **Transmission**

| CONCESSIONS | Date of Concession | Expiry Date |
|--|-----------------------|-------------|
| TRANSMISSION SYSTEM | | |
| Concession Contract No. 061/2001 – Aneel: | | |
| In service: | | |
| - 86 transmission substations, 15 step-up substations and 18,322.0 km of high voltage lines. | 6/29/2001 | 12/31/2042 |
| Contracts obtained through Aneel auctions: | | |
| In service: | | |
| - Milagres/Tauá (CE) transmission line, in 230 kV, with a length of 208.1 km and Tauá Substation (CE), in 230 kV. | 3/4/2005 | 3/3/2035 |
| - Milagres/Coremas (CE/PB) transmission line, in 230 kV, with a length of 119.8 km. | 3/4/2005 | 3/3/2035 |
| - Paraíso/Açu II (RN) transmission line, in 230 kV, with a length of 132.8 km. | 6/14/2007 | 6/14/2037 |
| - Ibicoara Substation in 500/230 kV(PE). | 6/14/2007 | 6/14/2037 |
| - Ibicoara/Brumado (BA) transmission line, in 230 kV, with a length of approximately 94.5 km. | 6/14/2007 | 6/14/2037 |
| - Paulo Afonso III/Zebu (AL) transmission line, in 230kV, with a length of approximately 10.8 km; Natal II/Natal III transmission line, with 23 km, and Santa Rita II substation, in 230/69kV (PB); Zebu substation, in 230/69kV (AL); and Natal III substation, in 230/69kV (RN). | 8/3/2009 | 8/3/2039 |
| - Pirapama/Suape III transmission line, with a length of 30.8 km; and Suape III substation, in 23/69 kv (PE) | 1/28/2009 | 1/28/2039 |
| - Sapeaçu/Santo Antônio de Jesus (BA) transmission line, in 230 kV, simple circuit, with a length of approximately 32 km. | 12/9/2011 | 12/9/2041 |
| - Pilões II substation in 138 kV(PB) | | |
| - Camaçari IV substation in 500 kV(BA) | 7/12/2010 | 7/12/2040 |
| - Suape II substation in 500 kV(PE) | 1/28/2009 | 1/28/2059 |
| Under construction: | | |
| - Funil/Itapebi (BA) transmission line, in 230 kV, with a length of approximately 198 km. | 4/20/2007 | 4/20/2037 |
| - Picos/Tauá (PI/CE) transmission line, in 230 kV, with a length of approximately 183 km. | 6/14/2007 | 6/14/2037 |
| - Jardim/Penedo (SE/AL) transmission line, in 230 kV, with a length of approximately 110 km. | 3/17/2008 | 3/17/2038 |
| - Eunápolis/Teixeira de Freitas II transmission line, circuit 1 (BA), in 230 kV, with a length of approximately 144 km and Teixeira de Freitas II substation, in 230/138 kV (BA). | 10/16/2008 | 10/16/2038 |
| - Pau Ferro/Santa Rita II (PE/PB) transmission line, in 230kV, with a length of approximately 109 km. | 8/3/2009 | 8/3/2039 |
| - Eunápolis/Teixeira de Freitas II transmission line, circuit 2 (BA), in 230 kV, with a length of approximately 144 km. | 8/3/2009 | 8/3/2039 |
| - Arapiraca III substation, in 230/69 kV (AL), and transmission line in double circuit, Rio Largo II/Penedo transmission line in 230 kV, with a length of approximately 44 km. | 10/6/2010 | 10/6/2040 |
| - Pólo substation, in 230/69 kV (BA). | 10/6/2010 | 10/6/2040 |
| - Paraíso/Açu II (RN) transmission line, in 230 kV, circuit 3, with a length of approximately 123 km, Açu/Mossoró II (RN) transmission line, in 230 kV, circuit 2, with a length of approximately 69 km and João Câmara/Extremoz II (RN) transmission line in 230 kV, C1, with a length of approximately 82 km, João Câmara Substation in 230 kV (RN) and Extremoz II Substation in 230 kV (RN). | 11/23/2010 | 11/23/2040 |
| - Igaporã/Bom Jesus da Lapa II (BA) transmission line in 230 kV, C1, with a length of approximately 115 km, and Igaporã substation in 230 kV (BA). | 11/23/2010 | 11/23/2040 |
| - Sobral III/Acaraú II (CE) transmission line in 230 kV, C2, with a length of approximately 97 km, and Acaraú II Substation, in 230 kV (CE). | 11/23/2010 | 11/23/2040 |
| - Paraíso/Lagoa Nova (RN) transmission line in 230 kV, simple circuit, with a length of approximately 65 km, and Lagoa Nova substation in 230/69 kV (RN). | 10/13/2011 | 10/13/2041 |
| - Ibiapina substation in 230/69 kV (CE). | 10/13/2011 | 10/13/2041 |
| - Morro do Chapéu/Irecê (BA) transmission line in 230 kV, simple circuit, with a length of approximately 65 km, and Morro do Chapéu substation, in 230/69 kV (BA). | 10/13/2011 | 10/13/2041 |

| CONCESSIONS | Date of Concession | Expiry Date |
|---|--------------------|-------------|
| - Teresina II/Teresina III (PI) transmission line, in 230 kV, double circuit, with a length of approximately 26 km, and Teresina III substation, in 230/69 kV (PI). | 12/9/2011 | 12/9/2041 |
| - Recife II/Suape II (PE) transmission line, in 500 kV, simple circuit, with a length of approximately 44 km. | 12/9/2011 | 12/9/2041 |
| - Camaçari IV/Sapeaçu (BA) transmission line, in 500 kV, simple circuit, with a length of approximately 105 km. | 12/9/2011 | 12/9/2041 |
| - Jardim/Nossa Senhora do socorro (SE) transmission line, in 230 kV, double circuit, with a length of approximately 1.3 km; Messias/Maceió II (AL) transmission line, in 230 kV, double circuit, with a length of approximately 20 km; Nossa Senhora do Socorro substation, in 230/69 kV (SE) - 300 MVA; Maceió II substation, in 230/69 kV (AL) - 400 MVA; Poções II substation, in 230/138 kV (BA) - 200 MVA. | 4/17/2012 | 4/17/2042 |
| - Camaçari IV/Pirajá (BA) transmission line, in 230 kV, simple circuit, with a length of approximately 45 km and Pituaçu/Pirajá (BA) transmission line, in 230 kV, simple circuit, with a length of approximately 5 km. | 5/10/2012 | 5/10/2042 |
| - Mirueira II substation, in 230/69 kV (PE) - 300 MVA and Jaboatão II substation, in 230/69 kV (PE)- 300 MVA. | 6/1/2012 | 6/1/2042 |
| - Russas/Banabuiu C2 (CE) transmission line, in 230 kV, simple circuit, with a length of approximately 110 km; Touros/Ceará Mirim II (RN) transmission line, in 230 kV, simple circuit, with a length of approximately 56.17 km; Mossoró IV/Mossoró II (RN) transmission line, in 230 kV, simple circuit, with a length of approximately 40 km; Touros substation, in 230 kV (RN); and Mossoró IV substation, in 230 kV (RN). | 6/1/2012 | 6/1/2042 |
| - Igaporã III/Pindaí II (BA) transmission line, in 230 kV, simple circuit, with a length of approximately 46 km; Igaporã III/Igaporã II C1 and C2 (BA) transmission line, in 230 kV, simple circuit, with a length of approximately 2 km each; Igaporã III substation, in 500/230 kV - (6+1) x 250 MVA (BA). | 6/1/2012 | 6/1/2042 |

The installed capacity of the power plants, which always exceeds production, takes into consideration:

- the existence of periods, both during the day and annually, in which there is a higher or lower demand for electric energy in the system for which the power plant, or generation system, is designed;
- The existence of periods in which machinery is removed from operations for preventive or corrective maintenance;
- the fact that the production of the hydroelectric energy plants also depends on the availability of the water of the river where they are located. In periods of higher water levels, it could be possible to increase generation; likewise, it could be necessary to reduce generation during periods of water shortages, as occurs in times of electric energy rationing.

The production of the Chesf System's power plants arises from the Planning and Scheduling of the Electric Energy Operation, with time frames that range from one year to one day and one hour, currently prepared by the National Electric System Operator (ONS), which defines the amount and source of the generation required to meet the electric energy requirements of Brazil in an optimized manner, taking into consideration the needs of the market, the availability of water and machinery, as well as the cost of generation and the feasibility of transmitting this energy through a complex system interconnecting the different regions.

2.2 – Associated and jointly-controlled subsidiaries

The Company also holds, through its associated and jointly-controlled subsidiaries, the following concessions:

• Hydraulic Generation

| Plants | Company | Company's interest | River | Capacity in MW | Year of the Concession | Expiry Year |
|----------------------------|--------------------------------|--------------------|----------|----------------|------------------------|-------------|
| In service: | | | | | | |
| HP Dardanelos | Energética Águas da Pedra S.A. | 24.50% | Aripuanã | 261.000 | 2007 | 2042 |
| Under construction: | | | | | | |
| HP Jirau | ESBR Participações S.A. | 20.00% | Madeira | 3,750.000 | 2008 | 2043 |
| HP Belo Monte | Norte Energia S.A. | 15.00% | Xingu | 11,233.100 | 2010 | 2045 |

• Wind Generation

| Plants | Company | Company's Interest | Location | Capacity in MW | Year of the Authorization | Expiry Year |
|----------------------------|------------------------|--------------------|-----------------------------|----------------|---------------------------|-------------|
| Under construction: | | | | | | |
| UEE São Pedro do Lago | São Pedro do Lago S.A. | 49.00% | São Pedro do Lago (BA) | 30.00 | 2011 | 2046 |
| UEE Pedra Branca | Pedra Branca S.A. | 49.00% | Pedra Branca(BA) | 30.00 | 2011 | 2046 |
| UEE Sete Gameleiras | Sete Gameleiras S.A. | 49.00% | Sete Gameleiras (BA) | 30.00 | 2011 | 2046 |
| UEE Junco I | UEE Junco I S.A. | 49.00% | Jijoca de Jericoacoara (CE) | 30.00 | 2012 | 2047 |
| UEE Junco II | UEE Junco II S.A. | 49.00% | Jijoca de Jericoacoara (CE) | 30.00 | 2012 | 2047 |
| UEE Caiçara I | UEE Caiçara I S.A. | 49.00% | Cruz (CE) | 30.00 | 2012 | 2047 |
| UEE Caiçara II | UEE Caiçara II S.A. | 49.00% | Cruz (CE) | 21.00 | 2012 | 2047 |

• Transmission

| TRANSMISSION SYSTEM | Company | Company's interest | Year of the concession | Expiry year |
|---|--|--------------------|------------------------|-------------|
| In service: | | | | |
| - Teresina (PI) / Sobral/Fortaleza(CE) transmission line, in 500 kV, with a length of 546 km. | STN – Sistema de Transmissão Nordeste S.A. | 49.00% | 2004 | 2034 |
| - Colinas/Miracema/ Urupi/ Peixe 2/Serra da Mesa (TO/GO) transmission line, in 500 kV, with a length of 695 km. | Integração Transmissora de Energia S.A. | 12.00% | 2006 | 2036 |
| Under construction: | | | | |
| - Oriximiná/Silves CD transmission line, in 500 kV, with a length of approximately 335 km, and Silves/Lexuga transmission line, in 500 kV, with a length of approximately 224 km (PA/AM); Silves substation (500/138 kV) and Lechuga substation (500/230 kV). | Manaus Transmissora de Energia S.A. | 19.50% | 2008 | 2038 |
| - Coletora Porto Velho (RO)/ Araraquara 2 (SP) transmission line, No. 01, CC, , +/- 600 kV, with a length of approximately 2,375 km; Rectifier Station No. 02, CA/CC, 500 kV/+/- 600kV – 3,150 MW; and Inverter Station No. 02 CC/CA, +/- 600 kV/ 500kV – 2,950 MW. | Interligação Elétrica do Madeira S.A. | 24.50% | 2009 | 2039 |
| - São Luiz II/ São Luiz III (MA) transmission line, in 230 kV, with a length of approximately 156 km; Pecém II (CE) substation, 500 kV and Aquiraz II (CE) substation, in 230 kV. | TDG - Transmissora Delmiro Gouveia S.A. | 49.00% | 2010 | 2040 |
| - Ceará Mirim/ João Câmara II transmission line, in 500 kV, with a length of 64 km; Ceará Mirim/Campina Grande III transmission line, in 500 kV, with a length of 201 km; Ceará Mirim/Extremoz II transmission line, in 230 kV, with a length of 26 km; Campina Grande III/ Campina Grande II transmission line, in 230 kV, with a length of 8,5 km; João Câmara II transmission line/Extremoz/Ceará Mirim substation section, with a length of 6 km; João Câmara II substation, in 500 kV, Ceará Mirim substation, in 500/230 kV, and Campina Grande III substation, 500/230 kV; Campina Grande II/Extremoz II Section C1/C2, in 230 kV, with a length of 12.5 km. | Extremoz Transmissora do Nordeste - ETN S.A. | 49.00% | 2011 | 2041 |
| - Luiz Gonzaga/Garanhuns transmission line, in 500 kV, with a length of 224 km; Garanhuns/Campina Grande III transmission line, in 500 kV, with a length of 190 km; Garanhuns/Pau Ferro transmission line, in 500 kV, with a length of 239 km; Garanhuns/Angelim I transmission line, with a length of 13 km; Garanhuns substation, 500/230 kV and Pau Ferro substation, 500/230 kV. | Interligação Elétrica Garanhuns S.A. | 49.00% | 2011 | 2041 |

2.3 - Concession extension of electric energy public utility

a) Description of the amendment to the legislation

On September 11, 2012, the Federal Government issued Provisional Measure 579, regulated by Decree 7,805, of September 14, 2012, which deals with concessions of electrical energy generation, transmission and distribution, reduction of sector charges, reasonable tariffs, as well as other matters. The measures adopted by the Federal Government also aim at benefiting electric energy consumers through the reduction of three tariff components: generation cost, transmission cost and regulatory charges. On January 11, 2013, this Provisional Measure was converted into Law 12,783/2013 and began to be regulated by Decree 7,891, of January 23, 2013.

Through this Law, the Government intended to terminated discussions on whether the electric energy concessions, which are addressed by articles 17, §5, 19 and 22 of Law 9,074, of July 7, 1995, with maturity terms as from 2015, could be extended by up to 20 years, in accordance with conditions established in this Law and in the respective Concession Contracts, or if they would be subject to bids.

Therefore, Law 12,783/2013, when dealing with extensions of concessions of electric energy distribution, transmission and generation, which are addressed by the articles listed above, imposed new extension conditions to the concessionaires, permitting the extension for a term of up to 30 years, with the acceleration of the maturity of these concessions and the signature of Addenda to the respective Concession Contracts, with the new conditions established by the Concession Authority.

The extension depends on the express consent of the remuneration criteria, allocation of energy and quality standards, contained in the Law, which also established an indemnification for the assets not yet amortized nor depreciated, based on the New Replacement Value (VNR).

The main marks for the implementation of the items established in Provisional Measure 579/2012 (current Law 12,783/2013), are presented as follows:

| Date | Event |
|------------|--|
| 9/12/2012 | Publication of Provisional Measure 579/2012. |
| 9/17/2012 | Issue of the Regulation Decree 7,805/2012. |
| 10/15/2012 | Term for companies to manifest intent of renewal of concession contracts. |
| 11/1/2012 | Approval of the minutes of the addenda to the generation and transmission concession contracts. |
| 11/1/2012 | Publication of the generation tariffs and permitted transmission revenues. |
| 12/4/2012 | Deadline for the signature of the addenda to the generation and transmission concession contracts. |
| 12/11/2012 | Approval of the Tariff for the Use of Transmission Network (TUST). |
| 12/19/2012 | Provisional ratifying resolution of the energy quotas for the distribution companies. |
| 1/1/2013 | Effectiveness of the new permitted revenues of the transmission companies, TUST and tariffs of the generating companies. |
| 1/11/2013 | Provisional Measure 579/2012 converted into Law 12,783/2013. |
| 1/20/2013 | Definite ratifying resolution of the energy quotas for the distribution companies. |
| 2/5/2013 | Extraordinary review of the tariffs of the distribution companies for the recognition of the tariffs by the consumers. |

On October 31, 2012, the Ministry of Mines and Energy (MME) published the Ordinances which defined:

- (i) the initial tariffs for the hydroelectric energy plants subject to Art. 1 of Provisional Measure (Ordinance 578); and
- (ii) the annual revenues permitted for the facilities comprised in the transmission concessions subject to Art. 6 of the Provisional Measure (Ordinance 579).

Additionally, the MME and the Ministry of Finance, issued, on November 1, 2012, the Joint Ministerial Ordinance 580, which fixed the amounts of the indemnifications of the generation and transmission assets impacted by the Provisional Measure, referenced to prices of June 2012 and October 2012, respectively. The indemnification values of generation assets were restated on November 29, 2012 through the Joint Ministerial Ordinance 602.

The electric energy generation, transmission and distribution concessions that are not extended through the acceptance of the conditions presented by the Concession Authority, materialized through the signature of the Addendum to the current concession contracts, as established by Law 12,783/2013, will be subject to bids upon the termination of the current term (2015 – 2017), in auctions or through competition, for up to thirty years.

Impacts on the generation business directly affected by Law 12,783/2013

Receipt of indemnification of the not amortized generation assets, at the amounts defined in Ordinances 580 and 602, previously mentioned. The amount of the indemnification will be restated at the Amplified Consumer Price Index (IPCA) (Article 3 of Ordinance 580, mentioned above) up to the date of its effective payment. As permitted by Art. 4 of Ordinance 580, mentioned above, the Company requested the receipt of indemnification in accordance with the following alternative: 50% cash, payable in up to 45 days from the date of the signature of the addendum to the concession contract, and 50% in monthly installments, payable up to the maturity date of the concession contract in effect on the date of publication of the respective Ordinance, both portions increased by the remuneration at the Weighted Average Cost of Capital (WACC) of 5.59% real per annum, as from the first day of the month in which the addendum to the concession contract was signed.

In Article 2 of Decree 7,850, previously mentioned, the generation concessionaires must submit to ANEEL up to December 31, 2013, in the form defined by this institution, the supplementary information (prior to the Basic Project), necessary for the calculation of the portion of investments linked to reversible assets paid up to December 31, 2012, which have not yet been amortized nor depreciated. Subsequently, the amounts computed will be subject, at the discretion of the Concession Authority, of indemnification or recognition in the tariff base, in which case they will be incorporated when the tariff processes are carried out.

Change from fixed price to tariff, with a periodic tariff review as already applied to the distribution activity so far. The tariff will be calculated based on operation and maintenance costs plus the rate of 10% (efficient company). Additionally, in the future, the portion of assets not yet amortized nor depreciated could be included, if approved by ANEEL.

The new investments (repowering and expansion) occurring as from December 31, 2012, provided they have been formally approved, must be included in future tariffs, and their remuneration criterion has not yet been defined.

The allocation of the quotas of the physical guarantee of energy and capacity of hydroelectric energy plants to the electric energy distribution public utility concessionaires of the National Integrated System (SIN) is to be defined by ANEEL, which will be destined to the regulated market.

Reduction or elimination of the following regulatory charges: Global Reserve for Reversion (RGR), Energy Development Account (CDE) and Fuel Consumption Account (CCC).

Impacts on the transmission business directly affected by Law 12,783/2013

Receipt of indemnification of the not amortized transmission assets acquired after May 31, 2000, at the amounts defined in Ordinance 580, previously mentioned. The amount of the indemnification will be restated at the Amplified Consumer Price Index (IPCA) (Article 3 of Ordinance 580, mentioned above) up to the date of its effective payment. As permitted by Art. 4 of Ordinance 580, mentioned above, the Company requested the receipt of indemnification in accordance with the following alternative: 50% cash, payable in up to 45 days from the date of the signature of the addendum to the concession contract, and 50% in monthly installments, payable up to the maturity date of the concession contract in effect on the date of publication of the respective Ordinance, both portions increased by the remuneration at the Weighted Average Cost of Capital (WACC) of 5.59% real per annum, as from the first day of the month in which the addendum to the concession contract was signed.

The transmission concessionaires must submit to ANEEL the information referring to the assets acquired prior to May 31, 2000 that have not yet been depreciated nor amortized, which is necessary for the calculation of the supplementary indemnification, in a period to be defined by the concession authority, in accordance with § 8 of Article 15 of Law 12,783/2013, which, when approved, will be paid in 30 years, and restated in the form of a regulation.

The tariff (new Authorized Annual Revenue – RAP) will be calculated in order to cover the Company's O&M costs plus remuneration, initially of 10% (efficient company). Additionally, in the future, a portion of revenue could be included in order to remunerate assets, not yet amortized nor depreciated, if approved by ANEEL.

The new investments (reinforcements and improvements) occurring after December 31, 2012, provided they have been formally approved, must be included in future tariffs, and their remuneration criterion has not yet been defined.

Elimination of the Global Reversion Reserve (RGR) and Fuel Consumption Account (CCC), and reduction of the Energy Development Account (CDE) to 25% of the current rate.

b) Company's information and decisions

Chesf has 14 hydroelectric energy plants and 1 thermoelectric energy plant, with installed capacity of 10,615 MW, and its transmission system is composed of 18,984.4 km of high voltage lines.

In this context, on October 15, 2012, the Company manifested its intention to ANEEL of renewing all of its concession contracts, seeking their extension, as established in the referred to Provisional Measure.

This manifestation had a preliminary nature, aiming at safeguarding the right of the companies to the extension, due to the related period established by Decree 7,805/2012. However, the studies for the final decision concerning the formalization of the extensions depended on information that was only published on November 1 and 29, 2012.

On November 1, the Ministry of Mines and Energy Ordinances 578 and 579, and the Ministry of Mines and Energy and Ministry of Finance Joint Ministerial Ordinance 580 were disclosed and published in an extraordinary edition of the Federal Official Gazette on the same date, referring to the new tariffs and the amounts of the indemnifications payable to the companies that generate and transmit electric energy, with concessions maturing up to 2017. The Company's deadline for the evaluation and acceptance of the indemnification and tariff conditions was the date established by the concession authority for the signature of the addendum to the generation and transmission concession contracts, which was December 4, 2012.

As established in MP 579/2012, the hydroelectric generation concessions addressed by Art. 19 of Law 9,074, of July 7, 1995, could be extended, at the discretion of the concession authority, only once, for up to thirty years. The extension depended on the express consent to the following conditions by the concessionaires:

I - tariff remuneration calculated by ANEEL for each hydroelectric energy plant;

II - allocation of quotas of physical guarantee of energy and capacity of the hydroelectric energy plant to the electric energy distribution public utility concessionaires of the National Integrated System (SIN), to be defined by ANEEL, as regulated by the concession authority; and

III - submission to the service quality standards determined by ANEEL.

The thermoelectric energy generation concessions could be extended, at the discretion of the concession authority, only once, for up to twenty years.

The electrical energy transmission concessions addressed by § 5 of Art. 17 of Law 9,074, of 1995, could be extended, at the discretion of the concession authority, only once, for up to thirty years. The extension is dependent on the express consent to the following conditions by the concessionaires:

I - revenue fixed as per criteria established by ANEEL; and

II - compliance with the service quality standards determined by ANEEL.

It was established that the electric energy generation and transmission concessions that are not extended by means of the acceptance of the conditions presented by the Concession Authority, materialized through the signature of the Addendum to the current concession contracts, as established by MP 579, will be subject to bids upon the termination of the current term – 2015, in auctions or through competition, for up to thirty years.

Due to its relevance, this matter was submitted for approval of the 165th Extraordinary General Stockholders Meeting, held on December 3, 2012, which approved the extension of the Concession Contracts 061/2001 – ANEEL and 006/2004 – ANEEL, as established by Provisional Measure 579, of September 11, 2012, amended by Provisional Measure 591, of November 29, 2012, of Decree 7,805, of September 14, 2012, of Ordinance 578/MME, of October 31, 2012, of Ordinance 579/MME, of October 31, 2012, of the Joint Ministerial Ordinance 580/MME/MF, of November 1, 2012 and the Joint Ministerial Ordinance 602, of November 29, 2012.

The Company has the following concessions impacted by Law 12,783/2013:

- Transmission - Concession Contract 061/2001
- Generation - Concession Contract 006/2004:

UHE Paulo Afonso I
UHE Paulo Afonso II
UHE Paulo Afonso III
UHE Paulo Afonso IV
UHE Apolônio Sales (Moxotó)
UHE Luiz Gonzaga (Itaparica)
UHE Xingó
UHE Piloto
UHE Araras
UHE Funil
UHE Pedra
UHE Boa Esperança (Castelo Branco)

Effects arising from Law 12,783/2013:

- Generation concessions

Basic Project

| Power plants | Net carrying amount | Indemnity PI 602, of 11/29/2012 | Gain (loss) |
|--|---------------------|------------------------------------|------------------|
| <u>Renewed concessions:</u> | | | |
| Paulo Afonso I | 290 | - | (290) |
| Paulo Afonso II | - | - | - |
| Paulo Afonso III | 132 | - | (132) |
| Paulo Afonso IV | 47,472 | 360,473 | 313,001 |
| Apolônio Sales | 13,991 | 84,613 | 70,622 |
| Luiz Gonzaga | 2,159,205 | 1,730,602 | (428,603) |
| Xingó | 3,548,798 | 2,929,832 | (618,966) |
| Boa Esperança | 36,013 | 72,783 | 36,770 |
| Pedra | 861 | - | (861) |
| Funil | 166 | - | (166) |
| <u>Not renewed concessions:</u> | | | |
| Araras | 611 | - | (611) |
| Piloto | 3 | - | (3) |
| Total | 5,807,542 | 5,178,303 | (629,239) |

Investments after the Basic Project

| Power plants | Net carrying amount | New Replacement Value (VNR) | Receivable * |
|------------------|---------------------|--------------------------------|----------------|
| Paulo Afonso I | 113,359 | 92,612 | 92,612 |
| Paulo Afonso II | 107,093 | 146,660 | 107,093 |
| Paulo Afonso III | 70,418 | 66,259 | 66,259 |
| Paulo Afonso IV | 62,077 | 20,832 | 20,832 |
| Apolônio Sales | 43,392 | 38,250 | 38,250 |
| Luiz Gonzaga | 2,405,478 | 28,174 | 28,174 |
| Xingó | 1,001,072 | 15,150 | 15,150 |
| Boa Esperança | 115,492 | 98,759 | 98,759 |
| Pedra | 13,176 | 8,067 | 8,067 |
| Funil | 18,531 | 12,626 | 12,626 |
| Total | 3,950,088 | 527,389 | 487,822 |

* Amounts subject to the approval of ANEEL.

The relevant contingencies in relation to the indemnified assets are as follows:

| Judicial proceedings | Power plant | Risk | Note |
|---|-------------|----------|------|
| K factor | Xingó | Probable | 25 |
| Provision for Temporary Maintenance (VMT) | Itaparica | Probable | 25 |
| Community Association of Cabeço | Xingó | Possible | 25 |

- Transmission concessions:

| | Extended ventures | Extendable ventures (after 2017) | Total |
|---|-------------------|-------------------------------------|------------------|
| (Net) carrying amount - before Law 12,783/2013 | 5,225,287 | 1,200,023 | 6,425,310 |
| Indemnity received | (1,587,160) | - | (1,587,160) |
| Impairment/provision | (41,511) | - | (41,511) |
| Gains/losses | (2,119,911) | - | (2,119,911) |
| Carrying amount (net) - after Law 12,783/2013 | 1,476,705 | 1,200,023 | 2,676,728 |
| Basic Network of the Existing System (RBSE) * | 1,187,029 | - | 1,187,029 |
| Basic Network of New Facilities (RBNI) | 289,676 | 1,200,023 | 1,489,699 |

* Amounts subject to the approval of ANEEL.

| | Extended ventures | Extendable ventures (after 2017) | Total |
|--------------------------------|-------------------|-------------------------------------|--------------------|
| Gains/losses - Law 12,783/2013 | (2,161,422) | - | (2,161,422) |

- Indemnification of the assets and finance result

| | Indemnity | Financial restatement | Total |
|---|------------------|-----------------------|------------------|
| Generation - PI nº 602, de 11/29/2002 | 5,178,303 | 171,485 | 5,349,789 |
| Transmission - NT nº 396/2012 - SRE/ANEEL | 1,587,160 | 31,746 | 1,618,907 |
| Total | 6,765,464 | 203,232 | 6,968,695 |

- Impairment impacts/ Onerous contracts

| Power plants | Impairment / Onerous contract |
|---------------------------------|-------------------------------|
| <u>Onerous contract:</u> | |
| Camaçari | (357,043) |
| Luiz Gonzaga (Itaparica) | (1,018,534) |
| Paulo Afonso Complex | (34,107) |
| Transmission contract 61/2001 | (84,139) |
| Energú purchase | (98,358) |
| <u>Impairment:</u> | |
| Camaçari | (399,040) |
| Curemas | (1,095) |
| Total | (1,992,316) |

The results presented above arise from the implementation cost of the Scheduled Voluntary Termination Program (PIDV) and the price of R\$ 67.00 (sixty seven Reais), which represents the amount of the average Price of Settlement of Differences (PLD) of the last 10 years, for the sale of energy whose supply contracts were terminated, adopted as an assumption for the companies of the Eletrobras System.

3 – FINANCIAL STATEMENT PRESENTATION

The Company is presenting the Consolidated Financial Statements with its Parent Company Financial Statements. This procedure is necessary because Brazilian Corporate Law requires the disclosure of the individual financial statements of the entities that hold investments in jointly-controlled subsidiaries, even when these entities disclose their consolidated statements.

The Company's Board of Directors, at a meeting held on March 26, 2013, authorized the disclosure of these financial statements.

The Parent Company Financial Statements are presented in accordance with the accounting practices adopted in Brazil, and the Pronouncements, Guidance and Interpretations of the Brazilian Accounting Pronouncements Committee (CPC) and the standards issued by the Brazilian Securities Commission (CVM) in effect at 12/31/2012.

The Consolidated Financial Statements have been prepared and are being presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which are in line with the accounting practices adopted in Brazil (BRGAAP) and with the consolidation procedures presented in Note 5.

There is no difference between the consolidated equity and profit (loss), presented in the consolidated financial statements prepared in accordance with the IFRS and the accounting practices adopted in Brazil, and the equity and profit (loss) presented in the parent company financial statements, prepared in accordance with the accounting practices adopted in Brazil. Accordingly, the Company presents these parent company and consolidated financial statements in a single format, side by side.

4 - SIGNIFICANT ACCOUNTING PRACTICES

4.1. Statement of compliance

The financial statements of the Company comprise:

- The consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and the accounting practices adopted in Brazil, identified as Consolidated - IFRS and BRGAAP; and
- The individual financial statements of the parent entity prepared in accordance with accounting practices adopted in Brazil, identified as Parent - BRGAAP.

The accounting practices adopted in Brazil comprise those included in the Brazilian Corporation Law and in the Pronouncements, Guidance and Interpretations issued by the Brazilian Accounting Pronouncements Committee (CPC) and approved by CVM.

The parent company financial statements present the evaluation of investments in jointly-controlled subsidiaries under the equity method of accounting, in accordance with the existing Brazilian legislation. Therefore, these parent company financial statements are not considered to be in compliance with IFRS, which require that these investments be accounted for in the parent company's separate financial statements at their fair value or cost.

4.2. Basis of preparation

The financial statements have been prepared under the historical cost convention, except for certain financial instruments measured at fair value as described in the accounting practices below. Historical cost is usually based on the fair value of the consideration paid on the exchange of the assets.

The financial statements are presented in the Brazilian legal currency (Real), which is the Company's functional currency.

When applicable, foreign currency transactions are translated into reais at the exchange rate in effect on the transaction dates. The related balance sheet accounts are translated into reais at the exchange rate in effect at the balance sheet date, as informed by the Brazilian Central Bank. Gains and losses arising from exchange rate changes on the settlement of the transactions and the translation of monetary assets and liabilities denominated in foreign currencies into reais are recorded in the statement of operations for the year.

4.3. Basis of consolidation and investments in jointly-controlled subsidiaries

The consolidated financial statements include the financial statements of the Company and those of jointly-controlled specific purpose entities. Control is characterized when the Company has power over the financial and operating policies of an entity to obtain benefits from its activities.

In the Company's individual financial statements, the financial information related to jointly-controlled subsidiaries is recognized using the equity method of accounting.

In accordance with items 24 and 25 of Technical Pronouncement CPC 18 (IAS 28), to determine the equity in the results of its associates and subsidiaries, the Company utilizes the equity of its investees in the financial statements prepared on the same date as that of its own financial statements. If the investee's financial statements with the same date as that of the Company's are not available, the Company utilizes the financial statements with a difference of 30 days, with appropriate adjustments in case of material events and transactions occurring between the different dates of the financial statements.

When necessary, the financial statements of jointly-controlled subsidiaries are adjusted to conform to the accounting policies established by the Company. All intercompany transactions, balances, revenues and expenses between the Company and the jointly-controlled subsidiaries are eliminated in the consolidated financial statements.

4.4. Investments in associates

An associate is an entity over which the Company has significant influence, but which is not a subsidiary or a jointly-controlled subsidiary (joint venture). Significant influence is the power to participate in decisions about the financial and operating policies of the investee, without exercising individual or joint control over such policies.

The assets and liabilities of associates are included in the financial statements based on the equity method of accounting, and are initially recognized at cost and subsequently adjusted for recognition of the Company's share in the associate's profit or loss and other comprehensive income (loss).

4.5. Interest in joint ventures

A joint venture is an agreement whereby the Company and other parties exercise an economic activity subject to joint control, a situation in which decisions on strategic financial and operating policies related to the investee require the approval of all parties that share the control.

Joint venture agreements that involve the creation of a separate entity in which each of the parties holds a share are called jointly-controlled subsidiaries.

The Company presents its participation in jointly-controlled subsidiaries in its consolidated financial statements using the proportional consolidation method. The Company's participation in the assets, liabilities and results of jointly-controlled subsidiaries are combined with the corresponding items in the consolidated financial statements of the Company line by line.

The parent company's participation in jointly-controlled subsidiaries is recognized in its individual financial statements using the equity method of accounting.

4.6. Non-current assets held for sale

Assets or groups of assets are classified as held for sale when their carrying value is recoverable, particularly in the case of a sale and not due to continuing use. This condition is complied with only when the sale is highly probable and the asset or group of assets is available for immediate sale in their current condition.

The assets or groups of assets classified as held for sale are measured at the lower of the previously recorded carrying value and the fair value less cost of sales.

4.7. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Company's activities, less discounts, rebates and charges on sales.

The Company recognizes revenue when: (i) the amount can be reliably measured; (ii) it is probable that future economic benefits will flow to the Company; and (iii) when specific criteria have been met for each of its activities.

The following is also considered:

Finance income arising from the remuneration on financial assets through the end of the concession period on a pro rata basis and which considers the project's rate of return.

Income to cover operating and maintenance expenses of transmission assets based on costs incurred.

Construction revenue for expansions, reinforcements and improvement of the infrastructure utilized to provide the electric energy transmission services not calculating construction margin.

4.8. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which, necessarily, require a substantial period of time to be ready for use or sale, are added to the cost of such assets until the date when they are ready for the intended use or sale.

All other borrowing costs are recognized in the statement of operations for the year when incurred.

4.9. Government grants

Government grants arising from tax incentives are recorded in the statement of operations for the period as a reduction of the tax computed, in compliance with Technical Pronouncement CPC 07 (IAS 20). The portion of the profit arising from these tax incentives is allocated to the Revenue Reserve called Tax Incentive Reserve, in compliance with Article 195-A of Law 6,404/1976, which is only utilized to increase share capital or for the absorption of losses.

4.10 Taxation

Income tax and social contribution expense represents the sum of current and deferred taxes.

4.10.1. Current taxes

The provision for income tax and social contribution is based on the taxable profit for the year. Taxable profit differs from the profit presented in the statement of operations because it excludes revenues or expenses that are taxable or deductible in other years, besides excluding permanently non-taxable or non-deductible items. The provision for income tax and social contribution is calculated individually for each investee based on the rates in effect at the end of the year.

4.10.2. Deferred taxes

Deferred income tax and social contribution (deferred taxes) are recognized on the temporary differences at the end of each year between the asset and liability balances recognized in the financial statements and the corresponding tax bases used to calculate taxable profit, including the balance of tax losses when applicable. A deferred tax liability is usually recognized on all taxable temporary differences and a deferred tax asset is recognized on all deductible temporary differences, only when it is probable that the Company will present future taxable profit in a sufficient amount to permit the utilization of the deductible temporary differences.

The recovery of the balance of the deferred tax asset is reviewed every year-end and, when it is no longer probable that future taxable profit will be available to permit the recovery of the whole or part of the asset, the balance is adjusted to the amount expected to be recovered.

The deferred tax asset and liability are measured at the rates applicable in the period when it is expected that the deferred tax liability will be settled or the deferred tax asset will be realized, based on the rates established in the tax legislation in effect at the end of each year or when new legislation is approved. The measurement of deferred tax assets and liabilities reflects the tax consequences that would result from the manner in which the Company expects, at the end of each year, to recover or settle the carrying value of these assets and liabilities.

4.10.3. Current and deferred income tax and social contribution for the year

Current and deferred income tax and social contribution are recognized in the statement of operations, except to the extent that they relate to items recognized in other comprehensive income (loss) or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive income (loss) or directly in equity, respectively.

4.11. Property, plant and equipment

Property, plant and equipment are recorded at acquisition or construction cost, less accumulated depreciation, and principally comprise generation and administrative assets.

Environmental expenditures related to actions and programs realized up to the release of the first operating permit are recorded in property, plant and equipment and the expenses incurred after that period are recorded in the statement of operations.

Depreciation is calculated using the straight-line method, at annual rates established by ANEEL, which are reviewed periodically and accepted by the market as an adequate estimate for accounting and regulatory effects and which represent the best estimate of the useful lives of the assets.

4.12. Intangible assets

Intangible assets with defined useful lives, acquired separately, are recorded at cost less amortization and accumulated impairment losses. Amortization is recognized on the straight-line method based on the estimated useful lives of the assets.

Corporate software is capitalized on the basis of the costs incurred to acquire and make specific software ready to use. These costs are amortized over their estimated useful lives.

Costs associated with the maintenance of software are recognized as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Company are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the project so that it will be available for use;
- Management intends to complete the project and use or sell it;
- The product can be sold or used;
- It can be demonstrated that it is probable that the product will generate future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the product are available;
- The expenditure attributable to the product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

4.13. Impairment of non-financial assets

At the end of each year, the Company reviews the carrying values of its assets to determine whether there are any indications that the carrying values may not be recoverable. If there are such indications, the asset's recoverable amount is estimated to measure the amount of the loss, if any. If it is not possible to estimate the recoverable amount of an individual asset, the Company calculates the recoverable amount of the cash generating unit of the asset.

The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. To calculate the value in use, the estimated future cash flows are discounted to present value at the discount rate that reflects the current market value of the currency at the time and the specific risks of the asset for which the estimate of future cash flows has not been adjusted.

If the calculated recoverable amount of an asset, or cash-generating unit, is lower than its carrying amount, the carrying amount of the asset, or cash-generating unit, is reduced to its recoverable amount, and the loss for reduction to the recoverable amount is recognized in the statement of operations.

4.14. Inventories

Materials held in inventory, recorded in current assets, as well as those destined for investments, recorded in non-current assets/property, plant and equipment, are recorded at the average acquisition cost less a provision for losses, when applicable, not exceeding replacement costs or realizable values.

4.15. Financial instruments

4.15.1. Financial assets

The Company classifies its financial assets as at fair value through profit and loss, receivables, investments held to maturity, or derivatives classified as effective hedge instruments.

Financial assets are recognized at fair value plus, in the case of assets not designated at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial asset.

The Company's financial assets include cash and cash equivalents, trade receivables, indemnifications receivable from the concession authority, securities, financial investments, public utility concessions, other credits and derivative financial instruments through the jointly-controlled subsidiaries classified as hedge instruments.

4.15.1.1. Subsequent measurement of financial assets

The subsequent measurement of the financial assets depends on their classification, which could be as follows:

- **Financial assets at fair value through profit or loss**

Financial assets are classified at fair value through profit or loss, when they are held for trading or designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are presented in the balance sheet at fair value and the corresponding gains or losses are recognized in the statement of operations.

- **Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these assets are carried at amortized cost utilizing the effective interest method, less the estimated impairment. Amortized cost is calculated considering the discount on acquisition and charges or costs incurred.

- **Investments held to maturity**

Non-derivative financial assets with fixed or determinable payments are classified as held to maturity when the Company has expressed its intention and has the financial capability to hold them through maturity. After initial measurement, the investments held through maturity are carried at amortized cost utilizing the effective interest method, less impairment.

4.15.1.2. Derecognition (write-off) of financial assets

A financial asset is derecognized when:

- The rights to receive cash flows from the asset expire;
- The Company transfers its right to receive cash flows from the asset, or assumes the obligation to fully pay the cash flows received to a third party due to a "transfer" agreement; and (a) The Company transfers all of the asset's risks and benefits, or (b) The Company does not transfer nor holds all of the risks and benefits related to the asset, but transfers the control over the asset.

4.15.2. Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, borrowings, or as hedge derivative instruments, as applicable. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are initially recognized at fair value plus, in the case of borrowings, the directly related transaction costs.

The Company's financial liabilities include trade payables, borrowings, and derivative financial instruments – through the jointly-controlled subsidiaries, classified as hedge instruments and other payables.

4.15.2.1. Subsequent measurement of financial liabilities

Financial liabilities are measured in accordance with their classification, which could be as follows:

- **Borrowings**

After the initial recognition, borrowings are measured at amortized cost plus charges, interest and monetary and/or exchange variations pursuant to the contract terms, incurred through the balance sheet date.

- **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities for trading and financial liabilities designated on initial recognition as at fair value through profit or loss.

The Company did not present any financial liability at fair value through profit or loss.

- **Held for trading**

Financial liabilities are classified as held for trading when acquired to be sold in the short term. This category includes derivative financial instruments contracted by the Company that do not meet the hedge accounting criteria defined by CPC 38 (IAS 39). Derivatives are also classified as held for trading unless they are designated as effective hedge instruments. Gains and losses on liabilities held for trading are recognized in the statement of operations.

4.15.2.2. Derecognition (write-off) of financial liabilities

A financial liability is derecognized when the obligation is revoked, cancelled or has expired. When an existing financial liability is replaced by another one from the same lender with substantially different terms, or when the terms of an existing liability are significantly changed, this replacement or change is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the corresponding amounts is recognized in the statement of operations.

4.15.3. Fair value of financial instruments

The fair value of financial instruments traded in active markets is based on the market purchase prices at the closing of business at the balance sheet date, with no deduction of transaction costs.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These techniques can include the use of recent market transactions carried out on an arm's length basis; reference to the current fair value of a similar instrument; discounted cash flow analysis or other valuation methods.

4.15.4. Derivative financial instruments and hedge accounting

The Company, through its jointly-controlled subsidiaries, signs derivative contracts to manage its exposure to exchange rate risks and aluminum commodity price variations in the international market. In accordance with the provisions of CPC 38 (IAS 39), these derivatives are accounted for as financial instruments (hedge accounting).

The Company has not entered into derivative contracts for commercial or speculative purposes (Note 40).

Derivative financial instruments designated in hedge operations are initially recognized at fair value on the date when the derivative contract is signed, and are also subsequently revalued at fair value.

Derivatives are presented as financial assets when the fair value of the instrument is positive and as financial liabilities when the fair value is negative.

For hedge accounting purposes, the Company classifies its hedge transactions as cash flow hedges. Therefore, gains or losses resulting from hedging instruments considered to be effective are recognized in other comprehensive income (loss). The ineffective portion of such gains or losses is recognized in the statement of operations.

The amounts previously recognized in other comprehensive income (loss) and accumulated in equity are reclassified to the statement of operations in the year in which the hedged item is recognized in the statement of operations.

The Company formally classifies and documents the list of hedges for which it decides to apply hedge accounting, as well as management's objective and risk management strategy to make the hedge effective. The documentation includes the identification of the hedge instrument, the item or transaction that is the object of the hedge, the nature of the risk which is the object of the hedge, the nature of the risks excluded from the list of hedges, the prospective demonstration of the effectiveness of the list of hedges and the manner how the Company will assess the effectiveness of the hedge instrument to offset the exposure to changes in the fair value of the hedged item.

These hedges are expected to be highly effective to offset changes in the fair value, and they are permanently assessed to identify whether they have been effective over all of the base periods for which they were intended.

4.16. Statement of Value Added (DVA)

This statement was prepared in accordance with the provisions of CPC 09 – Statement of Value Added and is intended to evidence the wealth created by the Company and its distribution during the year. It is presented as required by Brazilian Corporation Law, as part of its parent company financial statements and as supplementary information to the consolidated financial statements, as it is not a statement required under IFRS.

4.17. New and revised standards and interpretations already issued and not yet adopted

The following are the IFRS standards, amendments to standards and interpretations, issued by IASB, which were not in effect for the year ended 12/31/2012:

| Standard | Effective date | Comments |
|--|------------------|--|
| IAS 27 - Consolidated and separate financial statements | As from 1/1/2013 | Results from the recent IFRS 10 and IFRS 12, limited to the accounting for subsidiaries, jointly-controlled entities and associates in separate financial statements. |
| IAS 28 - Accounting for investments in associates and joint ventures | As from 1/1/2013 | Amendment that describes the application of the equity method for investments in joint ventures, in addition to the investments in associates. |
| IAS 32 - Offset of financial assets and liabilities | As from 1/1/2014 | Amendment that clarifies the requirements for offsetting financial instruments. |
| CPC 9 - Financial Instruments: Recognition and Measurement | As from 1/1/2015 | Refers to the classification and measurement of financial assets and liabilities as established by IAS 39. |
| IFRS 10 - Consolidated financial statements | As from 1/1/2013 | Establishes a sole model of consolidation based on control applicable to all entities, including special purpose entities. The changes introduced by IFRS 10 will require that the Company exercises judgment in the determination of which entities are subsidiaries and, therefore, need to be consolidated by the parent company, in comparison with the requirements established by IAS 27. |
| IFRS 11 - Joint arrangements | As from 1/1/2013 | It is part of the new set of consolidation standards and other related standards, which replace the current requirements for subsidiaries, altering IAS 28 - Investments in associates and joint ventures. The main alteration is that all the jointly-controlled subsidiaries that are not classified as joint ventures will be accounted for on the equity accounting method, without the possibility of using proportional consolidation. |
| IFRS 12 - Disclosure of interests in other entities | As from 1/1/2013 | It contains extensive disclosure requirements for entities that have interest in subsidiaries, joint controls, subsidiaries and/or not consolidated entities, stating the effects of these interests in the company's financial performance and cash flows. |

CPC has not yet issued Pronouncements equivalent to the above-mentioned IFRS, but it is expected that it will issue them before the date when they will take effect. Early adoption of the IFRS Pronouncements is subject to prior approval in a regulatory act of the Brazilian Securities Commission.

The Company is assessing the effects of IFRS 10 and 11 in its financial statements. There could be an impact in respect of the statement, but it must not interfere in the Company's results.

Some technical pronouncements and interpretations issued by the CPC, were reviewed by that body, and their adoption is mandatory as from year 2013. However, no significant impacts were identified in the Company's financial statements as a result of these revisions.

4.18. Post-employment benefits

a) Pension obligations

Payments to defined contribution pension plans are recognized as expenses when the services that grant the right to these payments are provided.

In the case of defined benefit pension plans, the cost of the benefits is determined using the Projected Unit Credit Method based on the actuarial valuation realized annually at the end of each period. Actuarial gains and losses, arising from adjustments based on experience and on changes in actuarial assumptions, are debited or credited directly in equity - other comprehensive income (loss) - in the period in which they occur.

The pension benefit obligation recognized in the balance sheet represents the present value of the obligation with defined benefits adjusted for actuarial gains or losses and for the cost of past services, reduced by the fair value of the plan's assets.

b) Other post-employment obligations

The Company Subsidizes part of the premiums of a life insurance policy for active employees. Former retired employees who opted to remain linked to this policy pay the full premium, which is collectively established for the entire population of active and inactive participants. However, considering the age characteristics of the population of active and inactive participants, the actuarial calculation of the segregated premium attributable to the group of inactive participants indicates the existence of an indirect post-retirement benefit paid by the Company. These obligations are evaluated annually by independent actuaries and the actuarial gains and losses, arising from adjustments based on experience and changes to the actuarial assumptions are debited or credited directly to equity - other comprehensive income (loss) - in the period in which they occur.

4.19. Earnings per share

Basic earnings per share is calculated by dividing the result attributable to stockholders of the Company by the number of common and preferred shares outstanding in the respective period. Diluted earnings per share is calculated by reference to the number of shares outstanding, adjusted for instruments potentially convertible into shares, with a dilutive effect in the periods presented, in accordance with CPC 41 and IAS 33.

4.20. Distribution of dividends

The Company's dividend recognition policy is in compliance with the standards determined in CPC 25 (IAS 37) and ICPC 08, which establish that proposed dividends payable based on statutory obligations be recorded in current liabilities.

The Company's Bylaws provide for the distribution of a minimum of 25% of the profit for the year as dividends.

Accordingly, at the end of the fiscal year and after the legal appropriations, the Company records a provision equivalent to the minimum mandatory dividends in current liabilities and the proposed dividends which exceed the mandatory minimum are recorded as proposed additional dividends in equity.

Dividends not claimed within three years revert to the Company, as determined in the applicable legislation.

4.21. Other accounting practices**a) Critical accounting estimates and assumptions**

In preparing these financial statements, the Company adopted estimates and assumptions based on its experience and other factors that it considered to be reasonable and relevant for a fair presentation. Although these estimates and assumptions are continually monitored and reviewed by the Company, the materialization of the amounts of assets and liabilities and results of operations are uncertain as they are based on judgment.

Concerning the accounting estimates considered as being the most critical to its financial statements, the Company makes its judgments on future events, variables and assumptions as follows:

- Provisions - recognized when an obligation has arisen as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation in the future, and the amount can be reliably estimated. The amount recognized as a provision is therefore the best estimate of the expenditure required to settle the obligation at the date of the financial statements, taking into consideration the risks and uncertainties that surround the underlying events. Provisions are reviewed and adjusted to take into account changes in circumstances, such as applicable statute of limitations or additional exposures identified as a result of new issues or court decisions. The actual results may differ from the estimates.
- Impairment of long-lived assets - Management of the Company and its subsidiaries adopts variables and assumptions for the impairment testing of long-lived assets so as to estimate the recoverable amount of the assets and recognize an impairment loss, if any. In this context, judgments are applied based on the experience with the management of the asset, group of assets or cash-generating unit, which may not materialize in the future, including as regards the estimated useful lives of the assets, which reflects the applicable practices determined by ANEEL for assets related to the electricity public service concession, and may vary due to the periodic review of the economic useful lives of the assets. In addition, several intrinsically uncertain events impact the choice of variables and assumptions utilized to determine future discounted cash flows to measure the impairment loss of long-lived assets. Such events include the maintenance of power consumption levels, rate of growth of the country's economic activity, availability of water

resources, in addition to those inherent to the expiration of the electricity concessions held by the Company, especially as regards the reversal amount on the expiration of the concession. In this connection, the assumption adopted is that an indemnity as set forth in the contract will be due, if applicable, at the lower of the residual amount at the end of the energy generation and transmission concessions and the new replacement value.

- Basis for the determination of the indemnity due by the concession authority for public service concessions - Provisional Measure 579, of September 11, 2012, converted into Law 12,783/2013, on January 11, 2013, defined a New Replacement Value (VNR) as the basis for the determination of the indemnity due by the concession authority for public service concessions. The Company adopts the assumption that the assets are reversible at the maturity of the concession contracts, with the right to receive an indemnity from the concession authority on investments not yet amortized, for the lower amount between the residual book value and the new replacement value. In accordance with this assumption, amounts receivable from the concession authority related to the Basic Network of the Existing System (RBSE) and investments realized after the basic project of the power plants, which are still subject to the approval of ANEEL, were maintained.
- Actuarial obligations - Actuarial obligations are calculated by independent actuaries, and the actual results could differ from the estimates utilized in these financial statements, under variables, assumptions and conditions differing from those existing and utilized at the time of the judgment.
- Useful lives of property, plant and equipment - The Company utilizes the criteria defined in ANEEL Resolution 367, of June 2, 2009, restated by Resolution 474, of 2/7/2012, to estimate the useful lives of the assets.

b) Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits, and high liquidity short-term investments, which are readily convertible into known amounts of cash and subject to insignificant risk of change in value.

c) Trade receivables

Trade receivables arise from the sale of electric energy, the availability of the transmission system, services provided, late payment and other charges, up to the balance sheet date, recorded on the accrual basis and adjusted to present value.

The provision for impairment of trade receivables is recorded at an amount deemed sufficient by management to cover losses on the realization of trade receivables.

d) Marketable securities

The financial investments in Financial Treasury Bills (LFT), National Treasury Bills (LTN) and Federal Treasury Notes (NTN), Series B and F, are held for trading in an exclusive investment fund, in accordance with the regulation in effect. Other securities, which constitute a small portion of this account, refer to Agrarian Debt Notes (TDA) and National Treasury Notes (NTN), Series P, with definite maturities, which the Company intends to hold to maturity. Marketable securities are recorded at acquisition cost plus interest and monetary restatement, with impacts on the result, and are adjusted to the probable realizable value, if applicable.

e) Pledges and restricted deposits

Pledges and restricted deposits refer to collaterals granted to financial institutions, and for electric energy auctions, and judicial deposits relating to ongoing administrative and court proceedings, and are stated at cost plus the respective earnings accrued through the balance sheet date.

f) Indexed assets

Indexed assets are adjusted through the balance sheet date and the other assets are stated at cost net of provisions for losses.

g) Financial assets – public service concessions

The financial assets refer to amounts receivable under electric energy transmission concession contracts in the form of Authorized Annual Revenue or Indemnity.

The Financial asset - Authorized Annual Revenue is the estimated amount receivable during the concession period.

The indemnifiable financial asset refers to the estimated portion of investments made and not amortized by the end of the concession period, classified as a financial asset as there is an unconditional right to receive cash or another financial asset directly from the concession authority arising from the application of Technical Interpretation ICPC 01 – Concession Contracts (IFRIC 12), and Technical Guidance OCPC 05 – Concession Contracts. These financial assets are remunerated at an internal rate of return calculated based on the projected cash flow of these investments.

The indemnification amounts receivable from the concession authority, arising from the installations contemplated with renewal, will be received restated at the IPCA, as follows: 50% cash, payable in up to 45 days from the date of the signature of the addendum to the concession contract and 50% in monthly installments, payable up to the maturity date of the concession contract in effect on the date of publication of Ordinance 580/2012, both portions increased by the remuneration at the Weighted Average Cost of Capital (WACC) of 5.59% real per annum, as from the first day of the month in which the addendum to the concession contract was signed

h) Equity

Unrealized profits arising from the credit balance of monetary restatement allocated to the related revenue reserve through 1995 are reversed to Retained Earnings in proportion to the write-off and depreciation of property, plant and equipment and the write-off and amortization of intangible assets.

i) Statement of operations

The result for the year is calculated on the accrual basis and considers the recognition and realization of tax credits in the year and the income tax reduction arising from the Sudene/Sudam tax incentives, determined based on the operating profit (Note 35).

j) Finance income and costs

Finance income and costs mainly comprise interest and monetary and exchange variations arising from financial investments and borrowings, and are recognized on the accrual basis.

k) Onerous contracts

Present obligations arising from onerous contracts are measured and recognized as provisions. An onerous contract exists when the unavoidable costs of meeting the obligations under the contract exceed the expected benefits to be derived during the term of the contract.

4.22. CONSIDERATIONS SPECIFIC TO THE ELECTRIC ENERGY SECTOR

4.22.1 - Authorized Annual Revenue (RAP)

The Authorized Annual Revenue (RAP) defined in the Electric Energy Transmission Public Utility Service Contract refers to the revenue authorized by ANEEL, by means of a resolution, to be earned by the Company for the availability of the facilities of its Transmission System. It is comprised by the RPB (portion referring to the facilities of the Basic Network) and the RPC (portion related to the other transmission facilities and connections). The RPB is also subdivided into RBSE (the portion referring to the transmission assets addressed by ANEEL Resolution 167/2000, for the transmission facilities existing at the time), and RBNI (revenue referring to the new assets to be added to the Company's transmission system), both of which are adjusted annually by the General Price Index-Market (IGP-M). RBNI is subject to a tariff review every four years. For new concessions, obtained at Public Transmission Auctions, the revenue, which will be fixed, will comprise the amount indicated in the bids plus an annual adjustment by the IPCA index throughout the concession period, being also subject to tariff adjustments every five years, during the 30 years of the concession period.

4.22.2. Obligations Linked to the Electric Energy Utility Service

The obligations refer to the balance of funds and/or assets received from the Federal Government and Consumers in general, in partnership with the Company.

4.22.3. Global Reversion Reserve (RGR)

Charge introduced by Decree 41,019, of February 26, 1957, whose effectiveness was extended to 2035 through Law 12,431, of June 24, 2011. It refers to an annual amount established by ANEEL, payable monthly at the rate of one-twelfth by the concessionaires, for the purpose of providing resources for the reversal and/or expropriation of the Electric Energy Utility Service, as well as to fund the expansion and improvement of this service. Its annual amount is equivalent to 2.5% of the investments made by the concessionaire in assets linked to the provision of the electric energy utility service and is limited to 3.0% of annual revenue. The RGR is administered by Eletrobras. The electric energy generation and transmission concessions that were extended or subject to bid as established by Law 12,783/2013, are released from the payment of the annual quota of RGR, as from January 1, 2013.

4.22.4. Alternative Sources of Electric Energy Incentive Program (Proinfa)

Introduced by Article 3 of Law 10,438/2002, amended by Article 9 of Law 10,762/2003, and by Article 2 of Law 10,889/2004, this program aims at increasing the share of alternative renewable sources in electric energy production, benefiting entrepreneurs with companies independent of electric energy generation, transmission, or distribution concessionaires. The program also aims at increasing the participation of companies in the Electric Energy Sector.

4.22.5. Financial Compensation for Utilization of Water Resources (CFURH)

Established by Law 7,990/1989, its purpose is to provide compensation for the municipalities affected by the loss of farmland in areas flooded for the construction of hydroelectric energy plant reservoirs. Of the amount collected monthly as financial compensation, 45% is allocated to the States, 45% to the Municipalities, 3% to the Ministry of the Environment, 3% to the Ministry of Mines and Energy, and 4% to the Ministry of Science and Technology. The calculation of the CFURH is based on the actual generation of the hydroelectric energy plants, in accordance with the following formula: $CFURH = TAR \times GH \times 6.75\%$, where TAR stands for Adjusted Reference Tariff, established annually by ANEEL (in R\$/MWh), and GH is the amount (in MWh) of the monthly generation of the hydroelectric energy plant. It is managed by ANEEL.

4.22.6. Fossil Fuel Consumption Account (CCC)

Established by Decree 73,102/1973 and payable monthly by all the companies that sell electric energy to end consumers. Its purpose is to apportion the costs related to the consumption of fuel for thermoelectric energy generation in Isolated Systems, mainly in the Northern region of Brazil. The CCC amounts are established annually by ANEEL, for each concessionaire, based on their market, and can vary according to the need to use the thermoelectric energy plants. The RGR is administered by Eletrobras. Law 12,783/2013 extinguished the apportionment of the consumption cost of fuels for Generation as from 2013.

4.22.7. Energy Development Account (CDE)

Established by Law 10,438/2002, its purposes are to: i) provide resources for the development of the energy in the States; ii) increase the competitiveness of the energy generated from wind power sources, small hydroelectric energy plants, biomass, natural gas and coal, in the areas served by interconnected electric systems; iii) offer electric energy utility services throughout Brazil. The resources originate from: (i) the annual payments made for the Use of Public Assets (UBP), established by the generation concessions; (ii) fines imposed by ANEEL; and (iii) payments of the annual fees by all companies that sell electric energy to the end consumers of the National Interconnected System (SIN), based on the CCC amounts of the interconnected systems referring to 2001, adjusted annually based on the market growth and the Amplified Consumer Price Index (IPCA). It is managed by the Ministry of Mines and Energy and Eletrobras. This contribution was reduced to 25% of the current rate, as from 2013, as one of the instruments to viabilizethe reduction of the energy bill.

4.22.8. Research and Development (R&D)

Created by Law 9,991/2000, the R&D Program establishes that concessionaires and grantees of electric energy generation and transmission utility services must annually invest at least one percent (1%) of net operating revenue in research and development of the Electric Energy Sector. The funds are allocated to the Ministry of Science and Technology, National Fund for Scientific and Technological Development (FNDCT), the Ministry of Mines and Energy and to companies, for investments in projects approved by ANEEL. This Program is managed by the Ministries of Science and Technology and Mines and Energy, as well as ANEEL and the companies themselves.

4.22.9. Electric Energy Utility Service Inspection Fee (TFSEE)

Introduced by Law 9,427/1996, this fee is equivalent to 0.5% of the annual economic benefit obtained by concessionaires, grantees or authorized companies of the Electric Energy Utility Service. Its annual amount is established by ANEEL for the purpose of obtaining revenues to cover the costs of its activities. For the generation and transmission sectors (independent producers, self-producers, concessionaires, grantees) the amount is determined at the beginning of each calendar year, whereas the fee payable by the distributors is calculated on the anniversary of the concession. The amounts established are payable monthly at the rate of one-twelfth, and are managed by ANEEL.

4.22.10. Charge for Electric Energy Reserve (EER)

This charge is being collected from all users of the National Interconnected System (SIN), arising from the sale of Reserve Electric Energy, since the issue of Decree 6,353, of January 16, 2008, for the purpose of increasing the security of SIN's supply of electric energy. Since January 2009 the Electric Energy Trading Chamber (CCEE) has been representing consumers of this electric energy and centralizing the contractual relationship between the parties (Reserve Electric Energy Contracts - CER), being responsible for collecting the charge and managing the Reserve Electric Energy Account (CONER). The charge is determined in accordance with the Electric energy Sales Rules, approved by ANEEL's Regulatory Instruction 385/2009.

4.22.11. Use of Public Assets

Corresponds to amounts established under hydraulic power exploitation concession contracts, and are recorded at the amount of the retributions to the Concession Authority for the use of the hydroelectric capacity, discounted to present value at the project's implicit rate.

4.22.12. Regulatory Assets and Liabilities

The Company did not recognize regulatory assets and liabilities in its accounting records, since they did not meet the definition of assets and/or liabilities set out in the international accounting practices and the CPC Pronouncement, which defines the conceptual framework for the preparation and presentation of financial statements.

5 - CONSOLIDATION PROCEDURES

- I) These Financial Statements have been prepared in accordance with the standards established by Technical Pronouncement CPC 18 (IAS 28), approved by CVM Resolution 605/2009, and include the financial statements of Chesf, its associates and jointly-controlled subsidiaries for equity method accounting and proportional consolidation purposes, as shown below:

| Companies | Chesf's direct interest | |
|--|--------------------------------|-------------------|
| | 11/30/2012 | 11/30/2011 |
| STN - Sistema de Transmissão Nordeste S.A. | 49.0% | 49.0% |
| Integração Transmissora de Energia S.A. | 12.0% | 12.0% |
| ESBR Participações S.A. | 20.0% | 20.0% |
| Manaus Transmissora de Energia S.A. | 19.5% | 19.5% |
| Interligação Elétrica do Madeira S.A. | 24.5% | 24.5% |
| Manaus Construtora Ltda. | 19.5% | 19.5% |
| TDG - Transmissora Delmiro Gouveia S.A. | 49.0% | 49.0% |
| Norte Energia S.A. | 15.0% | 15.0% |
| Pedra Branca S.A. | 49.0% | 49.0% |
| São Pedro do Lago S.A. | 49.0% | 49.0% |
| Sete Gameleiras S.A. | 49.0% | 49.0% |
| Interligação Elétrica Garanhuns S.A. | 49.0% | 49.0% |
| UEE Junco I S.A. | 49.0% | - |
| UEE Junco II S.A. | 49.0% | - |
| UEE Caiçara I S.A. | 49.0% | - |
| UEE Caiçara II S.A. | 49.0% | - |
| Extremoz Transmissora do Nordeste - ETN S.A. | 49.0% | - |

- II) The Balance Sheets and Statements of Operations of associates and jointly-controlled subsidiaries, considered in order to determine the equity in the results of investees and for consolidation purposes, in accordance with items 24 and 25 of Technical Pronouncement CPC 18 (IAS 28), are generally prepared on the same date as that of the Parent Company. However, also in accordance with this pronouncement, it is necessary to use financial statements with a difference of up to 30 days, with appropriate adjustments, in case of material events and transactions occurring between the different dates of financial statements. Consequently, the financial statements of associates and jointly-controlled subsidiaries as of November 30, 2012 were utilized. The adoption of this procedure had, in 2012, an immaterial effect of R\$ 5,315 on the results relating to one month (December), and therefore the comparability with the previous year was maintained.

III) Principal consolidation practices:

- Elimination of the investor's investments in the investees, against its interest in the respective equities;
- Elimination of intercompany balances between the parent company and its jointly-controlled subsidiaries, as well as the elimination of the accounts between these subsidiaries.

Pursuant to CVM Instruction 408/2004, the consolidated financial statements include balances and transactions of the exclusive fund, of which the Company is the sole stockholder, composed mostly of highly liquidity government bonds.

Exclusive funds, whose financial statements are regularly reviewed/audited, are subject to strict obligations relating to payments of services provided by the asset manager, relating to the operation of the investments, without any other significant financial obligation.

6 - CASH AND CASH EQUIVALENTS

| | Parent | | Consolidated | |
|------------------------|---------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Cash and bank deposits | 29,098 | 3,306 | 144,782 | 52,594 |
| Financial investments | 65,647 | 265,332 | 282,865 | 511,430 |
| Total | 94,745 | 268,638 | 427,647 | 564,024 |

Cash and cash equivalents include cash in hand, bank deposits, and high liquidity short-term investments, which are readily convertible into known amounts of cash and that are subject to insignificant risk of change in value.

The Company holds its short-term financial investments with immediate liquidity in an exclusive extra-market fund, in a portfolio composed mostly of securities issued by the Federal Treasury, together with Banco do Brasil Distribuidora de Títulos e Valores Mobiliários S.A. – BB-DTVM and Caixa Econômica Federal, in accordance with specific legislation applicable to state-owned companies through Decree-Law 1,290, of 12/3/1973, and Resolution 4,034, of 11/30/2011, of the Brazilian Central Bank, which determined new mechanisms for the investments of state-owned companies and mixed private/state owned companies that comprise the Indirect Federal Administration (Note 7). These operations have daily liquidity and low risk, and received the following remuneration this year:

| | Remuneration | |
|-------------------------------------|--------------|------------------------|
| | Of the year | Of the fund at the CDI |
| Banco do Brasil Extram. Exclusivo 8 | 12.18% | 145.03% |
| FI Caixa Extramercado IV | 16.09% | 191.59% |
| FI Caixa Extramercado III | 12.49% | 148.73% |

Short-term investments include repurchase commitments that have a guarantee of daily repurchase by the financial institution at a rate previously agreed between the parties, and are backed by government bonds, with an average return of indices of the Brazilian Association of Financial and Capital Market Entities (ANBIMA) and fixed rates.

7 - MARKETABLE SECURITIES

| Parent | | | | | |
|--------------------|----------------------|---------------|-------------------------------|----------------|----------------|
| Source | Type of investment | Maturity | Remuneration | 12/31/2012 | 12/31/2011 |
| Minority interest | Shares | - | Interest on capital | 42 | 42 |
| | Provision for losses | | / Dividends | (11) | (9) |
| | | | | 31 | 33 |
| T.D.A. | - | Up to 2019 | Reference Rate (TR) + 3% p.a. | 7,671 | 7,625 |
| Federal Treasury | NTN-Series P | 7/9/2012 | TR + 6% p.a. | - | 373 |
| | NTN-Series P | 7/9/2014 | TR + 6% p.a. | 185 | 178 |
| | NTN-Series P | 12/28/2015 | TR + 6% p.a. | 345 | 332 |
| | | | | 530 | 883 |
| Exclusive fund | LFT | Up to 90 days | 11.42% p.a. | - | 914,071 |
| Exclusive fund | LTN | Up to 90 days | 11.42% p.a. | 112,546 | - |
| Exclusive fund | NTN-Series B | Up to 90 days | 11.42% p.a. | 50,873 | - |
| Exclusive fund | NTN-Series F | Up to 90 days | 11.42% p.a. | 61,675 | - |
| | | | | 225,094 | 914,071 |
| TOTAL | | | | 233,326 | 922,612 |
| Current | | | | 229,018 | 917,439 |
| Non-current | | | | 4,308 | 5,173 |

| Consolidated | | | | | |
|--------------------|----------------------|---------------|---------------------|----------------|----------------|
| Source | Type of investment | Maturity | Remuneration | 12/31/2012 | 12/31/2011 |
| Minority interest | Shares | - | Interest on capital | 42 | 42 |
| | Provision for losses | | / Dividends | (11) | (9) |
| | | | | 31 | 33 |
| T.D.A. | - | Up to 2019 | TR + 3% p.a. | 7,671 | 7,625 |
| Federal Treasury | NTN-Series P | 7/9/2012 | TR + 6% p.a. | - | 373 |
| | NTN-Series P | 7/9/2014 | TR + 6% p.a. | 185 | 178 |
| | NTN-Series P | 12/28/2015 | TR + 6% p.a. | 345 | 332 |
| | | | | 530 | 883 |
| Exclusive fund | LFT | Up to 90 days | 11.42% p.a. | 370 | 914,071 |
| Exclusive fund | LTN | Up to 90 days | 11.42% p.a. | 112,973 | - |
| Exclusive fund | NTN-Series B | Up to 90 days | 11.42% p.a. | 50,919 | - |
| Exclusive fund | NTN-Series F | Up to 90 days | 11.42% p.a. | 61,674 | - |
| Exclusive fund | Bank Deposit | Up to 90 days | | 90,218 | |
| | Certificates (CDB) | | | | |
| | | | | 316,154 | 914,071 |
| TOTAL | | | | 324,386 | 922,612 |
| Current | | | | 319,923 | 917,439 |
| Non-current | | | | 4,463 | 5,173 |

The common and preferred shares mainly represent minority interests in companies of the Telecommunications Sector, adjusted to probable realizable values and recorded in current assets.

The Agrarian Debt Bonds (TDA) originate from expropriations by the Federal Government, for social interest reasons, for agrarian reform purposes, of rural properties belonging to the Company, pursuant to the Land Statute - Law 4,504, of 11/30/1964, and are classified as held to maturity. The bonds recorded in non-current assets/long-term receivables have maturities up to 2019.

The Series P National Treasury Notes (NTNs) originate from the sale of shares representing minority interests, deposited with the National Privatization Fund (FND), under Decree 1,068/1994, recorded in non-current assets/long-term receivables and classified as held to maturity.

The exclusive fund portfolio is substantially comprised of National Treasury Bonds (LTFs, LTNs and NTNs, Series B and F) and is classified as held for trading and measured at fair value through profit or loss.

8 - CUSTOMERS

The composition of short- and long-term trade receivables arising from the sale of electric energy and availability of the transmission system is as follows:

| | Parent | | | | | |
|--|----------------|---------------|-------------------|---------------|----------------|----------------|
| | Overdue | | | Total | | |
| | Not yet due | Up to 90 days | More than 90 days | Total | 12/31/2012 | 12/31/2011 |
| Industrial consumers: | | | | | | |
| Electric energy sales – Contracts | 78,801 | 4,547 | 94,273 | 98,820 | 177,621 | 153,437 |
| Concessionaires and grantees: | | | | | | |
| Electric energy sales – Contracts | 411,519 | 18,944 | 109,052 | 127,996 | 539,515 | 481,732 |
| Sales at CCEE | 26,948 | - | - | - | 26,948 | 29,091 |
| Connection to the transmission system | 7,906 | 471 | 15,905 | 16,376 | 24,282 | 21,753 |
| Transmission system | 143,594 | 1,840 | 24,321 | 26,161 | 169,755 | 161,718 |
| (-)Provision for impairment of trade receivables | - | - | (183,740) | (183,740) | (183,740) | (102,454) |
| TOTAL | 668,768 | 25,802 | 59,811 | 85,613 | 754,381 | 745,277 |
| Current | 649,197 | 25,802 | 59,811 | 85,613 | 734,810 | 745,277 |
| Non-current | 19,571 | - | - | - | 19,571 | - |
| | Consolidated | | | | | |
| | Overdue | | | Total | | |
| | Not yet due | Up to 90 days | More than 90 days | Total | 12/31/2012 | 12/31/2011 |
| Industrial consumers: | | | | | | |
| Electric energy sales – Contracts | 78,801 | 4,547 | 94,273 | 98,820 | 177,621 | 153,437 |
| Concessionaires and grantees: | | | | | | |
| Electric energy sales – Contracts | 411,519 | 18,944 | 109,052 | 127,996 | 539,515 | 481,732 |
| Sales at CCEE | 26,948 | - | - | - | 26,948 | 29,091 |
| Connection to the transmission system | 7,906 | 471 | 15,905 | 16,376 | 24,282 | 21,753 |
| Transmission system | 149,912 | 1,862 | 24,786 | 26,648 | 176,560 | 168,891 |
| (-)Provision for impairment of trade receivables | - | - | (183,740) | (183,740) | (183,740) | (102,454) |
| TOTAL | 675,086 | 25,824 | 60,276 | 86,100 | 761,186 | 752,450 |
| Current | 655,515 | 25,824 | 60,276 | 86,100 | 741,615 | 752,450 |
| Non-current | 19,571 | - | - | - | 19,571 | - |

• RENEOTIATED RECEIVABLES

A portion of the above-mentioned receivables has been renegotiated as follows:

| | Parent and Consolidated | |
|---|--------------------------------|-------------------|
| | 12/31/2012 | 12/31/2011 |
| Companhia Energética do Piauí S.A. | - | 3,064 |
| Ligas do Brasil S.A. | 17,520 | 14,228 |
| Celpe S.A. | 25,810 | 4,975 |
| Santana Têxtil | 3,462 | 1,384 |
| | 46,792 | 23,651 |
| (-) Provision for impairment of trade receivables | (17,520) | (14,228) |
| (-) Provision for adjustment to present value | (3,063) | - |
| Total | 26,209 | 9,423 |
| Current | 6,638 | 9,423 |
| Non-current | 19,571 | - |

The renegotiated receivables have the following characteristics:

- **Ligas do Brasil S.A. – Libra** – Debt Acknowledgement Agreement dated 9/1/2004 between Chesf and Ligas do Brasil S.A. - Libra, in the amount of R\$ 3,423, payable in 36 monthly installments, falling due as from 9/25/2004, monetarily restated based on the official interest (Selic) rate, plus interest of 1% p.m. The installments overdue since November 2005 were under court-ordered collection through Lawsuit 0126653-84.2009.8.17.0001, filed at the State Courts of Pernambuco, 24th Lower Civil Court. Because of the Agreement signed between Chesf and Libra, this lawsuit was cancelled on 5/5/2010. This transaction, however, referred only to the invoices for electric energy consumption maturing as from May 2010. Chesf filed a new Ordinary Collection Proceeding, with the 17th Lower Civil Court, Lawsuit 00282992-95.2010.8.17.0001, aimed at recovering the overdue receivables.

The Company maintained a provision for impairment of trade receivables for these amounts during the year.

- **Celpe S.A.** - Petition for a court-supervised recuperation, of R\$ 25,810, approved on 9/1/2012 by the Creditors Meeting. This amount will be paid by Celpe in 60 equal and successive monthly installments, without interest and monetary restatement. The Company maintains a provision of R\$ 3,063 for the adjustment to present value of these trade receivables.
- **Santana Têxtil** - Agreement 001/2012 of Acknowledgement and Payment of Debt of R\$ 4,055, payable in 24 installments; 002/2012 of R\$ 922, payable in 6 installments and 003/2012 of R\$ 955, payable in 6 installments; all from 6/18/2012, with their respective installments restated at the SELIC plus interest of 1% p.m.

• PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

| | Parent and Consolidated | | |
|------------------------------|--------------------------------|------------------|-------------------|
| | 12/31/2011 | Provision | 12/31/2012 |
| Industrial consumers | (98,150) | 240 | (97,910) |
| Concessionaries and grantees | (1,644) | (81,526) | (83,170) |
| Others | (2,660) | - | (2,660) |
| Current | (102,454) | (81,286) | (183,740) |

The Provision for Impairment of Trade Receivables is recognized at an amount considered sufficient by Management to cover probable losses on accounts receivable, the recovery of which is considered to be unlikely. It is calculated based on an individual analysis of past-due receivables in order to properly

evaluate accounts that are likely to remain uncollectible, considering Management's experience in relation to actual losses, existence of collateral, among others.

9 – RECEIVABLES – LAW 12,783/2013

| | Parent | | Consolidated | |
|--------------------|------------------|------------|------------------|------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| Receivables | 4,736,747 | - | 4,736,747 | - |
| | 4,736,747 | - | 4,736,747 | - |
| Non-current | | | | |
| Receivables | 2,719,769 | - | 2,719,769 | - |
| | 2,719,769 | - | 2,719,769 | - |
| | 7,456,516 | - | 7,456,516 | - |

The balances refer to the indemnification amounts receivable from the concession authority, arising from the facilities contemplated with the renewal of public service concessions, arising from Provisional Measure 579/2012, converted into Law 12,783/2013, which will be received and restated at the IPCA, as follows: 50% cash, payable in up to 45 days from the date of the signature of the addendum to the concession contract and 50% in monthly installments, payable up to the maturity date of the concession contract in effect on the date of publication of Ordinance 580/2012, both portions increased by the remuneration at the Weighted Average Cost of Capital (WACC) of 5.59% real per annum, as from the first day of the month in which the addendum to the concession contract was signed.

10 – TAXES AND CONTRIBUTIONS

a) Composition

| | Parent | | Consolidated | |
|---------------------|------------------|----------------|------------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| Taxes recoverable | 177,508 | 12,898 | 200,041 | 21,964 |
| | 177,508 | 12,898 | 200,041 | 21,964 |
| Non-current | | | | |
| Taxes recoverable | 134,193 | 189,545 | 233,629 | 256,073 |
| Deferred tax assets | 1,723,105 | 376,758 | 1,759,171 | 404,077 |
| | 1,857,298 | 566,303 | 1,992,800 | 660,150 |
| | 2,034,806 | 579,201 | 2,192,841 | 682,114 |

b) Taxes recoverable

| | Parent | | Consolidated | |
|-------------------------|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| IRPJ/CSLL - prepayments | 167,672 | 874 | 174,211 | 6,654 |
| Withholding income tax | 82 | 82 | 4,222 | 2,721 |
| Finsocial | 1,961 | 1,717 | 1,961 | 1,717 |
| PIS/PASEP | 1,191 | 1,613 | 3,087 | 1,633 |
| COFINS | 5,486 | 7,430 | 14,214 | 7,514 |
| Others | 1,116 | 1,182 | 2,346 | 1,725 |
| | 177,508 | 12,898 | 200,041 | 21,964 |
| Non-current | | | | |
| Withholding income tax | - | - | - | 707 |
| Finsocial | 6,030 | 12,020 | 6,030 | 12,020 |
| PIS/PASEP | - | - | 17,737 | 11,741 |
| COFINS | 128,163 | 177,525 | 209,862 | 231,605 |
| | 134,193 | 189,545 | 233,629 | 256,073 |
| | 311,701 | 202,443 | 433,670 | 278,037 |

PIS/PASEP and COFINS – Unconstitutionality of the increase in the calculation basis

The Federal Supreme Court (STF) declared the unconstitutionality of paragraph 1 of Article 3 of Law 9,718/1998, which increased the PIS/PASEP and COFINS (taxes on revenues) calculation basis and changed the concept of billing, which started to include all the revenues of a legal entity, regardless of the type of activity carried out and the accounting classification adopted. This paragraph was not supported by the constitution and was subsequently amended.

This decision only benefited the companies that filed extraordinary appeals which have already been finally judged. Based on the National Tax Code (CTN), the Company filed, on June 9, 2005, an administrative appeal at the Brazilian Federal Revenue Secretariat seeking recognition of the right to reimbursement of overpaid amounts resulting from the declaration by the STF of the unconstitutionality of the increase in the calculation basis of these taxes.

The aforementioned appeal was denied by the Brazilian Federal Revenue Secretariat and the Company filed ordinary lawsuits to recover the PIS/PASEP and COFINS credits and obtained a favorable decision.

However, when the Federal Supreme Court (STF) analyzed the constitutionality of the application of the Supplementary Law 118/2005 (RE 566,621/RS), it concluded that the prescriptive period of 10 years only applies to the claims filed or administrative proceedings presented up to June 8, 2005. Considering this understanding of the Supreme Court, the Federal Government (Federal Finance Department) contested the settlement of the judgment amount (calculation of the amounts) and also filed an indemnity lawsuit with the Federal Regional Court of the 5th Region, aiming at partially rejecting the decision favorable to the Company, which would represent a reduction of the amounts due.

In view of the position taken by the Federal Supreme Court (STF), it is probable that the resources pending judgment will return to the respective originating organizations to await the orientation of the Constitutional Court.

Based on the opinion of its legal advisors on the lawsuit referring to the COFINS, whose judgment was final and unappealable, and in accordance with Technical Communication 05/2009 of Ibracon and CVM Resolution 594/2009, the Company maintains recognized in "taxes and contributions recoverable", the estimated amount of the credit claimed at the probable realization amount (adjusted original amount), corresponding to R\$ 128,163, which will be offset in the future against federal taxes payable by the Company.

The Company also has, in a similar claim awaiting judgment, a possible PIS/PASEP tax credit, not recorded, referring to the period from February 1999 to November 2002, which, restated up to the end of this year, amounts to R\$ 14,347, which will be offset in the future with federal taxes due by the Company.

c) Deferred tax assets

• Income tax and social contribution

The Company has recognized deferred tax assets in the amount of R\$ 1,723,105, in non-current assets, pursuant to Technical Pronouncements CPC 26 (IAS 1) and 32 (IAS 12), approved by CVM Resolutions 595 and 599, both of 9/15/2009, resulting from temporary differences, as follows:

| | Parent | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Temporary differences | | | | |
| . DNAEE Agreement 250/1985 – restated credit generated in 1994* | - | 77,077 | - | 77,077 |
| . Provision for contingencies | 1,283,546 | 416,076 | 1,283,809 | 416,076 |
| . Provision for impairment of trade receivables | 198,533 | 102,454 | 198,533 | 102,454 |
| . Provision for losses – studies and projects | 10,882 | 10,882 | 10,882 | 10,882 |
| . Initial adjustments arising from Law 11,638/2007 | - | - | - | 13,627 |
| . Life insurance provision – Actuarial assessment | 81,922 | 81,922 | 81,922 | 81,922 |
| . Adoption of new practices - BRGAAP | 3,985,503 | 714,357 | 3,998,611 | 714,357 |
| . Other provisions | 123,948 | 119,694 | 185,232 | 154,069 |
| | 5,684,334 | 1,522,462 | 5,758,989 | 1,570,464 |
| Tax loss | - | - | 31,421 | 32,543 |
| Social contribution losses | - | - | 31,421 | 32,543 |
| Tax credits | | | | |
| . Income tax on temporary differences | 1,211,515 | 246,673 | 1,230,178 | 258,674 |
| . Income tax on tax loss | - | - | 7,856 | 8,087 |
| . Social contribution on temporary differences | 511,590 | 130,085 | 518,309 | 134,405 |
| . Social contribution on loss carryforwards | - | - | 2,828 | 2,911 |
| Non-current | 1,723,105 | 376,758 | 1,759,171 | 404,077 |

*Refers to income tax only.

These tax effects contemplate the application of 9% for social contribution and 15% for income tax on the calculation basis, with an additional of 10% for income tax, reduced to 6.25% during the fruition period of the tax incentive (Note 35), for the temporary differences which will affect the calculation of this incentive, in conformity with Law 9,430, of 12/30/1996.

The tax credits relating to Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL), arising from temporary differences – inflation effects recorded in property, plant and equipment, DNAEE Agreement 250/1985, provision for contingencies, provision for impairment of trade receivables, provision for losses – studies and projects, profit sharing, life insurance provision and adoption of new accounting practices (BRGAAP), - will be utilized in accordance with the realization of property, plant and equipment, the final outcome of the lawsuits, the reimbursement and collection from consumers and concessionaires, completion or allocation of studies and projects, payments to employees and changes in Post-Employment Benefits arising from the adoption of CPC 33 (IAS 19), approved by CVM Resolution 600, of 10/7/2009, respectively.

The realization of these assets is estimated as follows:

| | Parent (BRGAAP) | Consolidated (BRGAAP and IFRS) |
|------------|--------------------|--------------------------------------|
| 2013 | - | 7,564 |
| 2014 | 33,447 | 43,598 |
| 2015 | 24,825 | 37,424 |
| 2016 | 24,313 | 30,065 |
| After 2016 | 1,640,520 | 1,640,520 |
| | 1,723,105 | 1,759,171 |

• TRANSITIONAL TAX REGIME (RTT)

The Transitional Tax Regime (RTT), introduced by Provisional Measure 449/2008, converted into Law 11,941/2009, through which the calculation of IRPJ, CSLL, PIS/PASEP and COFINS, continues to be determined under the accounting methods and criteria defined by Law 6,404/1976, in effect until December 31, 2007.

Therefore, the deferred income tax and social contribution, calculated on the adjustments arising from the adoption of the new practices established by Law 11,638/2007 and the standards mentioned above, were recorded in these financial statements, when applicable, in compliance with Technical Pronouncement CPC 32 (IAS 12) and CVM Instruction 371/2002.

This regime will be in effect until a law is enacted establishing the tax effects of the new accounting practices, aimed at reaching tax neutrality.

11 - INVENTORIES

| | Parent and Consolidated | |
|---|-------------------------|---------------|
| | 12/31/2012 | 12/31/2011 |
| Raw materials for electric energy production | 6,391 | 6,511 |
| Material | | |
| Warehouse | 56,598 | 57,026 |
| For sale | 18,174 | 16,363 |
| Others | 3,821 | 2,845 |
| | 78,593 | 76,234 |
| Purchases in progress | - | 1,979 |
| Advances to suppliers | 396 | 374 |
| | 85,380 | 85,098 |

12 – PLEDGES AND RESTRICTED DEPOSITS

a) Composition

| | Parent | | Consolidated | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| Pledges and other restricted deposits | 11,003 | 11,003 | 13,653 | 36,297 |
| | 11,003 | 11,003 | 13,653 | 36,297 |
| Non-current | | | | |
| Judicial deposits | 452,645 | 267,930 | 458,298 | 269,401 |
| Pledges and other restricted deposits | 30,149 | 27,855 | 31,767 | 33,022 |
| | 482,794 | 295,785 | 490,065 | 302,423 |
| | 493,797 | 306,788 | 503,718 | 338,720 |

b) Judicial deposits

| | Parent | | Consolidated | |
|--------------|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Labor | 131,530 | 114,121 | 131,532 | 114,122 |
| Civil | 243,185 | 80,701 | 244,723 | 82,171 |
| Tax | 77,930 | 73,108 | 82,043 | 73,108 |
| | 452,645 | 267,930 | 458,298 | 269,401 |

These amounts refer to lawsuits and administrative proceedings. Of the amount recorded in the parent company at 12/31/2012, R\$ 326,897 relates to the provisions for labor and civil lawsuits, in which the likelihood of loss is probable, as disclosed in Note 25.

c) Pledges and other restricted deposits

| | Parent | | Consolidated | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| Pledges for electric energy auctions | 11,000 | 11,000 | 11,000 | 11,000 |
| Letter of credit - BB | - | - | - | 25,283 |
| Investments - time deposits | - | - | 2,633 | - |
| Others | 3 | 3 | 20 | 14 |
| | 11,003 | 11,003 | 13,653 | 36,297 |
| Non-current | | | | |
| Letter of credit - BNB | 29,067 | 26,773 | 29,067 | 26,773 |
| Contract collateral - BNB | 1,082 | 1,082 | 1,082 | 1,082 |
| Contract reserve - BNDES | - | - | 1,618 | 1,300 |
| Letter of credit - BB | - | - | - | 3,867 |
| | 30,149 | 27,855 | 31,767 | 33,022 |
| | 41,152 | 38,858 | 45,420 | 69,319 |

13 – FINANCIAL ASSETS – PUBLIC SERVICE CONCESSIONS

The Company has signed concession contracts in the electric energy generation and transmission segment with the Concession Authority - the Federal Government represented by ANEEL -, and all of the contracts, by segment, are very similar in terms of rights and obligations of the concessionaire and the Concession Authority.

The transmission tariffs are controlled by ANEEL and are adjusted annually and reviewed every four years, aimed at maintaining the economic and financial balance of the contract, considering both the investments made by the Company and its cost and expense structure. The collection for the services is made directly to the users of the transmission lines, through the invoicing of the Authorized Annual Revenue (RAP), which is adjusted monthly by the National Electric System Operator (ONS) by means of notices of credit.

The revenues and collection system for electric energy generation, through the definition of the price and the sale of electric energy, is effected through contracts signed with the distribution concessionaires, contracts for power booking and electric energy supply signed with industrial consumers directly served by the Company, contracts arising from electric energy auctions held by the Electric Energy Trading Chamber (CCEE), as well as through electric energy sales and purchase auctions held by traders or free consumers. Potential differences between the electric energy generated and on the manner of accounting for sold under these contracts are traded on the short-term market through CCEE.

The concession terms and other information are described in Note 2.

ICPC 01 (IFRIC 12) and OCPC 05 provide guidelines for concessionaires on the manner of accounting for public utility services concessions and define the general principles of recognition and measurement of rights and obligations related to the concession contracts of these services.

ICPC 01 (IFRIC 12) applies to public-private concession contracts in which the Concession Authority:

- Controls or regulates the types of services that can be provided using underlying infrastructures;
- Controls or regulates the price for the services provided;
- Controls/holds significant interest in the infrastructure at the end of the concession period.

According to ICPC 01 (IFRIC 12), a public-private concession must have the following characteristics:

- There is an underlying infrastructure in the concession which is utilized to provide services;
- There is an agreement/contract between the concession grantor and the operator;

- The operator provides a series of services during the concession;
- The operator receives remuneration during the entire concession contract period, either directly from the concession grantor or from the users of the infrastructures, or from both;
- The infrastructures are transferred to the concession grantor at the end of the concession, with or without a charge.

ICPC 01 (IFRIC 12) is applicable through the utilization of the Financial Model for the electric energy transmission business.

In view of the adoption of these standards and as a result of the electric energy transmission public utility service concession contract, which grants it the right to charge for the use of the concession's infrastructure, the Company and its jointly-controlled subsidiaries recognized a Financial Asset corresponding to the remuneration for the use of the infrastructure and an indemnifiable Financial Asset corresponding to the amount payable by the Concession Authority.

As of December 31, 2012, the Company had R\$ 1,343,489 receivable from the Concession Authority, after the effects of Law 12,783/2013, related to the expected amount receivable at the end of the concessions (R\$ 4,245,062, as of December 31, 2011). The amounts of the financial assets - Authorized Annual Revenue receivable during the concession were recognized at the difference between the fair value of the financial assets - public service concession and the financial assets – indemnifiable, which represents the lower amount between the residual book value and the new replacement value, of the assets constructed or acquired for the rendering of concession services at the termination of the contract.

The fair value of the financial asset is calculated based on the cash flow of the contracts, which contemplate cash inflows estimated through the Authorized Annual Revenue, less the portion corresponding to costs of operation and maintenance of the assets, in addition to the indemnity due at the termination of the concession contract, restated by the corresponding internal return rate.

After the issue of Law 12,783/2013, a part of the extended transmission facilities was indemnified. The facilities related to the Basic Network of Existing Service (RBSE) remained and their indemnification was measured at the lower between the residual book value and the new replacement value, and are presented in the indemnifiable financial asset item. These amounts are expected to be received in up to 30 years.

The changes in financial assets in 2012 were as follows:

| Transmission | Parent | | | | | | |
|---|-----------------------|---------|----------|--------------|-----------------------|-------------------------------|--------------------------------------|
| | Balance 12/31/2011 | Changes | | | Balance 12/31/2012 | Effects of Law 12,783/2013 | Balances after Law 12,783/2013 |
| | | New | Updating | Amortization | | | |
| Indemnifiable financial asset | 4,245,062 | 325,682 | - | - | 4,570,744 | (3,227,255) | 1,343,489 |
| Financial asset – Authorized Annual Revenue | 1,826,919 | 276,787 | 684,098 | (933,238) | 1,854,566 | (521,327) | 1,333,239 |
| Total | 6,071,981 | 602,469 | 684,098 | (933,238) | 6,425,310 | (3,748,582) | 2,676,728 |

| Transmission | Consolidated | | | | | | |
|---|-----------------------|-----------|----------|--------------|-----------------------|-------------------------------|-----------------------|
| | Balance 12/31/2011 | Changes | | | Balance 12/31/2012 | Effects of Law 12,783/2013 | Balances after Law |
| | | New | Updating | Amortization | | | |
| Indemnifiable financial asset | 4,291,092 | 379,444 | 5,201 | - | 4,675,737 | (3,227,255) | 1,448,482 |
| Financial asset – Authorized Annual Revenue | 2,809,144 | 759,973 | 802,632 | (1,006,928) | 3,364,821 | (521,327) | 2,843,494 |
| Total | 7,100,236 | 1,139,417 | 807,833 | (1,006,928) | 8,040,558 | (3,748,582) | 4,291,976 |

14 - OTHER ASSETS

| | Parent | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| Advances to employees | 4,542 | 19,125 | 4,864 | 19,344 |
| Loans to third parties | 3,427 | 2,323 | 3,427 | 2,323 |
| Sales in progress | 14,614 | 7,889 | 14,616 | 7,891 |
| Shutdowns in progress | 15,641 | 18,098 | 15,777 | 18,233 |
| Insurance premiums | 2,941 | 2,914 | 11,879 | 8,023 |
| Reimbursable expenses | 6,893 | 4,432 | 6,893 | 4,432 |
| Sales of assets and rights | 1,461 | 1,473 | 1,461 | 1,473 |
| Advances to suppliers | 12,889 | 8,490 | 13,155 | 8,693 |
| Advances to Eletropar | 5,279 | 5,279 | 5,279 | 5,279 |
| Dividends receivable | 6,821 | 13,293 | 3,089 | 4,252 |
| Services provided to third parties | 8,700 | 6,335 | 32,781 | 21,556 |
| Services in progress | 100,330 | 92,244 | 104,005 | 93,354 |
| Other operating provisions | (14,793) | - | (14,793) | - |
| Others | 6,617 | 7,839 | 8,583 | 9,528 |
| | 175,362 | 189,734 | 211,016 | 204,381 |
| Non-current | | | | |
| Advances to Eletropar | 1,456 | 1,456 | 1,456 | 1,456 |
| Government Severance Indemnity Fund for Employees (FGTS) – Company account | 4,058 | 3,926 | 4,058 | 3,926 |
| Insurance premiums | - | - | 13,766 | 13,171 |
| Assets intended for sale | 7,129 | 12,122 | 7,129 | 12,128 |
| Global Reversion Reserve | - | 9,965 | - | 9,965 |
| Others | 45,263 | 13,228 | 28,403 | 13,242 |
| | 57,906 | 40,697 | 54,812 | 53,888 |
| Total | 233,268 | 230,431 | 265,828 | 258,269 |

15 - INVESTMENTS

Composition:

| | Parent | | Consolidated | |
|---|------------------|------------------|---------------|---------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| 1. Ownership interests | | | | |
| <u>Associate</u> | | | | |
| · Energética Águas da Pedra S.A. | 86,707 | 75,638 | 86,707 | 75,638 |
| <u>Jointly-controlled companies</u> | | | | |
| · STN - Sistema de Transmissão Nordeste S.A. | 188,861 | 195,267 | - | - |
| · Integração Transmissora de Energia S.A. | 35,646 | 31,692 | - | - |
| · Interligação Elétrica do Madeira S.A. | 274,366 | 179,878 | - | - |
| · ESBP Participações S.A. | 939,825 | 554,408 | - | - |
| · Manaus Transmissora de Energia S.A. | 187,758 | 122,268 | - | - |
| · Manaus Construtora Ltda. | 15,410 | 6,392 | - | - |
| · TDG - Transmissora Delmiro Gouveia S.A. | 45,183 | 15,235 | - | - |
| · Norte Energia S.A. | 409,824 | 217,672 | - | - |
| · Pedra Branca S.A. | 13,504 | 1,737 | - | - |
| · São Pedro do Lago S.A. | 14,098 | 1,803 | - | - |
| · Sete Gameleiras S.A. | 19,810 | 1,850 | - | - |
| · Interligação Elétrica Garanhuns S.A. | 14,956 | 980 | - | - |
| · Usina de Energia Eólica Junco I S.A. | 106 | - | - | - |
| · Usina de Energia Eólica Junco II S.A. | 111 | - | - | - |
| · Usina de Energia Eólica Caiçara I S.A. | 114 | - | - | - |
| · Usina de Energia Eólica Caiçara II S.A. | 67 | - | - | - |
| · Extremoz Transmissora do Nordeste - ETN S.A. | 53 | - | - | - |
| | 2,246,399 | 1,404,820 | 86,707 | 75,638 |
| <u>Other ownership interests</u> | 545 | 535 | 545 | 535 |
| | 2,246,944 | 1,405,355 | 87,252 | 76,173 |
| 2. Other investments | | | | |
| • Assets and rights for future use – studies and projects | 2,419 | 2,250 | 2,419 | 2,250 |
| • Others | 1,093 | 1,093 | 1,093 | 1,093 |
| | 3,512 | 3,343 | 3,512 | 3,343 |
| Total | 2,250,456 | 1,408,698 | 90,764 | 79,516 |

STN - Sistema de Transmissão Nordeste S.A.

In accordance with the Federal Government's policy of attracting private capital to increase investments in the Electric Sector, and as established by Law 10,438/2002, the Consortium AC Transmissão, formed by Chesf and Companhia Técnica de Engenharia Elétrica - Alusa, currently Alupar Investimentos S.A., took part in auction 001/2003-ANEEL for concessions of transmission lines, and was the winning bidder of Batch C, corresponding to a transmission line of 546 kilometers, in 500 kV, from Teresina-PI/Sobral to Fortaleza-CE, under Concession Contract 005/2004, formalized on February 18, 2004 with ANEEL, for a concession term of 30 years. Accordingly, the company STN - Sistema de Transmissão Nordeste S.A. was established on 10/27/2003, for the purpose of constructing and operating this transmission line. Alupar holds a 51% interest in STN, whereas Chesf is the holder of the remaining 49%. The construction was concluded in December 2005 and commercial operations started in January 2006.

Also in relation to the partnership, Chesf has contracts with STN for the operation and maintenance of this transmission line, and the revenue obtained from the provision of these services in 2012 totaled R\$ 2,134. The Company also recorded equity in the results of this investee in the amount of R\$ 17,615 in 2012.

Integração Transmissora de Energia S.A. - INTESA

The Company has a partnership in the electric energy transmission activity with the company Integração Transmissora de Energia S.A. - Intesa, established on 12/20/2005, and holds 12% of its capital. The business purpose of Intesa is the construction, implantation, operation and maintenance of the Electric Energy Transmission Utility Service of the Basic Network of the Interconnected Electric System - SIN, comprised of the 500 kV Colinas/Serra da Mesa 2 transmission line, 3rd circuit, line entries and associated facilities, with an extension of 695 km, pursuant to the provisions of Concession Contract 002/2006 - ANEEL, formalized with the Concession Authority on 4/27/2006, through the National Electric energy Agency (ANEEL), with a concession period of 30 years. The other stockholders of this company are: Fundo de Investimentos em Participações Brasil Energia – FIP, 51% and Eletronorte, 37%. Intesa's commercial operations started on 5/30/2008. The Company recorded equity in the results of this investee in the amount of R\$ 4,107 in 2012.

Energética Águas da Pedra S.A.

Energética Águas da Pedra S.A., established on 4/3/2007, is an associate of the Company in the electric energy generation activity. Chesf holds a 24.5% ownership interest in this company, and the other stockholders are Eletronorte (24.5%) and Neoenergia S.A. (51.0%). This company originated from Consortium Aripuanã, the winning bidder of Auction 004/2006-ANEEL, held on 10/10/2006, relating to the contracting of electric energy arising from new ventures, whose concession was subsequently granted within the Regulated Contracting Environment (ACR). The concession was for the installation of the Dardanelos Hydroelectric energy Plant, on Aripuanã River, located in the North of Mato Grosso State, with a capacity of 261 MW and total assured power of 154.9 average MW, to serve the municipality of Aripuanã and, subsequently, the National Interconnected System (SIN). The first machines became operational in 2011, and an average of 147 MW is expected to be sold for the period from 2011 to 2041. The concession period of the venture is 35 years, beginning on 7/3/2007, which is the date on which Concession Contract 002/2007-MME-UHE DARDANELOS was executed. The Company recorded equity in the results of this investee in the amount of R\$ 14,524 in 2012.

Interligação Elétrica do Madeira S.A.

In the transmission activity, the Company also holds an ownership interest in the associate Interligação Elétrica do Madeira S.A., which was established as a result of ANEEL Auction 007/2008. The Company holds a 24.5% interest in this company, and the other stockholders are the companies Furnas Centrais Elétricas S.A., 24.5%, and CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, 51%. Established on 12/18/2008, the purpose of this company is the construction, implantation, operation and maintenance of electric energy transmission facilities of the basic network of the National Interconnected System (SIN), more specifically of the transmission line Coletora Porto Velho (Rondônia State) - Araraquara 2 (São Paulo State) number 01, in direct current (DC), +/- 600 kV, with an extension of 2,375 km, Rectifier Station number 2 AC/DC, 500 kV/ +/- 600 kV – 3,150 MW, Inverter Station number 02 DC/AC +/- 600 kV/500 kV - 2950 MW and other supplementary projects, pursuant to Concession Contracts 13/2009-ANEEL and 15/2009-ANEEL. Operations are expected to begin in April 2013. The Company made a contribution of R\$ 67,620 to this associate in 2012 and recorded positive equity in the results of this company of R\$ 26,868 in that year.

ESBR Participações S.A.

The Company holds a 20% ownership interest in the company ESBR Participações S.A., established on 2/12/2009, a jointly-controlled subsidiary in the generation activity. The other stockholders of this company are Suez Energy South America Participações Ltda., 50.1%, Eletrosul Centrais Elétricas S.A., 20%, and Camargo Corrêa Investimentos em Infra-Estrutura S.A., 9.9%. In May 2009, ESBR Participações S.A. became the holder of all the shares of the company Energia Sustentável do Brasil S.A. The Company entered into an association with the aforementioned companies to take part in Auction 005/2008-ANEEL, which generated the company Energia Sustentável do Brasil S.A., in order to obtain the concession and trading rights of the electric energy generated by the Jirau Hydroelectric energy Plant on the Madeira River, in the municipality of Porto Velho, capital of the State of Rondônia,

with a minimum installed capacity of 3,750 MW. Operations are expected to commence in April 2013. The concession period of this venture is 35 years, beginning on 8/13/2008, the date on which Concession Contract 002/2008 - MME-UHE JIRAU was executed. The Company made a capital contribution of R\$ 390,000 in 2012 and recorded equity accounting losses classified with other comprehensive income (expense) in the amount of R\$ 4,583 in that year.

Manaus Transmissora de Energia S.A.

This company was established on 4/22/2008 as a result of the Consortium Amazonas, for the implantation of the 500 kV Oriximiná (Pará State) - Silves (Amazonas State) transmission line, with an extension of approximately 335 km, and Silves (Amazonas State) - Lechuga (State of Amazonas) transmission line, with an extension of approximately 224 km, and the construction of the Silves Substation (formerly named Itacoatira) in 500/138 kV (150 MVA), and the Lechuga Substation (formerly named Cariri) in 500/230 kV (1800 MVA), pursuant to Concession Contract 010/2008 - ANEEL, with a concession period of 30 years, beginning on 10/16/2008, the date of execution of the contract. The Company holds 19.5% of this company's capital, and the other stockholders are the companies Abengoa Holding, from Spain, 50.5%, and Eletronorte, 30%, with the start-up of operations expected for March 2013. The Company made a capital contribution of R\$ 70,942 in 2012 and recorded net equity accounting losses in the amount of R\$ 5,452 in that year. Due to the difficulty in obtaining the operating licenses, there is a delay in the execution of the work. These are factors that do not depend on the Company's management and, therefore, the review of the terms established in the construction schedule are being negotiated with the Ministry of Mines and Energy, without any penalties.

Manaus Construtora Ltda.

Manaus Construtora Ltda. was established on January 30, 2009. The Company is a partner in this company in which it holds 19.5%. The other partners are Abengoa Holding (50.5%) and Eletronorte (30%). The purpose of this company is to construct, assemble and supply material, labor and equipment for the 500 kV Oriximiná/Cariri CD transmission line, the 500/138 kV Silves (former Itacoatiara) Substation and the 500/230 kV Lechuga (former Cariri) Substation, line entries and related facilities, as well as the other facilities required for the measurement, supervision, protection, command, control and telecommunication functions to be integrated into the Basic Network of the National Interconnected System. The Company recorded equity in the results of this investee in the amount of R\$ 3,556 in 2012.

TDG – Transmissora Delmiro Gouveia S.A.

The Company participated in the Consortium Nordeste de Transmissão de Energia, the winning bidder of Batch C of Auction 005/2009, held by the National Electric energy Agency (ANEEL) on November 27, 2009, for the construction, implantation, operation and maintenance of electric energy transmission facilities of the basic network of the National Interconnected System, particularly the São Luiz II - São Luiz III Transmission Line, in 230 kV, with an extension of 546 kilometers, located in the State of Maranhão, and substations Pecém II, in 500/230 kV (3,600 MVA) and Aquiraz II, in 230/69 kV (450 MVA), located in the State of Ceará. As a result of this consortium, on January 12, 2010, the company TDG – Transmissora Delmiro Gouveia S.A. was established in the city of Recife, capital of the State of Pernambuco, in which Chesf holds a 49% ownership interest, and the remaining 51% is held by ATP Engenharia Ltda. The concession period of the venture is 30 years beginning on July 12, 2010, the date on which Concession Contract 004/2010 ANEEL was signed, with the start-up of operations expected for July 2013. The Company made a capital contribution of R\$ 34,300 in 2012 and the negative equity in the results of this company recorded in that year was R\$ 4,352.

Norte Energia S.A.

The Company holds a 15% ownership interest in Norte Energia S.A. a company created on 7/21/2010, originating from the Consortium Norte Energia, the winner of Auction 006/2009-ANEEL, whose objective is the concession and sale of the electric energy from the Belo Monte Hydroelectric

energy Plant. The other stockholders are Eletrobras (15%); Eletronorte (19.98%); Fundação Petrobras de Seguridade Social – Petros (10%); J. Malucelli Energia S.A. (0.25%); Vale S.A. (9.00%); Caixa FIP Cevix (5%); Sinobras - Siderúrgica Norte Brasil S.A. (1.00%); Fundação dos Economistas Federais – Funcef (5%); Belo Monte Participações S.A. (10.00%); and Amazônia Energia Participações S.A. (9.77%). The Belo Monte Hydroelectric energy Plant will be built on the Xingu River, in the municipality of Vitória do Xingu, State of Pará. The minimum capacity to be installed is 11,233.1 MW, with a physical guarantee of 4,571 average MW and a reservoir with 516 square kilometers. The concession period is 35 years beginning on August 26, 2010, the date on which Concession contract 001/2010-MME-UHE Belo Monte was executed. Operations are expected to begin in February 2015. The Company made a capital contribution of R\$ 198,000 in 2012 and recorded negative equity in the results of this company of R\$ 5,848 in that year.

Pedra Branca, São Pedro do Lago and Sete Gameleiras

The Company participated in the Pedra Branca, São Pedro do Lago and Sete Gameleiras consortiums - from which originated the companies Pedra Branca S.A., São Pedro do Lago S.A. and Sete Gameleiras S.A., created on October 7, 2010, which were the winners of Auction 007/2010-ANEEL, whose purpose was the contracting, in the Regulated Environment, of alternative energy generating sources. Supply is expected to begin in 2013, with a duration of thirty-five (35) years, from the Pedra Branca, São Pedro do Lago and Sete Gameleiras wind power generation parks to be installed in the municipality of Sento Sé, State of Bahia, each one with capacity to generate 30.0 MW. The Company made capital contributions in 2012 to these companies amounting to R\$ 11,885, R\$ 12,412 and R\$ 18,048, respectively, and recorded negative equity in the results of these investees of R\$ 118, R\$ 117 and R\$ 88, respectively in that year.

Extremoz Transmissora do Nordeste - ETN S.A.

The Company participated in the Extremoz Consortium that won Batch A at ANEEL Auction 001/2011 held on June 10, 2011, for the construction, assembly, operation and maintenance of the electric energy transmission facilities of the Basic Network of the National Interconnected System, especially the 64 km, 500 kV, simple circuit transmission line Ceará Mirim – João Câmara II, with 201 km, 500 kV, simple circuit transmission line Ceará Mirim – Campina Grande III, with 26 km, 230 kV, simple circuit transmission line Ceará Mirim – Extremoz II, with 8.5 km, 230 kV, simple circuit transmission line Campina Grande III – Campina Grande II, with 6 km, 230 kV simple circuit transmission line J. Câmara II/Extremoz/SE Ceará Mirim Sect., with 12.5 km, 230 kV simple circuit transmission line C. Grande II/Extremoz II, C1 and C2 Sect., 500 kV João Câmara II substation, 500/230 kV Campina Grande III substation, 500/230 kV Ceará Mirim substation, and transmission facilities of exclusive interest to generation plants for shared connection (ICG), 500/138 kV transformer bank in the João Câmara II substation. As a result of this consortium, Extremoz Transmissora do Nordeste - ETN S.A. was established on July 7, 2011, which is owned 49% by Chesf and 51% by CTEEP - Companhia de Transmissão de Energia Elétrica Paulista com 51%. The concession period is 30 years for transmission facilities that will compose the Basic Network and 18 years for transmission facilities of exclusive interest to generation plants for shared connection (ICG), starting from October 13, 2011, pursuant to ANEEL Concession Contract 008/2011. Operations are expected to begin in August 2013. The Company recorded positive equity in the results of R\$ 53 in 2012.

Interligação Elétrica Garanhuns S.A.

As a result of the Garanhuns Consortium that won Batch L of ANEEL Auction 004/2011 held on September 2, 2011, for the construction, assembly, operation and maintenance of the electric energy transmission facilities of the Basic Network of the National Interconnected System, specifically the 224 km, 500 kV Luis Gonzaga – Garanhuns transmission line; the 190 km, 500 kV Garanhuns – Campina Grande III transmission line; the 239 km, 500 kV Garanhuns – Pau Ferro transmission line; the 13 km, 230 kV Garanhuns – Angelim I transmission line; the 500/230 kV Garanhuns substation; the 500/230 kV Pau Ferro substation, Interligação Elétrica Garanhuns S.A. was established on September 22, 2011, owned 49% by Chesf and 51% by CTEEP - Companhia de Transmissão de Energia Elétrica Paulista. The concession period of this venture is 30 years, beginning on 12/9/2011, the date on which Concession

Contract 022/2011 - ANEEL was executed. Operations are expected to begin in June 2014. The Company made a capital contribution in 2012 in the amount of R\$ 13,721 and recorded positive equity in the results of R\$ 255.

Junco I, Junco II, Caiçara I and Caiçara II Wind Power Plants.

The Company, in a consortium with the French company Voltalia, won ANEEL Auction 007/2011 held on December 20, 2011, which was approved and awarded on 3/6/2012, the purpose of which was the purchase of electric energy from new wind power generating facilities. The Junco I and II power plants will be constructed in the municipality of Jijoca de Jericoacoara, and the Caiçara I and II power plants, with a capacity of 30 MW and 21 MW, respectively, will be constructed in the municipality of Cruz, in the State of Ceará, and will represent a total installed capacity of 111.0 MW, with the start-up of operations expected for January 2016. The Company and Voltalia will each own 49% and 51% of these four wind power projects, respectively, through the companies Usina de Energia Eolica Junco I S.A., Usina de Energia Eolica Junco II S.A., Usina de Energia Eolica Caiçara I S.A. and Usina de Energia Eolica Caiçara II S.A., established in March 2012. The Company made capital contributions in 2012 to these Special Purpose Entities (SPEs) amounting to R\$ 144, R\$ 144 and R\$ 96, respectively, and recorded negative equity of R\$ 38, R\$ 33, R\$ 30 and R\$ 29, respectively, in that year.

Equity in the results of subsidiaries

| Associates and jointly-controlled companies | Ownership (%) | Investment | Equity of the investees | Profit (Loss) of the investees as of 11/30/2012 | Equity in the results of investees | Other comprehensive income (loss) |
|--|---------------|------------|-------------------------|---|------------------------------------|-----------------------------------|
| <u>Associate</u> | | | | | | |
| Energética Águas da Pedra S.A. | 24.5 | 86,707 | 353,906 | 59,283 | 14,524 | - |
| <u>Jointly-owned subsidiaries</u> | | | | | | |
| STN – Sistema de Transmissão Nordeste S.A. | 49.0 | 188,861 | 385,431 | 35,949 | 17,615 | - |
| Integração Transmissora de Energia S.A. | 12.0 | 35,646 | 297,048 | 34,219 | 4,107 | - |
| Interligação Elétrica do Madeira S.A. | 24.5 | 274,366 | 1,119,863 | 109,667 | 26,868 | - |
| ESBR Participações S.A. | 20.0 | 939,825 | 4,699,124 | (21,760) | (4,352) | (231) |
| Manaus Transmissora de Energia S.A. | 19.5 | 187,758 | 962,864 | (27,957) | (5,452) | - |
| Manaus Construtora Ltda. | 19.5 | 15,410 | 79,024 | 18,235 | 3,556 | - |
| TDG -Transmissora Delmiro Gouveia S.A. | 49.0 | 45,183 | 92,209 | (8,882) | (4,352) | - |
| Norte Energia S.A. | 15.0 | 409,824 | 2,732,162 | (38,984) | (5,848) | - |
| Pedra Branca S.A. | 49.0 | 13,504 | 27,560 | (240) | (118) | - |
| São Pedro do Lago S.A. | 49.0 | 14,098 | 28,770 | (240) | (117) | - |
| Sete Gameleiras S.A. | 49.0 | 19,810 | 40,430 | (181) | (88) | - |
| Interligação Elétrica Garanhuns S.A. | 49.0 | 14,956 | 30,521 | 520 | 255 | - |
| Usina de Energia Eólica Junco I S.A. | 49.0 | 106 | 217 | (77) | (38) | - |
| Usina de Energia Eólica Junco II S.A. | 49.0 | 111 | 227 | (67) | (33) | - |
| Usina de Energia Eólica Caiçara I S.A. | 49.0 | 114 | 233 | (61) | (30) | - |
| Usina de Energia Eólica Caiçara II S.A. | 49.0 | 67 | 136 | (60) | (29) | - |
| Extremoz Transmissora do Nordeste - ETN S.A. | 49.0 | 53 | 108 | 108 | 53 | - |

Changes in Investments

| Associates and jointly-controlled companies | 12/31/2011 | Capital increase | Equity in the results | Other comprehensive income (loss) | Dividends | 12/31/2012 |
|--|------------------|------------------|-----------------------|-----------------------------------|-----------------|------------------|
| <u>Associate</u> | | | | | | |
| Energética Águas da Pedra S.A. | 75,638 | - | 14,524 | - | (3,455) | 86,707 |
| <u>Jointly-owned subsidiaries</u> | | | | | | |
| STN – Sistema de Transmissão Nordeste S.A. | 195,267 | - | 17,615 | - | (24,021) | 188,861 |
| Integração Transmissora de Energia S.A. | 31,692 | - | 4,107 | - | (153) | 35,646 |
| Interligação Elétrica do Madeira S.A. | 179,878 | 67,620 | 26,868 | - | - | 274,366 |
| ESBR Participações S.A. | 554,408 | 390,000 | (4,352) | (231) | - | 939,825 |
| Manaus Transmissora de Energia S.A. | 122,268 | 70,942 | (5,452) | - | - | 187,758 |
| Manaus Construtora Ltda. | 6,392 | - | 3,556 | - | 5,462 | 15,410 |
| TDG -Transmissora Delmiro Gouveia S.A. | 15,235 | 34,300 | (4,352) | - | - | 45,183 |
| Norte Energia S.A. | 217,672 | 198,000 | (5,848) | - | - | 409,824 |
| Pedra Branca S.A. | 1,737 | 11,885 | (118) | - | - | 13,504 |
| São Pedro do Lago S.A. | 1,803 | 12,412 | (117) | - | - | 14,098 |
| Sete Gameleiras S.A. | 1,850 | 18,048 | (88) | - | - | 19,810 |
| Interligação Elétrica Garanhuns S.A. | 980 | 13,721 | 255 | - | - | 14,956 |
| Usina de Energia Eólica Junco I S.A. | - | 144 | (38) | - | - | 106 |
| Usina de Energia Eólica Junco II S.A. | - | 144 | (33) | - | - | 111 |
| Usina de Energia Eólica Caiçara I S.A. | - | 144 | (30) | - | - | 114 |
| Usina de Energia Eólica Caiçara II S.A. | - | 96 | (29) | - | - | 67 |
| Extremoz Transmissora do Nordeste - ETN S.A. | - | - | 53 | - | - | 53 |
| TOTAL | 1,404,820 | 817,456 | 46,521 | (231) | (22,167) | 2,246,399 |

Summary of the Financial Statements of the Associates and jointly-controlled subsidiaries

BALANCE SHEET

| Companies | 2012 | | | | | | | | 2011 | | | | | | | |
|--|-----------|-------------|--------------------------------------|------------|-------------|-------------|------------|------------|-----------|-------------|--------------------------------------|------------|-------------|-------------|-----------|------------|
| | Assets | | | | Liabilities | | | | Assets | | | | Liabilities | | | |
| | Current | Non-current | | Total | Current | Non-current | Equity | Total | Current | Non-current | | Total | Current | Non-current | Equity | Total |
| | | Others | PP&E, intang. assets and investments | | | | | | | Others | PP&E, intang. assets and investments | | | | | |
| Energética Águas da Pedra S.A. | 94,229 | 23,077 | 781,798 | 899,104 | 95,581 | 449,617 | 353,906 | 899,104 | 62,431 | 1,723 | 797,135 | 861,289 | 70,696 | 481,867 | 308,726 | 861,289 |
| ESBR Participações S.A. | 800,924 | 580,233 | 13,111,699 | 14,492,856 | 661,617 | 9,132,115 | 4,699,124 | 14,492,856 | 960,849 | 416,106 | 8,625,357 | 10,002,312 | 549,213 | 6,681,058 | 2,772,041 | 10,002,312 |
| STN - Sistema de Transmissão Nordeste S.A. | 169,916 | 532,203 | 766 | 702,885 | 41,250 | 276,204 | 385,431 | 702,885 | 157,937 | 520,576 | 847 | 679,360 | 29,101 | 251,755 | 398,504 | 679,360 |
| Integração Transmissora de Energia S.A. | 110,520 | 510,102 | - | 620,622 | 62,482 | 261,092 | 297,048 | 620,622 | 103,176 | 515,519 | - | 618,695 | 47,025 | 307,568 | 264,102 | 618,695 |
| Interligação Elétrica do Madeira S.A. | 430,028 | 2,854,984 | 375 | 3,285,387 | 391,478 | 1,774,046 | 1,119,863 | 3,285,387 | 154,030 | 1,477,496 | 331 | 1,631,857 | 869,739 | 27,922 | 734,196 | 1,631,857 |
| Manaus Transmissora de Energia S.A. | 223,878 | 1,839,593 | - | 2,063,471 | 315,414 | 785,193 | 962,864 | 2,063,471 | 100,693 | 1,357,311 | - | 1,458,004 | 816,587 | 14,403 | 627,014 | 1,458,004 |
| Manaus Construtora Ltda | 137,484 | 406 | - | 137,890 | 58,866 | - | 79,024 | 137,890 | 83,762 | - | - | 83,762 | 50,980 | - | 32,782 | 83,762 |
| TDG - Transmissora Delmiro Gouveia S.A. | 72,064 | 246,921 | 104 | 319,089 | 213,775 | 13,105 | 92,209 | 319,089 | 32,253 | 73,763 | 110 | 106,126 | 68,735 | 6,299 | 31,092 | 106,126 |
| Norte Energia S.A. | 775,659 | 80,626 | 6,724,029 | 7,580,314 | 4,694,329 | 153,823 | 2,732,162 | 7,580,314 | 407,209 | 34,448 | 2,468,397 | 2,910,054 | 1,313,891 | 145,017 | 1,451,146 | 2,910,054 |
| Pedra Branca S.A. | 3,626 | 35 | 88,611 | 92,272 | 64,708 | 4 | 27,560 | 92,272 | 1,099 | 14 | 23,364 | 24,477 | 20,929 | 4 | 3,544 | 24,477 |
| São Pedro do Lago S.A. | 4,527 | - | 88,377 | 92,904 | 64,134 | - | 28,770 | 92,904 | 919 | 18 | 24,367 | 25,304 | 21,625 | - | 3,679 | 25,304 |
| Sete Gameleiras S.A. | 11,069 | - | 90,416 | 101,485 | 61,055 | - | 40,430 | 101,485 | 1,011 | 14 | 26,418 | 27,443 | 23,667 | - | 3,776 | 27,443 |
| Interligação Elétrica Garanhuns S.A. | 26,303 | 30,178 | 211 | 56,692 | 674 | 25,497 | 30,521 | 56,692 | 2,000 | - | - | 2,000 | - | - | 2,000 | 2,000 |
| Usina de Energia Eólica Junco I S.A. | 116 | - | 102 | 218 | 1 | - | 217 | 218 | - | - | - | - | - | - | - | - |
| Usina de Energia Eólica Junco II S.A. | 141 | - | 87 | 228 | 1 | - | 227 | 228 | - | - | - | - | - | - | - | - |
| Usina de Energia Eólica Caiçara I S.A. | 106 | - | 127 | 233 | - | - | 233 | 233 | - | - | - | - | - | - | - | - |
| Usina de Energia Eólica Caiçara II S.A. | 55 | - | 82 | 137 | 1 | - | 136 | 137 | - | - | - | - | - | - | - | - |
| Extremoz Transmissora do Nordeste - ETN S.A. | 24,811 | 9,861 | 105 | 34,777 | 131 | 34,538 | 108 | 34,777 | - | - | - | - | - | - | - | - |
| Total | 2,885,456 | 6,708,219 | 20,886,889 | 30,480,564 | 6,725,497 | 12,905,234 | 10,849,833 | 30,480,564 | 2,067,369 | 4,396,988 | 11,966,326 | 18,430,683 | 3,882,188 | 7,915,893 | 6,632,602 | 18,430,683 |

Note: Base date of the financial statements, as per Note 5.
(PP&E - Property, plant and equipment)

STATEMENT OF OPERATIONS

| Companies | 2012 | | | | | | | | 2011 | | | | | | | |
|--|-----------------------|--------------------|----------------|------------------------|--------------------------|------------------------------------|----------------|----------------------------|-----------------------|--------------------|----------------|------------------------|-----------------------------|------------------------------------|----------------|----------------------------|
| | Net operating revenue | Operating expenses | Service result | Finance income (costs) | Operating income (costs) | Income tax and social contribution | Tax incentives | Profit (loss) for the year | Net operating revenue | Operating expenses | Service result | Finance income (costs) | Operating income (expenses) | Income tax and social contribution | Tax incentives | Profit (loss) for the year |
| Energética Águas da Pedra S.A. | 180,676 | (59,994) | 120,682 | (33,277) | 87,405 | (28,122) | - | 59,283 | 155,416 | (61,819) | 93,597 | (12,666) | 80,931 | (4,996) | - | 75,935 |
| ESBR Participações S.A. | (87) | (35,645) | (35,732) | 4,541 | (31,191) | 9,431 | - | (21,760) | 87 | (32,095) | (32,008) | 4,445 | (27,563) | 9,333 | - | (18,230) |
| STN - Sistema de Transmissão Nordeste S.A. | 137,365 | (16,841) | 120,524 | (31,105) | 89,419 | (67,315) | 13,845 | 35,949 | 114,658 | (17,012) | 97,646 | (27,524) | 70,122 | (21,399) | 9,061 | 57,784 |
| Integração Transmissora de Energia S.A. | 78,381 | (12,151) | 66,230 | (24,263) | 41,967 | (13,580) | 5,832 | 34,219 | 68,616 | (10,342) | 58,274 | (26,146) | 32,128 | (10,746) | 4,410 | 25,792 |
| Interligação Elétrica do Madeira S.A. | 1,493,442 | (1,327,316) | 166,126 | - | 166,126 | (56,459) | - | 109,667 | 875,174 | (807,938) | 67,236 | - | 67,236 | (22,860) | - | 44,376 |
| Manaus Transmissora de Energia S.A. | 548,832 | (517,260) | 31,572 | (76,587) | (45,015) | 17,058 | - | (27,957) | 695,086 | (678,888) | 16,198 | (72,946) | (56,748) | 15,517 | - | (41,231) |
| Manaus Construtora Ltda. | 43,224 | (15,957) | 27,267 | 64 | 27,331 | (9,096) | - | 18,235 | 73,715 | (21,024) | 52,691 | 997 | 53,688 | (8,175) | - | 45,513 |
| TDG - Transmissora Delmiro Gouveia S.A. | 179,154 | (170,957) | 8,197 | (18,739) | (10,542) | 1,660 | - | (8,882) | 73,763 | (71,062) | 2,701 | 4,153 | 6,854 | (2,330) | - | 4,524 |
| Norte Energia S.A. | - | (60,015) | (60,015) | 1,611 | (58,404) | 19,420 | - | (38,984) | - | (46,676) | (46,676) | 37,645 | (9,031) | 2,384 | - | (6,647) |
| Pedra Branca S.A. | - | (293) | (293) | 72 | (221) | (19) | - | (240) | - | (410) | (410) | 61 | (349) | (16) | - | (365) |
| São Pedro do Lago S.A. | - | (288) | (288) | 66 | (222) | (18) | - | (240) | - | (338) | (338) | 59 | (279) | (15) | - | (294) |
| Sete Gameleiras S.A. | - | (331) | (331) | 200 | (131) | (50) | - | (181) | - | (371) | (371) | 65 | (306) | (16) | - | (322) |
| Interligação Elétrica Garanhuns S.A. | 30,087 | (29,512) | 575 | 209 | 784 | (264) | - | 520 | - | - | - | - | - | - | - | - |
| Usina Energia Eólica Junco I S.A. | - | (77) | (77) | - | (77) | - | - | (77) | - | - | - | - | - | - | - | - |
| Usina Energia Eólica Junco II S.A. | - | (67) | (67) | - | (67) | - | - | (67) | - | - | - | - | - | - | - | - |
| Usina Energia Eólica Caiçara I S.A. | - | (61) | (61) | - | (61) | - | - | (61) | - | - | - | - | - | - | - | - |
| Usina Energia Eólica Caiçara II S.A. | - | (60) | (60) | - | (60) | - | - | (60) | - | - | - | - | - | - | - | - |
| Extremoz Transmissora do Nordeste - ETN S.A. | 9,861 | (9,732) | 129 | (8) | 121 | (13) | - | 108 | - | - | - | - | - | - | - | - |
| Total | 2,700,935 | (2,256,557) | 444,378 | (177,216) | 267,162 | (127,367) | 19,677 | 159,472 | 2,056,515 | (1,747,975) | 308,540 | (91,857) | 216,683 | (43,319) | 13,471 | 186,835 |

Note: Base date of the financial statements, as per Note 5.

16 – PROPERTY, PLANT AND EQUIPMENT

a) Segregated by nature and activity

| | | Parent | | | | | |
|---------------------------|---------------------------------------|------------------|--------------------------|------------------|--|------------------|-------------------|
| | | 31/12/2012 | | | | 12/31/2011 | |
| | Average annual depreciation rates (%) | Cost | Accumulated depreciation | Impairment | (-) Obligations linked to the concession | Net amount | Net amount |
| In service | | | | | | | |
| Generation | 2.35% | 1,797,252 | (1,083,754) | (400,135) | (65,258) | 248,105 | 9,960,204 |
| Administration | 6.83% | 1,243,950 | (710,995) | - | (30,025) | 502,930 | 516,694 |
| | | 3,041,202 | (1,794,749) | (400,135) | (95,283) | 751,035 | 10,476,898 |
| Under construction | | | | | | | |
| Generation | | 397,378 | - | - | - | 397,378 | 564,568 |
| Administration | | 222,981 | - | - | - | 222,981 | 132,401 |
| | | 620,359 | - | - | - | 620,359 | 696,969 |
| | | 3,661,561 | (1,794,749) | (400,135) | (95,283) | 1,371,394 | 11,173,867 |
| | | Consolidated | | | | | |
| | | 31/12/2012 | | | | 12/31/2011 | |
| | Average annual depreciation rates (%) | Cost | Accumulated depreciation | Impairment | (-) Obligations linked to the concession | Net amount | Net amount |
| In service | | | | | | | |
| Generation | 2.35% | 1,797,652 | (1,083,800) | (400,135) | (65,258) | 248,459 | 9,960,298 |
| Administration | 6.83% | 1,245,933 | (711,198) | - | (30,025) | 504,710 | 517,461 |
| | | 3,043,585 | (1,794,998) | (400,135) | (95,283) | 753,169 | 10,477,759 |
| Under construction | | | | | | | |
| Generation | | 4,110,157 | - | - | - | 4,110,157 | 2,652,686 |
| Administration | | 223,109 | - | - | - | 223,109 | 133,076 |
| | | 4,333,266 | - | - | - | 4,333,266 | 2,785,762 |
| | | 7,376,851 | (1,794,998) | (400,135) | (95,283) | 5,086,435 | 13,263,521 |

After the publication of Provisional Measure 579, of September 11, 2012, converted into Law 12,783, of January 11, 2013, a significant amount in property, plant and equipment was derecognized, and a part was transformed into receivables for the indemnification amount established in the Law and part was recorded as a loss (Note 2.3).

The Company's management tested its long-lived assets for impairment as of December 31, 2012, mainly property, plant and equipment held and used in the Company's operations, and will continue to do so on an annual basis, or whenever events or changes in circumstances indicate that any of these assets or group of assets is impaired and the respective book values will not be fully recovered, in compliance with Technical Pronouncement CPC 01 (IAS 36) – Impairment of assets.

The circumstances that could require the application of impairment tests on assets are identified in the evaluation process, so as to determine the amount of potential losses. The cash generating unit is considered to be each power plant for the generation activity, in view of the characteristics of the Company's management and operations.

The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. To evaluate the value in use, the estimated future cash flows are discounted to present value at the discount rate that reflects the current market evaluation of the currency value at the time, and the specific risks of the asset for which the estimated future cash flows prepared are not adjusted.

If the calculated recoverable amount of an asset, or cash-generating unit, is lower than its carrying amount, the carrying amount of the asset, or cash-generating unit, is reduced to its recoverable amount, and the loss for reduction to its recoverable amount is recognized in the statement of operations.

The Company's management, supported by its concession contracts and the rules applied for the indemnification of assets established by Provisional Measure 579/2012, converted into Law 12,783, of January 11, 2013, considered the reversal of the residual net assets at the end of the concession of the electric energy public service, based on the lower amount between the residual book value and the new replacement value. It also considered the depreciation by taking into consideration the estimated useful lives of the assets rather than the concession period, in view of the indemnity clause established in the contracts.

The Company carried out an impairment test for its cash generating units in 2012, utilizing the discounted cash flow criteria at a rate of 4.98% p.a. Based on this test, the Company recognized in its results a provision for loss referring to the impairment of the assets of Camaçari Thermal Power Plant and Curemas Hydroelectric energy Plant, amounting to R\$ 400,135.

The costs of borrowings related to the acquisition, construction or production are included in the costs of property, plant and equipment under construction until the date when they are ready for their intended use, as established in CVM Resolution 577, of 6/5/2009, which approved CPC 20 – Borrowing Costs (IAS 23).

b) Changes in property, plant and equipment

| Description | Parent | | | | | 12/31/2012 | Effects arising from Law 12,783/2013 | Balance after Law 12,783/2013 |
|--------------------------------------|-------------------|------------------|-----------------|-----------------|-----------------|-------------------|--------------------------------------|-------------------------------|
| | 12/31/2011 | Additions | Write-offs | Service transf. | Other transfers | | | |
| In service | 19,229,113 | - | (31,282) | 122,206 | 298 | 19,320,335 | (16,279,133) | 3,041,202 |
| Depreciation | (8,629,573) | (404,028) | 10,388 | - | 1,800 | (9,021,413) | 7,226,664 | (1,794,749) |
| Impairment | - | - | - | - | - | - | (400,135) | (400,135) |
| Subtotal | 10,599,540 | (404,028) | (20,894) | 122,206 | 2,098 | 10,298,922 | (9,452,604) | 846,318 |
| Under construction | 696,969 | 766,112 | (549) | (122,206) | (1,474) | 1,338,852 | (718,493) | 620,359 |
| Total | 11,296,509 | 362,084 | (21,443) | - | 624 | 11,637,774 | (10,171,097) | 1,466,677 |
| Obligations linked to the Concession | (122,642) | 4,917 | - | - | - | (117,725) | 22,442 | (95,283) |
| Total | 11,173,867 | 367,001 | (21,443) | - | 624 | 11,520,049 | (10,148,655) | 1,371,394 |

| Description | Consolidated | | | | | 12/31/2012 | Effects arising from Law 12,783/2013 | Balance after Law 12,783/2013 |
|--------------------------------------|-------------------|------------------|-----------------|-----------------|-----------------|-------------------|--------------------------------------|-------------------------------|
| | 12/31/2011 | Additions | Write-offs | Service transf. | Other transfers | | | |
| In service | 19,230,052 | 158 | (31,240) | 122,206 | 1,542 | 19,322,718 | (16,279,133) | 3,043,585 |
| Depreciation | (8,629,651) | (404,176) | 10,391 | - | 1,774 | (9,021,662) | 7,226,664 | (1,794,998) |
| Impairment | - | - | - | - | - | - | (400,135) | (400,135) |
| Subtotal | 10,600,401 | (404,018) | (20,849) | 122,206 | 3,316 | 10,301,056 | (9,452,604) | 848,452 |
| Under construction | 2,785,762 | 2,391,504 | (609) | (122,206) | (2,692) | 5,051,759 | (718,493) | 4,333,266 |
| Total | 13,386,163 | 1,987,486 | (21,458) | - | 624 | 15,352,815 | (10,171,097) | 5,181,718 |
| Obligations linked to the Concession | (122,642) | 4,917 | - | - | - | (117,725) | 22,442 | (95,283) |
| Total | 13,263,521 | 1,992,403 | (21,458) | - | 624 | 15,235,090 | (10,148,655) | 5,086,435 |

In order to demonstrate the effects of Provisional Measure 579, of September 11, 2012, converted into Law 12,783, of January 11, 2013, a specific column is presented with the amounts derecognized of the property, plant and equipment assets, corresponding to indemnities and losses relating to the power plants impacted by this Law, which are detailed in Note 2.3.

c) Annual depreciation rates

The Company calculates and accounts for depreciation by applying the rates established by ANEEL Resolution 474, of 2/7/2012, which altered tables I and XVI of the Asset Control Manual of the Electric Energy Sector (MCPSE), approved by Normative Resolution 367 of June 2, 2009. The rates are applied considering the internal codes that identify the Units of Registration.

The main annual depreciation rates, by activity, are as follows:

| | Annual depreciation rates (%) |
|--------------------------------------|--|
| <u>Generation</u> | |
| Floodgate | 3.3 |
| Reservoir | 2.0 |
| Power house | 2.0 |
| Generator | 3.3 |
| Command and measurement panel | 3.5 |
| Water turbine | 2.5 |
| Crane, hoist and portico | 3.3 |
| Gas-powered turbine | 4.0 |
| <u>Central administration</u> | |
| General equipment | 6.2 |
| Vehicles | 14.2 |

d) Finance charges

In accordance with Technical Pronouncement CPC 27 (IAS 16), part of the finance charges were transferred to property, plant and equipment under construction, as shown below:

| | Parent | | Consolidated | |
|--|-------------------|-------------------|---------------------|-------------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Total finance charges | 6,491 | 30,130 | 149,169 | 141,681 |
| (-) Transfer to property, plant and equipment under construction | 28 | 100 | (142,650) | (108,113) |
| Net effect on the results | 6,519 | 30,230 | 6,519 | 33,568 |

e) Obligations linked to the Concession

Composition:

| | Parent and Consolidated | |
|--|--------------------------------|-------------------|
| | 12/31/2012 | 12/31/2011 |
| Federal government funds | 69,456 | 92,557 |
| Donations and government investment grants | 36,138 | 36,855 |
| Research and Development | 606 | 605 |
| Reversals and amortizations | (10,917) | (7,375) |
| | 95,283 | 122,642 |

Funds received from the Federal Government were invested in electric energy generation and transmission projects.

In view of their nature, the accounts recorded in this group are presented as reductions of property, plant and equipment, as they do not represent actual financial obligations, and, accordingly, should not be classified as liabilities for the determination of economic and financial indicators.

The significant decrease in the balances of the obligations arose from the effects of Provisional Measure 579 of September 11, 2012, converted into Law 12,783, of January 11, 2013, on the part linked to the power plants that had their concessions extended (Note 2.3).

17 – INTANGIBLE ASSETS

• Intangible assets segregated by nature and activity

| | | Parent | | | |
|--------------------|---------------------------------------|---------------|--------------------------|---------------|---------------|
| | | 12/31/2012 | | 12/31/2011 | |
| | Average annual amortization rates (%) | Cost | Accumulated amortization | Net amount | Net amount |
| In service | | | | | |
| Administration | 20.00% | 64,291 | (45,209) | 19,082 | 13,710 |
| | | 64,291 | (45,209) | 19,082 | 13,710 |
| In progress | | | | | |
| Administration | | 10,376 | - | 10,376 | 15,856 |
| | | 10,376 | - | 10,376 | 15,856 |
| | | 74,667 | (45,209) | 29,458 | 29,566 |

| | | Consolidated | | | |
|--------------------|---------------------------------------|----------------|--------------------------|---------------|---------------|
| | | 12/31/2012 | | 12/31/2011 | |
| | Average annual amortization rates (%) | Cost | Accumulated amortization | Net amount | Net amount |
| In service | | | | | |
| Administration | 20.00% | 65,478 | (45,512) | 19,966 | 14,206 |
| | | 65,478 | (45,512) | 19,966 | 14,206 |
| In progress | | | | | |
| Generation | | 45,704 | - | 45,704 | 41,641 |
| Administration | | 11,588 | - | 11,588 | 16,277 |
| | | 57,292 | - | 57,292 | 57,918 |
| | | 122,770 | (45,512) | 77,258 | 72,124 |

• Changes in intangible assets

| | | Parent | | | | |
|-----------------|---------------|----------------|------------|-----------------|-----------------|---------------|
| Description | 12/31/2011 | Additions | Write-offs | Service transf. | Other transfers | 12/31/2012 |
| In service | 49,152 | - | - | 15,139 | - | 64,291 |
| Amortization | (35,442) | (9,767) | - | - | - | (45,209) |
| Subtotal | 13,710 | (9,767) | - | 15,139 | - | 19,082 |
| In progress | 15,856 | 8,185 | - | (15,139) | 1,474 | 10,376 |
| Total | 29,566 | (1,582) | - | - | 1,474 | 29,458 |

| | | Consolidated | | | | |
|-----------------|---------------|----------------|------------|-----------------|-----------------|---------------|
| Description | 12/31/2011 | Additions | Write-offs | Service transf. | Other transfers | 12/31/2012 |
| In service | 49,775 | 87 | - | 15,139 | 477 | 65,478 |
| Amortization | (35,569) | (9,943) | - | - | - | (45,512) |
| Subtotal | 14,206 | (9,856) | - | 15,139 | 477 | 19,966 |
| In progress | 57,918 | 13,517 | (1) | (15,139) | 997 | 57,292 |
| Total | 72,124 | 3,661 | (1) | - | 1,474 | 77,258 |

18 – TRADE PAYABLES

The composition of trade payables is as follows:

| | Parent | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| Material and services | 207,063 | 276,659 | 443,874 | 468,545 |
| Charges from electricity network usage: | | | | |
| Eletronorte | 8,902 | 8,760 | 8,902 | 8,785 |
| Eletrosul | 7,689 | 7,835 | 7,689 | 7,835 |
| Furnas | 14,473 | 14,708 | 14,473 | 14,734 |
| CTEEP | 11,556 | 11,892 | 11,556 | 11,892 |
| Other | 72,046 | 50,934 | 71,338 | 50,767 |
| Total | 321,729 | 370,788 | 557,832 | 562,558 |

19 – TAXES AND CONTRIBUTIONS

a) Composition

| | Parent | | Consolidated | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| Taxes payable | 115,895 | 220,996 | 185,296 | 231,765 |
| | 115,895 | 220,996 | 185,296 | 231,765 |
| Non-current | | | | |
| Taxes payable | 13,572 | 13,443 | 22,041 | 26,300 |
| Deferred tax liabilities | 54,225 | 67,670 | 112,029 | 83,716 |
| | 67,797 | 81,113 | 134,070 | 110,016 |
| | 183,692 | 302,109 | 319,366 | 341,781 |

b) Taxes payable

Current and non-current taxes payable are as follows:

| | Parent | | Consolidated | |
|--------------------|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| IRPJ | - | 15,264 | 4,491 | 19,069 |
| CSLL | - | 76,640 | 4,038 | 79,558 |
| COFINS | 34,485 | 33,482 | 37,012 | 33,656 |
| ICMS | 16,406 | 12,213 | 66,836 | 11,366 |
| INSS | 18,054 | 17,417 | 19,660 | 18,224 |
| PIS/Pasep | 7,486 | 7,268 | 8,035 | 7,419 |
| IRRF | 23,251 | 43,923 | 23,673 | 44,184 |
| FGTS | 5,217 | 5,071 | 5,305 | 5,132 |
| Others | 10,996 | 9,718 | 16,246 | 13,157 |
| | 115,895 | 220,996 | 185,296 | 231,765 |
| Non-current | | | | |
| IRPJ | - | - | 2,291 | 7,934 |
| CSLL | - | - | 824 | 2,857 |
| Deferred ICMS | 13,572 | 13,443 | 13,572 | 15,508 |
| Others | - | - | 5,354 | 1 |
| | 13,572 | 13,443 | 22,041 | 26,300 |
| | 129,467 | 234,439 | 207,337 | 258,065 |

c) Deferred tax liabilities

• Corporate income tax and social contribution on net income

Pursuant to Technical Pronouncements CPC 26 (IAS 1) and 32 (IAS 12), approved by CVM Resolutions 595 and 599, both of 9/15/2009, the Company recognized in non-current liabilities the entire amount of its tax debts, of R\$ 54,225, resulting from temporary differences, as follows:

| | Parent | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Temporary differences | | | | |
| Initial adjustments arising from CPC 33 | 355,574 | 296,071 | 355,574 | 296,071 |
| Initial adjustments arising from ICPC 01 | - | 147,665 | 37,131 | 192,346 |
| | 355,574 | 443,736 | 392,705 | 488,417 |
| Tax debts | | | | |
| Income tax on temporary differences | 22,223 | 27,734 | 61,483 | 38,047 |
| Social contribution on temporary differences | 32,002 | 39,936 | 50,546 | 45,669 |
| Non-current | 54,225 | 67,670 | 112,029 | 83,716 |

These tax effects contemplate the application of 9% for social contribution and 6.25% for income tax on the adjustments and reclassifications resulting from the adoption of the new accounting pronouncements since they will affect the tax incentive calculation.

The tax debts related to income tax and social contribution arising from temporary differences – derecognition of regulatory assets and liabilities, initial adjustments arising from CPC 33 (IAS 19) and ICPC 01 (IFRIC 12) – entirely recorded in non-current Liabilities in compliance with Technical Pronouncement CPC 26 (IAS 1), will be realized in accordance with the settlement of regulatory assets and liabilities, in accordance with changes in the post-employment benefits resulting from the adoption of CPC 33 (IAS 19) and changes in the financial assets resulting from the adoption of ICPC 01 (IFRIC 12), respectively.

The realization of these liabilities is estimated as shown below:

| | Parent (BRGAAP) | Consolidated (IFRS and BRGAAP) |
|------------|----------------------------|---|
| 2013 | - | 605 |
| 2014 | - | 1,752 |
| 2015 | - | 1,752 |
| 2016 | - | 1,752 |
| After 2016 | 54,225 | 106,168 |
| | 54,225 | 112,029 |

20 – BORROWINGS

The main information on the Company's borrowings is as follows:

20.1 - Composition:

| | Parent | | | | | | | |
|-------------------------------|------------|---------------|----------------|----------------|--------------|----------------|----------------|----------------|
| | 12/31/2012 | | | | 12/31/2011 | | | |
| | Charges | Current | Non-current | Total | Charges | Current | Non-current | Total |
| Related parties | | | | | | | | |
| Eletrobras | 744 | 24,766 | 103,163 | 128,673 | - | 21,267 | 121,753 | 143,020 |
| | | | | | | | | - |
| Financial institutions | | | | | | | | |
| Banco do Brasil | - | - | - | - | 7,561 | 249,966 | - | 257,527 |
| Banco do Nordeste | 34 | 45,473 | 294,924 | 340,431 | 2,307 | 48,598 | 340,396 | 391,301 |
| Total | 778 | 70,239 | 398,087 | 469,104 | 9,868 | 319,831 | 462,149 | 791,848 |

| | Consolidated | | | | | | | |
|-------------------------------|---------------|----------------|------------------|------------------|---------------|----------------|------------------|------------------|
| | 12/31/2012 | | | | 12/31/2011 | | | |
| | Charges | Current | Non-current | Total | Charges | Current | Non-current | Total |
| Related parties | | | | | | | | |
| Eletrobras | 744 | 24,766 | 103,163 | 128,673 | - | 21,267 | 121,753 | 143,020 |
| Eletronorte | - | - | - | - | - | 157 | 177 | 334 |
| | | | | | | | | - |
| Financial institutions | | | | | | | | |
| Banco ABC | - | 47,558 | - | 47,558 | - | - | - | - |
| Banco do Brasil | 15 | 1,183 | 254,203 | 255,401 | 7,570 | 250,146 | 186,126 | 443,842 |
| Banco do Nordeste do Brasil | 4,870 | 121,956 | 436,459 | 563,285 | 2,355 | 87,586 | 480,323 | 570,264 |
| Banco Itau | 1,102 | 176,318 | 171,613 | 349,033 | 535 | 32,402 | 127,103 | 160,040 |
| BASA | 1,377 | - | 132,534 | 133,911 | 1,964 | 22,534 | - | 24,498 |
| BNDES | 16,287 | 188,171 | 1,355,280 | 1,559,738 | 3,213 | 347,024 | 684,615 | 1,034,852 |
| Bradesco | 8 | 629 | 181,739 | 182,376 | - | - | 131,735 | 131,735 |
| BTG Pactual | - | 153,377 | - | 153,377 | - | - | - | - |
| Caixa Econômica Federal | 11 | 238,364 | 252,207 | 490,582 | - | - | 183,859 | 183,859 |
| Others | (86) | - | - | (86) | 1 | 2,088 | - | 2,089 |
| Total | 24,328 | 952,322 | 2,887,198 | 3,863,848 | 15,638 | 763,204 | 1,915,691 | 2,694,533 |

Of the total borrowings obtained from Eletrobras, the amount of R\$ 114,168 is secured by the Company's own revenue, supported by a public deed of power of attorney signed on the date of signature of the contracts, providing for the direct receipt, by Eletrobras, of overdue and unpaid amounts. The remaining amount of R\$ 14,502 is secured by bond insurance in an amount corresponding to 125% of the debt balance estimated for the year, renewable on an annual basis, whose receipt by Eletrobras is subject to the provisions of each contract under the conditions and up to the limit of the amount of the insurance policy.

The main source of the borrowings from Eletrobras is the Global Reversion Reserve (RGR), and such funds are mainly utilized as finance coverage for the Company's transmission systems projects.

The borrowings from Banco do Nordeste are secured by receivables represented by collectible trade bills at amount equivalent to three to six installments of the borrowing repayments, in addition to a liquidity fund of a reserve account, offered as additional guarantee, which is equivalent to three installments of the repayments.

20.2 - Composition of borrowings by index:

| | Parent | | Consolidated | |
|--------------|----------------|----------------|------------------|------------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| CDI | - | - | 505,723 | 69,508 |
| IPCA | 496 | 536 | 496 | 333 |
| TJLP | - | - | 2,885,572 | 1,494,858 |
| Others | | | | |
| Total | 469,104 | 791,848 | 3,863,848 | 2,694,533 |
| Principal | 468,326 | 781,980 | 3,839,520 | 2,678,895 |
| Charges | 778 | 9,868 | 24,328 | 15,638 |
| Total | 469,104 | 791,848 | 3,863,848 | 2,694,533 |

A major portion of the borrowings obtained by Chesf are not indexed and only have average remuneration, and can be described as follows:

- Balance of R\$ 128,178 (R\$ 142,484, at 12/31/2011) contracted with Eletrobras, arising from the Global Reversion Reserve (RGR), collected from the Electric Sector to be reinvested in the sector itself. Of this total, R\$ 113,676 (88.69%) bears interest of 5% p.a. and an administration fee of 2% p.a., and R\$ 14,502 (11.317%) bears interest of 5% p.a. and an administration fee of up to 1.5% p.a., respectively. These borrowings have no monetary restatement as they are linked to the same restatement system as permanent assets, which has been suspended by law;
- Balance of R\$ 324,165 (R\$ 373,207 at 12/31/2011) contracted with Banco do Nordeste do Brasil S.A., subject to interest of 10% per year, and a 2.5% bonus for timely repayment.
- Balance of R\$ 16,266 (R\$ 18,094 at 12/31/2011) contracted with Banco do Nordeste do Brasil S.A., subject to interest of 4.5% per year;

Chesf has a contract with Eletrobras indexed at the IPCA, with a balance of R\$ 496 at 12/31/2012 (R\$ 536 at 12/31/2011), with an interest rate of 7.2% p.a. The variation of the IPCA in the year was 5.8% (6.5% in the same period of the previous year).

20.3 – Maturities of the installments of non-current liabilities

The principal amount of long-term borrowings, in the amount of R\$ 398,087 (R\$ 462,149 in 2011), matures as follows:

| | Parent | | Consolidated | |
|--------------------------|----------------|----------------|------------------|------------------|
| | | | | |
| 2013 | - | 67,485 | - | 103,362 |
| 2014 | 68,335 | 67,485 | 205,831 | 149,147 |
| 2015 | 68,248 | 67,398 | 207,661 | 149,507 |
| 2016 | 68,137 | 67,288 | 209,511 | 149,865 |
| 2017 | 65,723 | 65,171 | 209,620 | 148,244 |
| After 2017 | 127,644 | 127,322 | 2,054,575 | 1,215,566 |
| Total non-current | 398,087 | 462,149 | 2,887,198 | 1,915,691 |

20.4 – Interest rate of the domestic market

Borrowings are subject to the following interest rates:

| | Domestic market |
|-----------------------|-----------------|
| | (% p.a.) |
| Fixed rates | |
| 31/12/2012 | 4.50 to 7.50 |
| 31/12/2011 | 4.50 to 7.50 |
| Floating rates | |
| 31/12/2012 | - |
| 31/12/2011 | 10,87 |

20.5 - Changes in borrowings:

| | Parent | | | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | Local currency | | | |
| | Current | | | Non-current |
| | Charges | Principal | Total | Principal |
| New borrowings | - | - | - | 138,394 |
| Refinancing | (337) | - | (337) | 337 |
| Provision for charges | 65,126 | - | 65,126 | - |
| Transfers | - | 323,104 | 323,104 | (323,104) |
| Amortizations/payments | (62,134) | (42,798) | (104,932) | - |
| Balance at 12/31/2011 | 9,868 | 319,831 | 329,699 | 462,149 |
| New borrowings | - | - | - | 4,551 |
| Refinancing | (190) | - | (190) | 190 |
| Provision for charges | 41,955 | - | 41,955 | - |
| Monetary and exchange variations | 1 | 9 | 10 | 13 |
| Transfers | - | 68,816 | 68,816 | (68,816) |
| Amortizations/payments | (50,856) | (318,417) | (369,273) | - |
| Balance at 31/12/2012 | 778 | 70,239 | 71,017 | 398,087 |

| | Consolidated | | | |
|----------------------------------|----------------|----------------|----------------|------------------|
| | Local currency | | | |
| | Current | | | Non-current |
| | Charges | Principal | Total | Principal |
| New borrowings | - | 276,706 | 276,706 | 541,193 |
| Refinancing | (337) | - | (337) | 337 |
| Provision for charges | 73,430 | - | 73,430 | 85,214 |
| Monetary and exchange variations | - | 26 | 26 | 8 |
| Transfers | - | 333,760 | 333,760 | (333,760) |
| Amortizations/payments | (66,476) | (117,095) | (183,571) | - |
| Balance at 12/31/2011 | 15,638 | 763,204 | 778,842 | 1,915,691 |
| New borrowings | - | 818,875 | 818,875 | 946,725 |
| Refinancing | (190) | 16,927 | 16,737 | 190 |
| Provision for charges | 74,746 | - | 74,746 | 107,456 |
| Monetary and exchange variations | 1 | 9 | 10 | 13 |
| Transfers | - | 82,877 | 82,877 | (82,877) |
| Amortizations/payments | (65,867) | (729,570) | (795,437) | - |
| Balance at 12/31/2012 | 24,328 | 952,322 | 976,650 | 2,887,198 |

21 – DEBENTURES

| | Interest rate | Maturity | Consolidated | | | |
|---------------------------|---------------|-----------|--------------|---------------|----------------|-------------|
| | | | 12/31/2012 | | 12/31/2011 | |
| | | | Current | Non-current | Current | Non-current |
| Debentures - IE Madeira | 106.5% CDI | 9/15/2012 | - | - | 105,492 | - |
| Debentures - IE Garanhuns | 106.5% CDI | 2/28/2014 | - | 12,364 | - | - |
| | | | - | 12,364 | 105,492 | - |

In August 2012, the Company's jointly-owned subsidiary, Interligação Elétrica do Garanhuns S.A., issued 18,000 debentures of a single series, in the unit value of R\$ 10, of which 2,500 were paid up bearing interest of 106.5% of the CDI rate and maturity at February 28, 2014. The Company's participation of 49% in the balance of R\$ 25,233 corresponds to R\$ 12,364 (without comparison at 12/31/2011). The other subscriptions are expected to occur up to March 2013.

22 – ESTIMATED OBLIGATIONS

| | Parent | | Consolidated | |
|----------------------|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Social contributions | 44,189 | 40,987 | 44,412 | 41,120 |
| Vacation pay | 51,302 | 48,412 | 52,477 | 48,644 |
| Vacation bonus | 39,296 | 37,044 | 39,328 | 37,064 |
| 13th month salary | - | - | 725 | 191 |
| Total | 134,787 | 126,443 | 136,942 | 127,019 |

23 – OTHER LIABILITIES

| | Parent | | Consolidated | |
|--|---------------|---------------|---------------|---------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Current | | | | |
| ANEEL inspection fee | 1,753 | 1,788 | 1,882 | 1,887 |
| Post-employment benefit –regular contribution | 11,001 | 9,317 | 11,001 | 9,317 |
| Acquisition of properties – camp | 1,493 | 1,493 | 1,493 | 1,493 |
| MME agreement | 4,210 | 4,210 | 4,210 | 4,210 |
| Collateral security | 3,116 | 3,313 | 3,116 | 3,313 |
| Chesf/Senai agreement | 855 | 759 | 855 | 759 |
| Insurance entity | 271 | 58 | 271 | 58 |
| Acquisition of Pirapama II Substation connection | 22,314 | 22,314 | 22,314 | 22,314 |
| Payroll | 16,228 | 14,362 | 17,336 | 15,710 |
| Environmental compensation | - | 13,640 | 1,240 | 13,640 |
| Others | 6,548 | 6,063 | 15,438 | 10,591 |
| | 67,789 | 77,317 | 79,156 | 83,292 |
| Non-current | | | | |
| FGTS – Company account | 4,058 | 3,926 | 4,058 | 3,926 |
| Eletropar | 1,456 | 1,456 | 1,456 | 1,456 |
| Others | 1 | - | 8,614 | 5,926 |
| | 5,515 | 5,382 | 14,128 | 11,308 |
| Total | 73,304 | 82,699 | 93,284 | 94,600 |

24 – POST-EMPLOYMENT BENEFIT

The Company sponsors Fundação Chesf de Assistência e Seguridade Social (Fachesf), a non-profit pension entity governed by private law, the main purpose of which is to supplement the benefits granted by the Official Social Security System.

The actuarial regime of Fachesf is the capitalization system and the Plan originally established was of the Defined Benefit type (BD Plan). On 6/29/2001, the Company implemented the Defined Contribution Plan (CD Plan) and the Settled Benefit Plan (BS Plan), and the migration of the participants of the BD Plan to the new Plans ended on 11/19/2001, attaining 97.1% of the participants.

The Company adopts the procedures recommended by Technical Pronouncement CPC 33 (IAS 19), approved by CVM Resolution 600/2009, and realizes an actuarial valuation of the liabilities arising from post-employment benefits. The criteria and assumptions adopted in this valuation could differ from those adopted by the administrator of the program, which follows specific legislation, thereby hindering a simple comparisons of results.

In compliance with the accounting practices determined in CVM Resolution 600/2009, the Company opted for recognizing actuarial gains and losses in the period in which they occur, in other comprehensive income (loss), in accordance with CPC 33 and IAS 19.

The commitments at 12/31/2012, referring to the Pension Plans, pursuant to CVM Resolution 600/2009, are detailed below:

PENSION PLAN

- **Basic characteristics**

Fachesf administers, on behalf of Chesf employees, three Pension Plans: the Defined Benefit Plan, the Defined Contribution Plan and the Settled Benefit Plan.

The Defined Benefit Plan assures participants a benefit of 100% of the average of their last salaries.

The Defined Contribution Plan is a plan under which the participant chooses the amount of his/her contribution and the sponsor contributes a variable percentage of the contribution chosen by the participant. The accumulation of these resources will determine the amount of the participant's benefit in the future. Chesf is also responsible for the costs of the risk benefits and administration of the plan. This is the only Plan open to new adhesions.

The participants who elected to be transferred from the Defined Benefit Plan to the Defined Contribution were given the option to maintain the proportional amount they had accumulated in the original plan in the Settled Benefit Plan, or to transfer the present value of such benefit to the Defined Contribution Plan.

- **Accounting Policy Adopted by the Entity for the Recognition of Actuarial Gains and Losses.**

The pension obligations recognized in the balance sheet represents the present value of the obligation with the defined benefits adjusted by actuarial gains and losses and by the cost of past services, reduced by the fair value of the plan's assets, as provided in the Pronouncement on the Recognition of Employee Benefits.

- Statistics on the participants

| AGE CHARACTERISTICS | 12/31/2012 | | | 12/31/2011 | | |
|-------------------------------|------------|----------|----------|------------|----------|----------|
| | BD Plan | BS Plan | CD Plan | BD Plan | BS Plan | CD Plan |
| 1. Active participants | | | | | | |
| 1.1. Number of participants | 47 | 2,026 | 5,802 | 48 | 2,038 | 5,298 |
| 1.2. Average age | 59.3 | 57.3 | 49.4 | 58.2 | 56.3 | 49.4 |
| 1.3. Credited service (total) | 33.9 | 32.2 | 20.7 | 32.9 | 31.3 | 22.2 |
| 1.4. Time to retirement | 2.3 | 3.6 | 12.2 | 3.1 | 4.5 | 11.2 |
| 1.5. Average salary in R\$ | 9,310.61 | 1,974.12 | 8,745.27 | 8,929.38 | 1,888.55 | 8,761.62 |
| 2. Retirees | | | | | | |
| 2.1. Number of retirees | 4,829 | 454 | 553 | 4,933 | 433 | 550 |
| 2.2. Average age | 69.6 | 62.6 | 62.6 | 68.7 | 61.7 | 61.6 |
| 2.3. Average benefit in R\$ | 3,391.01 | 2,906.54 | 1,130.39 | 3,137.50 | 2,700.47 | 1,072.42 |
| 3. Pensioners | | | | | | |
| 3.1. Number of pensioners | 1,593 | 115 | 192 | 1,556 | 95 | 164 |
| 3.2. Average age | 65.9 | 50.9 | 50.4 | 64.7 | 50.6 | 49.7 |
| 3.3. Average benefit in R\$ | 1,208 | 787.95 | 1027.26 | 1,109 | 899 | 791 |
| Total population | 6,469 | 2,595 | 6,547 | 6,537 | 2,566 | 6,012 |

- Actuarial and Financial Assumptions

| | BD | BS |
|--|---------|---------|
| General mortality table | AT 2000 | AT 2000 |
| Disability table | Light F | Light F |
| Disability mortality table | AT 83 | AT 83 |
| Turnover table / rate | Zero | Zero |
| Actuarial interest rate | 3.20% | 3.36% |
| Projected inflation rate | 4.89% | 4.89% |
| Actual salary increase rate | 2% p.a. | 2% p.a. |
| Capacity factor of benefits | 98% | 98% |
| Salary capacity factor | 98% | 98% |
| Actual benefit evolution rate | 0% | 0% |
| % married employees on the retirement date | 95% | 95% |
| Age difference between men and women | 4 years | 4 years |

LIFE INSURANCE

The Company sponsors part of the premiums of a life insurance policy for active employees. Former retired employees who opted to remain linked to this policy pay the full premium, which is collectively established for the entire population of active and inactive participants. However, considering the age characteristics of the population of active and inactive participants, the actuarial calculation of the segregated premium attributable to the group of inactive participants indicates the existence of an indirect post-retirement benefit paid by the Company.

- **Characteristics of the policyholders**

| | <u>12/31/2012</u> | <u>12/31/2011</u> |
|--|-------------------|-------------------|
| Active participants | | |
| Number of participants | 3,711 | 3,580 |
| Average age | 53 | 52.4 |
| Inactive participants | | |
| Number of participants | 4,083 | 3,840 |
| Average age | 69.4 | 69.0 |
| Eligible post-employment population | 5,382 | 5,483 |
| Actual population | 4,083 | 3,840 |
| Adhesion rate (%) | 75.86% | 70.03% |
| Pure premium calculated/1,000 | 0.01516 | 0.0012334 |
| Premium paid/1,000 | 0.012601 | 0.0010279 |

Based on the characteristics presented above, the Company records, in non-current liabilities, the actuarial valuation for coverage of inactive policyholders, considering the total policy in effect, segregated between the parties.

In view of the new accounting practices, the Company recognizes the actuarial gains and losses related to the life insurance benefit in the period in which they occur, in other comprehensive income (loss) in accordance with CPC 33 and IAS 19.

BENEFIT PLANS AS OF 12/31/2012

| | 2012 | | | | |
|---|------------------|-----------|----------------|-----------------|------------------|
| | BD Plan | BS Plan | CD Plan | Insurance | Consolidated |
| CHANGES IN THE OBLIGATIONS | | | | | |
| Benefit obligations projected at the beginning of the year | | | | | |
| (a) | 2,663,799 | 775,266 | 1,283,933 | 82,887 | 4,805,885 |
| Cost of service (b) | (7,019) | 7,597 | 37,083 | 1,247 | 38,908 |
| Participants' contributions (b.1) | 7,520 | 494 | 37,126 | - | 45,140 |
| Cost of interest (c) | 264,572 | 64,614 | 119,839 | 8,399 | 457,424 |
| Benefits paid / advanced (d) | (227,994) | (17,239) | (10,188) | - | (255,421) |
| Acquisition of shares – CD Plan (e) | - | - | 248,370 | - | 248,370 |
| Actuarial (gains)/losses (f) | 731,080 | 330,586 | - | (36,553) | 1,025,113 |
| Shares | | | | | |
| Benefits | | | | | |
| Benefit obligations projected at the end of the year (g) = | | | | | |
| (a) + (b) + (c) + (d) + (e) + (f) | 3,431,958 | 1,161,318 | 1,716,163 | 55,980 | 6,365,419 |
| CHANGES IN THE FINANCIAL ASSETS | | | | | |
| Fair value of the assets at the beginning of the year (h) | 2,407,965 | 1,025,085 | 1,278,049 | - | 4,711,099 |
| Expected return on investments (i) | 233,820 | 102,374 | 129,488 | - | 465,682 |
| Employer's contributions (j) | 6,428 | 1,974 | 62,525 | - | 70,927 |
| Participants' contributions (k) | 7,112 | 497 | 62,354 | - | 69,963 |
| Benefits paid / advanced (l) | (227,994) | (17,239) | (10,188) | - | (255,421) |
| Actuarial gains / (losses) (m) | 354,819 | 148,318 | - | - | 503,137 |
| Shares to offset (n) | - | - | 211,132 | - | 211,132 |
| Fair value of the assets at the end of the year | | | | | |
| (o) = (h) + (i) + (j) + (k) + (l) + (m) + (n) | 2,782,150 | 1,261,009 | 1,733,360 | - | 5,776,519 |
| STATE OF COVERAGE AT THE END OF THE YEAR | | | | | |
| (p) = (o) – (g) | (649,808) | 99,691 | 17,197 | (55,980) | (588,900) |
| Shares to offset – CD Plan (q) | - | - | (17,197) | - | (17,197) |
| Restriction on recognition of assets - Rule 58 - IAS 19 (r) | - | (99,691) | - | - | (99,691) |
| OBLIGATIONS AT THE END OF THE YEAR | (649,808) | - | - | (55,980) | (705,788) |
| OBLIGATIONS AT THE END OF THE YEAR AND AGREEMENTS | (649,808) | - | (2,523) | (55,980) | (708,311) |

The significant increase in the Company's obligations relating to post-employment benefits, evaluated in accordance with CVM Resolution 600/2009, resulted mainly from the reduction of the discount rate utilized in the actuarial calculation.

BENEFIT PLANS AS OF 12/31/2011

| | 2011 | | | | |
|--|------------------|------------------|------------------|-----------------|------------------|
| | BD Plan | BS Plan | CD Plan | Insurance | Consolidated |
| CHANGES IN THE OBLIGATIONS | | | | | |
| Benefit Obligations Projected at the Beginning of the Year | | | | | |
| (a) | 2,194,206 | 757,201 | 1,025,701 | 86,369 | 4,063,477 |
| Cost of service (b) | 1,560 | 17,392 | 28,027 | 1,007 | 47,986 |
| Cost of interest (c) | 210,893 | 78,659 | 114,286 | 5,132 | 408,970 |
| Benefits paid/advanced (d) | (218,040) | (15,470) | (8,278) | - | (241,788) |
| Acquisition of shares - CD Plan (e) | - | - | 124,197 | - | 124,197 |
| Actuarial (gains) or losses (f) | 475,180 | (62,516) | - | (9,621) | 403,043 |
| Benefit Obligations Projected at the End of the Year (g) = (a) + (b) + (c) + (d) + (e) + (f) | | | | | |
| | 2,663,799 | 775,266 | 1,283,933 | 82,887 | 4,805,885 |
| CHANGES IN THE FINANCIAL ASSETS | | | | | |
| Fair value of assets at the beginning of the year (h) | 2,131,948 | 957,015 | 1,098,580 | - | 4,187,543 |
| Expected return on investments (i) | 220,359 | 101,420 | 118,509 | - | 440,288 |
| Employer's contributions (j) | 5,730 | 1,795 | 51,956 | - | 59,481 |
| Participants' contributions (k) | 6,828 | 448 | 53,491 | - | 60,767 |
| Benefits paid/advanced (l) | (218,040) | (15,470) | (8,278) | - | (241,788) |
| Actuarial gains (losses) (m) | 261,140 | (20,123) | - | - | 241,017 |
| Offset of shares (n) | - | - | (36,208) | - | (36,208) |
| Fair value of the assets at the beginning of the year (o) = (h) + (i) + (j) + (k) + (l) + (m) + (n) | | | | | |
| | 2,407,965 | 1,025,085 | 1,278,050 | - | 4,711,100 |
| STATE OF COVERAGE AT THE END OF THE YEAR | | | | | |
| (p) = (o) - (g) | (255,834) | 249,819 | (5,883) | (82,887) | (94,785) |
| Shares to offset - CD Plan (q) | - | - | 5,883 | - | 5,883 |
| Restriction to recognition of assets - Rule 58 - IAS 19 (r) | - | (249,819) | - | - | (249,819) |
| OBLIGATIONS AT THE END OF THE YEAR | (255,834) | - | - | (82,887) | (338,721) |
| OBLIGATIONS AT THE END OF THE YEAR AND AGREEMENTS | (289,506) | - | (9,167) | (82,887) | (381,560) |

PLAN ASSETS BY CATEGORY

The main categories of the plan assets at the end of the year were as follows:

| Description | 2012 | | | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | BD Plan | BS Plan | CD Plan | Total |
| Immediate available amounts | 465 | 140 | 182 | 787 |
| Social security receivables | 1,177 | 308 | 19,114 | 20,599 |
| Investments in government bonds | 1,675,240 | 737,845 | 953,742 | 3,366,827 |
| Investments in shares | 257,561 | 111,154 | 121,863 | 490,578 |
| Investments in funds | 686,696 | 343,457 | 549,869 | 1,580,022 |
| Real estate investments | 38,785 | 90 | 2,754 | 41,629 |
| Loans and financing | 126,269 | 68,642 | 87,383 | 282,294 |
| Others | 660 | - | - | 660 |
| (-) Social security payables | (4,703) | (627) | (1,548) | (6,878) |
| Total assets | 2,782,150 | 1,261,009 | 1,733,359 | 5,776,518 |

| Description | 2011 | | | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | BD Plan | BS Plan | CD Plan | Total |
| Immediate available amounts | 323 | 157 | 188 | 668 |
| Social security receivables | 84,300 | 482 | 19,246 | 104,028 |
| Investments in government bonds | 1,300,609 | 560,182 | 639,966 | 2,500,757 |
| Investments in shares | 228,013 | 98,086 | 113,526 | 439,625 |
| Investments in funds | 624,892 | 283,057 | 425,844 | 1,333,793 |
| Real estate investments | 35,221 | 8,947 | 2,806 | 46,974 |
| Loans and financing | 119,827 | 64,767 | 72,927 | 257,521 |
| Others | 19,488 | 8,682 | 4,341 | 32,511 |
| (-) Social security payables | (4,446) | 725 | (796) | (4,517) |
| (-) Investments payable | (263) | - | - | (263) |
| Total assets | 2,407,964 | 1,025,085 | 1,278,048 | 4,711,097 |

PERIODIC COST, NET

| | 2012 | | | | |
|---------------------------------------|---------------|-----------------|---------------|--------------|---------------|
| | BD Plan | BS Plan | CD Plan | Insurance | Consolidated |
| PERIODIC COST COMPONENTS | | | | | |
| Cost of service | (7,019) | 7,597 | 37,083 | 1,247 | 38,908 |
| Cost of interest | 264,572 | 64,614 | 119,839 | 8,399 | 457,424 |
| Expected return on investments | (233,820) | (102,374) | (129,487) | - | (465,681) |
| COST OF BENEFITS IN THE PERIOD | 23,733 | (30,163) | 27,435 | 9,646 | 30,651 |

PROJECTED COST OF THE BENEFITS

| | 2013 | | | | |
|---------------------------------------|---------------|----------------|---------------|--------------|----------------|
| | BD Plan | BS Plan | CD Plan | Insurance | Consolidated |
| PERIODIC COST COMPONENTS | | | | | |
| Cost of service | 1,584 | - | 135,756 | - | 137,340 |
| Cost of interest | 53,586 | (8,388) | (1,469) | 4,702 | 48,431 |
| Participants' contributions | (7,698) | - | (67,878) | - | (75,576) |
| Expected return on investments | - | - | - | - | - |
| COST OF BENEFITS IN THE PERIOD | 47,472 | (8,388) | 66,409 | 4,702 | 110,195 |

PROJECTED FLOW OF BENEFIT PAYMENTS

| | 2013 | | | | |
|---|-----------|---------|-----------|-----------|--------------|
| | BD Plan | BS Plan | CD Plan | Insurance | Consolidated |
| PROJECTED CASH FLOW | | | | | |
| Regular employer's contributions – 2012 | 7,698 | - | 67,878 | - | 75,576 |
| Benefit payments | | | | | |
| 2013 | 240,198 | 30,565 | 244,100 | - | 514,863 |
| 2014 | 240,278 | 30,815 | 259,873 | - | 530,966 |
| 2015 | 240,371 | 31,018 | 275,660 | - | 547,049 |
| 2016 | 240,366 | 31,117 | 285,570 | - | 557,053 |
| 2017 | 240,155 | 31,242 | 293,427 | - | 564,824 |
| 2018-2022 | 1,181,751 | 156,871 | 1,539,074 | - | 2,877,696 |

CHANGES IN POST-EMPLOYMENT BENEFITS AND IN OTHER COMPREHENSIVE INCOME (LOSS)

| Description | Pension Plans | Insurance | Total |
|----------------------------|------------------|-----------------|------------------|
| Prior balance | (510,417) | (48,177) | (558,594) |
| Actuarial gains and losses | (537,019) | 36,553 | (500,466) |
| (-) IRPJ/CSLL | 271,172 | (18,458) | 252,714 |
| Current balance | (776,264) | (30,082) | (806,346) |

EXPERIENCE HISTORY OF THE PLANS

The histories of the records by experience of the defined benefit plans are as follows:

| Defined benefit plan | 2012 | 2011 | 2010 | 2009 |
|---|-------------|-------------|-------------|-------------|
| Present value of the obligation of defined benefits | 3,431,958 | 2,663,799 | 2,194,206 | 2,073,473 |
| Fair value of the plan's assets | (2,782,150) | (2,407,964) | (2,131,948) | (2,323,390) |
| Deficit / (Surplus) | 649,808 | 255,835 | 62,258 | (249,917) |
| Adjustments due to experience in the plan's liabilities | 731,080 | 475,180 | 123,948 | (151,621) |
| Adjustments due to experience in the plan's assets | 354,818 | 261,140 | (286,728) | 571,581 |
| Settled benefit plan | 2012 | 2011 | 2010 | 2009 |
| Present value of the obligation of defined benefits | 1,161,318 | 775,266 | 757,201 | 642,135 |
| Fair value of the plan's assets | (1,261,009) | (1,025,085) | (957,015) | (642,135) |
| Deficit / (Surplus) | (99,691) | (249,819) | (199,814) | - |
| Adjustments due to experience in the plan's liabilities | 330,585 | (62,516) | 46,245 | (105,568) |
| Adjustments due to experience in the plan's assets | 148,318 | (20,123) | 265,315 | (78,461) |

ACTUARIAL LIABILITIES OF THE PENSION PLANS CONTRACTED

The Company had signed contracts with Fachesf, related to the pension plans, of R\$ 2,523 at 12/31/2012 (R\$ 298,672 in 2011).

| TYPE | 12/31/2012 | 12/31/2011 |
|------------------------------|--------------|----------------|
| Contract CF 01.1.266-017-A/8 | - | 289,505 |
| Contract CF 03.1.337-013 | 2,523 | 9,167 |
| TOTAL | 2,523 | 298,672 |

The contracts entered into between the parties contain an annual adjustment clause related to the amount of the debt in accordance with the amounts determined through actuarial calculations, by means of contractual amendments.

Actuarial valuations are intrinsically uncertain and, accordingly, are subject to changes at the time of the annual actuarial review.

OTHER EMPLOYEE BENEFITS

In addition to the benefits paid under the supplementary pension plans, the Company offers other benefits to its employees, such as: healthcare plan, life insurance, meal and transportation vouchers and education allowance, which are periodically renegotiated at the time of collective labor agreements. The cost of these benefits to the Company was R\$ 142,950 in 2012 (R\$ 135,330 in 2011).

25 – TAX, CIVIL, LABOR AND ENVIRONMENTAL RISKS

| | Parent | | | |
|--------------|----------------------------------|--------------------------|----------------|----------------------------------|
| | Provision as of 12/31/2011 | Additions (reversals) | Write-offs | Provision as of 12/31/2012 |
| Labor | 109,721 | 23,496 | (5,696) | 127,521 |
| Civil | 803,197 | 448,029 | (982) | 1,250,244 |
| Tax | 10,631 | 37 | 252 | 10,920 |
| Total | 923,549 | 471,562 | (6,426) | 1,388,685 |

| | Consolidated | | | |
|--------------|----------------------------------|--------------------------|----------------|----------------------------------|
| | Provision as of 12/31/2011 | Additions (reversals) | Write-offs | Provision as of 12/31/2012 |
| Labor | 109,745 | 23,562 | (5,696) | 127,611 |
| Civil | 803,910 | 448,029 | (982) | 1,250,957 |
| Tax | 10,853 | (13) | 252 | 11,092 |
| Total | 924,508 | 471,578 | (6,426) | 1,389,660 |

Chesf and its jointly-controlled subsidiaries are parties to tax, civil and labor lawsuits and administrative proceedings in progress at government bodies, resulting from their regular operations.

In compliance with the accounting practices adopted in Brazil, Chesf adopts the procedure of classifying the claims against the Company according to the risk of loss, based on the opinion of its legal advisors, as follows:

- Provisions are constituted for the legal cases in which an unfavorable outcome is regarded as **probable**;
- For the legal cases in which an unfavorable outcome is regarded as **possible**, the corresponding information is disclosed in the notes to the financial statements;
- For legal cases in which an unfavorable outcome is regarded as **remote**, only information deemed relevant by management for a full understanding of the financial statements is disclosed in the notes.

Labor contingencies mostly refer to claims concerning hazardous duty premiums, overtime, contributions to Fatchesf on a joint responsibility basis with the sponsor; and severance indemnities arising from the default of outsourced companies.

The most significant civil cases refer to indemnity claims, expropriations and the financial restructuring of agreements.

In the Tax area, there are disputes basically involving annulment actions against tax assessment notices; claims for reimbursement of credits (PIS/PASEP-COFINS) and other taxes.

The Company is appealing against all such contingencies, and the corresponding judicial deposits have been made, whenever required.

1) The cases for which an unfavorable outcome is regarded as **probable** are the following:

- 1.1) Chesf filed a lawsuit claiming the partial annulment of the amendment (K Factor of Analytical Price Adjustment) to the contracted civil work for the Xingó Hydroelectric energy Plant, entered into with the Consortium formed by Companhia Brasileira de Projetos e Obras – CBPO, CONSTRAN S.A. – Construções e Comércio and Mendes Júnior Engenharia S.A., and the return, in double, of amounts paid as K factor, totaling approximately R\$ 350 million.

The lawsuit was filed at the Federal Court, but the decision of the Federal Regional Court of the 5th Region determined that it should be heard by the State Court of Pernambuco. The Company's claim was judged to be groundless. The counterclaim presented by the defendant was accepted by the 12th Lower Civil Court of the Judicial District of Recife, and the decision was upheld by the 2nd Civil Section of the Appeals Court of Pernambuco.

Chesf and the Federal Government, an interested party to this claim, filed special and extraordinary appeals discussing the decision on the principal claim and the related decisions, which could result in the annulment of the proceeding. In August 2010, the Superior Court of Justice (STJ) accepted one of these special appeals filed by Chesf, and reduced the amount of the cause, resulting in a substantial reduction of the fees possibly payable in the principal proceeding. The STJ rejected the other special appeals filed by Chesf and the Federal Government, therefore maintaining the decision of the Appeals Court of Pernambuco, which rejected the declaratory action filed by Chesf and considered the counterclaim filed by the defendants to be valid. In this judgment, the STJ substantially reduced the amount of the attorney's fees and court costs. The parties have not yet been notified of these decisions, which could still be subject to appeals. The Company is still awaiting the summons regarding the decisions issued by the STJ.

In November 1998, the defendants filed an injunction for the provisional enforcement of the decision, in the amount of R\$ 245 million, and the case was suspended by a decision of the President of the STJ (PET 1621). The Consortium filed a Special Appeal according to Specific Court Regulations against this suspension and a decision was issued on 6/24/2002, unanimously maintaining the STJ suspension, and the Consortium is, therefore, unable to claim the amounts requested in the process until a final unappealable decision is obtained.

Subsequently, the defendants requested a liquidation of the decision to the 12th Lower Civil Court of Recife, in order to obtain the actual amount of the judgment, in the event all appeals filed by Chesf and the Federal Government are rejected.

The judge of the 12th Lower Civil Court recognized the jurisdiction of the Federal Courts as being competent to judge the case, considering the participation of the Federal Government as an interested party in the lawsuit. Disagreeing with this decision, the Xingó Consortium filed a motion for clarification of judgment, and the Appeals Court of Pernambuco altered this decision determining that the jurisdiction to judge the award calculation proceeding is the State Court. Chesf and the Federal Government filed special and extraordinary appeals against this decision of the Appeals Court of Pernambuco (TJPE), but in October 2010 these appeals were judged unfavorably for Chesf and the Federal Government, except for the reduction of the attorney's fees payable by the Consortium. The corresponding judgment was published on 3/31/2011.

Subsequently, the Substitute Judge of the 12th Lower Civil Court of the Judicial District of Recife rendered a decision establishing the judgment amount at R\$ 842,469, and Chesf filed a motion for clarification of judgment, considering that the decision did not address various challenges submitted by Chesf in relation to the report presented by the court-appointed expert.

The decision on these motions for clarification of judgment, issued by the 12th Lower Civil Court, extinguished the award calculation proceeding, considering that the subject matter was still awaiting judgment by STJ. Xingó Consortium filed a bill of review at the Court of Pernambuco against this decision. On 5/26/2011, the 6th Civil Panel of Judges of the Appeals Court of Pernambuco converted the bill of review into an appeal and allowed it to proceed. Chesf filed a motion for clarification of judgment against this decision, which is still awaiting judgment. On 12/31/2011 a motion for clarification filed by Xingó Consortium in respect of the STJ judgment on the amount of the case and the unsuccessful party's court costs and attorneys' fees, was still awaiting judgment. Chesf presented its statement of argument in this process. The motion for clarification of judgment filed by Chesf, as mentioned above, is also still awaiting judgment by the Appeals Court of Pernambuco. On 3/23/2012, the Appeals Court of Pernambuco (TJPE) judged the motions filed by Chesf and the Federal Government but, since it did not do so in a clear manner, new motions were filed, in the legal term, in order to obtain the due clarification of the content of the decision. On 12/4/2012, the motions for clarification of judgment filed by Chesf and related to RESP 726,446 were scheduled to be judged by the 2nd Panel of the STJ Minister Herman Benjamin requested the records for

analysis, which determined the suspension of the judgment, and this situation remained up to 12/31/2012.

Considering the development of the case and all the judgments to the appeals presented to date, the Company's management, based on the opinion of its legal advisors and on calculations that took into consideration the suspension of payment of the installments referring to the K Factor, and its respective monetary adjustments, increased the currently constituted provision, to R\$ 723,256 at 12/31/2012, to cover potential losses resulting from this issue. This provision corresponds to the partial disallowance of the K Factor between July 1990 and December 1993, in compliance with Law 8,030/1990, and the full suspension of payment of the K Factor from January 1994 to January 1996, based on the Company's understanding. There was no change in the situation mentioned above at 12/31/2012.

It is not possible to estimate how long it will take for this litigation to be concluded.

- 1.2) Lawsuit for indemnity relating to 14,400 hectares of land on Aldeia Farm, filed in the Court of Sento Sé, State of Bahia, by the Estate of Aderson Moura de Souza and his wife (Proc. 0085/1993). The lower court decision accepted the claim, ordering Chesf to pay the amount of R\$ 50,000, which corresponds to the principal plus interest and monetary restatement. On 12/31/2008, Chesf filed an appeal at the Appeals Court of Bahia and on 3/31/2009 the court records were transferred to the Federal Courts because the Federal Government was included in the case as an interested third-party. On 9/30/2009, Chesf had not been notified in relation to the redistribution of the court records. On 6/30/2011 an appeal filed by Chesf at the Federal Regional court was partially accepted, and the plaintiff's appeal was rejected, according to the judgment published on 6/24/2011. On 9/30/2011 an indemnity lawsuit was filed at the Federal Regional Court. On 31/12/2011 an injunction was granted ordering the interruption of the enforcement of the main lawsuit. The Company recognizes in non-current liabilities a provision to cover possible losses on this action in the amount of R\$ 100,000. The motion for a new trial was still pending judgment at 12/31/2012.
- 1.3) Public Civil Action filed by the Public Prosecution Office of Pernambuco (MPPE) in Petrolândia (Proc. 81643-3), resulting from resettlement rights of rural workers affected by the construction of the Itaparica Electric Energy Plant. The Claimant stated that the agreement signed with the Rural Workers' Union on 12/6/1986 lacked legitimacy, and requires compensation for the difference of the temporary maintenance amounts paid during the period, establishing for the case the adjusted amount of approximately R\$ 87,000. Chesf's appeal, alleging MPPE's illegitimacy to file the action, was accepted by the Appeals Court of Pernambuco (TJPE). However, on a special appeal filed by the Claimant, the STJ recognized the legitimacy of the MPPE and determined that the case records be sent to the TJPE. On 4/19/2010, the TJPE judged the merits of Chesf's appeal and dismissed it by a unanimous vote. Chesf filed jointly a Special and Extraordinary Appeal and corresponding bills of review. STJ accepted the bill of review filed by Chesf, as well as the Special Appeal, at 12/31/2011, which was being analyzed by the reporting judge on 9/30/2012. On 11/7/2012, a decision was issued denying the continuation of the Special Appeal of Chesf. Chesf filed an appeal against this decision, which was pending at 12/31/2012. The Company recognizes in non-current liabilities a provision to cover possible loss on this action, in the amount of R\$ 87,000.

- 2) Provisions have not been recognized for the following additional lawsuits filed against the Company involving a **possible risk of loss**:

| Contingencies | Parent | | Consolidated | |
|---------------|------------------|----------------|------------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Labor | 63,986 | 53,852 | 65,796 | 55,985 |
| Civil and tax | 1,281,275 | 783,016 | 1,298,479 | 786,866 |
| Total | 1,345,261 | 836,868 | 1,364,275 | 842,851 |

- 2.1) The main lawsuits are as follows:

- 2.1.1) Lawsuit for damages filed by the Consortium formed by the companies CBPO/CONSTRAN/Mendes Júnior requesting the condemnation of the Company and the payment of additional financial compensation due to the late payment of invoices under the agreement related to the Xingó Hydroelectric Power Plant, dated 6/8/1999, in respect of the invoices issued after 4/30/1990. The plaintiffs presented generic requests in this case, limited to claiming the existence of an alleged right to financial compensation, deferring the calculation of the amounts involved to the issuance of the sentence.

The Company filed its defense and requested that the Federal Government be included in the lawsuit, and that the records be sent to the Appeals Court of Pernambuco. The Consortium presented a petition regarding the admission of the Federal Government to the lawsuit.

After the results of the expert examination and additional explanations were presented, a hearing was held in August 2005, and the final arguments were scheduled to be presented up to 10/17/2005.

Subsequently, the lawsuit was judged and Chesf ordered to pay to the plaintiffs the amount of R\$ 23,766, adjusted through September 2004 (R\$ 51,568 at 3/31/2010, according to Chesf's calculations). Chesf filed an appeal against this decision, which is awaiting judgment by the Appeals Court of Pernambuco.

The Reporting Justice of the TJPE annulled the decision, under the argument of lack of jurisdiction, in view of the intervention of the Federal Government in the lawsuit, and ordered that the case records be sent to the Federal Courts.

- 2.1.2) Public civil action filed against the Company by the Community Association of Cabeço and Surrounding Areas, in the State of Sergipe, at the 2nd Federal Court of Sergipe (case record 20028500002809-6), in the amount of R\$ 368,548, seeking indemnity for alleged environmental damage to fishermen of Cabeço, by the Xingó Hydroelectric energy Plant, caused by the construction of this power plant.

The lawsuit was filed at the Federal Court on 6/27/2002, and the defense was filed within the legal time frame. After a series of procedural events, which did not affect the cause, the judge in charge determined on 8/31/2005, that Ibama, IMA-AL, CRA-BA, Federal Government and Adema-SE should be included as co-defendants in the case, also ordering summons to be served on them.

The compliance with this decision was expected on 9/30/2005 and the records were remitted to the Judge for analysis on 9/30/2006, after the attachment of the power-of-attorney of Chesf's new management. The lawsuit was suspended on 12/31/2006, by the decision of the Judge and awaited judgment of the bill of review filed by the plaintiff at the 5th Federal Regional Court, whose decision has not yet been rendered. Chesf's co-defendants (the Federal Government, Ibama, IMA-AL, CRA-BA and Adema-SE) had already been summoned. The judge passed the following routine order on 9/12/2007: "Await the information on the final decision on the bill of review, which should be communicated by Chesf". Considering that the bill of review filed by Chesf was denied, the Company filed motions for clarification of judgment against this decision, which were pending judgment on 3/31/2008.

Another public civil action under the same grounds of the aforementioned lawsuit was filed against Chesf by the Community Association of Cabeço and Saramém in the judicial district of Brejo Grande, Sergipe State, and the amount attributed to the case was R\$ 309,114. However, this case has been abandoned by the plaintiff since February 2005. The last procedural action occurred in November/2007, when the judge determined that the Public Attorney's Office be notified and requested to issue its opinion on the lawsuit. The procedure was still suspended at 3/31/2008 and the Public Attorney's Office had not issued any opinion. The Judge of the Judicial District of Brejo Grande rendered a decision on 6/30/2008 recognizing the lack of jurisdiction of the state to judge the case, and determining the remittance of the records to the Federal Courts. The records were being analysed by the Brazilian Environmental Institute (Ibama). This lawsuit, which had been remitted, for

jurisdiction purposes, to the Federal Court, was considered at 2/19/2009 to be connected to another lawsuit of a similar nature being analysed by the court and both lawsuits have been dealt jointly since that date.

The decision of the judge was rendered on 6/13/2008, determining the issuance of summons on the Federal Government and IBAMA, and that subpoena be served on the plaintiff so that it could file its reply in relation to the terms of the defense. The records were then submitted to Ibama for analysis. The audience of reconciliation was scheduled for 2/19/2009 and, as no reconciliation occurred during the hearing, the judge ordered new measures for the progress of the case. At this hearing, the judge acknowledged the existence of a legal action with a similar purpose, which was in progress at the Lower Civil Court of the Judicial District of Brejo Grande/SE and which was remitted, on account of jurisdiction, to the Federal Courts. Accordingly, the judge decided to recognize the procedural connection between both cases, which have been dealt with jointly since that date. Subsequently, the date of 5/14/2009 was established for a new hearing aiming at deciding on the nature of the procedural evidence to be accepted, including the realization of an expert examination. On this occasion, the judge established a term of 3 months for the parties to submit questions to be addressed in the expert's report. The hearing related to the delimitation of the object to be included in the expert's report was scheduled for 9/15/2009, and Chesf had to submit, for this purpose, a draft of the terms of Reference. On 9/30/2009, the judge in charge of the case postponed the hearing scheduled for 9/15/2009 to 10/22/2009, and on this date, the judge scheduled a new hearing for 3/2/2010, aiming at appointing a court expert and setting a deadline for the performance of the expert examination. The action was also cleared of encumbrances and the date of 6/8/2010 was determined for the pre-trial instructions. The specifics of the expert examination were discussed and the Judge decided to realize a new hearing to appoint the official expert, the parties' experts and the establishment of the expert examination. No date was established for this new hearing. In July 2010, a decision was published inverting the burden of proof and the financial burden ordering that the cost of the expert examination be supported by Chesf. A bill of review was filed against this decision and, in August 2010, an order of Reporting Justice Francisco Barros Dias was published, converting the bill of review into an interlocutory appeal and ordering that the case records be sent to the court of origin, where, on 8/3/2010 a decision of the judge of the 2nd Federal Court of Sergipe maintaining the appealed decision and ordering that a possible suspensive effect by the Federal Regional Court of the 5th Region be awaited for 90 days. On 8/9/2010, the Company filed Motions for Clarification of the decision that converted the Bill of Review into an Interlocutory Appeal and, in September 2010, a decision was published dismissing the Motions for Clarification filed by Chesf. An appeal was filed against the decision that converted the Bill of Review and, on 10/18/2010, the appeal was dismissed by the Federal Reporting Justice. The Reporting Justice rejected the appeal filed by Chesf, and on March 29, 2011, a trial court judge appointed a team of experts to prepare a report. Chesf submitted a list of its experts and the corresponding questions on 4/8/2011 and the hearing was scheduled for 11/30/2011, the purpose of which was to define the best form to carry out the expert work. At that hearing, the judge ordered Chesf to make a court deposit, by 1/31/2012, of R\$ 50, to cover the expenses of court-appointed experts. The judge also determined the date of 2/29/2012 for the hearing with the court-appointed experts, without the attendance of the parties, to establish the experts' line of work. The judicial deposit was effected by Chesf on 1/31/2012, and, on 2/15/2012 a decision by the judge was published canceling the hearings previously defined for later that month, requiring the digitalization of the procedural documents between 3/27/2012 and 4/13/2012, and the electronical submission of these documents to experts, for whom a term of 30 days was defined to examine the matter and propose expert fees. This situation did not change until 12/31/2012. However, on 1/9/2013, the judge in charge of the case issued a decision detailing the development of the case and, considering the absence of a response from the experts, the judge programmed a hearing for February 2013 for an in-depth clarification about the substance of the proof, its parameters and other circumstances of the expert examination to be carried out, determining the summons of the experts in a term of 15 days to realize the services that were stipulated for them, subject to a fine.

Supported by the opinion of the Company's attorneys, management's expectation is that a loss on these actions is possible with respect to the failure of the defense, and remote with respect to the amounts of the claims.

- 2.1.3)** Ordinary Law suit filed by AES Sul Distribuidora Gaúcha de Energia (proc. 2002.34.00,026509-0 – 15th Federal Court - DF) for the accounting and settlement by ANEEL of the market transactions related to the positive exposure (profit) verified by reason of not opting for the relief (insurance) made in December 2000. Interlocutory decision rendered in Bill of Review of AES Sul (Lawsuit2002.01.00,040870-5) filed against ANEEL, resulted in a debt of approximately R\$ 110,000, whose payment was ordered to be made on 11/7/2008.

In order to suspend the debt, the following legal steps were adopted at that time (November 3 to 7, 2008): 1) filing of Petition for Suspension of Injunction with the STJ; 2) filing of Writ of Mandamus with the Courts of Justice of the Federal District (TJDF); 3) filing of petition requesting the inclusion of Chesf in the lawsuit as a necessary co-defendant. Procedures 2 and 3 were accepted with the consequent reversal of the injunction and suspension of the debt. Chesf was included in the lawsuit as a necessary co-defendant and challenged the action, which is in the phase of production of evidence. On 12/31/2011 the Federal Regional Court granted the Writ of Mandamus requested by Chesf (step 2), and AES filed a Special Appeal. The action was judged to be groundless and the petitions requesting clarification were dismissed, and, therefore, the claimant issued appeals. Chesf presented responses at 12/31/2012, and the remittance to the TRF – 1st Region is pending judgment. Based on the evaluation of the legal advisors, management classified the loss risk on this litigation as "possible", in the estimated amount of R\$ 86,000.

- 2.1.4)** Declaratory action (Lawsuit 7125-2009/434-78.2009.8.06.0115) filed by Carbomil Química S.A. seeking indemnity due to the installation of an electric energy transmission line at Lajedo do Mel mining, located in the municipalities of Jaguaruana and Quixeré, in the State of Ceará, and in Baraúna, State of Rio Grande do Norte. An expert examination was carried out and subsequently the Company filed a petition stating lack of jurisdiction, which was rejected. The likelihood of loss in this case was considered to be possible, at the amount of R\$ 70,000. The action was considered valid, and Chesf issued appeals on 9/30/2012. The judge in charge of the action proposed the execution of fees attributed to an incident of relative incompetence. Chesf filed an objection of pre-execution, as well as a writ of mandamus in order to prevent the payment of this amount. In its decision on the writ of mandamus filed by Chesf, the Ceará Appeals Court (TJCE) determined the annulment of the acts practiced and the remittance of the records to the Federal Court System. This decision was in the process of appeals at 12/31/2012.
- 2.1.5)** Public civil suit proposed by the Federal Public Prosecution Office with the judicial subsection of Paulo Afonso – BA (claim 2490-83.2012.4.01.3306) in which, in summary, it sought to obtain a judicial decree that declared the inexistence of the Addendum to the Contract of 1986, signed, in 1991, between Chesf and the representatives of the Rural Workers' of a section of the São Francisco Union (Polo Sindical dos Trabalhadores Rurais do Submédio São Francisco). The amount attributed to the cause was R\$ 1,000,000. The proceeding was concluded, at the instruction stage, at 12/31/2012.

- 3)** The main lawsuits in which the risk of loss is **remote** are the following:

- 3.1)** There is an ongoing collection action filed by Construtora Mendes Junior S.A., which was contracted by the Company to build the Itaparica Hydroelectric energy Plant, for alleged financial losses caused by late payment of invoices by the Company.

This collection action is based on the declaratory action considered valid as regards the existence of a credit in favor of Mendes Junior owed by Chesf, thereby requiring financial reimbursement.

Construtora Mendes Júnior S.A. was granted a decision by the 4th Lower Civil Court, in this collection action, which was later annulled, which ordered Chesf to pay a sum which, including attorneys' fees and monetary adjustments through August 1996, calculated in accordance with the criteria determined by the Court, would total approximately R\$ 7 billion. The amount has not been adjusted since that date.

After a decision rendered by the Superior Court of Justice (STJ), which rejected the special appeal filed by Mendes Junior S.A., and upheld the decision of the 2nd Civil Appeals Court of Pernambuco, which annulled the award and determined the redistribution of the case to a Federal Court in Pernambuco, the case was sent to the 12th Federal Court, under number 2000.83.00.014864-7, in order that a new expert examination could be realized and a new decision rendered.

The expert examination was submitted, and the expert, when answering the questions proposed by Chesf, stated the following: "it is not possible to affirm, from the analysis of the accounting records of Mendes Junior S.A., that it had raised funds in the financial market, during the periods in which the delays in the payments of the invoices occurred, specifically for the financing of the Itaparica project". This answer was confirmed by the analysis made by the expert hired by Chesf, which included an in-depth examination of Mendes Junior's financial statements. Based on these results, Chesf requested that the lawsuit be dismissed for lack of basis.

The Federal Public Attorney's Office issued its opinion and requested the annulment of the process. It also requested that the lawsuit to be considered groundless as regards the merit of the action.

The lawsuit was partially maintained through a decision issued on 3/8/2008. Chesf filed a motion for clarification of judgment of this sentence, which was accepted by the Judge through a decision that clarified some points of the decision related to the determination of a possible debt of Chesf to Mendes Júnior.

Chesf filed an appeal against this decision, seeking total rejection of the lawsuit, especially considering that Mendes Junior, in this collection action, should be responsible for evidencing that it raised funds for the specific purpose of financing the Itaparica project, due to the delay of Chesfin effecting the payment of some invoices, and that the financial costs incurred exceeded the total additional amounts paid by Chesf as a result of such delays. The Federal Government and the Public Attorney's Office filed similar appeals to that filed by Chesf.

In a session held on 10/25/2010, the Federal Regional Court of the 5th Region accepted the appeals filed by Chesf, the Federal Government and the Public Attorney's Office, and judged the action to be entirely groundless. Information has been obtained that special and extraordinary appeals have been filed by Construtora Mendes Júnior and by the Federal Government, although Chesf has not been notified to present a response to these appeals. As of 12/31/2011, a decision from TRF was awaited on the development of the extraordinary appeal filed by Mendes Júnior, whose previously filed special appeal had been denied by the TRF. Mendes Júnior filed an interlocutory appeal against this sentence. The appeals filed by Mendes Júnior had been escalated to the Higher Court at 12/31/2012 – ARES 205,843 (2012/0155289-6), and the Federal Public Prosecution Office have issued an opinion dismissing the appeals.

Considering the decision of the Federal Regional Court of the 5th Region, the risk of Chesf obtaining an unfavorable decision in this lawsuit is remote.

3.2) Environmental risks

As a result of its activities, Chesf is a party to lawsuits of an environmental nature for which no provisions have been recognized as they involve the risk of loss which management and its legal advisors have classified as possible or remote. Based on the opinion of these legal advisors, management believes that the resolution of these lawsuits will not cause adverse material effect on its financial position and, based on experience, believes that no provision, or insurance for losses, related to environmental issues is necessary.

26 – PROVISION FOR ONEROUS CONTRACTS

The Company carried out a test of its generation and transmission units at 12/31/2012, in order to identify the capacity to individually generate economic benefits higher than the costs necessary to meet its obligations.

The following provisions were constituted as a result of this test:

| | Parent company and consolidated | |
|-------------------------------|---------------------------------|------------|
| | 12/31/2012 | 12/31/2011 |
| Camaçari | 357,043 | - |
| Itaparica | 1,018,534 | - |
| Jirau | 711,375 | - |
| Paulo Afonso Complex | 34,107 | - |
| Transmission contract 61/2001 | 84,139 | - |
| Purchase of energy | 98,358 | - |
| | 2,303,556 | - |

The results presented in the above contracts arose from the implementation cost of the Scheduled Voluntary Termination Program (PIDV) and the price of R\$ 67.00 (sixty seven Reals), which represents the amount of the average Price of Settlement of Differences (PLD) of the last 10 years, for the sale of energy on canceled contracts, adopted as an assumption for the companies of the Eletrobras System.

27 – CONCESSIONS PAYABLE – USE OF PUBLIC ASSETS

The Company, through its jointly-controlled subsidiaries ESBR Participações S.A. and Norte Energia S.A., has onerous concession contracts with the Federal Government concerning the use of public assets for the generation of electric energy at the Jirau and Belo Monte Hydroelectric energy Plants, respectively.

In order to properly reflect in equity the onerous grant of the concession and the respective obligation to the Federal Government, based on the analysis of the characteristics of the business, of the contracts, and of the stage of the enterprises, the amount of the Jirau Plant concession was recorded in intangible assets, with a corresponding entry to non-current liabilities.

The amount identified in the contract, calculated at the future price based on the monetary variation projection, was adjusted to present value based on the discount rate determined on the date of the obligation.

The restatement of the obligation based on the discount rate and on the monetary variation is capitalized in assets during the construction of the plants and, starting from the date of commencement of commercial operation, is recognized directly in the results.

27.1 - Composition

| | Consolidated | |
|--------------------------------|---------------|---------------|
| | 12/31/2012 | 12/31/2011 |
| Non-current assets | | |
| Jirau | 22,436 | 19,888 |
| Belo Monte | 23,073 | 21,753 |
| Total assets | 45,509 | 41,641 |
| Non-current liabilities | | |
| Jirau | 22,436 | 19,888 |
| Belo Monte | 23,073 | 21,753 |
| Total liabilities | 45,509 | 41,641 |

27.2 - Maturities of the installments of non-current liabilities

| | Consolidated | |
|--------------------------|---------------|---------------|
| | 12/31/2012 | 12/31/2011 |
| 2014 | 1,995 | 1 |
| 2015 | 3,858 | 1,757 |
| 2016 | 3,869 | 1,767 |
| After 2016 | 35,787 | 38,116 |
| Total non-current | 45,509 | 41,641 |

27.3 - Changes in liabilities

| | Consolidated |
|----------------------|---------------|
| At 12/31/2011 | 41,641 |
| Additions | 1,320 |
| Charges | 2,548 |
| At 12/31/2012 | 45,509 |

28 - ADVANCE FOR FUTURE CAPITAL INCREASE (AFAC)

In order to finance the investment program and the financial injections in the Special Purpose Entities (SPEs), Chesf's parent company Eletrobras liberated, in 2011, funds arising from part of the dividends for 2010 in the amount of R\$ 1,293,000, in the form of an Advance for Future Capital Increase.

The capital increase as a result of this Advance occurred this year through the 166th Extraordinary General Stockholders Meeting, held on 12/28/2012.

29 – COMMITMENTS

29.1 – Purchase of energy

The commitments refer to contracts signed by the companies presented below with generation companies for the purchase of electric energy:

Parent

| Company | 2013 | 2014/2015 | 2016/2017 | Amounts in R\$ |
|---------------------|-----------|-----------|-----------|-----------------------------------|
| | | | | After 2017 (remaining payment) |
| Chesf (MW/h) | 5,483,112 | 4,550,575 | 3,298,272 | 18,886,560 |
| Average price (R\$) | 125.28 | 144.30 | 139.28 | 139.11 |

Consolidated

| Companies | 2013 | 2014/2015 | 2016/2017 | Amounts in R\$ |
|---------------------------|-----------|-----------|-----------|-----------------------------------|
| | | | | After 2017 (remaining payment) |
| Chesf | 4,626,709 | 1,399,362 | 1,413,295 | 3,350,677 |
| ESBR | - | - | - | - |
| Norte Energia | - | - | - | - |
| São Pedro do Lago | 9,314 | - | - | - |
| Pedra Branca | 8,608 | - | - | - |
| Sete Gameleiras | 8,820 | - | - | - |
| Junco I | - | - | - | - |
| Junco II | - | - | - | - |
| Caiçara I | - | - | - | - |
| Caiçara II | - | - | - | - |
| Energética Aguas da Pedra | - | - | - | - |
| Quantity (MW/h) | 4,653,451 | 1,399,362 | 1,413,295 | 3,350,677 |
| Average price (R\$) | 122.19 | 100.73 | 101.81 | 86.52 |

29.2 – Sale of energy

Parent

| Company | 2013 | 2014/2015 | 2016/2017 | Amounts in R\$ |
|---------------------|------------|------------|-----------|-----------------------------------|
| | | | | After 2017 (remaining payment) |
| Chesf (MW/h) | 11,440,268 | 13,754,952 | 2,533,354 | 4,646,304 |
| Average price (R\$) | 110.44 | 117.00 | 170.47 | 99.57 |

Consolidated

| Companies | 2013 | 2014/2015 | 2016/2017 | Amounts in R\$ |
|---------------------------|------------|------------|------------|-----------------------------------|
| | | | | After 2017 (remaining payment) |
| Chesf | 11,440,268 | 13,754,952 | 2,533,354 | 4,646,304 |
| ESBR | 837,867 | 7,213,805 | 7,465,176 | 93,933,349 |
| Norte Energia | - | 90,620 | 5,548,557 | 120,780,040 |
| São Pedro do Lago | 56,660 | 113,320 | 113,320 | 849,896 |
| Pedra Branca | 52,367 | 104,734 | 104,734 | 785,509 |
| Sete Gameleiras | 53,655 | 107,310 | 107,310 | 804,825 |
| Junco I | - | - | 104,018 | 935,454 |
| Junco II | - | - | 98,001 | 881,336 |
| Caiçara I | - | - | 116,053 | 1,043,688 |
| Caiçara II | - | - | 79,948 | 718,985 |
| Energética Aguas da Pedra | 315,491 | 630,982 | 631,825 | 7,261,310 |
| Quantity (MW/h) | 12,756,308 | 22,015,723 | 16,902,296 | 232,640,696 |
| Average price (R\$) | 112.08 | 121.52 | 124.01 | 180.53 |

Contracts signed by the companies listed above with other companies in the electrical sector aiming at the supply/sale of electric energy. In cases in which the Company does not have a generation of energy in a sufficient amount in a certain period, it is possible to purchase electric energy through the Electric Energy Trade Chamber (CCEE) in order to honor the energy supply contract. However, in this case, the Company is exposed to the value of the period of the Price of Settlement of Differences (PLD), which could be higher than the sales amounts established in the above contracts, and the Company would then be subject to financial losses in these operations.

At the date of these financial statements, the Company had, individually, purchase commitments to several suppliers for assets and supplies for new enterprises and for the substitutions necessary for the operational maintenance of the existing enterprises, which are estimated to amount to R\$ 1,141,401 in 2013.

30 - EQUITY

• Share capital

The Company's share capital, in the amount of R\$ 9,753,953 (R\$ 7,720,760, in 2011), is represented by shares with no par value, held as follows:

| Stockholders | Number of shares – in thousands | | | | | |
|---------------------|---------------------------------|----------------|--------------|----------------|---------------|----------------|
| | Common | | Preferred | | Total | % |
| | Number | % | Number | % | | |
| Eletrobras | 54,151 | 100.000 | 1,518 | 86.545 | 55,669 | 99.578 |
| Ministry of Finance | - | - | 194 | 11.060 | 194 | 0.347 |
| Light | - | - | 9 | 0.513 | 9 | 0.016 |
| Others | - | - | 33 | 1.882 | 33 | 0.059 |
| | 54,151 | 100.000 | 1,754 | 100.000 | 55,905 | 100.000 |

Common shares are registered and have voting rights. Preferred shares, also registered, have no specific class, nor voting rights, and are not convertible into common shares. However, preferred shares have priority in the payment of dividends, of at least 10% per year, calculated on the capital relating to this type of shares.

The Company held the 163th Extraordinary General Stockholders' Meeting on June 19, 2012, which approved a capital increase, of R\$ 693,200, through the capitalization of the balance of the Tax Incentive Reserve of the Superintendency for the Development of the Northeast (SUDENE), without the issue of new shares.

The Company held the 164th Extraordinary General Stockholders Meeting on July 12, 2012, which approved a capital increase, of R\$ 46,994, through the capitalization of resources from the Northeast Investment Fund (FINOR), with the issue of 152,207 new shares.

The Company held the 166th Extraordinary General Stockholders Meeting on December 28, 2012, which approved a capital increase, of R\$ 1,293,000, through the capitalization of the balance of the Advances for Future Capital Increase (AFAC), with the issue of 4,187,854 new shares.

• Capital reserves

.

| | 12/31/2012 | 12/31/2011 |
|--|-------------------|-------------------|
| Donations/Subventions for investments | 4,759,353 | 4,759,353 |
| Remuneration of assets and rights constituted with own capital | 156,846 | 156,846 |
| | 4,916,199 | 4,916,199 |

• Revenue reserves

| | 12/31/2012 | | | | | 12/31/2011 |
|--------------------|------------------|------------|--------------------|------------------|-----------------|------------------|
| | Previous balance | New | Offset of loss | Capital increase | Closing balance | |
| Legal | 501,886 | - | (501,886) | - | - | 501,886 |
| Statutory | 8,179 | - | (8,179) | - | - | 8,179 |
| Unrealized profits | 428,599 | - | (428,599) | - | - | 428,599 |
| Tax incentives | 693,200 | 925 | (925) | (693,200) | - | 693,200 |
| Profit retention | 2,209,834 | - | (2,209,834) | - | - | 2,209,834 |
| | 3,841,698 | 925 | (3,149,423) | (693,200) | - | 3,841,698 |

Due to the loss incurred in the year ended 12/31/2012 of R\$ 5,341,312, the Company offset part of this loss, of R\$ 3,149,423, with the existing balance in the revenue reserves. The balance of the loss not offset, of R\$ 2,192,814, will be allocated to the accumulated deficit account.

Pursuant to Brazilian Corporation Law, the legal reserve is formed with 5% of the profit for the year and is limited to 20% of share capital.

The Unrealized Profits Reserve, arising from the credit balance of the monetary restatement of the years prior to 1995, is reversed to the retained earnings account, based on the percentage of realization of property, plant and equipment, and is included in the calculation of stockholders' remuneration.

The Tax Incentive Reserve was established by Law 11,638/2007. Item 'd' of paragraph 1 of Article 182 - which permitted the recognition of donations and government investment grants as capital reserves - was revoked from law 6,404/1976 and Article 195-A was included, authorizing the Annual Stockholders' Meeting, based on a proposal of management, to allocate the portion of profit arising from donations and government investment grants to the tax incentive reserve, which could be excluded from the calculation of the mandatory dividend.

- **Proposed additional dividends**

In accordance with the new accounting practices established by Technical Interpretation ICPC 08 – Accounting for Proposed Dividends, the amount of dividends over the mandatory minimum established in the bylaws, not approved at an Annual Stockholders' Meeting, is presented in equity as additional proposed dividends.

Note 36 presents the other information related to the stockholders' remuneration.

- **Other comprehensive income (loss)**

The Company recognized in equity, under the equity method of accounting, the effects of adjustments in other comprehensive income (loss) arising from the result of the effective cash flow hedge operations recorded in the equity of its jointly-controlled subsidiaries ESBR Participações S.A., proportionally to its interest in this company, in the amount of R\$ 231 (gain of R\$ 3,719, in 2011).

In compliance with Technical Pronouncement CPC 33 (IAS 19), the Company recognized in 2011 actuarial losses on post-employment benefits, net of deferred income tax and social contribution, in other comprehensive income (loss), in the amount of R\$ 247,752 (loss of R\$ 194,106, in 2011).

- **Accumulated deficit**

In accordance with Brazilian Corporation Law, the loss for the year should be compulsorily absorbed by retained earnings, the revenue reserves and the legal reserve, in this order, and the balance must remain in the accumulated deficit account for offset against future positive results, net of any participations.

The accumulated deficit of the Company after the offset against the revenue reserves was R\$ 2,192,814, arising from the effects of Provisional Measure 579/2012, converted into Law 12,783/2013, which is the object of the renewal of the concessions maturing in 2015.

31 – NET OPERATING REVENUE

In compliance with the requirements of CPC 30 – Revenues (IAS 18), presented below is the reconciliation between gross operating revenue and net operating revenue presented in the statement of operations. Pursuant to the previously adopted accounting practices, the presentation of the Company's revenue in the statement of operations segregated the gross operating revenue, the deductions from the gross operating revenue and the net operating revenue. The new accounting practices establish that the Company must present in its statement of operations only the net operating revenue since it represents the gross inflows of economic benefits received and receivable arising from its own activities.

| | Parent | | Consolidated | |
|--|--------------------|------------------|--------------------|------------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| GROSS OPERATING REVENUE | | | | |
| Electric energy sale | 844,474 | 779,472 | 844,474 | 779,472 |
| Electric energy supply | 3,623,076 | 3,407,106 | 3,623,076 | 3,407,106 |
| Transmission system | 604,911 | 630,849 | 615,321 | 639,490 |
| Short-term electric energy (CCEE) | 629,676 | (829) | 629,676 | (829) |
| Construction revenue | 603,420 | 581,089 | 1,132,025 | 943,268 |
| Financial income | 684,098 | 617,491 | 807,833 | 702,196 |
| Other operating revenue | 11,749 | 16,168 | 19,673 | 29,707 |
| | 7,001,404 | 6,031,346 | 7,672,078 | 6,500,410 |
| DEDUCTIONS FROM OPERATING REVENUE | | | | |
| Global Reversion Reserve – RGR | (174,560) | (130,353) | (176,522) | (132,089) |
| ICMS on electric energy | (108,351) | (97,061) | (108,347) | (97,065) |
| Tax on Services (ISS) | (730) | (816) | (1,219) | (816) |
| Research & Development | (56,442) | (47,240) | (57,045) | (47,836) |
| Fossil Fuel Consumption Account (CCC) | (93,581) | (126,433) | (93,581) | (126,433) |
| Energy Development Account (CDE) | (18,737) | (17,925) | (18,737) | (17,925) |
| Proinfa | (46,580) | (39,206) | (46,580) | (39,206) |
| PIS/Pasep | (89,772) | (80,692) | (90,355) | (81,195) |
| COFINS | (416,623) | (373,133) | (419,309) | (375,453) |
| | (1,005,376) | (912,859) | (1,011,695) | (918,018) |
| NET OPERATING REVENUE | 5,996,028 | 5,118,487 | 6,660,383 | 5,582,392 |

(*) The negative balance reported as of 12/31/2011 resulted from recalculations of settlements under the CCEE in the short-term market.

The Company's revenue mainly originates from the sale of electric energy, from construction, operation and maintenance, and the restatement of financial assets arising from its transmission system. These transactions are supported by electric energy sales and purchase contracts, the transactions carried out in the short-term market through the Electric energy Trading Chamber (CCEE) and the contracts of the transmission system.

32 - REGULATORY CHARGES

The Company incurred regulatory charges totaling R\$ 664,033 in 2012 (R\$ 611,514, in 2011), as follows:

| | Parent | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Global Reversion Reserve (RGR) | 174,560 | 130,353 | 176,522 | 132,089 |
| Research & Development (R&D) | 56,442 | 47,240 | 57,045 | 47,836 |
| Fossil Fuel Consumption Account (CCC) | 93,581 | 126,433 | 93,581 | 126,433 |
| Energy Development Account (CDE) | 18,737 | 17,925 | 18,737 | 17,925 |
| Alternative Energy Source Incentive Program (Proinfa) | 46,580 | 39,206 | 46,580 | 39,206 |
| Electric Energy Utility Service Inspection Fee (TFSEE) | 21,119 | 21,638 | 21,492 | 21,951 |
| Financial Compensation for Use of Water Resources (CFURH) | 240,074 | 224,374 | 240,074 | 224,374 |
| Reserve Electric Energy Charge (EER) | 12,940 | 4,345 | 12,940 | 4,345 |
| Total | 664,033 | 611,514 | 666,971 | 614,159 |

33 - OPERATING COSTS AND EXPENSES

The costs and general and administrative expenses presented in the Statement of Operations for the year are as follows:

| | Parent | | | 12/31/2011 |
|---|------------------|--------------------|------------------|------------------|
| | 12/31/2012 | | | |
| | Operating costs | Operating expenses | Total | Total |
| Electric energy purchased for resale | 19,058 | - | 19,058 | 7,635 |
| Charges for electricity network usage | 867,885 | - | 867,885 | 805,270 |
| Construction cost | 603,420 | - | 603,420 | 581,089 |
| Personnel | 326,839 | 525,701 | 852,540 | 788,717 |
| Material | 13,485 | 13,297 | 26,782 | 29,113 |
| Fuels for electric energy production | 2,522 | - | 2,522 | 4,793 |
| Third-party services | 72,933 | 119,511 | 192,444 | 189,754 |
| Depreciation and amortization | 339,815 | 69,063 | 408,878 | 418,008 |
| Financial compensation for use of water resources | 240,074 | - | 240,074 | 224,374 |
| Onerous contract - Jirau | 711,375 | - | 711,375 | - |
| Post-employment benefits | - | 30,651 | 30,651 | (44,101) |
| Leases and rentals | 7,588 | 13,426 | 21,014 | 23,232 |
| Taxes | 200 | 4,788 | 4,988 | 3,752 |
| Provision for contingencies | - | 209,193 | 209,193 | 158,839 |
| Provision for impairment of trade receivables | - | 81,287 | 81,287 | 17,115 |
| Other operating provisions | - | 106,461 | 106,461 | 102,451 |
| Losses with customers | - | 26,591 | 26,591 | 24,367 |
| Others | (20,729) | 78,449 | 57,720 | 30,255 |
| Total | 3,184,465 | 1,278,418 | 4,462,883 | 3,364,663 |

| | Consolidated | | | |
|---|------------------|--------------------|------------------|------------------|
| | 12/31/2012 | | | 12/31/2011 |
| | Operating costs | Operating expenses | Total | Total |
| Electric energy purchased for resale | 19,058 | - | 19,058 | 7,635 |
| Charges for electricity network usage | 867,885 | - | 867,885 | 805,270 |
| Construction cost | 1,132,025 | - | 1,132,025 | 943,268 |
| Personnel | 329,165 | 536,325 | 865,490 | 798,065 |
| Material | 13,677 | 13,685 | 27,362 | 29,743 |
| Fuels for electric energy production | 2,522 | - | 2,522 | 4,793 |
| Third-party services | 76,021 | 126,992 | 203,013 | 199,872 |
| Depreciation and amortization | 339,877 | 69,326 | 409,203 | 418,138 |
| Financial compensation for use of water resources | 240,074 | - | 240,074 | 224,374 |
| Onerous contract - Jirau | 711,375 | - | 711,375 | - |
| Post-employment benefits | - | 30,651 | 30,651 | (44,101) |
| Leases and rentals | 8,175 | 14,585 | 22,760 | 23,896 |
| Taxes | 270 | 4,911 | 5,181 | 4,041 |
| Provision for contingencies | - | 209,193 | 209,193 | 158,839 |
| Provision for impairment of trade receivables | - | 81,287 | 81,287 | 17,115 |
| Losses with costumers | - | 26,591 | 26,591 | 24,367 |
| Other operating provisions | - | 106,461 | 106,461 | 102,451 |
| Others | (19,150) | 79,444 | 60,294 | 38,686 |
| Total | 3,720,974 | 1,299,451 | 5,020,425 | 3,756,452 |

34 – FINANCE RESULT

| | Parent | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Finance income | | | | |
| Income from financial investments | 114,537 | 133,179 | 125,880 | 144,853 |
| Monetary variations and late payment charges – electric energy sold | 65,608 | 86,953 | 65,610 | 86,954 |
| Other monetary variation income | 1,632 | 1,757 | 1,637 | 1,985 |
| Restatement of receivables | 203,231 | - | 203,231 | - |
| Other finance income | 38,263 | 35,848 | 32,174 | 31,654 |
| PIS/Pasep and COFINS | (55,232) | (553) | (55,232) | (553) |
| | 368,039 | 257,184 | 373,300 | 264,893 |
| Finance costs | | | | |
| Debt charges | (40,276) | (65,375) | (56,873) | (69,813) |
| Monetary variations on borrowings | (550) | (940) | (7,040) | (12,349) |
| Other monetary variation expenses | (816) | (151) | (816) | (498) |
| Interest on stockholders' remuneration | (70,144) | (179,130) | (70,144) | (179,130) |
| Other finance costs | (39,992) | (23,112) | (63,007) | (36,619) |
| | (151,778) | (268,708) | (197,880) | (298,409) |
| | 216,261 | (11,524) | 175,420 | (33,516) |

35 - TAX INCENTIVES – SUDENE/SUDAM

Provisional Measure 2,199-14, of 8/24/2001, amended by Law 1,1196, of 11/21/2005, permits companies based in the regions covered by the Superintendency for the Development of the Northeast Region (Sudene) and the Superintendency for the Development of the Amazon (Sudam), which have developments in the infrastructure sector, which is regarded by the Executive Branch as one of the priority sectors for regional development, to reduce the income tax amount due in order to make investments in installation, expansion, modernization or diversification projects.

Chesf holds the right to a 75% reduction in Income Tax and Non-refundable Additional Amounts, calculated based on exploitation profit.

For the concession contracts 006/2004 (generation) and 061/2001 (transmission), the right to the incentive of a reduction of 75% of the income tax covers the years 2008 to 2017. For the transmission contracts 008/2005 and 007/2005, the right to the incentive of reduction was granted in respect of the years 2011 to 2020.

For the contracts with the tax incentive, the rate of the income tax reduces from 25% to 6.25%.

The tax incentive of reduction of Income Tax and Non-refundable Additional Amounts calculated are recorded in the statement of operations for the year as a reduction of income tax, in compliance with Technical Pronouncement CPC 07 (IAS 20). The portion of the profit arising from these tax incentives is allocated to a Revenue Reserve ("Tax Incentive Reserve"), in compliance with Article 195-A of Law 6,404/1976, which can only be utilized to increase share capital or the absorption of losses.

The Company did not obtain the tax incentive of the reduction of 75% of the income tax in 2012, because there was no taxable profit.

36 – STOCKHOLDERS' REMUNERATION

| | 12/31/2011 |
|--|-------------------|
| Profit for the year | 1,554,145 |
| Recognition of tax incentive reserve | (312,843) |
| Recognition of legal reserve | (62,065) |
| Realization of unrealized profit reserve | 17,933 |
| Profit for distribution | 1,197,170 |
| Mandatory minimum dividends (25%) | 299,293 |
| Proposed remuneration: | |
| Mandatory minimum dividends | 299,293 |
| Additional dividends | 897,877 |
| Net remuneration | 1,197,170 |
| Percentage of profit for distribution | 100.00% |
| Gross dividends per common share (R\$) | 23.22 |
| Gross dividends per preferred share (R\$) | 23.22 |

The Company's Bylaws establish as minimum mandatory dividends the distribution of 25% of the profit for each year adjusted as required by law.

In accordance with the new accounting practices established by Technical Interpretation ICPC 08 – Accounting for Proposed Dividends, the amount of dividends exceeding the mandatory minimum established in the bylaws, which have not been approved at an Annual Stockholders' Meeting, is presented in Equity as proposed additional dividends.

Dividends will be paid on a date to be defined at the Annual Stockholders' Meeting (AGO), or in accordance with Brazilian Corporation Law, in the event the AGO does not address this matter, and will be adjusted for inflation from 12/31/2012 through the payment date, based on the variation of the SELIC rate.

The Company incurred a loss of R\$ 5,341,312 in the year ended 12/31/2012, arising from the effects of Provisional Measure 579, of September 11, 2012, converted into Law 12,783/2013, which enabled the extension of its concessions for hydroelectric energy plants and transmission lines and substations that had their terms maturing in 2015, instead of a new public bid. Therefore, the payment of dividends was not realized.

37 – EARNINGS (LOSS) PER SHARE

a) Basic earnings (loss)

Basic earnings (loss) per share is calculated by dividing the result for the period attributable to the stockholders by the number of outstanding shares of the capital in the respective period.

| | 12/31/2012 | | | 12/31/2011 | | |
|--|----------------|----------------|----------------|--------------|--------------|--------------|
| | Common | Preferred | Total | Common | Preferred | Total |
| Basic | | | | | | |
| Numerator | | | | | | |
| Net profit (loss) attributable to stockholders | (5,173,730) | (167,582) | (5,341,312) | 1,509,840 | 44,305 | 1,554,145 |
| Denominator | | | | | | |
| Number of shares | 54,151 | 1,754 | 55,905 | 50,095 | 1,470 | 51,565 |
| Basic earnings per share in R\$ | (95.54) | (95.54) | (95.54) | 30.14 | 30.14 | 30.14 |

b) Diluted earnings (loss)

Diluted earnings (loss) per share is calculated based on the number of shares outstanding, adjusted for instruments potentially convertible into shares that have a dilutive effect in the reporting periods. The Company did not have any dilutive effect for the result computed in 2012.

| | 12/31/2012 | | | 12/31/2011 | | |
|--|----------------|----------------|----------------|--------------|--------------|--------------|
| | Common | Preferred | Total | Common | Preferred | Total |
| Diluted | | | | | | |
| Numerator | | | | | | |
| Net profit attributable to stockholders | (5,173,730) | (167,582) | (5,341,312) | 1,509,840 | 44,322 | 1,554,162 |
| Denominator | | | | | | |
| Number after the supposed conversion | 54,151 | 1,754 | 55,905 | 53,857 | 1,581 | 55,438 |
| Diluted earnings per share in R\$ | (95.54) | (95.54) | (95.54) | 28.03 | 28.03 | 28.03 |

38 - RELATED PARTIES

Related-party transactions are carried out under market conditions and prices or based on contracts of the Electric Energy Sector. The companies/entities which are related parties of the Company are presented below:

| Companies | Nature of the transactions | 12/31/2012 | | | 12/31/2011 | | |
|---------------|--|---------------|----------------|------------------|---------------|------------------|------------------|
| | | Assets | Liabilities | Result | Assets | Liabilities | Result |
| Eletrobras | Receivables | 1,813 | - | - | 1,547 | - | - |
| | Borrowings | - | 128,673 | - | - | 143,020 | - |
| | Payables | - | 430 | - | - | 494 | - |
| | Dividends | - | - | - | - | 295,852 | - |
| | Finance cost | - | - | (8,650) | - | - | (9,739) |
| | Dividend restatement | - | - | (69,969) | - | - | (178,696) |
| | Advance for Future Capital Increase (AFAC) | - | - | - | - | 1,293,000 | - |
| | | 1,813 | 129,103 | (78,619) | 1,547 | 1,732,366 | (188,435) |
| Furnas | Consumers, concessionaires and grantees | 4,865 | - | - | 4,912 | - | - |
| | Receivables | 14 | - | - | 11 | - | - |
| | Trade payables | - | 14,473 | - | - | 14,708 | - |
| | Dividends | - | - | - | - | 14 | - |
| | Supply of energy | - | - | 3,796 | - | - | - |
| | Charge for network usage | - | - | (134,256) | - | - | (126,651) |
| | Dividend restatement | - | - | (1) | - | - | (2) |
| | | 4,879 | 14,473 | (130,461) | 4,923 | 14,722 | (126,653) |
| Eletrósul | Consumers, concessionaires and grantees | 72 | - | - | - | - | - |
| | Receivables | 55 | - | - | 25 | - | - |
| | Trade payables | - | 7,689 | - | - | 7,835 | - |
| | Charge for network usage | - | - | (71,119) | - | - | (65,290) |
| | | 127 | 7,689 | (71,119) | 25 | 7,835 | (65,290) |
| Eletronorte | Consumers, concessionaires and grantees | 7,577 | - | - | 7,832 | - | - |
| | Trade payables | - | 8,902 | - | - | 8,760 | - |
| | Other payables | - | - | - | - | 91 | - |
| | Receivables | 18 | - | - | 8 | - | - |
| | Charge for network usage | - | - | (81,420) | - | - | (78,445) |
| | | 7,595 | 8,902 | (81,420) | 7,840 | 8,851 | (78,445) |
| Eletronuclear | Consumers, concessionaires and grantees | 620 | - | - | 617 | - | - |
| | Payables | - | 11 | - | - | - | - |
| | Dividends | - | - | - | - | 8 | - |
| | Dividend restatement | - | - | - | - | - | (1) |
| | | 620 | 11 | - | 617 | 8 | (1) |
| CGTEE | Consumers, concessionaires and grantees | 68,833 | - | - | 37,078 | - | - |
| | Payables | - | - | - | - | - | - |
| | Supply of energy | - | - | 97,303 | - | - | 41,894 |
| | | 68,833 | - | 97,303 | 37,078 | - | 41,894 |
| Eletrópar | Receivables | 14,693 | - | - | 14,693 | - | - |
| | (-) Provision for impairment | (13,237) | - | - | (13,237) | - | - |
| | Advances to suppliers | 5,279 | - | - | 5,279 | - | - |
| | Payables | - | 1,456 | - | - | 1,456 | - |
| | | 6,735 | 1,456 | - | 6,735 | 1,456 | - |

Continued

| Companies | Nature of the transactions | Assets | Liabilities | Result | Assets | Liabilities | Result |
|---|---|----------------|---------------|-----------------|----------------|----------------|----------------|
| Ceal | Consumers, concessionaires and grantees | 31,487 | - | - | 27,817 | - | - |
| | Receivables | 27 | - | - | 25 | - | - |
| | Payables | - | 75 | - | - | - | - |
| | Supply of energy | - | - | 67,117 | - | - | 57,088 |
| | | 31,514 | 75 | 67,117 | 27,842 | - | 57,088 |
| Fachesf | Trade payables | - | 2,160 | - | - | 141 | - |
| | Regular contributions | - | 11,001 | - | - | 9,317 | - |
| | Actuarial contracts | - | 2,523 | - | - | 298,672 | - |
| | Finance cost | - | - | (31,363) | - | - | (28,745) |
| | Operating expenses | - | - | (18,581) | - | - | (16,381) |
| | Actuarial expenses | - | - | (30,651) | - | - | 44,101 |
| | | - | 15,684 | (80,595) | - | 308,130 | (1,025) |
| Celg - D | Consumers, concessionaires and grantees | 14,799 | - | - | - | - | - |
| | Supply of energy | - | - | 86,163 | - | - | - |
| | Charge for network usage | - | - | (2,340) | - | - | - |
| | | 14,799 | - | 83,823 | - | - | - |
| Cepisa | Consumers, concessionaires and grantees | 8,151 | - | - | 11,325 | - | - |
| | Supply of energy | - | - | 48,332 | - | - | 47,585 |
| | | 8,151 | - | 48,332 | 11,325 | - | 47,585 |
| | Receivables | 177 | - | - | 174 | - | - |
| STN | Investment | 188,861 | - | - | 195,267 | - | - |
| | Trade payables | - | 1,226 | - | - | 1,271 | - |
| | Revenue from services provided | - | - | 2,134 | - | - | 2,055 |
| | Financial income (Interest on capital) | - | - | 7,494 | - | - | 5,872 |
| | Equity in the results | - | - | 17,615 | - | - | 28,314 |
| | Charge for network usage | - | - | (11,321) | - | - | (10,869) |
| | | 189,038 | 1,226 | 15,922 | 195,441 | 1,271 | 25,372 |
| | Investment | 35,646 | - | - | 31,692 | - | - |
| Integração Transmissora de Energia S.A. | Trade payables | - | 924 | - | - | 929 | - |
| | Dividends | 762 | - | - | 609 | - | - |
| | Charge for network usage | - | - | (8,696) | - | - | (8,429) |
| | Equity in the results | - | - | 4,107 | - | - | 3,095 |
| | | 36,408 | 924 | (4,589) | 32,301 | 929 | (5,334) |
| Energética Águas da Pedra S.A. | Investment | 86,707 | - | - | 75,638 | - | - |
| | Consumers, concessionaires and grantees | 242 | - | - | 244 | - | - |
| | Dividends | 3,090 | - | - | 4,252 | - | - |
| | Equity in the results | - | - | 14,524 | - | - | 18,604 |
| | | 90,039 | - | 14,524 | 80,134 | - | 18,604 |
| ESBR Participações S.A. | Investment | 939,825 | - | - | 554,408 | - | - |
| | Equity in the results | - | - | (4,352) | - | - | (3,646) |
| | Other comprehensive income (loss) | - | (231) | - | - | (3,253) | - |
| | | 939,825 | (231) | (4,352) | 554,408 | (3,253) | (3,646) |
| I.E. Madeira | Investment | 274,366 | - | - | 179,878 | - | - |
| | Equity in the results | - | - | 26,868 | - | - | 10,872 |
| | | 274,366 | - | 26,868 | 179,878 | - | 10,872 |
| Manaus Transmissora | Investment | 187,758 | - | - | 122,268 | - | - |
| | Payables | - | - | - | - | 112 | - |
| | Other comprehensive income (loss) | - | - | - | - | (467) | - |
| | Revenue from services provided | - | - | - | - | - | 1,722 |
| | Equity in the results | - | - | (5,452) | - | - | (8,041) |
| | | 187,758 | - | (5,452) | 122,268 | (355) | (6,319) |

Continued

| Companies | Nature of the transactions | Assets | Liabilities | Result | Assets | Liabilities | Result |
|--------------------|---|----------------|-------------|-----------------|----------------|-------------|-----------------|
| Manaus | Investment | 15,410 | - | - | 6,392 | - | - |
| Construtora | Dividends | 2,970 | - | - | 8,432 | - | - |
| | Equity in the results | - | - | 3,556 | - | - | 8,874 |
| | | 18,380 | - | 3,556 | 14,824 | - | 8,874 |
| TDG | Investment | 45,183 | - | - | 15,235 | - | - |
| | Revenue from services provided | - | - | 875 | - | - | - |
| | Equity in the results | - | - | (4,352) | - | - | 2,217 |
| | | 45,183 | - | (3,477) | 15,235 | - | 2,217 |
| | Consumers, concessionaires and grantees | - | - | - | - | - | - |
| Norte Energia S.A. | Investment | 409,824 | - | - | 217,672 | - | - |
| | Revenue from services provided | - | - | 274 | - | - | - |
| | Equity in the results | - | - | (5,848) | - | - | (997) |
| | | 409,824 | - | (5,574) | 217,672 | - | (997) |
| Ceron | Consumers, concessionaires and grantees | 145 | - | - | 197 | - | - |
| | Rec. from network usage | - | - | - | - | - | - |
| | | 145 | - | - | 197 | - | - |
| Eletroacre | Consumers, concessionaires and grantees | 319 | - | - | 242 | - | - |
| | Supply of energy | - | - | 3,328 | - | - | 1,211 |
| | | 319 | - | 3,328 | 242 | - | 1,211 |
| Sete Gameleiras | Receivables | 15 | - | - | - | - | - |
| | Revenue from services provided | - | - | 56 | - | - | - |
| | Investment | 19,810 | - | - | 1,850 | - | - |
| | Equity in the results | - | - | (88) | - | - | (157) |
| | | 19,825 | - | (32) | 1,850 | - | (157) |
| | Receivables | 15 | - | - | - | - | - |
| | Revenue from services provided | - | - | 56 | - | - | - |
| São Pedro | Investment | 14,098 | - | - | 1,803 | - | - |
| | Equity in the results | - | - | (117) | - | - | (143) |
| | | 14,113 | - | (61) | 1,803 | - | (143) |
| | Receivables | 15 | - | - | - | - | - |
| | Revenue from services provided | - | - | 56 | - | - | - |
| Pedra Branca | Investment | 13,504 | - | - | 1,737 | - | - |
| | Equity in the results | - | - | (118) | - | - | (179) |
| | | 13,519 | - | (62) | 1,737 | - | (179) |
| Cepel | Operating expenses | - | - | (13,921) | - | - | (12,826) |
| | | - | - | (13,921) | - | - | (12,826) |
| IE Garanhuns | Investment | 14,956 | - | - | 980 | - | - |
| | Equity in the results | - | - | 255 | - | - | - |
| | | 14,956 | - | 255 | 980 | - | - |
| Junco I | Investment | 106 | - | - | - | - | - |
| | Equity in the results | - | - | (38) | - | - | - |
| | | 106 | - | (38) | - | - | - |
| Junco II | Investment | 111 | - | - | - | - | - |
| | Equity in the results | - | - | (33) | - | - | - |
| | | 111 | - | (33) | - | - | - |
| Caiçara I | Investment | 114 | - | - | - | - | - |
| | Equity in the results | - | - | (30) | - | - | - |
| | | 114 | - | (30) | - | - | - |
| Caiçara II | Investment | 67 | - | - | - | - | - |
| | Equity in the results | - | - | (29) | - | - | - |
| | | 67 | - | (29) | - | - | - |
| Extemoz | Investment | 53 | - | - | - | - | - |
| | AFAC | 34,525 | - | - | - | - | - |
| | Equity in the results | - | - | 53 | - | - | - |
| | | 34,578 | - | 53 | - | - | - |

The origins of the main transactions, by company, are as follows:

Eletrobras

- Loan agreements entered into between the parties, pursuant to the terms and conditions mentioned in Note 20;
- Dividends on investment;
- Instruments of Advance for Future Capital Increase (AFAC), as mentioned in Note 28.

Furnas

- Agreements entered into for availability of the transmission system.
- Agreements entered into for transmission system network usage.
- Dividends on investment.

Eletrosul

- Agreements entered into for availability of the transmission system.
- Agreements entered into for transmission system network usage.

Eletronorte

- Agreements entered into for availability of the transmission system.
- Agreements entered into for transmission system network usage.

Eletronuclear

- Agreements entered into for availability of the transmission system.
- Dividends on investment.

CGTEE

- Agreements entered into for the supply of electric energy;
- Agreements entered into for availability of the transmission system.

Eletropar

- Agreements entered into for the provision of services;

Ceal

- Agreements entered into for the supply of electric energy;
- Agreements entered into for transmission system network usage.

Fachesf

- Actuarial obligations related to supplementary pension plan;
- Agreement for lease of the Company's headquarters and attached buildings;
- Intermediation for the provision of healthcare services, life insurance, and other benefits for the Company's employees.

Cepisa

- Agreements entered into for the supply of electric energy;

Sistema de Transmissão do Nordeste S.A. (STN)

- Amount invested in equity, evaluated by the equity accounting method;
- Agreements for the provision of services of operation and maintenance of transmission lines;
- Agreements for usage of the transmission system network;
- Dividends on investment.

Integração Transmissora de Energia S.A.

- Amount invested in equity, evaluated by the equity accounting method;
- Agreements for usage of the transmission system network;
- Dividends on investment.

Energética Águas da Pedra S.A.

- Agreements entered into for availability of the transmission system.
- Amount invested in equity, evaluated by the equity accounting method;
- Dividends on investment.

ESBR Participações S.A.

- Amount invested in equity, evaluated by the equity accounting method;

Interligação Elétrica do Madeira S.A.

- Amount invested in equity, evaluated by the equity accounting method.

Manaus Transmissora de Energia S.A.

- Amount invested in equity, evaluated by the equity accounting method;
- Service agreement formalized.

Manaus Construtora Ltda.

- Amount invested in equity, evaluated by the equity accounting method;
- Dividends on investment.

TDG – Transmissora Delmiro Gouveia S.A.

- Amount invested in equity, evaluated by the equity accounting method.

Norte Energia S.A.

- Amount invested in equity, evaluated by the equity accounting method.

Centrais Elétricas de Rondônia S.A. – Ceron

- Electric energy supply agreements.

Companhia de Eletricidade do Acre – Eletroacre

- Electric energy supply agreements.

SeteGameleiras

- Amount invested in equity, evaluated by the equity accounting method.

São Pedro do Lago

- Amount invested in equity, evaluated by the equity accounting method.

PedraBranca S.A.

- Amount invested in equity, evaluated by the equity accounting method.

Cepel

- Agreement for the payment of a monthly contribution as a member.

Interligação Elétrica Garanhuns S.A.

- Amount invested in equity, evaluated by the equity accounting method.

In addition to the companies presented above, Chesf also has the following related parties:

- Amazonas Distribuidora de Energia S.A.
- Itaipu Binacional
- Boa Vista Energia S.A.
- Extremoz Transmissora do Nordeste – ETN S.A.;
- Junco I, Junco II, Caiçara I and Caiçara II Wind Power Plants.

Remuneration of key personnel

Key management personnel include members of the Board of Directors, Statutory Audit Board and Executive Officers. The total expenses in 2012 were as follows:

| | 12/31/2012 | 12/31/2011 |
|--|-------------------|-------------------|
| Remuneration of directors and officers | 2,762 | 2,910 |
| Social charges | 668 | 730 |
| Benefits | 456 | 651 |
| | 3,886 | 4,291 |

Management members do not receive share-based payments.

39 – FINANCIAL INSTRUMENTS

In compliance with CVM Resolution 604, of November 19, 2009, which approved Technical Pronouncements CPC 38 (IAS 39), 39 (IAS 32) and 40 (IFRS 7) and CVM Instruction 475, of December 17, 2008, the Company evaluated its financial instruments, including derivatives.

39.1- Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns to stockholders and benefits to other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

The Company has an excellent financial capacity as a result of its cash flow generation that is sufficient to finance its investments, which can be seen by the debt-to-equity ratio, utilized by the Company's parent for the Eletrobras System. This ratio corresponds to net debt divided by total equity. Net debt corresponds to total short- and long-term borrowings and debentures, as shown in the balance sheet, less cash and cash equivalents. Total equity is the sum of stockholders' equity, as shown in the balance sheet, and net debt.

Debt-to-equity ratios as of December 31, 2012 and 2011 can be summarized as follows:

| Consolidated | 12/31/2012 | 12/31/2011 |
|-------------------------------|-------------------|-------------------|
| Borrowings and debentures | 3,876,212 | 2,800,025 |
| (-) Cash and cash equivalents | 427,647 | 564,024 |
| Net debt | 3,448,565 | 2,236,001 |
| Net equity | 11,671,459 | 16,818,638 |
| Total capital | 15,120,024 | 19,054,639 |
| Gearing ratio | 22.8% | 11.7% |

39.2 – Types of financial instruments

The Company's financial instruments are classified in categories of financial assets and liabilities, which also comprise derivative instruments, as follows:

| | Parent | | Consolidated | |
|--|-------------------|------------------|-------------------|------------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Financial assets | | | | |
| Loans and receivables | | | | |
| Trade receivables | 734,810 | 745,277 | 741,615 | 752,450 |
| Financial asset - Public service concessions | 2,676,728 | 6,071,981 | 4,291,976 | 7,100,236 |
| Held to maturity | | | | |
| Marketable securities | 8,232 | 8,541 | 8,232 | 8,541 |
| Receivables - Law 12,783/2013 | 7,456,516 | - | 7,456,516 | - |
| Measured at fair value through profit or loss | | | | |
| Marketable securities | 225,094 | 914,071 | 316,154 | 914,071 |
| Derivative financial instruments | - | - | 1,129 | - |
| Total financial assets | 11,101,380 | 7,739,870 | 12,815,622 | 8,775,298 |
| Financial liabilities | | | | |
| Measured at amortized cost | | | | |
| Borrowings | 469,104 | 791,848 | 3,863,848 | 2,694,533 |
| Trade payables and other obligations | 321,729 | 370,788 | 557,832 | 668,050 |
| AFAC | - | 1,293,000 | - | 1,293,000 |
| Total financial liabilities | 790,833 | 2,455,636 | 4,421,680 | 4,655,583 |

39.2.1 – Financial assets – classified in the following categories

- Cash and cash equivalents

Classified as held for trading and stated at market value in the balance sheet.

- Trade receivables

These receivables, which result directly from the Company's operations, are recorded at their original values, subject to a provision for impairment and adjustment to present value, when applicable

- Financial assets – Public service concessions

The amounts of the financial assets to be received during the concession are recognized at the difference between the fair value of the assets built or acquired for the purpose of providing the concession services and the lower of the carrying value of the financial assets expected to be received at the end of the concession and the new replacement value.

- Pledges and restricted deposits

Pledges and restricted deposits refer to collaterals granted to financial institutions, and for electric energy auctions, and judicial deposits relating to ongoing administrative and court proceedings, and are stated at cost plus the respective earnings accrued through the balance sheet date.

- Marketable securities

The financial investments in National Treasury Bills (LTN) and Federal Treasury Notes (NTN), Series B and F, are held for trading in an exclusive investment fund, in accordance with the regulation in effect, and are measured at fair value through profit or loss. Other securities, which constitute a small portion of this account, refer to Agrarian Debt Notes (TDA) and National Treasury Notes (NTN), Series P, with definite maturities, which the Company intends to hold to maturity. Marketable securities are recorded at acquisition cost plus interest and monetary restatement, with impacts on the result, and are adjusted to the probable realizable value, if applicable.

39.2.2 – Financial liabilities – classified in the following categories

- Trade payables

Trade payables result directly from the Company's operations and are classified as financial liabilities not measured at fair value.

- Borrowings

These operations are adjusted through the balance sheet date and the related charges are accrued based on fixed or floating rates effective at 12/31/2012. 3.7% of the intercompany borrowing agreements with the parent company, Eletrobras, which represent approximately 22% of the Company's total indebtedness, bear interest of 10% per year. Eletrobras defines its market rate by taking into consideration the risk premium compatible with the activities of the Electric Energy Sector. In view of the special circumstances involved in the funding of Chesf's expansion projects, the market value of these loans corresponds to the carrying amounts.

- Debentures

Correspond to 18,000 debentures issued by the jointly-controlled subsidiary Interligação Elétrica Garanhuns S.A., in August 2012, at the unit value of R\$ 10, of which 2,500 were paid up bearing interest of 106.5% of the CDI rate and maturity on February 28, 2014. The Company's participation of 49% in the balance of R\$ 25,233 corresponds to R\$ 12,364 (without comparison at 12/31/2011). The other subscriptions are expected for up to March 2013.

- Concessions payable – Use of Public Assets

Refer to onerous concession contracts by and between its jointly-controlled subsidiaries and the Federal Government for use of public assets for the generation of electric energy at Jirau and Belo Monte Hidropower Plants (Note 27);

39.3 Risk management

In the exercise of its activities, the Company is affected by risk events that could compromise its strategic objectives. The risk management has the main objectives of forecasting and minimizing adverse effects of these events on the Company's economic and financial result.

The Company has defined financial and operating policies and strategies for the financial risk management, approved by internal committees and management, which intend to guarantee liquidity, security and profitability to its assets and maintain the levels of indebtedness and debt profile defined for the financial and economic flows.

The main financial risks identified in the risk management process are as follows:

- Market risk

This is the risk of market changes, such as the change in interest rates and prices, which can affect the Company's revenues or the amount of its financial instruments.

- Debt charge risk

This risk arises from the possibility that the Company could incur losses due to fluctuations of interest rates or other debt indexes that could increase the financial expenses related to borrowings or reduce the gains obtained by the Company's financial investments.

The Company's management has not identified significant differences arising from operations with financial instruments between the market values and those presented in the financial statements as of December 31, 2012, that require specific disclosure.

- Capital structure risk (or financial risk)

This risk arises from the choice that the Company makes between using its own capital (capital contributions and revenue retention) or third-party capital to finance its operations. The Company follows the capital structure determined by technical studies prepared to define the business, as well as the limits established by financial agents.

- Early maturity risk

The Company has entered into borrowing agreements, through its jointly-controlled subsidiaries, that have restrictive clauses which, normally, require the maintenance of economic and financial indices at certain levels (financial covenants). Failure to comply with these restrictions could result in the early maturity of the debt.

- Risk of electric energy shortage

The Brazilian Electric Energy System is supplied predominantly by hydroelectric energy generation. A long period of low rainfall during the wet season reduces the volume of water in the reservoirs of these power plants. As a consequence, the cost of electric energy will rise in the short-term market and the System's charges will also increase as a result of the dispatch from thermoelectric energy plants. In an extreme situation, it could be necessary to adopt an energy rationing program which would imply a reduction of revenue. However, considering the current levels of the reservoirs and the latest simulations carried out, the National Electric System Operator (ONS) does not foresee, for the next few years, a new energy rationing program.

- Liquidity risk

The cash flow projection is made by the Company and is continuously monitored in order to ensure that liquidity requirements, limits or covenants of loan agreements are met and that there will be sufficient cash to meet the business needs.

Cash surpluses resulting from Company operations are invested in instruments whose yield, maturity and liquidity are sufficient and adequate to provide margins, as determined by the aforementioned projections.

The table below analyzes the non-derivative financial liabilities of the Company by maturity, based upon the remaining period at the balance sheet date to the contractual maturity date. The amounts shown in the table are contractual undiscounted cash flows.

| | Parent | | | |
|-------------------------------------|---------------------|--------------------------|--------------------------|---------------|
| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Above 5 years |
| As of December 31, 2012 | | | | |
| Trade payables | 321,729 | - | - | - |
| Borrowings | 91,339 | 87,911 | 238,910 | 137,970 |
| Estimated obligations | 134,787 | - | - | - |
| As of December 31, 2011 | | | | |
| Trade payables | 370,788 | - | - | - |
| Borrowings | 336,680 | 133,348 | 173,262 | 123,507 |
| Estimated obligations | 126,443 | - | - | - |
| Advance for Future Capital Increase | 1,293,000 | - | - | - |

| | Consolidated | | | |
|--|---------------------|--------------------------|--------------------------|---------------|
| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Above 5 years |
| As of December 31, 2012 | | | | |
| Trade payables | 557,832 | - | - | - |
| Borrowings | 591,867 | 250,575 | 731,819 | 2,412,964 |
| Estimated obligations | 136,942 | - | - | - |
| Concessions payable – Use of public assets | 45,509 | - | - | - |
| Debentures | 153,377 | - | - | - |
| As of December 31, 2011 | | | | |
| Trade payables | 562,558 | - | - | - |
| Borrowings | 1,111,103 | 146,667 | 583,613 | 1,547,582 |
| Estimated obligations | 127,019 | - | - | - |
| Debentures | 105,492 | - | - | - |
| Advance for Future Capital Increase | 1,293,000 | - | - | - |
| Concessions payable – Use of public assets | 41,641 | - | - | - |

- Interest rate risk

This risk is related to the possibility that the Company could record losses due to variations of the market interest rates, thereby impacting the results due to the increase of financial expenses, related to external funding contracts, mainly referring to the Libor rate.

| Exposure to interest rate risk | Parent | | Consolidated | |
|--------------------------------|-----------------|------------------|------------------|------------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Assets | | | | |
| Selic | - | 914,071 | - | 914,071 |
| IPCA | 74,934 | - | 74,934 | - |
| CDI | - | - | 275,035 | 227,697 |
| Total | 74,934 | 914,071 | 349,969 | 1,141,768 |
| Liabilities | | | | |
| TJLP | - | - | 2,885,572 | 1,494,858 |
| IPCA | 496 | 536 | 496 | 333 |
| CDI | - | - | 505,723 | 69,508 |
| Total | 496 | 536 | 3,391,791 | 1,564,699 |
| Exposed net liabilities | (74,438) | (913,535) | 3,041,822 | 422,931 |

- Regulatory risk

The Company holds concessions for electric energy generation and transmission services that, pursuant to prevailing legislation, may not be renewed. If the renewal of these concessions is denied or if renewal is granted with the imposition of additional charges to the Company, the Company's operating performance could be compromised.

39.4 - Sensitivity analysis

Sensitivity analyses of the assets and liabilities indexed at the fixed interest rate were carried out in four different scenarios: two with the increase of the rates of the debit balance and two with the decrease of these rates. The analyses were limited to the contracts conceded that are exposed to the interest rate.

Depreciation of indexes

| Parent | | | | | | | |
|--------------------|---------------|-------------------|-------------------|--------------------|-------------------|-------------------|--------------------|
| | At 12/31/2012 | Index | | | Amount | | |
| | | Probable scenario | Scenario I (-25%) | Scenario II (-50%) | Probable scenario | Scenario I (-25%) | Scenario II (-50%) |
| Assets | | | | | | | |
| IPCA | 74,934 | 5.65 | 4.24 | 2.83 | 79,168 | 78,109 | 77,051 |
| Liabilities | | | | | | | |
| IPCA | 496 | 5.65 | 4.24 | 2.83 | 524 | 517 | 510 |
| Net effect | 74,438 | | | | 78,644 | 77,592 | 76,541 |

| Consolidated | | | | | | | |
|--------------------|--------------------|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| | At 12/31/2012 | Index | | | Amount | | |
| | | Probable scenario | Scenario I (-25%) | Scenario II (-50%) | Probable scenario | Scenario I (-25%) | Scenario II (-50%) |
| Assets | | | | | | | |
| IPCA | 74,934 | 5.65 | 4.24 | 2.83 | 79,168 | 78,109 | 77,051 |
| Liabilities | | | | | | | |
| TJLP | 2,885,572 | 5.00 | 3.75 | 2.50 | 3,029,851 | 2,993,781 | 2,957,711 |
| IPCA | 496 | 5.65 | 4.24 | 2.83 | 524 | 517 | 510 |
| Net effect | (2,811,134) | | | | (2,951,207) | (2,916,189) | (2,881,170) |

Appreciation of indexes

| Parent | | | | | | | |
|--------------------|---------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | At 12/31/2012 | Index | | | Amount | | |
| | | Probable scenario | Cenário I (+25%) | Cenário II (+50%) | Probable scenario | Cenário I (+25%) | Cenário II (+50%) |
| Assets | | | | | | | |
| IPCA | 74,934 | 5.65 | 7.06 | 8.48 | 79,168 | 80,226 | 81,285 |
| Liabilities | | | | | | | |
| IPCA | 496 | 5.65 | 7.06 | 8.48 | 524 | 531 | 538 |
| Net effect | 74,438 | | | | 78,644 | 79,695 | 80,747 |

| Consolidated | | | | | | | |
|--------------------|--------------------|-------------------|------------------|-------------------|--------------------|--------------------|--------------------|
| | At 12/31/2012 | Index | | | Amount | | |
| | | Probable scenario | Cenário I (+25%) | Cenário II (+50%) | Probable scenario | Cenário I (+25%) | Cenário II (+50%) |
| Assets | | | | | | | |
| IPCA | 74,934 | 5.65 | 7.06 | 8.48 | 79,168 | 80,226 | 81,285 |
| Liabilities | | | | | | | |
| TJLP | 2,885,572 | 5.00 | 6.25 | 7.50 | 3,029,851 | 3,065,920 | 3,101,990 |
| IPCA | 496 | 5.65 | 7.06 | 8.48 | 524 | 531 | 538 |
| Net effect | (2,811,134) | | | | (2,951,207) | (2,986,225) | (3,021,243) |

39.5 – Fair value estimate

The Company uses the following hierarchy to determine and disclose the fair value of financial instruments under the valuation technique:

| 12/31/2012 | | | | |
|-----------------------|----------------|---------|---------|----------------|
| Parent | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities | 229,018 | - | - | 229,018 |
| Financial investments | 65,647 | - | - | 65,647 |
| Total | 294,665 | - | - | 294,665 |

| 12/31/2011 | | | | |
|-----------------------|------------------|---------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities | 922,612 | - | - | 922,612 |
| Financial investments | 265,332 | - | - | 265,332 |
| Total | 1,187,944 | - | - | 1,187,944 |

| 12/31/2012 | | | | |
|----------------------------------|----------------|---------|---------|----------------|
| Consolidated | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities | 324,386 | - | - | 324,386 |
| Financial investments | 282,865 | - | - | 282,865 |
| Derivative financial instruments | 1,129 | - | - | 1,129 |
| Total | 608,380 | - | - | 608,380 |

| 12/31/2011 | | | | |
|-----------------------|------------------|---------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities | 922,612 | - | - | 922,612 |
| Financial investments | 511,430 | - | - | 511,430 |
| Total | 1,434,042 | - | - | 1,434,042 |

The financial assets and liabilities at fair value are classified and disclosed using the three-level hierarchy:

Level 1 – quoted prices (unadjusted) in active, liquid and visible markets for identical assets and liabilities that are accessible at the measurement date;

Level 2 – quoted prices (adjusted or unadjusted) for similar assets and liabilities in active markets, and other inputs that are not observable within Level 1 for the asset or liability, either directly or indirectly, and;

Level 3 – assets and liabilities the prices for which do not exist or where prices or valuation techniques are supported by a small or nonexistent, unobservable or illiquid market. The fair value estimate is highly subjective at this level.

39.6 – HEDGE

The Company individually did not have hedging instruments or other derivative instruments as of December 31, 2012 nor does it expect to enter into this type of transaction. However, the Company's jointly-controlled subsidiaries held the following financial instruments:

39.6.1 - ESBR Participações S.A.

As from the end of 2009, ESBR changed its hedge strategy and has been making financial investments in United States dollars to support the letter of credit guarantees issued by Banco do Brasil and Banco Itaú in favor of the Chinese suppliers Dong Fang and Hyosung. These investments are also classified as cash flow hedges.

The complete movement in the equity variation adjustments account in the years ended December 31, 2012 and 2011, was as follows:

| | <u>12/31/2012</u> | <u>12/31/2011</u> |
|--|---------------------|---------------------|
| Opening balance | 3,487 | (12,778) |
| Foreign exchange variation on NDF | - | - |
| Foreign exchange variation on principal of restricted deposits | 9,294 | 10,485 |
| Effect of payments to suppliers - balance in the previous year | (10,451) | 5,780 |
| Closing balance | <u>2,330</u> | <u>3,487</u> |

These operations generated a comprehensive loss in 2011, which was reflected in the consolidated statement of changes in equity in the amount of R\$ 231.

39.6.2- Interligação Elétrica do Madeira S.A. ("IE Madeira")

On April 29, 2011, this company entered into a derivative financial transaction contract (Non-Deliverable Forward - NDF), to cover the foreign exchange rate risk for the contracting of the supply of equipment for the substations, aluminum and aluminum cables.

The Company classifies the derivative contracted as "assessed at Fair Value", in accordance with the parameters described in the Brazilian Accounting Pronouncement CPC 38 and does not adopt Hedge Accounting.

The management of derivative financial instruments complies with the Integrated Risk Management Policy and Financial Risks Directives of IE Madeira. The results of these transactions and the controls employed to manage this risk form part of the financial risk management practices adopted by IE Madeira, as follows.

| Short term | Maturities | Notional amount | Fair value | Receivables (payables) |
|------------------------------|--------------|-----------------|-----------------|------------------------|
| Assets: | | | | |
| NDF (financial institutions) | June/2013 | 15,319 | 17,738 | 2,419 |
| NDF (financial institutions) | October/2013 | 15,428 | 17,616 | 2,188 |
| | | 30,747 | 35,354 | 4,607 |
| Liabilities: | | | | |
| NDF (trade payable) | June/2013 | (15,319) | (15,319) | - |
| NDF (trade payable) | October/2013 | (15,428) | (15,428) | - |
| | | (30,747) | (30,747) | - |
| | | 61,494 | 66,101 | 4,607 |

The participation of Chesf, of 24,5%, in this receivable of R\$ 4,607, corresponds to R\$ 1,129.

40 – STATEMENT OF OPERATIONS SEGREGATED BY ACTIVITY

| | Parent | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|------------------|--------------------|
| | 12/31/2012 | | | 12/31/2011 | | |
| | Generation | Transmission | Total | Generation | Transmission | Total |
| NET OPERATING REVENUE | 4,372,731 | 1,623,297 | 5,996,028 | 3,565,536 | 1,552,951 | 5,118,487 |
| OPERATIONAL COSTS | | | | | | |
| Electric energy cost | | | | | | |
| Electric energy purchased for resale | (19,058) | - | (19,058) | (7,635) | - | (7,635) |
| Charges for electricity network usage | (867,885) | - | (867,885) | (805,270) | - | (805,270) |
| Operating cost | | | | | | |
| Personnel | (88,851) | (233,959) | (322,810) | (78,816) | (231,982) | (310,798) |
| Material | (5,144) | (8,061) | (13,205) | (3,123) | (11,806) | (14,929) |
| Fuels for electric energy production | (2,522) | - | (2,522) | (4,793) | - | (4,793) |
| Third-party services | (17,392) | (54,480) | (71,872) | (14,292) | (50,397) | (64,689) |
| Financial compensation for use of water resources | (240,074) | - | (240,074) | (224,374) | - | (224,374) |
| Depreciation and amortization | (339,815) | - | (339,815) | (342,778) | - | (342,778) |
| ANEEL inspection fee | (12,524) | (8,595) | (21,119) | (12,995) | (8,643) | (21,638) |
| Onerous contract - Jirau | (711,375) | - | (711,375) | - | - | - |
| Other | 40,463 | (6,402) | 34,061 | 43,171 | (7,734) | 35,437 |
| | (2,264,177) | (311,497) | (2,575,674) | (1,450,905) | (310,562) | (1,761,467) |
| COST OF SERVICES PROVIDED TO THIRD PARTIES | - | (5,371) | (5,371) | 734 | (3,572) | (2,838) |
| CONSTRUCTION COST | - | (603,420) | (603,420) | - | (581,089) | (581,089) |
| GROSS OPERATING PROFIT | 2,108,554 | 703,009 | 2,811,563 | 2,115,365 | 657,728 | 2,773,093 |
| OPERATING EXPENSES | (453,247) | (825,171) | (1,278,418) | (306,856) | (712,413) | (1,019,269) |
| RESULT FROM ELECTRIC ENERGY SERVICE | 1,655,307 | (122,162) | 1,533,145 | 1,808,509 | (54,685) | 1,753,824 |
| EQUITY IN THE RESULTS OF INVESTEEES | | | | | | |
| Equity in earnings of investees | 14,524 | 52,454 | 66,978 | 45,189 | 26,788 | 71,977 |
| Equity in losses of investees | (10,653) | (9,804) | (20,457) | (8,265) | (4,899) | (13,164) |
| | 3,871 | 42,650 | 46,521 | 36,924 | 21,889 | 58,813 |
| FINANCE INCOME (COSTS) | | | | | | |
| Income from financial investments | 84,270 | 30,267 | 114,537 | 92,583 | 40,596 | 133,179 |
| Monetary variations and late payment charges | 58,567 | 7,041 | 65,608 | 80,893 | 6,060 | 86,953 |
| Other monetary variation income | 420 | 1,212 | 1,632 | 430 | 1,327 | 1,757 |
| Restatement of receivables | 171,485 | 31,746 | 203,231 | - | - | - |
| Other finance income | 17,712 | 20,551 | 38,263 | 18,496 | 17,352 | 35,848 |
| PIS/Pasep and COFINS | (43,446) | (11,786) | (55,232) | (403) | (150) | (553) |
| Debt charges | (6,519) | (33,757) | (40,276) | (30,230) | (35,145) | (65,375) |
| Monetary variations on borrowings | - | (550) | (550) | - | (940) | (940) |
| Other monetary variation expenses | (222) | (594) | (816) | (75) | (76) | (151) |
| Other financial expenses | (90,889) | (19,247) | (110,136) | (191,475) | (10,767) | (202,242) |
| | 191,378 | 24,883 | 216,261 | (29,781) | 18,257 | (11,524) |
| Operating result before Law 12,783/2013 | 1,850,556 | (54,629) | 1,795,927 | 1,815,652 | (14,539) | 1,801,113 |
| Effects of Law 12,783/2013 | (5,999,682) | (2,245,560) | (8,245,242) | - | - | - |
| Operating result after Law 12,783/2013 | (4,149,126) | (2,300,189) | (6,449,315) | 1,815,652 | (14,539) | 1,801,113 |
| Income tax and social contribution | - | - | - | (568,605) | (1,502) | (570,107) |
| Deferred income tax and social contribution | 871,110 | 235,968 | 1,107,078 | (16,524) | 26,820 | 10,296 |
| Tax incentives | 910 | 15 | 925 | 310,208 | 2,635 | 312,843 |
| PROFIT (LOSS) FOR THE YEAR | (3,277,106) | (2,064,206) | (5,341,312) | 1,540,731 | 13,414 | 1,554,145 |
| Basic earnings per share (R\$) | (58.62) | (36.92) | (95.54) | 29.88 | 0.26 | 30.14 |
| Diluted earnings per share (R\$) | (58.62) | (36.92) | (95.54) | 27.79 | 0.24 | 28.03 |

| | Consolidated | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|------------------|--------------------|
| | 12/31/2012 | | | 12/31/2011 | | |
| | Generation | Transmission | Total | Generation | Transmission | Total |
| NET OPERATING REVENUE | 4,372,713 | 2,287,670 | 6,660,383 | 3,565,332 | 2,017,060 | 5,582,392 |
| OPERATIONAL COSTS | | | | | | |
| Electric energy cost | | | | | | |
| Electric energy purchased for resale | (19,058) | - | (19,058) | (7,635) | - | (7,635) |
| Charges for electricity network usage | (867,885) | - | (867,885) | (805,270) | - | (805,270) |
| Operating cost | | | | | | |
| Personnel | (88,851) | (236,285) | (325,136) | (78,818) | (233,486) | (312,304) |
| Material | (5,174) | (8,223) | (13,397) | (3,134) | (12,107) | (15,241) |
| Fuels for electric power production | (2,522) | - | (2,522) | (4,793) | - | (4,793) |
| Third-party services | (17,413) | (57,547) | (74,960) | (14,307) | (51,781) | (66,088) |
| Financial compensation for use of water resources | (240,074) | - | (240,074) | (224,374) | - | (224,374) |
| Depreciation and amortization | (339,817) | (60) | (339,877) | (342,779) | (38) | (342,817) |
| ANEEL inspection fee | (12,524) | (8,968) | (21,492) | (12,995) | (8,956) | (21,951) |
| Onerous contract - Jirau | (711,375) | - | (711,375) | - | - | - |
| Other | 40,455 | (8,220) | 32,235 | 43,169 | (7,973) | 35,196 |
| | (2,264,238) | (319,303) | (2,583,541) | (1,450,936) | (314,341) | (1,765,277) |
| COST OF SERVICES PROVIDED TO THIRD PARTIES | - | (5,408) | (5,408) | 734 | (7,657) | (6,923) |
| CONSTRUCTION COST | - | (1,132,025) | (1,132,025) | - | (943,268) | (943,268) |
| GROSS OPERATING PROFIT | 2,108,475 | 830,934 | 2,939,409 | 2,115,130 | 751,794 | 2,866,924 |
| OPERATING EXPENSES | (469,893) | (829,558) | (1,299,451) | (320,795) | (720,189) | (1,040,984) |
| RESULT FROM ELECTRIC ENERGY SERVICE | 1,638,582 | 1,376 | 1,639,958 | 1,794,335 | 31,605 | 1,825,940 |
| EQUITY IN THE RESULTS OF INVESTEEES | | | | | | |
| Equity in earnings of investees | 14,524 | - | 14,524 | 11,680 | 6,924 | 18,604 |
| | 14,524 | - | 14,524 | 11,680 | 6,924 | 18,604 |
| FINANCE INCOME (COSTS) | | | | | | |
| Income from financial investments | 93,359 | 32,521 | 125,880 | 100,878 | 43,975 | 144,853 |
| Monetary variations and late payment charges | 58,567 | 7,043 | 65,610 | 80,893 | 6,061 | 86,954 |
| Other monetary variation income | 420 | 1,217 | 1,637 | 430 | 1,555 | 1,985 |
| Restatement of receivables | 171,485 | 31,746 | 203,231 | - | - | - |
| Other finance income | 18,727 | 13,447 | 32,174 | 15,887 | 15,767 | 31,654 |
| PIS/Pasep and COFINS | (43,446) | (11,786) | (55,232) | (403) | (150) | (553) |
| Debt charges | (6,519) | (50,354) | (56,873) | (30,230) | (39,583) | (69,813) |
| Monetary variations on borrowings | 2,084 | (9,124) | (7,040) | (3,133) | (9,216) | (12,349) |
| Other monetary variation expenses | (222) | (594) | (816) | (75) | (423) | (498) |
| Other financial expenses | (101,763) | (31,388) | (133,151) | (156,811) | (58,938) | (215,749) |
| | 192,692 | (17,272) | 175,420 | 7,436 | (40,952) | (33,516) |
| Operating result before Law 12,783/2013 | 1,845,798 | (15,896) | 1,829,902 | 1,813,451 | (2,423) | 1,811,028 |
| Effects of Law 12,783/2013 | (5,999,682) | (2,245,560) | (8,245,242) | - | - | - |
| Operating result after Law 12,783/2013 | (4,153,884) | (2,261,456) | (6,415,340) | 1,813,451 | (2,423) | 1,811,028 |
| Income tax and social contribution | (650) | (15,950) | (16,600) | (568,271) | (11,766) | (580,037) |
| Deferred income tax and social contribution | 876,518 | 205,701 | 1,082,219 | (14,657) | 19,999 | 5,342 |
| Tax incentives | 910 | 7,499 | 8,409 | 310,208 | 7,604 | 317,812 |
| PROFIT (LOSS) FOR THE YEAR | (3,277,106) | (2,064,206) | (5,341,312) | 1,540,731 | 13,414 | 1,554,145 |
| Basic earnings per share (R\$) | (58.62) | (36.92) | (95.54) | 29.88 | 0.26 | 30.14 |
| Diluted earnings per share (R\$) | (58.62) | (36.92) | (95.54) | 27.79 | 0.24 | 28.03 |

41 - INSURANCE

Chesf currently has three insurance agreements, each one effective for one year and all of them starting from 4/30/2012, whose objective is to provide coverage for its main assets, such as property, plant and equipment in service and inventories. These assets are also covered by annual insurance policies, specified by type of risk, as shown in the table below:

| <u>Policies</u> | <u>Insured amounts</u> | <u>Annual premiums</u> |
|--|----------------------------|----------------------------|
| - Policies | | |
| Fire, lightning, explosion, electrical damage, electronic equipment | 4,287,923 | 9,054 |
| - Aircraft | 36,580 | 420 |
| - Transportation | 81,210 | 81 |
| | 4,405,713 | 9,555 |

The policy contracted for Specified Risks, highlights the electric energy plants and substations, identifying the main equipment and respective insurance amounts and indemnity limits. It provides basic insurance coverage, such as fire, lightning and explosions of any nature, and additional coverage for possible electrical damages and risks for electronic and IT equipment.

In addition to the amount of R\$ 9,637 relating to aircraft damages, the aircraft insurance includes R\$ 2,582 for civil liability and R\$ 24,361 for civil liability of second risk, as set out in the Brazilian Aeronautical Code, which refer to damages caused to third parties.

The Company also has insurance policies to cover transportation of materials as follows: road transportation and national and international maritime and air transportation, endorsed monthly, with registered insured amounts up to 12/31/2012.

In determining its insurance and risk management policy, the Company takes into consideration the physical locations, the risks to which its assets are exposed and the cost-benefit ratio.

42 – ASSETS AND RIGHTS OF THE FEDERAL GOVERNMENT UTILIZED BY THE CONCESSIONAIRE

Pursuant to Accounting Instruction 6.3.13 of the Accounting Manual for the Electric Energy Sector, the Company recognizes in subsidiary records the assets and rights of the Federal Government under a special utilization system, segregated by activity, in the amount of R\$ 68,465 (adjusted cost), as shown below:

| | 12/31/2012 | | | | 12/31/2011 | | | | | |
|--|-----------------|---------------|------------------------|--------------|-----------------|---------------|------------------------|------------|--------------|------------|
| | Generation | | Transmission | | Generation | | Transmission | | | |
| | Number of items | Adjusted cost | Estimated Depreciation | Net amount | Number of items | Adjusted cost | Estimated Depreciation | Net amount | Net amount | Net amount |
| Castelo Branco Hydroelectric Power Plant Dam | 1 | 56,858 | (54,584) | 2,274 | - | - | - | - | 3,412 | - |
| Land | 10 | 2,958 | - | 2,958 | 4 | 223 | - | 223 | 2,958 | 223 |
| Buildings | 223 | 1,688 | (1,688) | - | 2 | 13 | (13) | - | - | - |
| Resettlement at the Itaparica Power Plant | 1 | 5,201 | (2,919) | 2,282 | - | - | - | - | 2,490 | - |
| Guadalupe Airport – Piauí | 1 | 926 | (926) | - | - | - | - | - | - | - |
| Access road to the Castelo Branco Plant | 1 | 508 | (508) | - | - | - | - | - | - | - |
| Others | - | - | - | - | 3 | 90 | (90) | - | - | - |
| Total | 237 | 68,139 | (60,625) | 7,514 | 9 | 326 | (103) | 223 | 8,860 | 223 |

43 – EMPLOYEE AND MANAGEMENT REMUNERATION

Based on December 2012 and in accordance with the Company's salary policy, the highest and lowest monthly remuneration paid to employees were R\$ 43,219.80 and R\$ 1,281.70, respectively. The highest fee payable to the Company's officers was R\$ 36,362.90. This remuneration comprises fixed salaries, bonuses and additional amounts.

44 - ENVIRONMENT

The following are the Company's individual expenditures to meet its environmental commitments:

| Nature of the expenditures | 12/31/2012 | | | 12/31/2011 |
|---|-------------------------------|--------------|---------------|---------------|
| | Use | | | Total |
| | Property, plant and equipment | Result | Total | |
| Maintenance of operating processes to improve the environment | 4,708 | 3,321 | 8,029 | 5,436 |
| Preservation and/or recovery of degraded environments | 481 | 2,252 | 2,733 | 1,524 |
| Environmental education for the community | 19 | 1,533 | 1,552 | 927 |
| Other environmental projects | 4,025 | 1,869 | 5,894 | 16,082 |
| Total | 9,233 | 8,975 | 18,208 | 23,969 |

- *Maintenance of operating processes to improve the environment* comprises expenditure on studies, diagnoses, surveys, usage plans, monitoring programs, among other expenses, and does not include actions to recover or mitigate the impact on the environment.
- *Preservation and/or recovery of degraded environments* comprises expenditure for the execution of actions aimed at the preservation and/or recovery of degraded environments for which impacts have already been detected, with a recovery action in progress, and these recovery/preservation actions could relate to water, land or atmospheric environments.
- *Environmental education for the community* comprises expenses incurred with sustainability education and/or training actions focused on the communities affected by the Company's projects.
- *Other environmental projects* comprise expense for other actions adopted by the Company aiming at the preservation of the environment.

The Company has environmental commitments in the amount of R\$ 34,137, and expects to disburse R\$ 21,951 in 2013, and R\$ 12,186 as from 2014.

45-PERSONNEL TRAINING AND DEVELOPMENT (unaudited)

Chesf adopts the permanent policy of training and developing its managers and employees, and presented the following indicators in the years:

| Indicators | 12/31/2012 | 12/31/2011 |
|---|------------|------------|
| No. of employees who have undergone training | 4,320 | 4,678 |
| Man-hours of training | 363,698 | 476,679 |
| Average/hours of training | 65 | 85.6 |
| Rate of trained employees (%) | 77 | 84 |
| Trained workforce (%) | 3.32 | 4.46 |
| Total investment (R\$ thousand) | 6,707 | 9,075 |
| Average amount invested per employee (in Reais) | 1,198 | 1,629 |

COMPOSITION OF THE BOARD OF DIRECTORS, STATUTORY AUDIT BOARD AND BOARD OF EXECUTIVE OFFICERS

BOARD OF DIRECTORS

Armando Casado de Araújo
Chairman

João Bosco de Almeida
Director

Ana Lúcia Amorim de Brito
Director

Altino Ventura Filho
Director

Virgínia Parente de Barros
Director

Edvaldo Gomes de Souza
Director

STATUTORY AUDIT BOARD

Pedro Gaudêncio de Castro
Chairman

Antônio de Pádua Ferreira Passos
Director

Marcelo Cruz
Director

EXECUTIVE BOARD OF DIRECTORS

João Bosco de Almeida
CEO

Marcos José Mota de Cerqueira
Economic and Financial Officer

José Ailton de Lima
Engineering and Construction Officer

Mozart Bandeira Arnaud
Operations Officer

José Pedro de Alcântara Júnior
Administrative Officer

SUPERINTENDENCY OF FINANCIAL/ECONOMIC CONTROL AND EXECUTION

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

ACCOUNTING DEPARTMENT

Denilson Veronese da Costa
Department Head
CRC-PB-004638/O-7 “S” PE – Accountant

Independent auditor's report

To the Board of Directors and Stockholders
Companhia Hidro Elétrica do São Francisco – Chesf

We have audited the accompanying financial statements of Companhia Hidro Elétrica do São Francisco – Chesf ("Company" or "Parent Company"), which comprise the balance sheet as at December 31, 2012 and the statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of Companhia Hidro Elétrica do São Francisco – Chesf and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility
for the financial statements**

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with accounting practices adopted in Brazil, and for the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the parent company financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Companhia Hidro Elétrica do São Francisco – Chesf as at December 31, 2012, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Companhia Hidro Elétrica do São Francisco – Chesf and its subsidiaries as at December 31, 2012, and their financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

Emphasis of matter

Basis of preparation of the parent company financial statements

As discussed in Note 4 to these financial statements, the parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Companhia Hidro Elétrica do São Francisco – Chesf, these practices differ from IFRS applicable to separate financial statements only in relation to the measurement of investments in associates and jointly-controlled subsidiaries based on equity accounting, whereas IFRS requires measurement based on cost or fair value. Our opinion is not qualified in respect of this matter.

Impacts of Law 12,783/2013

As described in Note 2.3 to these financial statements, the Federal Government issued Provisional Measure 579 on September 11, 2012, which deals with the extensions of concessions of generation, distribution and transmission of electric energy, and on the reduction of the charges of the sector. This Provisional Measure was converted into Law 12,783/2013 on January 11, 2013, and started to be regulated by Decree 7,891, of January 23, 2013. The new tariffs and the amount of the indemnity of the assets linked to the concessions were disclosed by the Ministry of Mines and Energy Ordinance 579 and the Ministry of Mines and Energy and Ministry of Finance Joint Ministerial Ordinance 580, published in an extraordinary edition of the Federal Official Gazette of November 1, 2012.

The Company accepted the conditions for the anticipated renewal of the concessions established in Provisional Measure 579 (Law 12,783/13), and signed the contracts of extension of the concessions subject to the MP on December 4, 2012, and all the assets linked to the respective contract were transferred to the Federal Government, under the administration of the Company.

Concerning the concessionaires that opted for the extension of the electric energy transmission concessions, addressed by § 5 of Art. 17 of Law 9,074, of 1995, Law 12,783/2013 in its Article 15, § 2, authorizes the concession authority to pay, in the form of the regulation, the amount related to the assets considered not depreciated existing on May 31, 2000, recorded by the concessionaire and recognized by the National Electric Energy Agency (ANEEL). The concessionaires must submit to ANEEL the information for the calculation of the not depreciated assets. The term for the submission of this information will be established by the concession authority.

Also, for the generation ventures, except for the respective basic projects, Decree 7,850/2012 in its Article 2 established that, up to December 31, 2013, ANEEL must receive the supplementary information for the calculation of the portion of investments linked to reversible assets, realized up to December 31, 2012, and not yet amortized nor depreciated.

The amounts of the transmission and generation assets included in this situation corresponded to R\$ 1,187,029 thousand and R\$ 487,822 thousand, respectively, at December 31, 2012, and were determined by management based on its best assumptions and interpretation of the above legislation, as described in Note 4.21 to the financial statements, and could be subject to changes up to their final approval.

Other matters**Supplementary information -
statement of value added**

We have also audited the parent company and consolidated statements of value added for the year ended December 31, 2012, which are the responsibility of the Company's management and considered as supplementary information for IFRS. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Rio de Janeiro, March 26, 2013

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" PE

Marco Aurélio de Castro e Melo
Accountant CRC 1SP15070/O-3 "S" PE

Guilherme Naves Valle
Accountant CRC 1MG070614/O-5 "S" PE

REPORT OF THE STATUTORY AUDIT BOARD

The Statutory Audit Board of Companhia Hidro Elétrica do São Francisco – Chesf, in compliance with its legal and corporate statutory duties, considering the decision of the Executive Board of March 25, 2013, approved by the Board of Directors on March 26, 2013, analyzed the Management Report, referring to the year 2012 and, supported by the Company's Financial/Economic Control and Execution Superintendent, José Ivan Pereira Filho, by the Head of the Accounting Department, Denilson Veronese da Costa, and by the representatives of PricewaterhouseCoopers Auditores Independentes, analyzed the financial statements for the year ended December 31, 2012, comprising the Balance sheet, Statement of operations for the year, Statement of changes in equity, Statement of cash flows, Statement of value-added, and Notes to the financial statements, accompanied by the Independent Auditor's Report issued on March 26, 2013, which contains two emphasis of matter paragraphs.

The Statutory Audit Board also evaluated the proposal of the Executive Board for the allocation of the revenue reserves, in the amount of R\$ 3,149.4 million for the absorption of part of the loss accrued in the year, of R\$ 5,341.3 million, with the not offset balance of R\$ 2,192.8 million being recorded in the accumulated deficit account.

Accordingly, the Statutory Audit Board is of the opinion that the aforementioned corporate documents fairly present, in all material respects, the financial, equity and operating position of Companhia Hidro Elétrica do São Francisco – CHESF and endorses the submittal of the aforementioned documents to the Stockholders' Ordinary General Meeting, as established in Article 192 of Law 6,404, of December 15, 1976, and amendments introduced by subsequent legislation.

Brasília, March 26, 2013

Pedro Gaudêncio de Castro
Chairman

Antônio de Pádua Ferreira Passos
Director

Pedro Paulo da Cunha
Alternate Councilor