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MESSAGE FROM THE BOARD OF EXECUTIVE OFFICERS

Confident of its ability to overcome challenges, Companhia Hidro Elétrica do São Francisco – Chesf, a subsidiary of Centrais Elétricas Brasileiras S.A.- Eletrobras, remained in 2011 on its growth path with success and a focus on sustainability, not only for its operating and economic and financial performance but also for the expansion of the Generation and Transmission system.

In 2011, Chesf reached net income of R$ 1,554.1 million with a return on equity of 9.24%.

Over the last 10 years the Company has been implementing a large transmission expansion project, and this year has expanded its transformation capacity by 810 MVA, nearly double that of the prior year.

During the year Chesf's investments in expansion and modernization of its production capacity totaled R$ 1,158.1 million.

Prospecting for new business is part of Chesf's strategy to expand its Generation and Transmission systems. In 2011, the Company participated and was successful in various auctions for new undertakings, held by the National Electric Power Agency (Aneel), which will result in an increase of approximately 370 km in transmission lines.

In the generation segment, Chesf participated in the winning consortium with Voltalia group at the New Power Auction No. 07/2011, selling electric power produced by four wind power facilities located in the State of Ceará, with a power capacity of 111.6 MW, which will result in establishing four Special Purpose Entities (SPEs). The Company will hold a 49% interest in each entity.

In the solar power generation, in December the Company submitted to Aneel a 3MWp photovoltaic plant connected to the energy grid in an area near the city of Petrolina, State of Pernambuco. This plant is intended to propose technical and commercial arrangements for inclusion of solar photovoltaic projects in the Brazilian energy matrix.

Also, through its interests in Special Purpose Entities for the generation of business, Chesf has added 2,597.7 MW to its power generation park, an amount equivalent to Chesf's interest in the entities.

In 2011 the Company produced 48,663 GWh, up 10.2% from the prior year. The 2011 operating indicators also point to an improvement in performance to meet the load demand in comparison with the last two years.

In the Research & Development + Innovation (R&D+I) area, the investment plan encompassed solar thermal energy, nanotechnology and equipment and facilities management projects.

In 2011, 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.

In the management field, the Company focused on consolidating its Business Management Process through Chesf Business Planning that, as a reference for all of the Company's management actions, enabled it to set Team Performance Targets for the Performance Management System (SGD), tying people management to business management.

In people management, average investment per employee grew 16.5% over the prior year, and the Company hired 104 individuals with special needs and increased the accessibility of its facilities at the Head Office and at the Regional Units.

Chesf's Board of Directors and Board of Executive Officers express their unrestricted confidence in the competence of their employees and believe that the actions performed in recent years will form the basis for the Company's solid and sustainable growth. Concomitantly, they firmly believe that the Company will continually search for increasingly higher levels of corporate governance, based on the commitment to sustainability and ethical standards, thus ensuring the evolution of services to society in conformity with the guidelines of Eletrobras.

THE STATE OF THE ECONOMY

The Brazilian Central Bank has responded to the global financial crisis by taking energetic measures that resulted principally in the domestic market expansion. Demand growth was higher than the country's production capacity, which led to inflationary pressures. Credit rose from 46.4% of GDP, in 2010, to 47.3%, in 2011.

Brazil GDP grew by 3% in 2011, well below the record of 7.5% in 2010, driven principally by the global crisis that slowed down the Brazilian economy.

Inflation in Brazil reached 6.5% in 2011, the highest in the last seven years – in 2004 the rate was 7.6%. The price index reached the tolerated ceiling and the Government announced that its target has been met for the eighth consecutive year. In the first quarter of 2011, price increases were recorded principally for education and collective transport costs as well as food prices. In the second quarter, food continued to push up inflation, but less sharply. Pressure eased in the last quarters. The inflation rate is expected to be around 4.7% in 2012.

The U.S. dollar closed 2011 at R$ 1.87/US$ 1.00, with a 12.6% depreciation of the real against the U.S. dollar, mainly due to the Europe crisis.

As to monetary policy, the Brazilian Central Bank started 2011 implementing measures to hold down inflation, but the Government's spending policy ended up having the opposite effect. In March, the Monetary Policy Committee increased the basic interest rate (Selic) to 11.75%, which closed the year at 10.90%.

COMPANY PROFILE

Chesf, an electric power 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 established at the First Annual Stockholders' Meeting held on March 15, 1948. Its aim is to generate, transmit and sell electric power.

Its generation system is comprised of hydrothermal plants, with a majority 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 is made up of 14 power plants supplied by nine reservoirs with a maximum storage capacity of 52 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 interest in Specific Purpose Entities for generation enterprises, Chesf has 2,597.7 MW, as shown below:

SPECIFIC PURPOSE ENTITIES (SPEs)	PLANT	LOCATION	MW	INTEREST	START-UP OF OPERATIONS	MW_{Equiv}
Águas da Pedra	HPP Dardanelos	Aripuanã/Mato Grosso State	261.0	24.5%	08/09/2011	63.9
ESBR	HPP Jirau	Porto Velho/Rondônia State	3,750.0	20.0%	Estimated for 2013	750.0
Norte Energia	HPP Belo Monte	Altamira/Pará State	11,233.0	15.0%	Estimated for 2015	1,685.0
Pedra Branca	WPP Pedra Branca	Sento Sé/Bahia State	30.0	49.0%	Estimated for 2012	14.7
Sete Gameleiras	WPP Sete Gameleiras	Sento Sé/ Bahia State	30.0	49.0%	Estimated for 2012	14.7
São Pedro Lago	WPP São Pedro do Lago	Sento Sé/ Bahia State	30.0	49.0%	Estimated for 2012	14.7
At development stage: Chesf/Voltalia Auction No. 7/2011	WPP Junco I, II; Caiçara I, II	Jijoca de Jericoacoara and Cruz/Ceará State	111.6	49.0%	Estimated for 2015	54.7
Total equivalent in SPEs						**2,597.7**

Chesf's transmission system is composed of 18,644.6 km of transmission lines in operation, of which 5,118.4 km are 500 kV transmission circuits, 12,805.6 km are 230 kV transmission circuits, 720.6 km are lower voltage transmission circuits; 101 substations (including Sapeaçu substation located in the State of Bahia, for which Chesf has a use right assignment contract), and 509 transformers in operation with higher than 69 kV voltage, with a total transformation capacity of 43,827 MVA, plus 6,210 km of optical fiber cables.

Also, Chesf, through SPEs, has interests in transmission lines totaling approximately 1,597.5 km, as shown below:

Company	Transmission Line	Circuit	Voltage (kV)	Length (Km)	Length (Equiv.)
STN	Teresina II/Fortaleza II	DC	500	327.0	160.2
STN	Sobral III/Fortaleza II	DC	500	219.0	107.3
TOTAL				**546.0**	**267.5**
Integração Transmissora	Colinas/Miracema	SC	500	173.0	20.8
Integração Transmissora	Miracema/Gurupi	SC	500	255.0	30.6
Integração Transmissora	Gurupi/Peixe II	SC	500	72.0	8.6
Integração Transmissora	Peixe II/Serra da Mesa II	SC	500	195.0	23.4
TOTAL				**695.0**	**83.4**
Manaus Transmissora	Oriximiná/Silves	DC	500	335.0	65.3
Manaus Transmissora	Silves/Lechuga	DC	500	224.0	43.7
TOTAL				**559.0**	**109.0**
IE Madeira	Porto Velho/Araraquara II	SC	600	2,375.0	581.9
TOTAL				**2,375.0**	**581.9**
TDG	São Luiz II/São Luiz III	SC	230	36.0	17.6
TDG	Sect. Sobral III/Fortaleza II C1/C2	SC	230	120.0	58.8
TOTAL				**156.0**	**76.4**
Garanhuns	Luiz Gonzaga/Garanhuns	SC	500	224.0	109.7
Garanhuns	Garanhuns/Pau Ferro	SC	500	239.0	117.1
Garanhuns	Garanhuns/Campina Grande III	SC	500	190.0	93.1
Garanhuns	Garanhuns/Angelim	SC	230	13.0	6.4
TOTAL				**666.0**	**326.3**

Extremoz	Ceará Mirim/João Câmara II	SC	500	64.0	31.4
Extremoz	Ceará Mirim/Campina Grande III	SC	500	201.0	98.5
Extremoz	Ceará Mirim/Extremoz II	SC	230	26.0	12.7
Extremoz	Campina Grande III/Campina Grande II	SC	230	8.5	4.2
Extremoz	Sect. Campina Grande II/Extremoz II C1/C2	SC	230	12.5	6.1
TOTAL				**312.0**	**152.9**

Total transmission lines in operation – SPE	**1,241.0**	**350.9**
Total transmission lines under construction – SPE	**4,068.0**	**1,246.5**
Grand Total	**5,309.0**	**1,597.5**

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$ 7,720.8 million, is represented by 51,565 thonsand nominative shares, of which 50,095 thonsand are common and 1,470 thonsand preferred shares, with no par value. Of the total shares, 99.554% are held by Eletrobras, 0.376% by the Ministry of Finance, 0.017% by Light, and 0.053% by other stockholders.

CORPORATE GOVERNANCE

Administration

The Company is managed by a Board of Directors, a collective decision-making body, whose responsibilities are set 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 Board of Directors members shall be stockholders and the Board of Executive Officers shall be composed of members that may be stockholders or not.

The Board of Directors consists of at the most six members having a reputation for integrity and honesty and adherence to high ethical standards, elected at the General Meeting of Stockholders for a one-year term and eligible for reelection. The Board chooses one of its members to be the 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 among active employees by direct votes of his peers to be a representative of the employees, in an election organized by the Company along with the respective labor unions in accordance with prevailing legislation. The first election is scheduled for 2012.

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 shall be 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 them 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 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 this procedure contributes to improving practices and behaviors that ensure individual and collective rights and that preserve the Company's interests. To this end, ethics lectures and workshops were delivered to managers and employees. 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

Since it started operating in 2009, Chesf's Ombudsman's Office has received 4,248 communications, of which 1,574 were in 2011. This direct dialogue channel between the Company and its stakeholders has focused on satisfying requests quickly and objectively and making Chesf more transparent, in conformity with Corporate Governance good practices. As a result of this effort, the Ombudsman's Office received in 2011 about 70 thank-you messages for services rendered by the Company.

Most of the claims and questions (90%) are from the external public, since the Ombudsman's Office is the channel that centralizes almost all types of claims and questions raised by the external public about the Company.

The set response time is fifteen days. The average response time in 2011 was seven days and the Ombudsman's Office answered directly to 64% of the communications. This percentage was influenced by the theme *Public Selection Process* that, during the three years of operations of the Ombudsman's Office, has been the most requested information. The second most requested information is about Human Resources, including information regarding job and internship opportunities with the Company.

In September 2011 the Ombudsman's Office team participated in the Ombudsman Certification and Qualification event promoted by Unise/Eletrobras, in order to meet the legal requirement for qualification and evaluation of ombudsman professionals. Chesf's Ombudsman's Office team received certification from the Brazilian Ombudsman Association (ABO).

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 the compliance with standards, regulations and legislation related to its operations. The Internal Audit planning, based on the Annual Plan of Internal Audit Activities (PAINT), is submitted to the Federal Government's Controllership (CGU) for approval and subsequently to the Statutory Audit Board and Board of Directors.

Corporate Sustainability

Chesf has in its organizational structure a Coordination Office that reports to the President and handles sustainability issues, and a Corporate Sustainability Committee that is responsible for policies and guidelines related to the subject, in addition to consolidating and monitoring action plans aimed at improving sustainability practices.

For the second consecutive year, in 2011 the Company issued the Sustainability Report following the Global Reporting Initiative (GRI) guidelines, with a self-declared Application Level B, and the UN Global Compact Communication on Progress (COP). In addition, the Company developed initiatives to meet the Women's Empowerment Principles launched by UNIFEM and the UN Global Compact and the National Pact for the Eradication of Slave Labor. The Company also prepared a "Social Project Manual" and started to develop a computer system for required information on corporate sustainability.

Chesf, as a member of the Team of Coordinators for the Sustainability Committee of Eletrobras System, participated actively in the preparation of the Holding Company's Sustainability Report and responses to the questionnaires of Dow Jones Sustainability Index (DJSI) and BM&FBovespa

Corporate Sustainability Index (ISE), and in 2011 its score remained high (A) for the qualitative performance as per the latter index.

Corporate Risks Management

Chesf has been developing and implementing a risk management framework coordinated by Eletrobras, which covers a number of risks to which the Company is exposed and which may cause impacts on corporate results and require constant control in view of the Company's growth targets and profitability estimates. In 2011, risk management was implemented for the following: a) production process (operational risks); b) obligations to third parties (credit risk); c) negative exposure of the brand (reputation 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). By buying an insurance policy Chesf transfers to an insurance company the risks that may cause material losses to it and the ones which are required to be insured by law or regulation. The Company has a Risks Committee composed of representatives from each Directory, which is responsible for defining and approving global policies for the management of corporate risks.

Management of Internal Controls

Chesf, as a publicly-traded company and wholly-owned subsidiary of Eletrobras, is subject to the rules of the Brazilian Securities Commission (CVM); however, Eletrobras is registered with the Securities and Exchange Commission (SEC), the agency that regulates the stock market of the United States of America, the President and the Investor Relations Officer of the Company attest to the effectiveness of the Company's internal controls at each year-end. These certifications include Chesf's main processes falling under the "significant" category, in accordance with the CVM and Sarbanes-Oxley Act (SOX) requirements, so as to guarantee Eletrobras' compliance with SOX, which is necessary to maintain its registration of American Depositary Receipts (ADR) level II. In 2011 the annual certification process involved four stages: a) assessment of entity-level controls to diagnose the corporate governance environment; b) management self-assessment of the design of corporate processes and internal controls; c) tests on the management of internal controls by the internal audit; and d) tests on the effectiveness of internal controls by independent auditors.

Corporate Planning

With respect to corporate planning, in 2011 the Company focused on consolidating and institutionalizing its Corporate Management Process through Chesf Corporate Planning 2010-2015, pursuant to the Corporate Management Systematization Resolution.

Such consolidation consisted in unfolding the strategic objectives of Chesf Strategic Map 2010-2015, which were entered into the Management System (a software developed by Chesf that is based on IBM Notes), with all information required for tracking, controlling and feedback on each strategic objective. This initiative enables Chesf to make Global Performance Assessments of its Strategic Planning, covering the whole management PDCA cycle – plan, do, check and act.

This set practice, the bases of which were developed in 2011, will be applied starting the next year with the goal of keeping Chesf Strategic Planning as a constantly updated management tool that reflects the challenges posted by both external and internal environment.

Thus, as a reference source for all of the Company's management actions, Chesf Strategic Planning enabled it to set Team Performance Targets for the Performance Management System (SGD), tying people management to business management. The first cycle of staff performance evaluation based on SGD is scheduled for the beginning of 2012.

An important initiative implemented in 2011 as part of the corporate management process was Chesf Management Diagnosis based on the Management Excellence Criteria prescribed by the National Quality Foundation (FNQ) to which Chesf is affiliated as a sponsor. Such diagnosis makes it possible to identify critical Management Gaps as well as Improvement Opportunities that will be added to the Chesf Strategic Planning for the period 2012-2015.

Another important management initiative was the inclusion, in the 2012 Annual Plan of Internal Audit Activities (PAINT), of the audit of the Company's Corporate Planning, based on the estimated results for the current year versus actual results, assuming that this audit will contribute to Chesf Corporate Management Process.

THE ELECTRIC POWER MARKET

Electric power consumption in 2011 in Brazil totaled 430,106 GWh, up 3.6% from 2010. The Commercial and Residential classes increased consumption by 6.3% and 4.6%, and together account for over 40% of total consumption.

In the last four years, the result achieved in 2011 only did not surpass the growth rate of 8.1% in 2010. However, this growth is relative if we consider the low comparison base, influenced by the financial crisis that has hit the United States of America beginning in late 2008.

Considering the crisis in developed countries in 2011, which led to downgrades of credit ratings of some European countries, the pace of growth in emerging economies was different this year.

Brazil's economic growth has been supported primarily by the expansion in domestic demand, increased access to credit, reduction in the unemployment rate and an increase in household income.

The electric power consumption in the Northeast region in 2011 totaled 59,722 GWh (13.9% of the Brazilian market), which represented an increase of 0.3% compared with 2010. This variation reflects the shutdown of the plant of the Novelis, in State of Bahia, a decline in production in several industrial segments and low temperatures at the beginning of the year. In addition to said factors, technical problems which occurred in energy-intensive industrial plants of the Northeast subsystem were also determinant factors.

To meet the Northeast submarket, Chesf contributed with 68.1%, the interchanges with the North and Southeast subsystems accounted for 9.9% and 9.7%, respectively, while other generation (hydro, thermal and wind) accounted for 12.3%.

The market projections disclosed by the Electric Power Research Company (EPE) for the period from 2011 to 2020, indicate expected growth in the national consumption of electric power in the regions served by the National Interconnected System (SIN) of approximately 4.8% per year. This performance is supported by the expansion of the commercial (6.0% per year), residential (4.5% per year) and industrial (4.4% per year) classes. The residential class' participation in total consumption decreases from 26.1% in 2011 to 25.3% in 2020. The commercial class, on the other hand, increases its participation over the period, going up from 17.1% in 2011 to 18.8%, and the industrial class' participation remains at about 43% until the end of the period.

The growth in electric power will be around an average of 30,340 MW by the end of 2020, evolving from the current average of 58,256 MW to an average of 88,596 MW, considering the interconnection of isolated systems in the North Region. Among the electric subsystems, the North region presents the highest growth (9.5% per year), justified by the interconnection of the isolated systems Manaus/Macapá/left margin of the Amazonas River, besides the large new demand from industrial growth. The Northeast region will see an average expansion of 4.8% per year, with a growth above that which is predicted for Brazil as a whole, increasing from an average of 8,412 MW to an average of 13,353 MW in 2020, representing an increase of an average 4,941 MW up to the end of the last year.

SALE OF ELECTRIC POWER

The electric power sold by Chesf in 2011 reached a total of 50,065 GWh, distributed between 22 Brazilian states and the Federal District. Of this amount, 44,061 GWh were for sales to distributors within the Regulated Contracting Environment (ACR) to serve captive distributors and consumers, which represent 88.01% of the total amount sold, whereas 6,004 GWh were distributed to the Free Contracting Environment (ACL), to serve and free traders consumers, which account for 99% of the total.

In 2011, the sale of electric power to distributors accounted for 75.49% of the total sold by Chesf. The states with the largest share of sales in the segment of distribution were: São Paulo (33.52%), Bahia (19.77%) Rio de Janeiro (12.70%), Paraná (12.11%), Rio Grande do Sul (7.34%) and Minas Gerais (6.63%).

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

In 2011, Chesf carried out 15 auctions which resulted in 209 new contracts with traders and free consumers. These new contracts in the free environment accounted for 80.30% sold in the year within this segment.

The Northeast region, where the Company is based, accounted for 30.89% of Chesf's sales in 2011. Part of this power was destined to serve 24 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. In 2011, the Company participated and was successful in various auctions for new undertakings, held by the National Electric Power Agency (Aneel), listed below:

- Auction 004/2011, Batch H, for construction of the 500 kV Recife II/Suape II C2 - 44 km transmission line, with respective transmission line entries in the Recife II and Suape II substations.
- Auction 001/2011, Batch B, for construction of the 230 kV Morro do Chapéu/Irecê C1 - 65 km transmission line, with respective transmission line entries in the Irecê and new Morro do Chapéu substations;
- Auction 001/2011, Batch C, for construction of the new 230 kV Paraíso/Lagoa Nova C1 - 65 km transmission line, sectionalizing of the 230 kV Piripiri/Sobral II C1 transmission line for connection of the new Ibiapina substation, with construction of 11 km, double circuit power line, of the new Ibiapina and Lagoa Nova substations and transmission line entries in the Paraíso, Piripiri and Sobral II substations.
- Auction 004/2011, Batch G, for construction of the 230 kV Teresina II/Teresina III C1/C2 - 26 km transmission line, of the new Teresina III substation, and two transmission line entries in the Teresina II substation.
- Auction 004/2011, Batch I, for construction of the 230 kV Sapeaçu/Santo Antonio de Jesus C4 -31 km transmission line, 500 kV Camaçari IV/Sapeaçu C1 - 105 km transmission line, and 500 kV transmission line entries in the Camaçari IV and Sapeaçu substations, 230 kV transmission line entries in the Santo Antônio de Jesus and Sapeaçu substations.
- Auction 006/2011, Batch B, for construction of a 0.5 km section of the 230 kV Itagibá/Brumado II transmission line, between the sectionalizing point of the 230 kV Itagibá – Brumado II transmission line and the Poções II substation; sectionalizing of the 230 kV Jardim/Fafen C1 transmission line, with the construction of a 0.3 km section, for connection of the new Nossa Senhora do Socorro substation; construction of the 230 kV Jardim/Nossa Senhora do Socorro C1/C2 – 1.3 km transmission line; sectionalizing of the 230 KV Jardim/Penedo C1 transmission line with construction of a 5 km section, for connection of the new Nossa Senhora do Socorro substation; construction of the 230 kV Messias/Maceió II C1/C2 - 20 km transmission line; adaption of the power line entry in the Brumado II substation to the Poções II substation; adaption of the power line entry in the Itagibá substation to the Poções II substation; adaption of 02 power line entries in the Jardim substation to the Nossa Senhora do Socorro substation; adaption of the power line in the Penedo substation to the Nossa Senhora do Socorro substation; two new power line entries in the Poções II substation and two in the Messias substation, new Poções II, Maceió II and Nossa Senhora do Socorro substations.
- Generation Auction 07/2011, in which Chesf with 49% interest, in partnership with Voltalia Energia do Brasil Ltda. (1%) and Voltalia S.A. (50%), sold electric power to be produced by the wind power plants Junco I (30.6 MW) and Junco II (30.6 MW), in the municipality of Jijoca de Jericoacoara, Caiçara I (30.6 MW) and Caiçara II (19.8 MW), in the municipality of Cruz, all of them in the State of Ceará, with total capacity to be installed of 111.6 MW.

OPERATING PERFORMANCE

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

Given the localization of its main power plants in the São Francisco River basin, the generation of power is influenced by the hydrological systems of the Northeast and Southeast regions. Due to this localization and the rainfall in the 2010/2011 wet season, the main reservoir of the Northeast Region, Sobradinho, reached, in April 2011, storage of 85.5% and, on December 31, the storage reached 47.3% of its capacity.

The Company generated 48,663 GWh, in 2011, as compared with 44,162 GWh in 2010, representing an increase of 10.2%. This increase resulted from the power conditions of the National Interconnected System (SIN) and the exchange of power 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 implementation of new techniques and maintenance procedures on equipment, transmission lines and devices for protection, control and supervision and in the training of human resources.

In 2011, the Company continued to make improvements 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 power system, especially for the Oscillography, Qualimetry and Protective Relays Networks.

In order to reinforce Chesf's telecommunications network, new support and services were added to the optic digital transmission system. Highlights were the conclusion of installation and tests of new OPGW cables for activating the interconnection among Senhor do Bonfim- Irecê – Bom Jesus da Lapa – Barreiras, as well as the implementation of Local Optical Rings to serve 13 substations. Further, the System Planning stage of the 2018 Horizonte Telecommunications Master Plan was completed and infrastructure works were carried out in 25 substations of Chesf to serve the Federal Government's National Broadband Plan (PNBL).

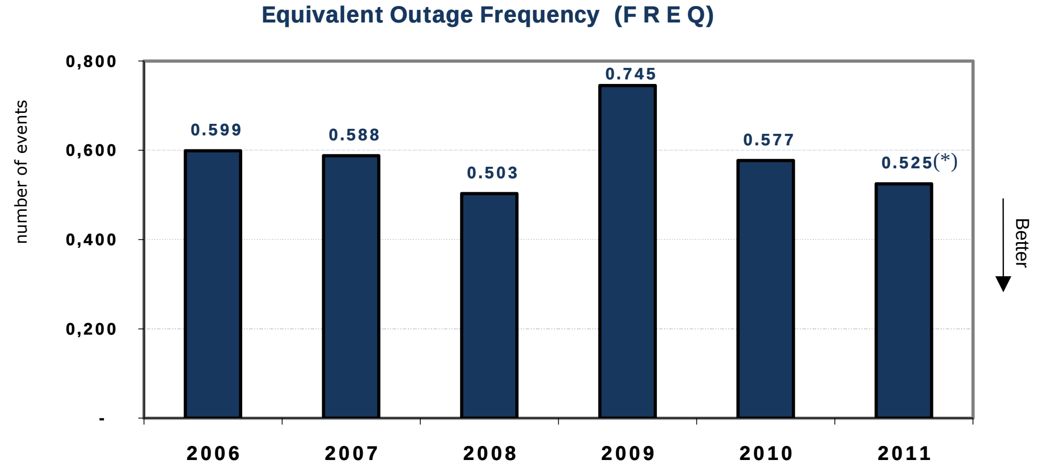
Performance Indicators

The results of the Equivalent Outage Frequency (FREQ), Power Outage Duration (DREQ) and Interrupted Power (ENES) of 2011 point to an improvement in performance as compared with the last two years. The occurrence of interrupted demand below 50 MW, about 90%, optimization of intervention planning and prompt response to unexpected power outages have contributed to improve these indicators.

The indicators of the Operational Availability of Generation and of Transmission Lines also point to a strong performance, replicating the best results achieved in the last five years.

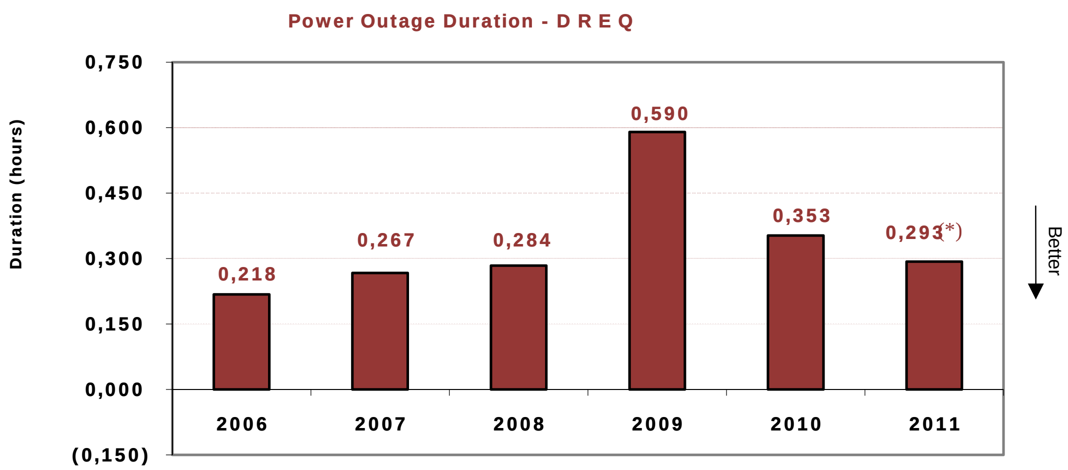
Equivalent Outage Frequency (FREQ)

This indicates the equivalent number of electric power supply interruptions.



Power Outage Duration – (DREQ)

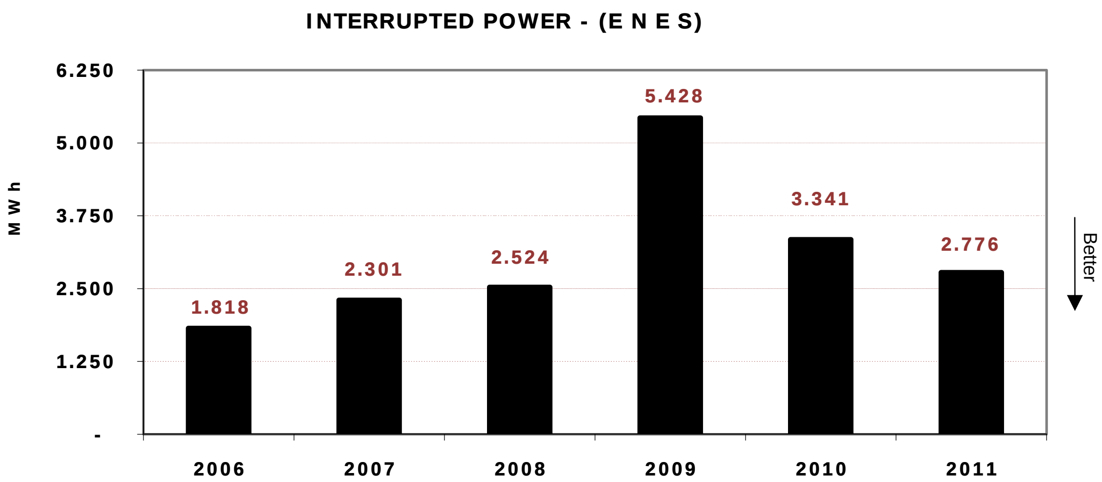
This indicates the equivalent duration, in hours, of the electric power supply interruptions.



(*) The event that occurred on February 4, 2011 and that affected the Northeast Region was not considered in the calculation of this indicator because it was systemic.

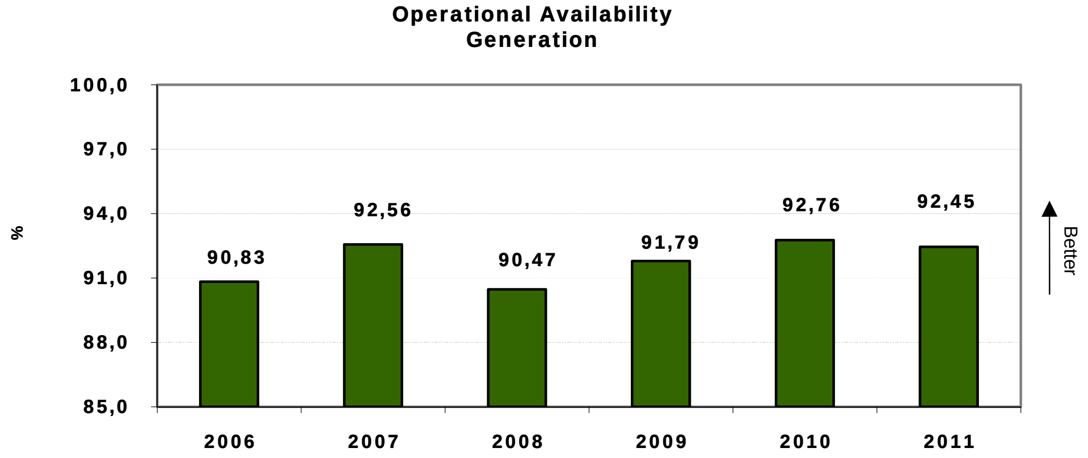
Interrupted Power – (ENES)

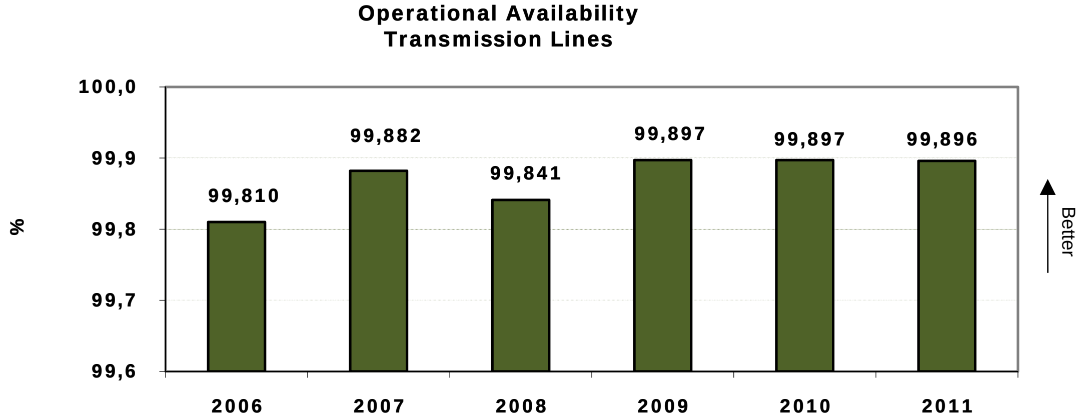
This indicates the equivalent amount of electric power, in GWh, during supply interruptions.



Operational Availability - OA

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

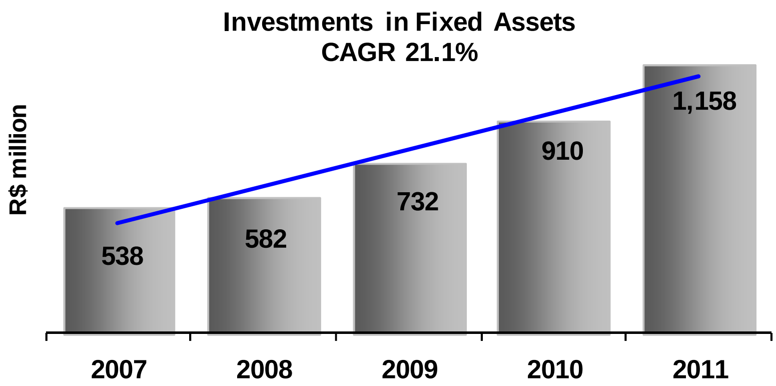




INVESTMENTS

During the year, Chesf's investments in fixed assets for the expansion and modernization of its production capacity totaled R$ 1,158.1 million. This amount was allocated as follows: R$ 338.5 million to energy generation; R$ 601.2 million to transmission system works; R$ 119.1 million to the Itaparica Resettlement program; and R$ 99.3 million to infrastructure. From 2007 to 2011, the Compound Annual Growth Rate (CAGR) was 21.1%.

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



Generation System

In order to keep the hydroelectric generation system at satisfactory continuity and availability levels to meet demand, R$ 158.6 million were invested in 2011 principally in the following:

- Installation of digital technology in the Measuring, Protection, Control, Supervision and Regulation Systems in the Paulo Afonso III power plant;
- Modernization of two generators for insulation class F in the Paulo Afonso II power plant; modernization of another two generators and one turbine in the same power plant and of another generation unit (turbine and generator) in the Paulo Afonso I power plant is under way.
- Start of implementation of digital technology in the Measuring, Protection, Control, Supervision and Regulation Systems in the Boa Esperança power plant;
- Revision of generation unit No. 4, with the repositioning of submersed parts, replacement of secondary concrete and the recentralization and releveling of the turning assembly, is in progress in the Apolônio Sales (Moxotó) power plant.

With respect to 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 Castelhano (64 MW), as well as the potential of Riacho Seco (276 MW), in submedium São Francisco River. The respective environmental studies (EIA/RIMA) had also been delivered to the Brazilian Institute for the Environment and Natural Renewable Resources (Ibama). Until December 2011, Ibama had issued a preliminary license for three of these six undertakings: Cachoeira, Estreito and Castelhano, which were included in Aneel Auction 07/2011 held in December 2011, where they were offered as a hydroelectric complex composed of three power plants. However, the ceiling prices stipulated in the Call for Bids would result in insufficient profitability. In view of this fact, no interested parties bid for the complex. In July 2011, the Uruçuí power plant has been denied preliminary licensing by Ibama. It is now expected that Ibama will issue the preliminary license for Ribeiro Gonçalves and Riacho Seco, which will permit the Company to compete for their concession at auctions to be held by Aneel.

In the wind power area, the Company invested R$ 175.9 million in 2011, out of a total of R$ 202.9 million, in the construction of the 180 MW Casa Nova Wind Power Plant, under an exclusive concession, located in the municipality of Casa Nova, State of Bahia, and made progress in its contacts with entrepreneurs, in studies and field activities, aiming at the implantation of new parks in the Northeast Region.

In the solar power generation, in December 2011 the Company submitted to Aneel 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 No. 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.

Transmission System

Over the last 10 years Chesf has been implementing a large transmission expansion program. In 2011, Chesf's Transmission System was expanded by 810 MVA of electric power transformation capacity, almost double the prior year. This expansion resulted from the conclusion of the following projects:

- New substation Ibicoara with four (03 + 01) 500/230 kV – 100 MVA autotransformers and associated connections, 500 kV bar interconnection, two 230/138 kV - 55 MVA three-phase transformers and associated connections, 230 kV bar interconnection, 138 kV bar interconnection and 230 kV transmission line entry for Brumado II – Investment and revenue included in the Ibicoara/Brumado II C1 transmission line;

- Adaption of general module infrastructure by implementing a 138 kV general infrastructure module, one 230 kV maneuver infrastructure module and four 138 kV maneuver infrastructure modules; one 138 kV busbar interconnection module, main and transfer busbar arrangement; one 138 kV line entry module, main and transfer busbar arrangement to the Pilões II substation, from sectionalizing of the 138 kV Pilões II/Santa Cruz II transmission line in the Paraíso substation; one 138 kV line entry module, main and transfer busbar arrangement, to Santa Cruz II, from sectionalizing of the 138 kV Pilões II/Santa Cruz II transmission line in the Paraíso substation; first 230/138 kV - 100 MVA three-phase autotransformer; one 230 kV connection module, four-switchgear double busbar arrangement; one 138 kV connection module, main and transfer busbar arrangement in the Paraíso substation;
- Second 230/69 kV - 50 MVA three-phase transformer; 230 kV connection module, five-switchgear double busbar arrangement; 69 kV connection module, main and transfer busbar arrangement in the Açu II substation;
- Installation of the third 230/69 kV – 150 MVA three-phase transformer; 230 kV connection module, four-switchgear double busbar arrangement; 69 kV connection module, main and transfer busbar arrangement in the Joairam substation;
- General module complement in 230 kV, reallocation of a 230/69 kV - 100 MVA three-phase transformer; associated 69 kV and 230 kV connection modules, two 230 kV busbar interconnection, reallocation of 230 kV line entries and installation of supplementary equipment for Tacaimbó C1, Tacaimbó C2, Natal II C3 and Pau Ferro C3; 230 kV line entry to Natal II C4; and equipment for adequacy of the opposite end of the theses transmission lines to network procedures in the Campina Grande II substation;
- Installation of current limiting reactors of at least 0.31 ohms per phase, in the tertiary winding of the 138/69/13.8 kV – 39 MVA 03T1 three-phase transformer in the Currais Novos II substation;
- Six 230 kV line entries in the Mossoró, Banabuiú, Santo Antonio de Jesus, Funil, Itapebí, Jardim and Penedo substations;
- One 138 kV line entry in the Funil substation;
- Three 69 kV line entries in the Milagres, Mossoró and Xingó substations.
- Retrofit of the digital protection system of the following transmission lines:
  - Banabuiu-Mossoró II 04C4 transmission line in the Banabuiu substation;
  - Cotegipe-Camaçari II 04M5 transmission line in the Camaçari II substation;
  - Catu-Cícero Dantas 04L3 transmission line in the Catu and Cícero Dantas substations;
  - Cotegipe-CI Usiba 04L1, Cotegipe - CI Rio Doce Manganês 04L2, Cotegipe-Jacaracanga 04L3, Cotegipe-Matatu 04L4, Cotegipe-Camaçari II 04M5, and Cotegipe-Camaçari II 04M6 transmission lines in the Cotegipe substation;
  - Cotegipe-Jacaracanga 04L3 transmission line in the Jacaranga substation;
  - Rio Largo II-CI Braskem 04S2 transmission line in the Rio Largo substation;
  - Messias-Rio Largo II 04S3, Messias-Rio Largo II 04S4 and Messias-Rio Largo II 04S5 transmission lines in the Messias substation;
  - Campina Grande II-Santa Cruz II 03L1 and Santa Cruz II-Currais Novos II 03M2 transmission lines in the Santa Cruz II substation;
  - Currais Novos II-Santana do Matos II 03C1 and Santana do Matos II-Açu II 03C2 transmission lines in the Santana do Matos II substation.
- Complement to the 230 kV Pituaçu/Narandiba C1/C2 transmission line with construction of 1.4 km 230 kV, double circuit transmission line, from the Pituaçu substation; construction of 0.4 km 230 kV, double circuit transmission line, from the Narandiba substation; and implementation of 5.7 km OPGW cables with 36 fibers and 204 polymer insulators;
- Replacement of protections of the 69 kV transmission lines interconnecting Fortaleza and Delmiro Gouveia (02J3 and 02J4) substations by more adequate protections for use in short transmission lines;
- Installation of the optical link from the 230 kV Senhor do Bonfim – Irecê transmission line, from the 230 kV Irecê - Bom Jesus da Lapa transmission line and the 230 kV Bom Jesus da Lapa – Barreiras transmission line;
- Substitution of the 130.5 ohm/phase transformer by a 20 ohm/phase transformer (associated with the third 230/69 kV – 39 MVA transformer, already in operation) in the Boa Esperança substation;
- Reallocation of the 230 kV Pau Ferro/C.Grande II C1 transmission line at the entry of the Campina Grande II substation (04C3 - Coteminas) – installation of two new structures – 0.6 km;

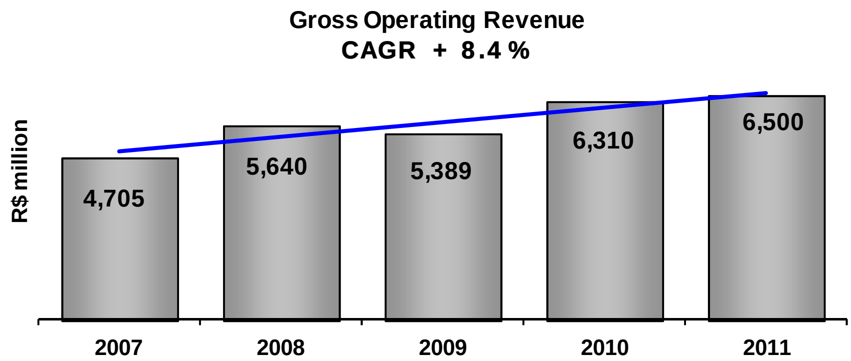
- Expansion of the project temperature from 60º C to 90º C and transport capacity from 235 MW to 350 MW - 29 km of the 230 kV Sapeaçu/Santo Antônio de Jesus C2/C3 transmission line;
- Additional sectionalizing of the first circuit on the 230 kV Juazeiro II/Senhor do Bonfim II transmission line in the Jaguarari substation, with construction of a 0.5 km 230 kV transmission line with Grosbeak conductor per phase and two OPGW cables per phase and necessary structures; Additional sectionalizing of the 230 kV Sapeaçu/Funil C3 transmission line to feed the Santo Antônio de Jesus substation – installation of three new structures - 0.4 km.

ECONOMIC AND FINANCIAL PERFORMANCE

The economic and financial performance is presented in conformity with the Company's consolidated financial statements for 2010 and 2011.

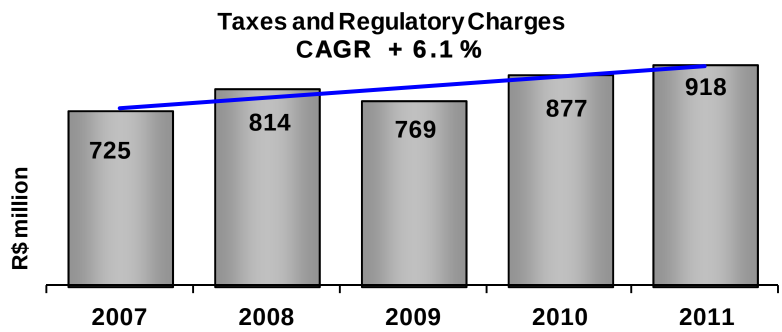
Gross Operating Revenue

Chesf's gross operating revenue in 2011 amounted to R$ 6,500.4 million, representing an increase of 3.0% when compared to the R$ 6,309.9 million in 2010. This result was due to the following variations: increase of 1.9% in electric power sales/supply; increase of 31.4% in transmission revenue; increase of 51.1% in construction revenue; reduction of R$ 306.7 million or 100,3% in electric power sales in the short-term market. From 2007 to 2011, the Compound Annual Growth Rate (CAGR) was +8.4%.



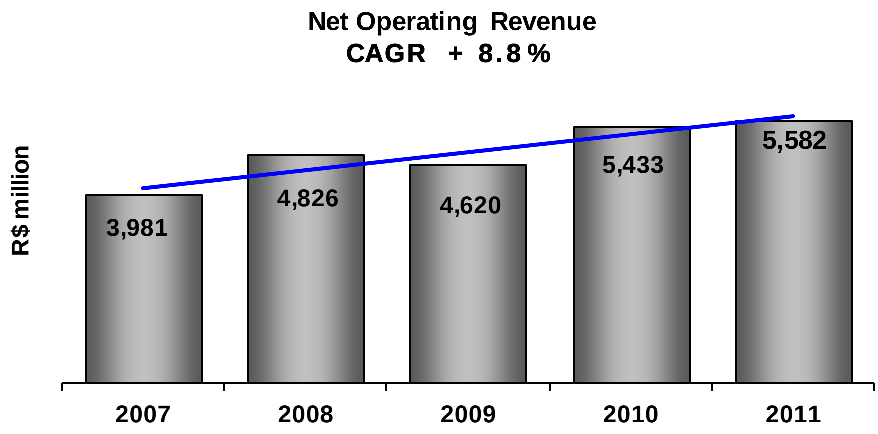
Taxes and Regulatory Charges on Sales

Taxes and regulatory charges on sales totaled R$ 918.0 million in 2011 (+4.7% in comparison to 2010). Of this total, R$ 554.5 million relates to taxes and social contributions (+7.0% in comparison to 2010) and R$ 363.5 million to regulatory charges (+1.3% in comparison to the previous year). The Compound Annual Growth Rate (CAGR) from 2007 to 2011 was +6.1.



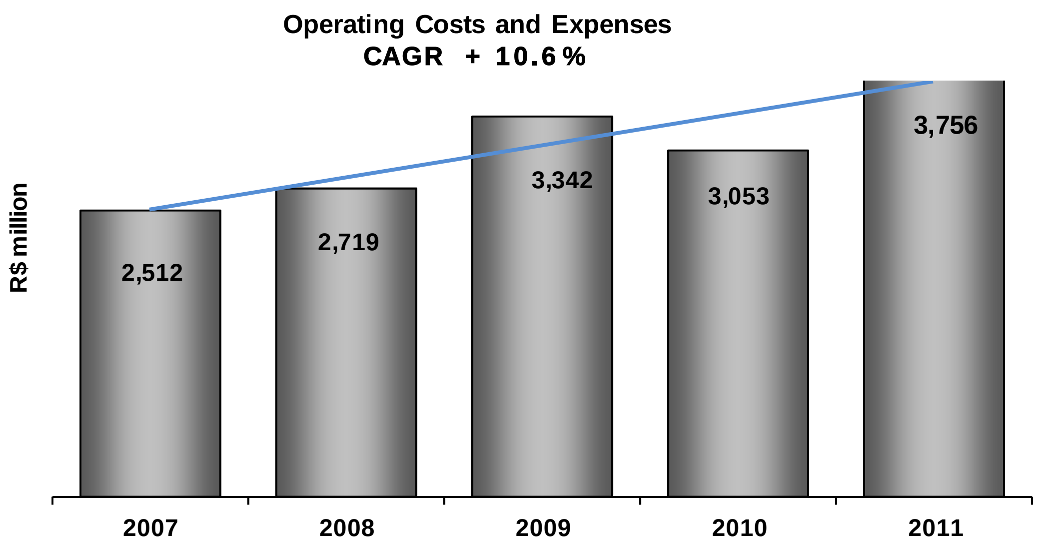
Net Operating Revenue

Net operating revenue, less taxes and regulatory charges, increased by 2.7% (+ R$ 149.3 million) as compared to 2010, reaching R$ 5,582.4 million in 2011. From 2007 to 2011, the Compound Annual Growth Rate (CAGR) was +8.8%.



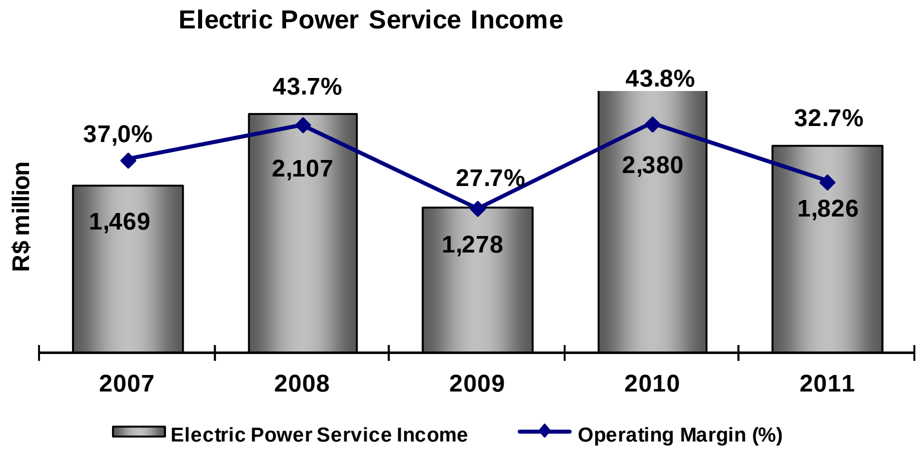
Operating Costs and Expenses

Operating costs and expenses amounted to R$ 3,756.5 million in 2011, +23.0% in comparison to the previous year. This increase reflects mainly the following variations: +36.2% in the personnel account; +51.1% in construction costs; +5.2 in charges for electricity network usage; +16.4% in financial compensation for use of water resources; and +92.9% in provision for contingencies. The Compound Annual Growth Rate (CAGR) was +10.6% from 2007 to 2011.



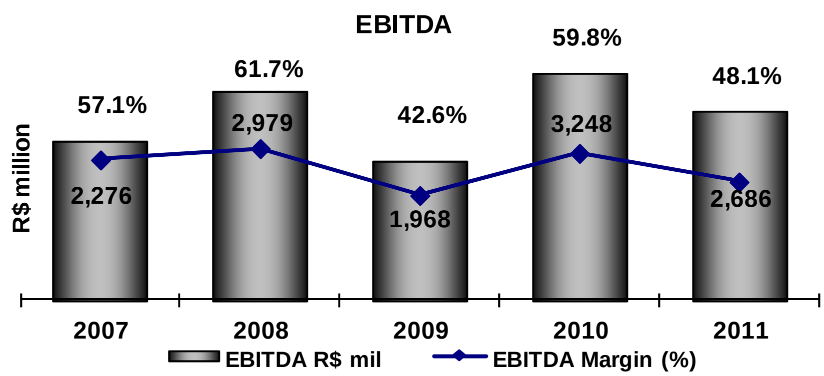
Electric Power Service Income and Operating Margin

As a consequence of the facts mentioned above, the operating profit of the service (EBIT), in the amount of R$ 1,825.9 million, was 23.3% lower than the R$ 2,379.6 million achieved in 2010. With this result, the operating margin of the service (service income/net operating revenue) fell from 43.8% in 2010 to 32.7% in 2011, a decrease of 11.1 percentage points.



Operating Cash Generation (EBITDA)

The operating cash generation expressed by EBITDA (earnings before interest, taxes, depreciation and amortization) was R$ 2,686.3 million, a decrease of 17.3% in comparison to the R$ 3,247.6 million recorded in 2010. The EBITDA margin (EBTIDA/Net operating revenue) was 48.1%, which represents a decrease of 11.7 percentage points when compared to the 59.8% in 2010.



(R$ million)

EBITDA Calculation	2011	2010
Profit	1,554.1	2,177.2
(+) Income tax and social contribution on net income	256.9	431.8
(+) Financial expenses	298.4	140.1
(+) Depreciation	418.1	416.1
(+) Provision for contingencies	158.8	82.4
(=) EBITDA	**2,686.3**	**3,247.6**

Financial income (expenses)

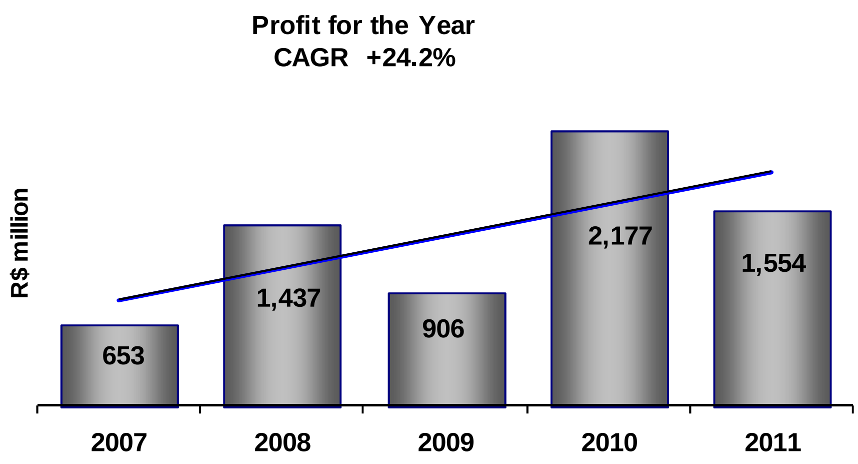
In 2011 Chesf posted financial expenses of R$ 33.5 million while in 2010 it posted financial income of R$ 229.8 million. This result was due primarily to an increase in interest on dividends and a decrease in income from customer refinancing. Please note that in 2010 there was an income from the Cofins suit in the amount of R$ 165.1 million, which did not exist in 2011. Financial income (expenses) consists of the following:

(R$ million)

Financial income (expenses)	2011	2010
Income from financial investments	144.9	80.5
Income from refinancing granted to customers	87.0	154.3
Debt charges on borrowings	(69.8)	(74.2)
Monetary variations on borrowings	(12.3)	(0.5)
Interest on dividends	(179.1)	(16.2)
Income from Cofins suit	-	165.1
Other financial income (expenses)	(4.1)	(79.2)
(=) Net financial income (expenses)	**(33.5)**	**229.8**

Profit for the Year

Chesf's consolidated profit in 2011 was R$ 1,554.1 million, a decrease of 28.6% as compared to the R$ 2,177.2 million in 2010. The Compound Annual Growth Rate (CAGR) from 2007 to 2011 was +24.2%.



Borrowings and Debentures

Consolidated gross indebtedness, which includes interest and principal of the debt to Eletrobras and financial institutions, in addition to debentures issued by the jointly-owned subsidiary, was R$ 2,800.0 million at the end of the year, 47.3% higher than the R$ 1,901.5 million at the end of 2010.

The Company's net indebtedness (borrowings and debentures less cash and cash equivalents) was R$ 2,236.0 million at the end of the year, as shown below:

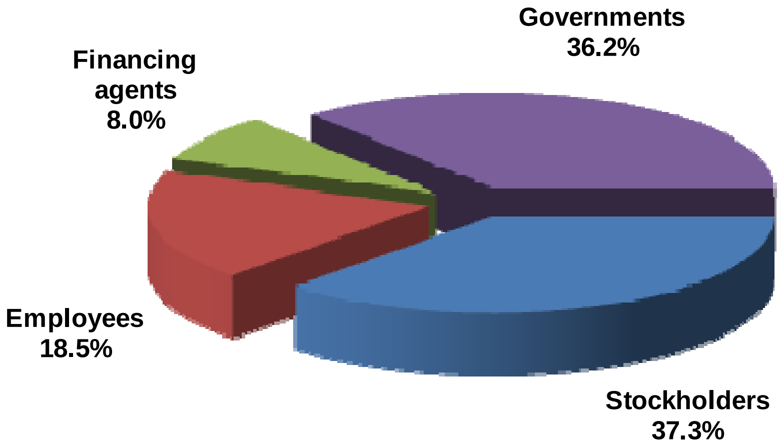
(R$ million)

Consolidated debt	2011	2010	Δ%
Short-term	884.3	278.8	217.2
Long-term	1,915.7	1,622.7	18.1
Total gross indebtedness	**2,800.0**	**1,901.5**	**47.3**
(-) Cash and cash equivalents	564.0	498.0	13.3
Net indebtedness	**2,236.0**	**1,403.5**	**59.3**

Value Added

The economic value generated by the Company in 2011 as per the consolidated balance sheet was R$ 4,173.2 million, down 8.6% from the R$ 4,453.7 million recorded in 2010. This amount was distributed as follows: salaries, social charges and employee benefits (18.5%); taxes and contributions to the federal, state and municipal governments (36.2%); interest paid to financing agents (8.0%) and dividends paid to the stockholders (37.3%).

Distribution of Value Added



OWNERSHIP INTERESTS

At December 31, 2011, Chesf held minority interests in the following companies:

- **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 installed capacity of 261 MW and concession period of thirty-five (35) years. Start-up of the generating units was in September 2011.

- **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 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 installed capacity of 3,750 MW and concession period of thirty-five (35) years. The amount of energy relating to this expansion was sold at Aneel Auction 02/2011. Studies were done for another expansion of this power plant to 4,050 MW, subject to approval from EPE and Aneel for this additional physical guarantee (MW average). Start-up of the first unit is expected for January 2013 as set forth in the Concession Contract.

- **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 capacity of 11,233MW, on the Xingu River, State of Pará, and concession period of thirty-five (35) years.

This hydroelectric power plant is composed of two powerhouses: the main powerhouse, called Belo Monte, will have 18 generation units with capacity of 611.1 MW each and Francis turbines; the second powerhouse, called Pimental, will have 6 generating units with capacity of 38.85 MW each and Bulbo turbines. 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 capacity of 30 MW, in the municipality of Sento Sé, State of Bahia, under a 20-year Authorization, with 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 capacity of 30 MW, in the municipality of Sento Sé, State of Bahia, under a 20-year Authorization, with 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 capacity of 30 MW, in the municipality of Sento Sé, State of Bahia, under a 20-year Authorization, with 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). Start-up is expected for May 2012 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 material, 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 capacity of 3,150 MW, and the 600/500 kV DC-AC converter station located at Araraquara 2 substation, with capacity of 2,950 MW. 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 power 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 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 power 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; 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. The concession period is thirty (30) years for transmission facilities that will compose the Basic Network and eighteen (18) years for transmission facilities of exclusive interest to generation plants for shared connection (ICG). 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 power 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. The concession period is thirty (30) years and start-up of operations is scheduled for June 2014.

- **Junco I, Junco II, Caiçara I and Caiçara II**

  49% interest in the Specific Purpose Entity to be established as per Aneel Auction 007/2011 held on December 20, 2011, through a consortium with the French company Voltalia, for the purpose of purchasing energy from new wind power facilities. The Junco I and II wind power plants with capacity of 30 MW, and the Caiçara I and II wind power plants with capacity of 30MW and 21MW, respectively, will be constructed in the municipality of Jijoca de Jericoacoara, Ceará State, and will represent total installed capacity of 111 MW and investment on the order of R$ 180.0 million. Start-up of operations is scheduled for January 2016.

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 01/14/2003, the Company's management informs that, during 2011, 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 five (5)-year period, starting in 2009.

In compliance with 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 provision of non-audit services and mandatory rotation every five years.

RESEARCH, DEVELOPMENT AND INNOVATION PROGRAM

Chesf's Research, Development and Innovation Programs aim at its technological qualification and at promoting innovation to generate new processes or products, or the evident improvement of its characteristics by carrying out research projects contracted from 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, focuses on the specific needs of the electric power 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 (Centro de Pesquisas de Energia Elétrica - Cepel).

In 2011, Chesf focused on contracting 52 research projects – 19 from the 2006/2007 cycle and 33 from the 2009 Program, on prospecting for external projects to meet 24 technology demands from the Company, R&D+I 2011.1 Program and actions designed to improve its innovation management process. The Company also submitted to Aneel an investment plan encompassing large projects and participated in strategic project bidding.

The investment plan included solar thermal energy, nanotechnology and equipment and facilities management projects, totaling investments of R$ 89.0 million. In search for large projects, Chesf participated in the Aneel bidding to implement a strategic project designed to include photovoltaic energy in the Brazilian energy matrix, involving investments of about R$ 45.0 million.

The amount invested in 2011 in the above-mentioned portfolios was approximately R$ 25.0 million. Chesf also made contributions to the National Fund for Scientific and Technological Development (Fundo Nacional de Desenvolvimento Científico e Técnico - FNDCT) and to the Electric Power Research Company (EPE), totaling approximately R$ 32 million. Therefore, Chesf invested directly or indirectly in R&D+I the substantial amount of some R$ 57 million.

PEOPLE MANAGEMENT

At the end of 2011, the Company had 5,659 employees, 1,175 of which were women and 4,484 men. The turnover rate for the year was 7.16%, driven principally by the termination of employees who accepted to participate in the 2009-2011 Scheduled Voluntary Termination Program and new hires. The turnover rate was 2,47% last year.

The Career and Salary Plan for the companies of the Eletrobras System was consolidated, with the participation of 99.12% of Chesf's employees. The Planning Module of the Performance Management System (SGD), including setting of goals and competences, was completed. The Company delivered workshops to develop managers and informative speeches and presentations for all employees.

According to the result of the First Unified Corporate Climate Research for Eletrobras System's Companies held in 2010, Chesf achieved a satisfaction rate of 70.9%. The Second Corporate Climate Research was held at the end of 2011 and its results are expected to be published at the beginning of 2012.

Profit Sharing and Benefits

In 2011, the Company distributed R$ 102.5 million to its employees as Profit Sharing (PLR), arising from the fulfillment of targets previously established by Eletrobras and Chesf.

In order to improve the quality of life and well-being of its employees, Chesf offers the following benefits under the conditions set forth in its regulations: Mother-child assistance; Educational assistance; Reimbursement for school uniform and 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); Sick pay supplement; Funeral grant; Lump-sum benefit upon death or disability caused by occupational accidents; Meal/Food tickets; Transportation tickets; Group life insurance; Private pension plan through Fundação Chesf de Assistência e Seguridade Social (Fachesf).

Training and Development

Aware of educational trends and focusing on people management for achieving sustainability in business, the Company continued in 2011 to restructure its educational processes through the Eletrobras System University (Universidade Corporativa do Sistema Eletrobras - 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).

An opportunity has then arisen to effectively integrate the Corporate Education Plan (PEC), the Performance Management System (SGD) and the Career and Compensation Plan (PCR). This has 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. In 2011, the average number of training hours per employee was 85.6, which corresponds to 4.46% of the work hours.

Total investments in educational actions went up from R$ 7,695.0 thousand in 2010 to R$ 9,075.0 thousand in 2011, representing an increase of 17.93%, while the average investment per employee went up from R$ 1,399.00 to R$ 1,629.70, an increase of 16.49%.

Occupational Health and Safety

In 2011, Chesf maintained and implemented a number of occupational health and safety initiatives. Initiatives related to health and quality of life include the installation of Health Promotion Centers (CPS) in Salvador and Sobradinho, offering innovative and integrated preventive actions such as Biopsychosocial Monitoring (MBPS) and Periodic Medical Examination, in addition to weight training, exercise, on-site physical fitness program, physical therapy, massage and sports activities.

In 2011, Chesf participated in several stages and activities of Sesi games, including the world competition, achieving an excellent performance in the chess tournament in Israel and in the swimming competition in Austria. In Recife, Chesf's employees participated in more than five running circuits.

At the end of the year the Company launched "*Disque Viver Bem*" (Live Well Helpline), which is a telephone line that has a team of psychologists, psychiatrists, social assistants and lawyers from an outside firm to talk to employees and their family in order to help them resolving personal and/or professional problems, reduce health risks, improve quality of life and work performance, maximizing personal and corporate wellness.

The Tobacco Treatment Program at the Head Office was successful and expanded to Fortaleza, Salvador, Aracaju, Paulo Afonso and Sobradinho.

Further, a Work Team was formed to develop the Alcohol and Other Drug Prevention Policy with the aim of putting forward policies on this theme at the Company.

Initiatives of the Sickness Absence Management Project were taken all over the year and for the first time results stood at 1.44, below the set acceptable limit of 1.50. Chesf achieved an unprecedented rate of 99.08% of Periodic Medical Examinations performed, surpassing the target of 98% of employees having a valid Occupational Health Certificate during the year.

The awards received by Chesf's health area and the work developed on occupational health management show that the Company is at the forefront of occupational health knowledge.

In the occupational safety area, the Company-wide Campaign "*Fique Alerta para a Segurança Dez*" *(*Stay Alert and Be Safe) was once again carried out. The highlights of the Campaign's 2011/2012 Cycle launch were the results of the Workplace Safety and Health Perception Survey answered by Chesf's employees.

In December the Occupational Health and Safety Management System was implemented on a trial basis under the international standard Occupational Health and Safety Assessment Series - OHSAS 18.001:2007 at the Xingó Power Plant. This initiative required the involvement of professionals from the Administrative and Operations Divisions, who were assigned to Xingó and Paulo Afonso, and from the maintenance, operation, occupational safety, health and general services areas. This system is expected to be awarded the certification in the Xingó Power Plant.

In 2011, there was a significant reduction in the Accumulated Frequency Rate (TFAT) and Accumulated Severity Rate (TGAT) of Typical Occupational Accidents with Leave of Absence. In some months of 2011, the number of typical accidents with leave of absence, relating to the entire Company, was zero. The rates of 2.28 and 59 for TFAT and TGAT, respectively, are the lowest in the last ten years, a result of the entire Company's commitment to prevention.

Respect for Diversity and Gender Equity

The Company strives day by day 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 2005 initiatives are in place to promote respect for diversity and equality of gender and race/color with impacts both on the area of people management and on aspects of organizational culture. Chesf understands that this issue has to involve the whole Company so that the need to value diversity is considered in all of the organizational processes that have an impact on people. Measures to follow up the progress of these issues were included in the Corporate Planning.

During the year the Company included gender equality requirements for the job allocation process for employees who passed the Public Selection Process. The gender and race/color perspective was integrated into the sponsorship policies and into the guidelines and policy for approval of social projects aimed at the community.

In order to raise awareness of gender and race equality among employees, Chesf continued to deliver speeches and workshops and produce and disseminate videos about this issue.

The Company's employees enjoy freedom of religion and respect for their political and sexual orientation. Since 2006, employees who live with a companion of the same gender are entitled to include him/her as dependent in the Company's health plan. The other benefits are also available to employees with homoaffectional orientation, with no discrimination.

In 2011, 104 persons with a disability were hired by the Company and actions to increase the accessibility of disabled employees were implemented both at the Head Office and at the Regional Units. Adjustments have been made to the physical spaces within several buildings by eliminating physical barriers. The Company has created the Accessibility and Inclusion Committee and has implemented the Accessibility Project: Inclusion Strategy (Proacessi), both designed to include persons with a disability, and has actively worked to encourage and develop employees to respect individual differences and diversity. To achieve this objective, the Company used textbooks, workshops, theater plays and articles published in its newsletters. Company's publications such as Corporate Climate Research Result, Performance Management System Manual (SGD) and 2011 Yearbook have already been printed in Braille. Initiatives were aimed at ensuring the integration of people with disabilities into work, easing the access to information, communication and mobility with individual independence and autonomy.

SUPPLIERS

The Company periodically updates its suppliers on the procedures used for 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, in 2011 four meetings with suppliers were held: in Recife, Paulo Afonso, Teresina and Salvador. The requirements related to sustainability, social and environmental responsibility, ethics and the matters of diversity, gender and race are emphasized as a specific presentation included in the event program.

Chesf's area of supply has included specific social and environmental criteria in the supplier selection and contract process, with a view of meeting sustainability criteria and legal requirements, requiring suppliers to adopt ethical, social and environmental standards in line with those maintained by us through guidelines that establish principles and standards of business conduct for relationships and commitments assumed. Third-party providers of goods and services are required 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 adoption of Sustainability good practices in the Supply Chain, with the further objective of promoting Performance Management System-based evaluations. For the first cycle, Sustainability was considered in the procurement of goods and services and, as a product, a Technical Report on current Sustainability Goods Practices in the procurement process for Chesf's Transmission and Generation Systems was produced.

RELATIONSHIP WITH THE COMMUNITIES

As part of its mission, Chesf has been engaged in social projects since its inception. Most programs and projects supported by the Company are developed in communities near its business units and benefit thousands of needy people.

Chesf understands as social investment the voluntary provision of finance in a planned, systematic and controlled manner, to social projects of public interest, i.e. contributions intended to meet the needs and priorities of local communities and drive positive social change.

The Community Projects under the Corporate Social Responsibility Program are classified as: Self-financing - projects that may achieve financial independence after a reasonable period of technical, financial and/or material support, so as to assure their continuous operation; Structuring – focused on entrepreneurship, job creation, further education and citizenship, access to housing for vulnerable groups and promotion and protection of human rights and cultural change to eliminate violence and prejudice in the community; Assistance – dedicated to protecting and helping needy children, adolescents, senior citizens, family and women; Infrastructure – focused on improving or building physical facilities or acquiring equipment to enhance wellness and quality of life of the local community. The projects aim to provide for, as their principal return, the integration of the Company and its employees into the communities neighboring Chesf's enterprises, the improvement of these communities' quality of life, inclusion into citizenship and Chesf's participation in the economic and social development of the Northeast Region.

In 2011, Chesf continued three large self-financing projects focused on services to the needy populations of the microregions where it has installed a hydroelectric power plant on the São Francisco and Parnaíba rivers, as shown below.

Lagos do São Francisco Program – carried out in partnership with the Instituto de Desenvolvimento Científico e Tecnológico de Xingó (Scientific and Technological Development Institute), with actions developed in 34 municipalities in the States of Alagoas, Bahia, Pernambuco and Sergipe, comprising 78 projects, the objective of this program is to provide support to the development of sustainable exploration of the 'pitu' sweet water shrimp, development of fishing and pisciculture, utilization of river and underground waters, the biodiversity of the caatinga region and the popular culture of the Low São Francisco, implementation of family units for agro-forest-shepherd production, tourism as a work and income strategy, fostering the autonomy of the apiculture production, goat and sheep farming, basic professional qualification, development and incubation of solidary economic enterprises and basis of services and assistance to production groups. In 2011, investments totaled R$ 1,605.7 thousand.

Sobradinho Program – developed in partnership with Embrapa Semi-Árido, its objective is to promote the sustainable development of rural communities located in the neighborhood of the Sobradinho Dam on the São Francisco River, State of Bahia. The project establishes the implementation and direction of the Technological Learning Fields (CAT) with technological alternatives to the main production systems of the income generating activities of the communities. The program's proposal, carried out in a participative manner, establishes agroecological production systems and promotes events for the dissemination and transfer of technology to technicians, family farmers and fishermen, related to environmental education, production techniques, and vegetable and animal handling, as well as alternatives for living in their environment, promoting the empowerment of family farmers and fishermen through training on the activities developed in the CAT and the training of technicians, rural development agents and community leaders. Among initiatives taken in 2011, a highlight was "*SemiáridoShow*", an event that was promoted by Embrapa Semiárido, IRPAA, Ministry of Agriculture, in the city of Petrolina, State of Pernambuco, and gathered more than 25 thousand farmers and their family. This event offered discussions, courses and lectures, with opportunities to know new agricultural technologies to produce food and family farm practices at low cost and high productivity and change experience with several Embrapa researchers. In addition, the first "*Expo* 7 Show" took place in the municipality of Sento Sé, State of Bahia, with stands, cultural presentations, courses on agricultural topics, delivered by researchers from Embrapa Semiárido and EBDA and one-day in-field event to see melon growing, courses of industrial use of "*Umbuzeiro*" (umbu tree) and lecture on the use of individual protection equipment in the field. In 2011, the amount of R$ 1,800.0 thousand was invested.

Boa Esperança Program – developed in partnership with Embrapa Meio-Norte, its objective is to promote sustainable development of rural communities located in the neighborhood of the Boa Esperança Dam, on the Parnaíba River, in the States of Maranhão and Piauí. The project is implementing action plans with technological alternatives for the main production systems of the principal income generating activities of the communities, proposing, in a participative manner, agroecological production systems. As in the project detailed above, it has been promoting events for the dissemination and transfer of technology to local technicians, family farmers and fishermen, through training on the activities developed in the CAT. Among the initiatives taken in 2011, the highlight was the event "Field Day" held in November in the Lagoa do Tabuleiro/Sucuruju resettlement area, in the municipality of São João dos Patos, State of Maranhão, where lectures were delivered to disseminate alternative technologies for processing and use of cassava and raising of free range chickens in the region of the Boa Esperança Dam, to spur job and income creation. In December, another field day event "Family Pig Farming" was held in the Brejão Community, in the municipality of Antônio Almeida, State of Piauí, where lectures were delivered on eco-friendly alternative technologies for family pig farming with use of pens, deep bed finishing facilities and anaerobic digester, in addition to improving the performance of family swine production. In 2011, the amount of R$ 362.4 thousand was invested.

In addition to these projects, Chesf has also developed 24 specific actions in partnership with entities that develop activities among needy communities, investing approximately R$ 3.0 million. Projects we can classify as Structuring Projects include: Educational Cooperative of Sobradinho/Bahia State; Dom Bosco School of Arts and Workmanship – Recife/State of Pernambuco; Sports and Cultural Association – Pernambuco; Intercultural Village - Arricirco – Recife/State of Pernambuco; Art and Citizenship – Pernambuco; Dom Hélder Câmara Institute – Pernambuco; Carls Rogers Institute – Pernambuco; Charity Hospital - Pernambuco; Steve Biko Charitable Cultural Institute – Salvador/State of Bahia; Vicentina Children's Home – Paulo Afonso/State of Bahia; Movement in favor of Children – Pernambuco; Charitable Projects such as Cristo Redentor Asylum – Recife/State of Pernambuco; Women's Christian Association of Recife/State of Pernambuco.

Infrastructure Projects were developed in partnership with the Municipal Governments of Hidrolândia, Caucaia, Sobral and Ipueiras/State of Ceara to implement Community Telecenters.

Chesf, through the Child and Adolescent Fund (FIA), contributed with R$ 2,329.1 thousand to several projects registered with the Municipal Child and Adolescent Rights Council of Alagoinhas/State of Bahia; Municipal Child and Adolescent Rights Fund of Ibimirim/State of Pernambuco; and the State of Pernambuco Child and Adolescent Rights Fund.

To involve its employees in community actions under the Corporate Social Responsibility Program, Chesf held events at its Head Office such as the Donation Campaign for Flood Victims in the "Zona da Mata" region in the State of Pernambuco, which collected 600kg of food, 100kg of cleaning and hygiene material. At the end of 2011, the Company launched a campaign to collect toys for children participating in the "Once Upon a Time" project, which was developed in a partnership with Carl Rogers Institute and benefited 107 children, and also held the Second Week of Social Responsibility where its employees could watch presentations produced by organizations that, in partnership with the Company, promote child education in the Metropolitan Area of Recife, State of Pernambuco. During the event, Chesf personnel also had the opportunity to know the products and work developed by children, teenagers and parents helped by the organizations supported by Chesf in the stands selling crafts.

In Paulo Afonso, State of Bahia, the Company provides a car to support the operations of the Women's Police Station. The employee who represents Chesf in the Municipal Board for Women's Rights was elected President. The Company holds seats on the Municipal Environmental Council, the Municipal Tourism Council, Regional Tourism Council of "Zona dos Lagos" and Canyons of São Francisco and the Commission for Regional Crisis Management.

Chesf coordinates regional development projects aligned with the Federal Government's social programs. In 2011, the 'Luz para Todos' (Light for All) Program made 80,022 power connections, benefiting 400,110 persons in the Northeast.

The Company held the event "Week of Health and Citizenship" for needy communities at its Head Office and at Regional units. More than two hundred women participated in education and health activities, having the opportunity to getting a mammogram and preventive examinations.

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). In 2011, 91,418 persons received assistance.

The In-house Accident Prevention Commissions (Cipas) held two blood and bone marrow donation campaigns in partnership with state blood centers. The In-house Week of Accident Prevention – Sipat/2011 offered four lectures on "Seja acessível para a vida" (Have access to life) at the Company's Head Office, expanding into the regional units because of the "Programa Viver Bem" (Live Well Program). In addition, "Feira de Qualidade de Vida" (Quality of Life Fair) and other actions were held: Support for implementation of the Area Abandonment Plant; STD/AIDS prevention campaigns; institutional campaigns of accident prevention, drug and alcohol use; Christmas 2011 Solidarity Campaigns where 45 Kg of non-perishable food and cleaning material were collected to donate to the non-governmental organization "Grupo de Trabalhos em Prevenção Posithivo – GTP+"; Cultural Photography Competition on Accessibility with Safety. In addition, the following external actions towards accessibility were promoted in partnership with the Chesf Accessibility Committee - Proacessi/Chesf, as per request submitted to CTTU (Urban Transport and Traffic Agency) (Cipa Official Letter No. 002/2011):

- Platform on the zebra crossing at "Rua Delmiro Gouveia", which gives access to Annex V;
- Sound signal;
- Traffic guard during peak hours (from 12h to 12h30 and 17h30 to 19h);
- Build an additional lane on "Rua 15 de Março", which gives access to "Av. Abdias de Carvalho" (Company's Head Office).

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 show that it is sensitive to social and environmental concerns. Highlights in this area are the Principle for Sustainable Consumption of Energy Resources that is directed towards exploiting potential local and regional resources while promoting sustainable development and the Environmental Management Principle that is rooted in implementing an Environmental Management System integrated into other Corporate Management Systems of the Company. Thus, with the objective of fulfilling the planned actions for 2011, Chesf provided finance in the order of R$ 23.0 million to eco-sustainability programs, which include maintenance and cultural rescue of communities and their traditional practices and customs, in addition to actions aimed at preserving the environment.

For its professionals to update the knowledge of environmental issues, the Company has delivered in-house courses and lectures as well as encouraged them to participate in Seminars, Conferences and Technical and Scientific Workshops. In-house events promoted by Chesf's Department of Environment - DMA include lectures on nuclear energy and technology and use of renewable energy. The Company also participated in external events, contributing lectures on environmental issues, delivered by its professionals.

There were 23 courses with participation of 76 employees. The course "Environmental Management" was held at the Company's premises and was attended by 25 employees from the head office, regional units, and people from external environmental agencies such as Ibama, CPRH and Municipal Department of Environment of Recife. Among the programs related to the Corporate Management System, in 2011 the Company started the following: monthly monitoring of solid waste generation; activities to expand the scope and content of the annual inventory of greenhouse gas emissions; the initiative "*Fale Conosco Ambiental*" (Talk to us – Environment), with the introduction of a banner in the home page of the Company; and efforts were intensified to make a monthly assessment of environmental performance by means of the Sustainability Management Indicators (IGS) project.

As far as generation is concerned, in 2011 the power plants on the São Francisco River (Xingó, Paulo Afonso complex, Itaparica and Sobradinho), the Araras Power Plant in the State of Ceara, and the Camaçari Thermal Power Plant in the State of Bahia applied for a renewal of their environmental licenses. In addition to follow-up, technical support was provided for licensing processes of the Power Plants on the Parnaíba River (Ribeiro Gonçalves, Cachoeira; Estreito, Castelhano) and the Riacho Seco Hydroelectric Power Plant on São Francisco river.

Taking another challenge and aiming to assure advances in new clean energy technologies, the Company is investing in Wind Power Stations (CGE), especially Casa Nova I Wind Power Station with one hundred and twenty (120) of 1.5 MW wind turbines at the installation stage; Casa Nova II Wind Power Station with fourteen (14) of 2 MW wind turbines, and Casa Nova III Wind Power Station with twelve (12) of 2 MW wind turbines; the two last-named projects are under study. The wind power stations are planned to be installed in the municipality of Casa Nova, State of Bahia, with a combined capacity of 232 MW.

The social and environmental programs developed by the Company in 2011 include: a) Program for Cultural Rescue of Fishermen in the region of the Lower São Francisco River, which served 22 municipalities in the region, with workshops, seminars, historical survey and inventory of heritage assets as well as publication of a book about the community people's arts and day-to-day life activities; b) Fauna and Flora Preservation Monitoring Program aimed at preserving species of fauna and flora; and c) Social Heritage Research Program of Pedra and Funil Power Plants. As part of the environmental recovery program for "Caatinga" Biome's native flora species, the expansion of Xingó Plant Nursery facilities located in the municipality of Piranhas, State of Alagoas, was completed. The Plant Nursery produces on average 150.0 thousand seedlings per year.

The Company has implemented two important aquatic fauna programs to mitigate impacts on fish population: Program for Fish Salvage During Machinery Shutdown, which was aimed at Boa Esperança and Xingó Power Plants, and São Francisco River Fishing Program to recover fish species. In 2011, through the latter Program, the Company produced and released 761,908 alevins of various native fish species into the river water, especially 171,235 alevins of *curimatã* (*Prochilodus spp.*) and 7,362 of *surubim* (*Pseudoplatystoma corruscans*).

In the transmission area, the Company has developed a geoprocessing project: Use of Medium-Resolution Digital Images in Erosion Susceptibility Mapping of Power Transmission Lines and the First Seminar on Environmental Licensing – Sisla with the aim of promoting the integration of internal areas and clarify the complexity process of electricity transmission licenses. The seminar gathered 32 specialists from 12 areas of the Company. In 2011, Chesf participated in all Aneel transmission auctions and assumed the mission of obtaining a license for the 29 units purchased at the auctions. The design of the transmission lines was studied and optimized by a multidisciplinary team of Chesf, taking into account social and environmental factors. The Company obtained 41 environmental licenses, including renewals and new licenses, expended R$ 632,006.00 on license fees and paid out R$ 2,872,873.00 for environmental contracts. Chesf participated in environmental licensing procedures of "Linhão Madeira" (Porto Velho – Araraquara Transmission Line). Linhão will transmit the electricity produced by Jirau and Santo Antônio hydroelectric power plants, and is considered the largest transmission project under construction in the Southern Hemisphere. In recognition of the work done by the team, Ibama issued the construction license in July 2011. The Suape Ecological Zone forestation project was developed as compensatory measures for the construction of transmission lines and substations and its implementation is scheduled for the period from 2012 to 2016.

Educational Communication and Environmental Education Programs have been implemented in several communities and locations, which include communities in the vicinity of the 230 kV transmission line - Sectionalizing of Goianinha/Mussuré II – Stª Rita II transmission line and Stª Rita II substation; 500 kV transmission line, derivation Suape II substation, and 230 kV transmission line, derivation Suape II and III. Such campaigns are also aimed at avoiding acts of vandalism, vegetation and sugarcane plantation burning under the transmission lines and thus reducing power supply interruptions and losses to the Company and the environment. For example, educational communication actions are carried out to avoid acts of vandalism in insulators of the 230 kV Tacaimbó/Campina Grande transmission line. During the campaigns there were interactive lectures, meetings with Departments of seven municipalities, involving 23 schools, 496 teachers, 323 employees, 1,222 community people and 5,889 students. Two educational communication campaigns on vegetation burning were held in stretches of the Presidente Dutra/Teresina/Sobral 500 kV transmission line, covering 2,842 persons from the communities, including teachers, students, farmers, children and young people. The campaigns to reduce burning in sugarcane plantations under transmission lines in the area of the Eastern Region Operation management (GRL) in Pernambuco were carried out in partnership with Celpe, CPRH, Ibama (Prevfogo) and Sindaçúcar – Pernambuco and involved eight sugar mills. In the area of the Eastern Region Operation management (GRL) in Alagoas, the campaigns were conducted in partnership with Eletrobras Distribuição (CEAL), IMA, Ibama (Prevfogo), Sindaçúcar-AL and Braskem. The actions were carried out in twelve sugar mills.

In the generation area, the actions of the Social and Environmental Action Plan (PAS) in the Paulo Afonso Complex were aimed at implementing the first-phase projects and are related to the following programs: Education, Art, Culture and Environment; Educational Communication on Social and Environmental Issues, Conservation of Natural Resources and Remediation of Damaged Sites; Environmental Education and Institutional Strengthening and Sustainability.

In 2011, Chesf provided financial resources to the Chico Mendes Institute for Biodiversity Preservation (ICMBio) as part of its environmental compensation commitments. With this action, the Company reached the amount of R$ 26,889.9 thousand and settled 98% of its commitments to Environmental Agencies relating to compensation for projects subject to federal environmental licenses that require environmental impact study/environmental impact report. The Xingó Hydroelectric Power Plan paid out R$ 14.0 million for environmental compensation and this amount will be used to manage and maintain the Northeastern Region Preservation Units. In partnership with ICMBio, Chesf has implemented actions to preserve existing ecosystems and biodiversity in several Preservation Units managed by the Institute.

Itaparica Resettlement Program

Chesf invested R$ 119.1 million in the Resettlement of Itaparica, referring to construction works, services, purchase of equipment, assistance to resettled persons, support to agricultural production and environmental programs, in addition to land acquisition for the Jusante Project (Glória/State of Bahia) and regularization of the land acquired.

Implementation of the Jusante Project (Glória/State of Bahia) continues and the gravity pipeline system works have already been completed and are currently undergoing commissioning tests. Road system construction works and demarcation of irrigated lots have been initiated. Also, the bid for the final stage of the perimeter, consisting of the construction of distribution networks and land irrigation for growing of agricultural crops has been restarted.

As regards the Itacoatiara Project, located in Rodelas, State of Bahia, the school infrastructure works were completed and a vocational school was constructed in accordance with the agreement signed with the municipal government.

Land title documentation and registration processes are in progress for land donated by the State of Pernambuco under Law No. 14,283 of April 4, 2011 in order to complement the areas of the Icó-Mandantes Perimeter located in the municipality of Petrolândia, thus giving formal land titles to beneficiary families. Actions relating to acquisition of land necessary to install the Jusante Project are under way, and ten indemnity payments were made to the lawful owners of non-vacant private land, representing about 39 hectares, under amicable direct purchase processes. Payment process has begun for three financial compensation processes so as to pay off any outstanding debt related to the resettlement and twenty-three (23) rural land titles were issued. Lawsuits arising out of this people resettlement program continue.

With regard to environmental issues, supplemental environmental studies were carried out for the licensing of the Rodelas Project in the State of Bahia, and programs were initiated to remediate damaged sites and maintain legal reserve areas on the Pernambuco State side. Further, diagnosis and mapping of permanent preservation areas of irrigated projects of Itaparica on the Pernambuco State side were carried out.

The management of irrigated perimeters continues under the responsibility of Company for the Development of the São Francisco and Parnaíba Valleys (Codevasf), in accordance with the Cooperation Agreement entered into between Chesf and Codevasf in March 2007, which expires in March 2012. Since it was not possible to complete the processes for transferring common use infrastructures to Codevasf, then Codevasf and Chesf are in talks to make specific adjustments per perimeter according to the maturity stage of each perimeter, so as to avoid discontinued operation of irrigation systems and a consequent loss to resettled families and development of their land.

As the principal objective of the resettlement program is to provide sustainable living conditions to the families affected by the filling of the reservoir in the region of primary economy, the investments are predominantly allocated to actions pointing to the feasibility of the irrigated areas, already implemented or being implemented, so that the population will have sources of work and income in the region where it has always lived.

CULTURE

Theater plays, dance and music presentations, movies, public festivals, agribusiness exhibitions and sports trade fairs. In 2011 Chesf had the distinction of being the most energetic promoter of the culture of the people from the Northeast Region. Of 211 projects sponsored, about 90% were implemented in the Northeast Region where the Company's main units are located. The Criança Cidadã Meninos do Coque Orchestra in Recife; International Music Festival in Olinda (Mimo), Pernambuco State; 7th Brazilian Video and Audio Festival in Paraíba; 35th National Meeting of *Folguedos* in Piauí (regional folkloric party); theater performance *"O Olho de Deus"* (God's Eye) in Bahia, are some of the significant cultural events held in the States. As a sponsor, Chesf promotes cultural production as well as contributes to job and income creation, in addition to aligning its image to the values in the Northeast Region.

AWARDS AND RECOGNITIONS

In 2011, Chesf received the following awards and recognitions:

- Promotion of Ethnical and Racial Diversity Seal – Commitment Category, granted by the Municipal Department of Reparation of the City of Salvador.
- Aberje Brazil 2011 Award, Internal Audiovisual Media Category, with the project "*Pense nisso! Faça parte dessa mudança!*", a Gender Pro-Equity Program initiative.
- Certificate awarded by the International Commission of Large Dams (Icold) for the pioneering work and leadership in Concrete Face Rock fill Dam – *CFRD* (*Barragem de Enrocamento com Face de Concreto - BEFC*) for Xingó Dam, during the XXVIII Brazilian Symposium of Large Dams held in Rio de Janeiro on October 25 to 28, 2011.
- Paulo Freire 2011 Human Being Award, granted by the Brazilian Association of Human Resources (ABRH/PE), where Chesf won first place in the People Management Category as follows:
  - Corporate – Psychosocial Interventions in the Management of Sickness Absence at Chesf;
  - Professional – Performance Evaluation Process and Harassment at Work: perverse dialogues.
- National Award granted by Proteção magazine as the best CIPA management case. The same work won third place in the Chesf Innovation and Improvement Awards – Management Category.
- 1st place in swimming competition of Sesi games – world competition in Viena.

SOCIAL AND ENVIRONMENTAL INFORMATION

The main indicators that represent Chesf's corporate and social and environmental responsibility are as follows based on consolidated balance sheet:

SOCIAL AND ENVIRONMENTAL INFORMATION

CONSOLIDATED **(Amounts in thousands of reais)**

1 - Generation and Distribution of Wealth	**In 2011:**		**4.173.212**	**In 2010:**		**4.453.672**
Distribution of Value Added The Statement of Value Added is presented in full in the set of financial statements.	36.2% government 37.3% stockholders	18.5% employees 8,0% financing agents		33.8% government 48.9% stockholders	13.4% employees 3.9% financing agents	
2 - HUMAN RESOURCES	**In 2011:**			**In 2010:**		
2.1 - Compensation						
Gross payroll (GP)	621582			412.612		
- Employees	615.620			407.804		
- Management	5.962			4.808		
Ratio between the highest and lowest compensation:						
- Employees	33,8			29,7		
- Management	1,0			1,0		
2.2 - Benefits Granted	**Amount (000)**	**% on GP**	**% on NI**	**Amount (000)**	**% on GP**	**% on NI**
Social charges	181814	29,3%	3,3%	175.170	42,5%	3,2%
Food	48.979	7,9%	0,9%	41932	10,2%	0,8%
Transportation	808	0,1%	0,0%	594	0,1%	0,0%
Private pension	59.966	9,6%	1,1%	51911	12,6%	1,0%
Health	61488	9,9%	1,1%	52.676	12,8%	1,0%
Occupational safety and medicine	3.156	0,5%	0,1%	2.773	0,7%	0,1%
Education and day care center	10.276	1,7%	0,2%	9.357	2,3%	0,2%
Culture	-	0,0%	0,0%	-	0,0%	0,0%
Training and professional development	9.101	1,5%	0,2%	7.713	1,9%	0,1%
Profit sharing	102.637	16,5%	1,8%	91383	22,1%	1,7%
Total	**478.225**	**76,9%**	**8,6%**	**433.509**	**105,1%**	**8,0%**
2.3 - Personnel Information						
No. of employees at the end of the year	5.770			5.681		
No. of hires	431			151		
No. of dismissals	387			140		
No. of interns at the end of the year	0			173		
No. of employees with special needs at the end of the year	190			76		
No. of outside service providers at the end of the year	12			7		
No. of employees by gender:						
- Male	4.560			4.514		
- Female	1.210			1.167		
No. of employees by age:						
- Under 18	-			-		
- from 18 to 35	1.166			966		
- from 36 to 60	4.057			4.189		
- Over 60	546			526		
No. of employees by education level:						
- Illiterate	-			-		
- Elementary school	840			968		
- High school	1020			1003		
- Technical school	1603			1585		
- Higher education	2.082			1933		
- Postgraduate education	219			186		
Percentage of employees in management positions by gender:						
- Male	82,5%			82,9%		
- Female	17,5%			17,1%		
2.4 - Labor Contingencies and Liabilities:						
No. of labor lawsuits filed against the entity	925			1141		
No. of labor lawsuits deemed valid	446			284		
No. of labor lawsuits deemed unfounded	76			180		
Total amount of indemnities and fines paid under court orders	-			1039		
3 - Company's Interaction with the External Environment	**Amount (000)**	**% on OI**	**% on NI**	**Amount (000)**	**% on OI**	**% on NI**
3.1 - Relationship with the community						
Total investments in:						
Education	5.204	0,3%	0,1%	3.780	0,1%	0,1%
Culture	17.558	1,0%	0,3%	12.488	0,5%	0,2%
Health and infrastructure	25.026	1,4%	0,4%	19.172	0,7%	0,4%
Sport and leisure	1.512	0,1%	0,0%	2.032	0,1%	0,0%
Food	133	0,0%	0,0%	43	0,0%	0,0%
Job and income creation	4.960	0,3%	0,1%	5.989	0,2%	0,1%
Resettling of families	119.107	6,6%	2,1%	142.307	5,5%	2,6%
Total investments	**173.500**	**9,6%**	**3,1%**	**185.811**	**7,1%**	**3,4%**
Taxes (excluding social charges)	754.327	41,7%	13,5%	797.279	30,6%	14,7%
Financial compensation for use of water resources	224.374	12,4%	4,0%	192.768	7,4%	3,5%
Total - Relationship with the community	**1.152.201**	**63,6%**	**20,6%**	**1.175.858**	**45,1%**	**21,6%**
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 2011			In 2010		
	Amount (000)	% on OI	% on NI	Amount (000)	% on OI	% on NI
Investments and expenditures for maintenance of operating processes to improve the environment	5,436	0.3%	0.1%	7,340	0.3%	0.1%
Investments and expenditures for preservation and/or remediation of damaged sites	1,546	0.1%	0.0%	1,314	0.1%	0.0%
Investments and expenditures for environmental education for employees, outside service providers, self-employed workers and management of the entity	587	0.0%	0.0%	43	0.0%	0.0%
Investments and expenditures for environmental education for the community	362	0.0%	0.0%	1,007	0.0%	0.0%
Investments and expenditures for other environmental projects	16,183	0.9%	0.3%	9,451	0.4%	0.2%
Number of environmental, administrative and judicial proceedings filed against the entiy	-	0.0%	0.0%	2	0.0%	0.0%
Amount of fines and indemnities related to environmental matters, established administratively or by court decision	153	0.0%	0.0%	17	0.0%	0.0%
Environmental liabilities and contingencies	1,240.00	0.1%	0.0%	1,240	0.0%	0.0%
Total interaction with the environment	**25,507**	**1.4%**	**0.5%**	**20,412**	**0.8%**	**0.4%**

5 - Other information	2011	2010
Net Income (NI)	5,582,392	5,433,058
Operating Income (OI)	1,811,028	2,609,059

Recife, March 7, 2012

The Board of Executive Officers

BALANCE SHEETS AT DECEMBER 31, 2011 AND 2010
(amounts in thousands of reais)

	Note	Parent (BRGAAP) 12/31/2011	Parent (BRGAAP) 12/31/2010 (Reclassified)	Consolidated (IFRS and BRGAAP) 12/31/2011	Consolidated (IFRS and BRGAAP) 12/31/2010 (Reclassified)
CURRENT ASSETS					
Cash and cash equivalents	6	268,638	299,397	564,024	497,993
Marketable securities	7	917,439	965,124	917,439	965,124
Consumers, concessionaires and permittees	8	745,277	856,975	752,450	864,142
Taxes and contributions recoverable	9	12,898	26,175	21,964	29,497
Judicial deposits	11	11,003	12,003	36,297	54,731
Inventories	10	85,098	91,563	85,098	91,563
Financial asset – public service concessions	12	258,455	189,187	332,222	255,222
Others	13	189,734	165,336	204,381	171,813
		2,488,542	**2,605,760**	**2,913,875**	**2,930,085**
NON-CURRENT ASSETS					
Long-term receivables					
Marketable securities	7	5,173	5,585	5,173	5,585
Taxes and contributions recoverable	9	566,303	484,958	660,150	545,737
Judicial deposits	11	295,785	254,559	302,423	262,454
Financial asset – public service concessions	12	5,813,526	5,486,905	6,768,014	6,073,548
Others	13	40,697	21,516	53,888	37,527
		6,721,484	**6,253,523**	**7,789,648**	**6,924,851**
Investments	14	**1,408,698**	**788,446**	**79,516**	**65,175**
Property, plant and equipment	15	**11,173,867**	**11,008,860**	**13,263,521**	**12,082,538**
Intangible assets	16	**29,566**	**32,100**	**72,124**	**51,796**
		19,333,615	**18,082,929**	**21,204,809**	**19,124,360**
TOTAL ASSETS		**21,822,157**	**20,688,689**	**24,118,684**	**22,054,445**

The accompanying notes are an integral part of these financial statements

BALANCE SHEETS AT DECEMBER 31, 2011 AND 2010

(amounts in thousands of reais)

	Note	Parent (BRGAAP) 12/31/2011	12/31/2010 (Reclassified)	Consolidated (IFRS and BRGAAP) 12/31/2011	12/31/2010 (Reclassified)
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Trade payables	17	370,788	268,592	562,558	359,158
Taxes and social contributions	18	220,996	301,749	231,765	310,962
Borrowings	19	329,699	46,712	778,842	278,828
Debentures	20	-	-	105,492	-
Profit sharing	35	102,451	91,241	102,451	91,372
Stockholders' compensation	36	299,328	431,282	299,328	431,282
Estimated obligations		126,443	121,454	127,019	121,604
Post-employment benefits	22	109,063	38,809	109,063	38,809
Scheduled Voluntary Termination Program – PDVP	23	-	53,355	-	53,355
Consumer charges payable		162,554	136,137	164,385	137,697
Others	21	77,317	38,758	83,292	48,903
		1,798,639	**1,528,089**	**2,564,195**	**1,871,970**
NON-CURRENT LIABILITIES					
Taxes and social contributions	18	81,113	54,959	110,016	75,148
Borrowings	19	462,149	646,514	1,915,691	1,622,699
Post-employment benefits	22	272,497	323,882	272,497	323,882
Consumer charges payable		167,190	165,699	167,190	165,699
Provision for contingencies	24	923,549	748,165	924,508	749,124
Concessions payable – Use of Public Assets	25	-	-	41,641	17,808
Advance for future capital increase	26	1,293,000	-	1,293,000	-
Others	21	5,382	5,220	11,308	11,954
		3,204,880	**1,944,439**	**4,735,851**	**2,966,314**
EQUITY					
Share capital	28	7,720,760	7,720,760	7,720,760	7,720,760
Capital reserves	28	4,916,199	4,916,199	4,916,199	4,916,199
Revenue reserves	28	3,841,698	4,778,516	3,841,698	4,778,516
Proposed additional dividends	28	897,877	168,195	897,877	168,195
Other comprehensive income	28	(557,896)	(367,509)	(557,896)	(367,509)
		16,818,638	**17,216,161**	**16,818,638**	**17,216,161**
TOTAL LIABILITIES AND EQUITY		**21,822,157**	**20,688,689**	**24,118,684**	**22,054,445**

The accompanying notes are an integral part of these financial statements

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(amounts in thousands of reais)

	Note	Parent (*BRGAAP*) 12/31/2011	Parent (*BRGAAP*) 12/31/2010 (Reclassified)	Consolidated (*IFRS and BRGAAP*) 12/31/2011	Consolidated (*IFRS and BRGAAP*) 12/31/2010 (Reclassified)
NET OPERATING REVENUE	29	**5,118,487**	**5,150,548**	**5,582,392**	**5,433,058**
COST OF ELECTRIC POWER SERVICE	31				
Electric power costs					
Electric power purchased for resale		(7,635)	(24,061)	(7,635)	(24,061)
Charges for electricity network usage		(805,270)	(765,661)	(805,270)	(765,661)
Operating costs					
Personnel, material and third-party services		(390,416)	(399,738)	(393,633)	(401,753)
Fuel for electric power production		(4,793)	(2,296)	(4,793)	(2,296)
Financial compensation for use of water resources		(224.374)	(192,768)	(224,374)	(192,768)
Depreciation and amortization		(342,778)	(345,896)	(342,817)	(345,896)
Others		13,799	18,267	13,245	17,780
		(1,761,467)	**(1,712,153)**	**(1,765,277)**	**(1,714,655)**
COST OF SERVICES PROVIDED TO THIRD PARTIES	31	**(2,838)**	**(3,394)**	**(6,923)**	**(3,394)**
CONSTRUCTION COSTS	31	**(581,089)**	**(420,451)**	**(943,268)**	**(624,446)**
GROSS OPERATING PROFIT		**2,773,093**	**3,014,550**	**2,866,924**	**3,090,563**
OPERATING EXPENSES	31	**(1,019,269)**	**(697,136)**	**(1,040,984)**	**(710,929)**
RESULT FROM SERVICE		**1,753,824**	**2,317,414**	**1,825,940**	**2,379,634**
EQUITY IN THE RESULTS OF INVESTEES	14	**58,813**	**31,253**	**18,604**	**(330)**
FINANCE INCOME (EXPENSES)	32	**(11,524)**	**259,700**	**(33,516)**	**229,755**
PROFIT BEFORE TAXES		**1,801,113**	**2,608,367**	**1,811,028**	**2,609,059**
Income tax and social contribution	33	(570,107)	(715,563)	(580,037)	(726,489)
Deferred income tax and social contribution	33	10,296	(95,929)	5,342	(91,147)
Tax incentives	34	312,843	380,357	317,812	385,809
PROFIT FOR THE YEAR		**1,554,145**	**2,177,232**	**1,554,145**	**2,177,232**
Basic earnings per share (R$)	37	30.14	42.22	30.14	42.22
Diluted earnings per share (R$)	37	28.03	42.22	28.03	42.22

The accompanying notes are an integral part of these financial statements

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(amounts in thousands of reais)

		Parent and Consolidated (*BRGAAP*)	
	Note	**12/31/2011**	**12/31/2010**
Profit for the year		**1,554,145**	**2,177,232**
Other comprehensive income			
Share of other comprehensive income (expense) of investees	28	3,719	(1,702)
Actuarial result on post-employment benefit obligations	28	(229,033)	(191,205)
Deferred income tax and social contribution	28	34,927	29,160
Other comprehensive income (expense) for the year		**(190,387)**	**(163,747)**
Total comprehensive income for the year		**1,363,758**	**2,013,485**

The accompanying notes are an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY
(amounts in thousands of reais)

			REVENUE RESERVES								
	SUBSCRIBED/ PAID-UP CAPITAL	CAPITAL RESERVES	UNREALIZED PROFITS	LEGAL	STATUTORY	PROFIT RETENTION	TAX INCENTIVES	PROPOSED ADDITIONAL DIVIDENDS	OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS	**TOTAL**
BALANCE AT 12/31/2009	**4,539,557**	**4,916,199**	**464,559**	**349,978**	**8,179**	**2,209,834**	**163,153**	**576,588**	**(203,762)**	**-**	**13,024,285**
Capital increase	3,181,203	-	-	-	-	-	(163,153)	-	-	-	3,018,050
Realization of revenue reserves	-	-	(18,027)	-	-	-	-	-	-	18,027	-
Carrying value adjustments – Associates	-	-	-	-	-	-	-	-	(1,702)	-	(1,702)
Actuarial result on post-employment benefit obligations	-	-	-	-	-	-	-	-	(162,045)	-	(162,045)
Profit for the year	-	-	-	-	-	-	-	-	-	2,177,232	2,177,232
Allocation:											
Legal reserve	-	-	-	89,844	-	-	-	-	-	(89,844)	-
Minimum dividends - note 36	-	-	-	-	-	-	-	-	-	(431,266)	(431,266)
Approval of additional dividends by Annual Stockholders' Meeting	-	-	-	-	-	-	-	(408,393)	-	-	(408,393)
Profit retention reserve	-	-	-	-	-	1,293,792	-	-	-	(1,293,792)	-
Tax incentive reserve (*)	-	-	-	-	-	-	380,357	-	-	(380,357)	-
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**

(*) In accordance with the provisions of Article 195-A of Law No. 6,404/1976, and Law No. 11,638/2007, the portion of profit 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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(amounts in thousands of reais)

		Parent (*BRGAAP*)		Consolidated (*IFRS and BRGAAP*)	
	Note	12/31/2011	12/31/2010 (Reclassified)	12/31/2011	12/31/2010 (Reclassified)
Operating activities					
Profit before income tax and social contribution		1,801,113	2,608,367	1,811,028	2,609,059
Expenses (income) not affecting cash:					
Depreciation and amortization		418,008	416,097	418,138	416,117
Monetary and exchange variations (net)		(20,191)	(56,982)	(8,434)	(56,982)
Equity in the results of investees	14	(58,813)	(31,253)	(18,604)	330
Provision for contingencies		158,839	82,357	158,839	82,357
Provision for impairment of trade receivables		17,115	18,740	17,115	18,740
Profit sharing		102,451	91,241	102,451	91,241
Post-employment benefits – actuarial adjustment		(44,101)	(27,998)	(44,101)	(27,998)
Adjustment of judicial deposits		(10,523)	(12,118)	(10,523)	(12,118)
Adjustment of agrarian debt bonds (TDA)		(249)	(1,849)	(249)	(1,849)
Finance income – Financial asset		(617,491)	(690,179)	(702,196)	(759,023)
Finance charges		65,375	60,897	78,883	103,169
Adjustment of dividends		179,130	16,189	179,130	16,189
Scheduled Voluntary Termination Program - PDVP		(53,355)	(220,763)	(53,355)	(220,763)
Others		-	(13,809)	(2)	(11,618)
		1,937,308	**2,238,937**	**1,928,120**	**2,246,851**
Finance charges paid to stockholders and related parties		(10,616)	(17,664)	(10,616)	(17,664)
Payments to the private pension entity		(152,385)	(254,238)	(152,388)	(254,238)
Finance charges paid to financial institutions and others		(51,855)	(42,712)	(63,737)	(46,326)
Income tax and social contribution payments		(325,476)	(272,059)	(330,721)	(272,546)
Profit sharing payments		(91,241)	(72,145)	(91,372)	(72,145)
Changes in assets and liabilities					
Consumers, concessionaires and permittees		94,583	(199,710)	94,577	(199,218)
Inventories		6,465	(13,788)	6,465	(13,788)
Taxes and social contributions		626	(201,620)	(24,485)	(211,497)
Advances to employees		(2,276)	(111)	(2,475)	(126)
Pledges and restricted deposits		(29,703)	(34,641)	(11,011)	(53,268)
Marketable securities		48,097	(226,400)	48,097	(226,400)
Services in progress		(11,602)	64,406	(12,439)	64,311
Trade payables		102,196	12,072	203,400	74,447
Estimated obligations		4,989	25,561	5,415	25,591
Consumer charges payable		(3,704)	4,819	(3,811)	3,096
Research & Development		26,034	14,913	26,411	14,644
Financial compensation for use of water resources		5,578	(3,133)	5,578	(3,133)
Provision for contingencies		16,545	66,442	16,545	67,401
Other operating assets and liabilities		14,579	17,413	(19,483)	(11,628)
		(359,166)	**(1,132,595)**	**(316,050)**	**(1,132,487)**
Total operating activities		**1,578,142**	**1,106,342**	**1,612,070**	**1,114,364**
Investing activities					
Investments in PP&E and intangible assets		(580,915)	(434,464)	(1,596,620)	(1,104,492)
Realization of financial asset – public service concessions		221,602	420,239	(69,269)	263,373
Permanent investments		(596,639)	(288,449)	-	-
Dividends		26,291	20,457	-	-
Disposals of PP&E and intangible assets		4,188	2,161	4,937	7,343
Others		-	(116)	(183)	14,320
		(925,473)	**(280,172)**	**(1,661,135)**	**(819,456)**
Financing activities					
Funds from stockholders and related parties		1,293,000	-	1,293,000	-
Borrowings		138,732	147,210	783,787	674,566
Repayments of borrowings		(42,798)	(118,813)	(53,235)	(138,954)
Stockholders' compensation		(2,072,362)	(607,867)	(2,072,362)	(607,867)
Debentures		-	-	105,492	-
Others		-	-	58,414	38,599
		(683,428)	**(579,470)**	**115,096**	**(33,656)**
TOTAL EFFECTS ON CASH		**(30,759)**	**246,700**	**66,031**	**261,252**
Cash and cash equivalents at the beginning of the year		299,397	52,697	497,993	236,741
Cash and cash equivalents at the end of the year		268,638	299,397	564,024	497,993
CASH VARIATION		**(30,759)**	**246,700**	**66,031**	**261,252**

The accompanying notes are an integral part of these financial statements

STATEMENTS OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(amounts in thousands of reais)

	Note	Parent 12/31/2011	Parent 12/31/2010 (Reclassified)	Consolidated 12/31/2011	Consolidated 12/31/2010 (Reclassified)
GENERATION OF VALUE ADDED					
Revenues					
Electric power sales, transmission and others		6,031,251	6,022,222	6,500,322	6,310,277
Decrease (increase) in provision for Impairment of trade receivables		(17,115)	(18,740)	(17,115)	(18,740)
Losses – Consumers, concessionaires and permittees		(24,367)	(21,752)	(24,367)	(21,752)
		5,989,769	**5,981,730**	**6,458,840**	**6,269,785**
(-) Inputs acquired from third parties					
Material		29,113	24,138	29,743	24,306
Fuel for electric power production		4,793	2,296	4,793	2,296
Third-party services		189,754	177,999	199,872	182,547
Electric power purchased for resale		7,635	24,061	7,635	24,061
Charges on electricity network usage		805,270	765,661	805,270	765,661
Construction costs		581,089	420,451	943,268	624,446
Others		166,095	56,044	174,217	59,381
		1,783,749	**1,470,650**	**2,164,798**	**1,682,698**
(=) Gross value added		**4,206,020**	**4,511,080**	**4,294,042**	**4,587,087**
(-) Retentions					
Depreciation and amortization		**418,008**	**416,097**	**418,138**	**416,117**
(=) Net value added		**3,788,012**	**4,094,983**	**3,875,904**	**4,170,970**
(+) Transferred value added					
Equity in the results of investees		58,813	31,253	18,604	(330)
Dividends and interest on capital		6,678	3,947	6,678	605
Rentals		95	(24)	95	(24)
Finance income		264,223	266,724	271,931	282,451
		329,809	**301,900**	**297,308**	**282,702**
(=) Value added to distribute		**4,117,821**	**4,396,883**	**4,173,212**	**4,453,672**
DISTRIBUTION OF VALUE ADDED					
Personnel					
Salaries/benefits/FGTS		631,206	652,055	639,985	656,603
Scheduled Voluntary Termination Program - PDVP		-	(220,763)	-	(218,566)
Profit sharing		102,451	91,241	102,451	91,241
Provisions for labor contingencies/indemnities		30.777	68,569	30,777	68,569
		764,434	**591,102**	**773,213**	**597,847**
Governments:					
Payroll charges		143,621	143,136	144,190	143,698
Taxes net of tax incentives		739,029	787,433	752,062	791,502
Regulatory charges	30	611,514	565,981	614,159	568,442
		1,494,164	**1,496,550**	**1,510,411**	**1,503,642**
Financing agents:					
Financial expenses, monetary variation and other:					
Eletrobras		188,115	31,286	188,115	31,286
Other financing agents		93,757	79,371	123,459	121,697
Rentals		23,206	21,342	23,869	21,968
		305,078	**131,999**	**335,443**	**174,951**
Stockholders:					
Proposed minimum dividends	36	299,294	431,266	299,294	431,266
Proposed additional dividends	36	897,877	168,195	897,877	168,195
Earnings reinvested		356,974	1,577,771	356,974	1,577,771
		1,554,145	**2,177,232**	**1,554,145**	**2,177,232**
		4,117,821	**4,396,883**	**4,173,212**	**4,453,672**

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
AT DECEMBER 31, 2011 AND 2010

(Amounts in thousands of reais unless otherwise stated)

1 - OPERATIONS

Companhia Hidro Elétrica do São Francisco - Chest ("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. The Company was created by Decree-Law 8,031/1945 and started its operations on March 15, 1948. Its main business purposes are the generation and transmission of electric power. As from 2002, with the gradual release of its supply contracts (initial contracts), at the rate of 25% per year, pursuant to Law 9,648, of May 27, 1998, the Company, which up to then only operated in the Northeast region, began to serve other Brazilian regions, and currently its main markets are the Southeast and Northeast regions.

The Company's generation operations are composed of 14 hydroelectric power plants and 1 thermoelectric power plant, with a total installed capacity of 10,615 MW. Its transmission system is composed of 101 substations (including Sapeaçu substation located in the State of Bahia, for which Chesf has entered into an agreement for assignment of the right of use) and 18,644.6 Km of high-voltage lines.

The Company sells the electric power generated through contracts entered into with distribution concessionaires, power booking and electric power supply contracts signed with industrial consumers directly served by the Company, contracts arising from electric power auctions held by the Electric Power Trading Chamber (CCEE), as well as through electric power sales and purchase auctions held by traders or free consumers. Potential differences between the electric power generated and the electric power sold under these contracts are traded on the short-term market through CCEE.

The Transmission activity and resulting Authorized Annual Revenue (RAP), established by the National Electric Power Agency (Aneel), and whose amount is annually adjusted, is supported by Contracts for the Provision of Transmission Services (CPST) and Transmission System Connection Contracts (CCT), all of which are linked to the Transmission Concession Contract. The authorizations granted by Aneel for new developments, by means of resolutions, classified as Revenue from New Investments (RBNI), are subject to a tariff revision each four years, in order to ensure efficient and reasonable tariffs. The revenue from the other facilities exiting at the time of the determination of the concession contract, defined as Revenue from the Basic Network of Existing Services (RBSE), are fixed and annually adjusted through the end of the concession period. In addition to the current Concession Contract, Chesf has been entering into new concession contracts for the provision of Basic Network transmission services, arising from transmission auctions held by Aneel. The revenue obtained at such transmission auctions is annually adjusted by the Extended Consumer Price Index (IPCA) variation through the concession period - 30 years – and is also subject to tariff revisions every five years.

As from March 1, 1999, the National Electric System Operator (ONS), a private, nonprofit entity, whose operations were authorized by Resolution 351/1998 of Aneel, took over the control and operation of the National Interconnected System (SIN). Accordingly, the Company's power plants and basic transmission network are under the coordination, supervision and control of that entity.

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 201.6 MW, respectively, the Company's participation in these plants is equivalent to 2,597.7 MW, and in transmission enterprises comprising 1,241 Km of transmission lines in service and 4,068 Km of transmission lines under construction.

2 –CONCESSIONS

The Company holds the following concessions and permissions:

• Generation

CONCESSIONS/PERMISSIONS	Rio	Installed Capacity (MW)	Capacity Used in 2011 (average MW/year)	Date of Concession / Permission	Expiry Date
Hydroelectric Power Plants					
Paulo Afonso I	SãoFrancisco	180.001	61.666	10/03/1945	10/02/2015
Paulo Afonso II	São Francisco	443.000	45.551	10/03/1945	10/02/2015
Paulo Afonso III	São Francisco	794.200	334.334	10/03/1945	10/02/2015
Paulo Afonso IV	São Francisco	2,462.400	1,364.376	10/03/1945	10/02/2015
Apolônio Sales (Moxotó)	São Francisco	400.000	110.171	10/03/1945	10/02/2015
Luiz Gonzaga (Itaparica)	São Francisco	1,479.600	884.035	10/03/1945	10/03/2015
Xingó	São Francisco	3,162.000	2,131.900	10/03/1945	10/02/2015
Piloto	São Francisco	2.000	-	02/16/1949	07/07/2015
Araras	Acaraú	4.000	-	08/29/1958	07/07/2015
Funil	de Contas	30.000	6.521	08/25/1961	07/07/2015
Pedra	de Contas	20.007	1.214	08/25/1961	07/07/2015
Boa Esperança (Castelo Branco)	Parnaíba	237,300	151,326	10/11/1965	10/10/2015
Sobradinho	São Francisco	1,050.300	461.427	02/10/1972	02/09/2022
Curemas	Piancó	3.520	1.207	11/26/1974	11/25/2024
Thermoelectric Power Plant					
Camaçari	-	346.803	1.439	08/11/1977	08/10/2027

Wind power

The Company was the winner of Aneel's auction for alternative sources No. 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 180 MW capacity, which is currently awaiting authorization to start the installation construction in the first quarter of 2012.

Note: The Capacity in Use corresponds to the average generation, in MW, for the period.

- **Transmission**

CONCESSIONS/PERMISSIONS	Date of Concession	Expiry Date
TRANSMISSION SYSTEM		
Concession Contract No. 061/2001 – Aneel:		
In service:		
- 83 transmission substations, 15 step-up substations and 18,181.6 km of high voltage lines.	06/29/2001	07/07/2015
Contracts obtained through Aneel auctions:		
In service:		
- Milagres/Tauá (CE) transmission line, in 230 kV, with a length of 208 km and Tauá substation (CE), in 230 kV.	03/04/2005	03/03/2035
- Milagres/Coremas (CE/PB) transmission line, in 230 kV, with a length of 120 km.	03/04/2005	03/03/2035
- Paraíso/Açu II (RN) transmission line, in 230 kV, with a length of 135 km.	06/14/2007	06/14/2037
- Ibicoara substation in 500/230 kV(PE).	06/14/2007	06/14/2037
Under Construction:		
- Funil/Itapebi (BA) transmission line, in 230 kV, with a length of approximately 198 km.	04/20/2007	04/20/2037
- Ibicoara/Brumado (BA) transmission line, in 230 kV, with a length of approximately 105 km.	06/14/2007	06/14/2037
- Picos/Tauá (PI/CE) transmission line, in 230 kV, with a length of approximately 183 km.	06/14/2007	06/14/2037
- Jardim/Penedo (SE/AL) transmission line, in 230 kV, with a length of approximately 110 km.	03/17/2008	03/17/2038
- 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
- Suape II substation, in 500/230 kV and Suape III substation, in 230/69 kV (PE), Messias/Recife transmission line with a length of approximately 53 km.	01/28/2009	01/28/2039
- Pau Ferro/Santa Rita II (PE/PB) transmission line, in 230kV, with a length of approximately 109 km and Paulo Afonso III/Zebu (AL) transmission line, in 230kV, with a length of approximately 7 km; and Santa Rita II substation, in 230/69kV (PB); Zebu substation, in 230/69kV (AL); and Natal III substation, in 230/69kV (RN).	08/03/2009	08/03/2039
- Eunápolis/Teixeira de Freitas II substation, circuit 2 (BA), in 230 kV, with a length of approximately 144 km.	08/03/2009	08/03/2039
- Camaçari IV substation, in 500/230kV (BA);	07/12/2010	07/12/2040
- 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.	10/06/2010	10/06/2040
- Pólo substation, in 230/69 kV (BA).	10/06/2010	10/06/2040
- 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
- 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).	12/09/2011	12/09/2041
- Recife II/Suape II (PE) transmission line, in 500 kV, simple circuit, with a length of approximately 44 km.	12/09/2011	12/09/2041
- Camaçari IV/Sapeaçu (BA) transmission line, in 500 kV, simple circuit, with a length of approximately 105 km.	12/09/2011	12/09/2041
- Sapeaçu/Santo Antônio de Jesus (BA) transmission line, in 230 kV, simple circuit, with a length of approximately 31 km.	12/09/2011	12/09/2041

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

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

The production of the Chesf System's power plants arises from the Planning and Scheduling of the Electric Power Operation, within 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 power requirements of Brazil in an optimized manner, taking into consideration the needs of the market, the availability of water and machinery and the cost of generation, as well as the feasibility of transmitting this power through a complex system interconnecting the different regions.

The Company also holds, through its jointly-owned subsidiaries and associate company, the following concessions and permissions:

- **Hydraulic Generation**

Plants	Company	Company's Interest	River	Capacity in MW	Year of the Concession	Expiry Year
In service:						
HPP Dardanelos	Energética Águas da Pedra S.A.	24.5%	Aripuanã	261.000	2007	2042
Under construction:						
HPP Jirau	ESBR Participações S.A.	20%	Madeira	3,750.000	2008	2043
HPP Belo Monte	Norte Energia S.A.	15%	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:						
WP São Pedro do Lago	São Pedro do Lago S.A.	49%	São Pedro do Lago Bahia State	30.00	2011	2046
WP Pedra Branca	Pedra Branca S.A.	49%	Pedra Branca Bahia State	30.00	2011	2046
WP Sete Gameleiras	Sete Gameleiras S.A.	49%	Sete Gameleiras Bahia State	30.00	2011	2046
WP Junco I, II; Caiçara I, II	Under formation: Chesf/Voltália	49%	Jijoca de Jericoacoara e Cruz Ceará State	111.60	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 335km, and Silves/Lechuga 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 26km; Campina Grande III/ Campina Grande II transmission line, in 230 kV, with a length of 8,5 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 13 km; Garanhuns substation, 500/230 kV and Pau Ferro substation, 500/230 kV.	Interligação Elétrica Garanhuns S.A.	49.00%	2011	2041

3– PRESENTATION OF THE FINANCIAL STATEMENTS

The Company is presenting the Consolidated Financial Statements with its Individual 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-held subsidiaries, even when these entities disclose their consolidated statements.

Authorization to conclude these financial statements was granted by the Company's Board of Executive Officers on February 29, 2012, and forwarded to the Board of Directors.

The Individual Financial Statements are presented in accordance with the accounting practices adopted in Brazil, and the Pronouncements, the guidance and the interpretations of the Accounting Pronouncements Committee (CPC) and the standards issued by the Brazilian Securities Commission (CVM) in effect at December 31, 2011.

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 consolidated equity and profit, stated in the consolidated financial statements prepared in accordance with the IFRS and the accounting practices adopted in Brazil, and the parent company's equity and profit, stated in the individual financial statements, prepared in accordance with the accounting practices adopted in Brazil. Accordingly, the Company presents these individual and consolidated financial statements in a single format, side by side.

The financial statements for the year ended December 31, 2010 have been reclassified, where applicable, for purposes of better presentation and maintenance of uniformity in comparability. The comparison between the balances presented and balances reclassified for comparison purposes, is shown below:

	Parent			
	2011	2010		
		Reclassified	Adjustment	Published
Balance sheet				
Current assets				
Cash and cash equivalents	268,638	299,397	(962,306)	1,261,703
Trade receivables	745,277	856,975	856,975	-
Consumers, concessionaires and permittees	-	-	(942,314)	942,314
(-) Provision for impairment of trade receivables	-	-	85,339	(85,339)
Taxes and social contributions	12,898	26,175	26,175	-
Taxes and contributions recoverable	-	-	(191,311)	191,311
Marketable securities	917,439	965,124	962,306	2,818
Pledges and restricted deposits	11,003	12,003	12,003	-
Others	189,734	165,336	68,639	96,697
Services in course	-	-	(80,642)	80,642
Non-current assets				
Taxes and social contributions	566,303	484,958	484,958	-
Taxes and contributions recoverable	-	-	(11,280)	11,280
Assets and rights for sale	-	-	(11,107)	11,107
Pledges and restricted deposits	295,785	254,559	41,129	213,430
Judicial deposits	-	-	(41,129)	41,129
Tax credits	-	-	(308,542)	308,542
Financial asset – public service concessions	5,813,526	5,486,905	5,486,905	-
Indemnifiable financial asset	-	-	(3,970,371)	3,970,371
Financial asset - Authorized Annual Revenue	-	-	(1,516,534)	1,516,534
Others	40,697	21,516	11,107	10,409
Current liabilities				
Payroll	-	-	(13,713)	13,713
Taxes and social contributions	220,996	301,749	301,749	-
Taxes and social contributions	-	-	(301,749)	301,749
Borrowings	329,699	46,712	7,213	39,499
Debt charges	-	-	(7,213)	7,213
Consumer charges payable	162,554	136,137	89,551	46,586
Research and Development	-	-	(55,113)	55,113
Financial compensation for use of water resources	-	-	(34,438)	34,438
Others	77,317	38,758	13,713	25,045
Non-current liabilities				
Taxes and social contributions	81,113	54,959	54,959	
Taxes and social contributions	-	-	(10,282)	10,282
Tax debts	-	-	(44,677)	44,677
Consumer charges payable	167,190	165,699	134,555	31,144
Research and Development			(134,555)	134,555
Statement of Income				
Operating costs				
Personnel, material and third-party services	(390,416)	(399,738)	(399,738)	-

Personnel	-	-	326,896	(326,896)
Material	-	-	11,474	(11,474)
Third-party services	-	-	61,368	(61,368)
Operating expenses	(1,019,269)	(697,136)	(92,321)	(604,815)
Equity in the results of investees	58,813	31,253	31,253	-
Financial income (expenses)	(11,524)	259,700	(31,253)	290,953
Other income (expense)	-	-	1,080	(1,080)
Profit sharing	-	-	91,241	(91,241)

				Consolidated
	2011	2010		
		Reclassified	Adjustments	Published
Balance sheet				
Current assets				
Cash and cash equivalents	564,024	497,993	(962,306)	1,460,299
Trade receivables	752,450	864,142	864,142	-
Consumers, concessionaires and permittees	-	-	(949,481)	949,481
(-) Provision for impairment of trade receivables	-	-	85,339	(85,339)
Taxes and contributions	21,964	29,497	29,497	-
Taxes and contributions recoverable	-	-	(194,633)	194,633
Marketable securities	917,439	965,124	962,306	2,818
Pledges and restricted deposits	36,297	54,731	54,731	-
Services in course	-	-	(80,915)	80,915
Others	204,381	171,813	26,184	145,629
Non-current assets				
Taxes and contributions	660,150	545,737	545,737	-
Taxes and contributions recoverable	-	-	(11,280)	11,280
Assets and rights for sale	-	-	(11,113)	11,113
Pledges and restricted deposits	302.423	262.454	216.898	45.556
Judicial deposits	-	-	(216,898)	216,898
Tax credits	-	-	(329,080)	329,080
Financial asset – public service concessions	6,768,014	6,073,548	6,073,548	-
Indemnifiable financial asset	-	-	(3,982,522)	3,982,522
Financial asset - Authorized Annual Revenue	-	-	(2,105,996)	2,105,996
Others	53,888	37,527	(29,128)	66,655
Current liabilities				
Payroll	-	-	(14,286)	14,286
Taxes and social contributions	231,765	310,962	310,962	-
Taxes and social contributions	-	-	(310,962)	310,962
Borrowings	778,842	278,828	9,021	-
Debt charges	-	-	(9,021)	9,021
Consumer charges payable	162,554	137,697	90,876	46,821
Research and Development	-	-	(56,438)	56,438
Financial compensation for use of water resources	-	-	(34,438)	34,438
Others	83,292	48,903	14,286	34,617
Non-current liabilities				
Taxes and social contributions	110,016	75,148	75,148	-
Taxes and social contributions	-	-	(33,028)	33,028
Tax debts	-	-	(57,090)	57,090
Consumer charges payable	167,190	165,699	134,555	31,144
Research and Development			(134,555)	134,555
Statement of Income				
Operating costs				
Personnel, material and third-party services	(393,633)	(401,753)	(401,753)	-
Personnel	-	-	328,849	(328,849)
Material	-	-	55,894	(55,894)
Third-party services	-	-	135,795	(135,795)
Others	13,245	17,780	625	17,155
Construction cost	(943,268)	(624,446)	(121,380)	(503,066)
Operating expenses	(1,040,984)	(710,929)	(91,244)	(619,685)

Equity in the results of investees	**18,604**	**(330)**	**(330)**	**-**
Financial income (expenses)	(33,516)	229,755	1,231	228,524
Other income (expenses)	-	-	1,072	(1,072)
Profit sharing	-	-	91,241	(91,241)

4 - MAIN 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 Brazilian Corporation Law and in the Pronouncements, in the Guidance and in the Interpretations issued by the Brazilian Accounting Pronouncements Committee (CPC) and approved by CVM.

The individual financial statements present the evaluation of investments in jointly held enterprises using the equity method of accounting, in accordance with the Brazilian legislation in force. As such, these individual financial statements are not considered in compliance with IFRS, which require that these investments be accounted for in the parent company's separate financial statement 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 for 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 provided by the Brazilian Central Bank. Gains and losses arising from exchange rate changes upon 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 income for the year.

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

The consolidated financial statements include the financial statements of the Company and those of jointly-controlled specific purpose subsidiaries. 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-owned subsidiaries is recognized using the equity method of accounting.

According to 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 uses the equity of its investees on the financial statements prepared on the same date as of its own financial statements. If the investee's financial statements with the same date as that of the Parent's are not available, the Company uses financial statements with a time-lag 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-owned subsidiaries are adjusted to conform to the accounting policies established by the Company. All inter-company transactions, balances, revenues and expenses between the Company and the jointly-owned 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 is not a subsidiary or a jointly-controlled enterprise (joint venture). Significant influence is the power to participate in decisions about the financial and operating policies of the investee but not having individual or joint control over such policies.

The assets and liabilities of associates are included in the financial statements using 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 (expense).

4.5. Participation in joint ventures

A joint venture is an agreement whereby the Company and other parties perform 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 one of the parties holds a share are called jointly-owned subsidiaries.

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

The parent company's shares in jointly-owned subsidiaries are 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 satisfied 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 sales cost.

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 comprised:

Financial income arising from financial asset yields through the end of the concession period earned on *a pro rata basis* and which considers the project's rate of return.

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

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

4.8. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which take, necessarily, 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 income for the year when incurred.

4.9. Government grants

Government grants arising from tax incentives are recorded in income 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 used to increase share capital or possible absorption of losses.

4.10 Taxes

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 income for the year. Taxable income differs from the profit presented in the statement of income because it excludes revenues or expenses that are taxable or deductible in other years, in addition to excluding nontaxable or nondeductible items permanently. The provision for income tax and social contribution is calculated individually by 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 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 income, including the balance of tax losses when applicable. Deferred tax liability is usually recognized on all taxable temporary differences and the deferred tax asset is recognized on all deductible temporary differences, only when it is probable that the Company will present future taxable income in a sufficient amount so that such deductible temporary differences can be used.

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 income will be available to allow the recovery of the whole asset, or part of it, this asset 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 asset and deferred tax liability 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 income, except to the extent that they relate to items recognized in *other comprehensive income* or directly in equity, in which case current and deferred taxes are also recognized in *other comprehensive income* or directly in equity, respectively.

4.11. Property, plant and equipment

Property, plant and equipment is recorded at acquisition or construction cost, less accumulated depreciation. It includes mainly generation assets and administrative assets.

Environmental expenditures related to actions and programs carried out 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 income.

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 using 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 value of its assets to check whether there are any indications that the carrying amount 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 and 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 recoverable amount of an asset, or cash generating unit, is lower than its carrying value, the carrying value of the asset, or cash generating unit, is reduced to its recoverable value, and the difference is recognized in the statement of income.

According to the Company, there is no indication that the carrying amounts of its cash generating units or of its intangible assets will not be recovered in its future operations.

4.14. Inventories

Materials held in inventory, recorded in Current assets, as well as those 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 instruments are recognized at fair value plus, in the event 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, securities, financial investments, public utility concessions, other credits and derivative financial instruments through the jointly-owned subsidiaries classified as hedge instruments.

4.15.1.1. Subsequent measurement of financial assets

Subsequent measurement of the financial assets depends on their classification, which may 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 income.

- **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 using the effective interest method, less impairment. Amortized cost is calculated considering discount on acquisition and rates 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 financial capability to hold them through maturity. After initial measurement, the investments held through maturity are carried at amortized cost using 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 pay fully for 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

The Company's financial liabilities are classified as financial liabilities at fair value through profit or loss, as 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-owned 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 may 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 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 classified on initial recognition 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 income.

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 a 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 derecognition of the original liability and recognition of a new liability, and the difference between the corresponding amounts is recognized in the statement of income.

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-owned 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 were accounted for as financial instruments (hedge accounting).

The Company has not entered into derivative contracts for commercial or speculation purposes (note 39).

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

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 a cash flow hedge. Thus, gains or losses resulting from hedging instruments considered effective are recognized in other comprehensive income. The ineffective portion of such gains or losses is recognized in the income statement.

The amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to P&L for the year in which the hedged item is recognized in P&L.

The Company formally classifies and documents the list of hedges for which it wishes to use 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 subject of hedge, the nature of the risk subject 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 individual financial statements and as supplementary information to the consolidated financial statements, as it is not a statement foreseen in the IFRS.

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

Following are the IFRS standards, amendments to standards, issued by IASB, not yet in effect for the year ended 12/31/2011:

- IFRS 9 – Financial Instruments;
- IAS 24 – Related Party Disclosures;
- IAS 32 – Classification of Rights Issues;
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments;
- IFRIC 14 – Prepayments of a Minimum Funding Requirement;
- IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters;
- Improvements to the IFRS issued in 2011.

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 did not calculate the extent of the impact of these new standards on its financial statements.

Some technical pronouncements and interpretations issued by the CPC, were reviewed by that body, and their adoption is mandatory as from year 2011, 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 expense when the services that grant 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 made 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*, 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 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, given 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*, in the period in which they occur.

4.19. Earnings per share

Basic earnings per share is calculated by dividing the profit 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 means of 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 provided 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 set forth by applicable legislation.

4.21. Other accounting practices

a) Critical accounting estimates and accounting

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

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

- Provisions - Are 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 estimated reliably. Thus, the amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the date of the financial statements, taking into account 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. Actual results may differ from estimates.

- Impairment of long-lived assets - Management of the Company and its subsidiaries adopts variables and assumptions for impairment testing of long-lived assets so as to estimate the recoverable amount of the assets and recognize an impairment loss, if any. This involves Management judgment based on the experience with management of the asset, group of assets or cash-generating unit, which may not materialize in the future, including estimated useful life 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 used to determine future discounted cash flows to measure the impairment loss of long-lived assets. Such events include maintenance of power consumption levels, rate of growth of the country's economic activity, availability of water resources, in addition to those inherent in the expiration of the electricity concessions held by the Company, especially that relating to the reversal amount upon expiration of the concession. At this point, the assumption adopted is that an indemnity as set forth in the contract will be due, if applicable, at the residual amount at the end of the power generation and transmission concessions.

- Measurement basis for indemnity due by the concession authority for public service concessions - The Company adopts the assumption that the assets will be returned at the expiry of the concession contracts, with the right to receive in full an indemnity from the Concession Authority for investments not yet amortized. There is a discussion on legal and regulatory interpretation concerning the basis of measurement of the indemnity amount, with different opinions thereon. Based on the contractual provisions, interpretations of legal and regulatory aspects, and opinion of external legal counsel, the Company adopted the assumption that the amount of the indemnity will be the residual book value upon the expiry of the concession. This determination had an impact on the qualifying base of generation assets whose contracts contain an indemnity clause, and electricity transmission operations that were classified under the scope of ICPC 01(IFRIC 12).

- Actuarial obligations - Actuarial obligations are calculated by independent actuaries, and actual results may differ from the estimates used in these financial statements under variables, assumptions and conditions differing from those existing and used at the time of the judgment.

- Useful life of property, plant and equipment - The Company uses the criteria defined in Aneel Resolution 367, of June 2, 2009, to estimate the useful lives of the assets.

b) Cash and cash equivalents

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

c) Trade receivables

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

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

Financial investments in Treasury Bills (LFT) are held for trading in an exclusive investment fund, according to current regulation. Other securities, which constitute a small portion of this account, refer to Agrarian Debt Notes (TDA) and National Treasury Notes (NTN), 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 P&L, 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 power 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 asset – Authorized Annual Revenue and Indemnifiable financial asset

Financial asset receivable under electric power transmission concession contract 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 it 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.

h) Equity

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

i) Statement of income

Profit 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 34).

j) Financial income and expenses

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

4.22. CONSIDERATIONS SPECIFIC TO THE ELECTRIC POWER SECTOR

4.22.1 – Authorized Annual Revenue – RAP

The Authorized Annual Revenue - RAP defined in the Electric Power 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 annually adjusted by the IGP-M. RBNI is subject to 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 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 Power Utility Service

These 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 4.1019, 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 takeover of the Electric Power 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 power utility service and is limited to 3.0% of annual revenue. The RGR is administered by Eletrobras.

4.22.4. Alternative Energy Source 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 power production, benefiting entrepreneurs with companies independent of electric power generation, transmission, or distribution concessionaires. The program also aims at increasing the participation of companies in the Electric Power Sector.

4.22.5. Financial Compensation for Use 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 power 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 power plants, in accordance with the following formula: CFURH = TAR x GH x 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 power 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 power to end consumers. Its purpose is the apportionment of the costs related to the consumption of fuel for thermoelectric power generation in Isolated Systems, mainly in the Northern region of Brazil. The CCC amounts are set annually by Aneel, for each concessionaire, based on their market, and can vary according to the need to use the thermoelectric power plants. The CCC is managed by Eletrobras.

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 power generated from wind power sources, small hydroelectric power plants, biomass, natural gas and coal, in the areas served by interconnected electric systems; iii) offer electric power utility service throughout Brazil. The resources come 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 power 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 Extended Consumer Price Index (IPCA). It is managed by the Ministry of Mines and Energy and Eletrobras.

4.22.8. Research and Development (R&D)

Created by Law 9,991/2000, the R&D Program establishes that concessionaires and permittees of electric power generation and transmission utility service must annually invest at least one percent (1%) of net operating revenue in research and development of the Electric Power 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 Power Utility Service Inspection Fee (TFSEE)

Introduced by Law 9,427/1996, this fee is equivalent to 0.5% of the annual economic benefit accrued by concessionaires, permittees or authorized companies of the Electric Power Utility Service. Its annual amount is established by Aneel for the purpose of obtaining revenues to cover costs of its activities. For the generation and transmission sectors (independent producers, self-producers, concessionaires, permittees) 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. Reserve Electric Power Charge (EER)

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

4.22.11. Use of Public Assets

Corresponds to amounts established under hydraulic electric 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 does not recognize in its accounting regulatory assets and liabilities, since they did not meet the definition of assets and/or liabilities set out in the international accounting practices and 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 Deliberation 605/2009, and include the financial statements of Chesf, its associates and jointly-owned subsidiaries for equity method accounting and proportional consolidation purposes, as shown below:

	Chesf's direct interest	
Companies	11/30/2011	12/31/2010
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%	-

II) The Balance Sheets and Statements of Income of associates and jointly-owned 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 prepared on the same date as of the Parent's. However, also in accordance with said pronouncement, it is necessary to use financial statements with a time-lag of up to 30 days, with appropriate adjustments, in case of material events and transactions occurring between different dates of financial statements. Thus, we used the financial statements of associates and jointly-owned subsidiaries as of November 30, 2011. The adoption of this procedure had, in 2011, an immaterial effect of R$ 5,033 on P&L relating to one month (December), and therefore the comparability with the previous year is maintained.

III) Main consolidation practices:

a) Elimination of the investor's investments in the investees, against its interest in the respective equities;

b) Elimination of intercompany balances between the parent company and its jointly-owned subsidiaries, as well as the elimination of the accounts between these subsidiaries.

Pursuant to CVM Deliberation 408/2004, the consolidated financial statements include balances and transactions of the exclusive fund, of which the Company is the sole shareholder, 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	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Cash and bank deposits	3,306	9,541	52,594	10,693
Financial investments	265,332	289,856	511,430	487,300
Total	**268,638**	**299,397**	**564,024**	**497,993**

Cash and cash equivalents include cash in hand, bank deposits in cash, and high liquidity short-term investments. i.e., 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, with Banco do Brasil Distribuidora de Títulos e Valores Mobiliários S.A. – BB-DTVM, in accordance with specific legislation applicable to state-owned companies through Decree-Law 1,290, of 12/03/1973, and Resolution 3,284, of 05/25/2005, of the Brazilian Central Bank, which set forth new mechanisms for the investments of state-owned companies and mixed private/state economy companies that comprise the Indirect Federal Administration (note7). These operations have daily liquidity and low risk, and this year they received remuneration of 11.39%, corresponding to 98.19% of the CDI.

Short-term investments include repurchase commitments that have guarantee of daily repurchase by the financial institution at a rate previously agreed between the parties, and are backed by government bonds (Treasury Bills – LFT), with average return of DI CETIP ("CDI") and fixed rates.

7- MARKETABLE SECURITIES

	Parent and Consolidated				
Source	**Type of investment**	**Maturity**	**Remuneration**	**12/31/2011**	**12/31/2010**
Minority interest			Interest on capital / Dividends		
	Shares	-		42	42
	Provision for losses			(9)	(8)
				33	**34**
T.D.A.	-	Up to 2019	TR + 3% p.a.	**7,625**	**7,523**
Federal Treasury	NTN-Series P	07/09/2012	TR + 6% p.a.	373	358
	NTN-Series P	07/09/2014	TR + 6% p.a.	178	170
	NTN-Series P	12/28/2015	TR + 6% p.a.	332	318
				883	**846**
LFT	Exclusive fund	Up to 90 days	11,39% p.a.	**914,071**	**962,306**
TOTAL				**922,612**	**970,709**
Current				**917,439**	**965,124**
Non-current				**5,173**	**5,585**

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

The Agrarian Debt Bonds (TDA) result 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) result 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) and is classified according to the nature.

8- CONSUMERS, CONCESSIONAIRES AND PERMITTEES

Short-term and long-term receivables, arising from the sale of electric power and the availability of the transmission system, are as follows:

	Parent					
		Overdue			Total	
	Not yet due	Up to 90 days	More than 90 days	Total	12/31/2011	12/31/2010
Industrial consumers:						
Electric power sales – Contracts	70,550	4,653	78,234	**82,887**	**153,437**	**139,423**
Concessionaires and permittees:						
Electric power sales – Contracts	388,888	14,809	78,035	**92,844**	**481,732**	**591,861**
Sales at CCEE	29,091	-	-	-	**29,091**	**64,463**
Connection to the transmission system	7,792	705	13,256	**13,961**	**21,753**	**17,501**
Transmission system	140,610	1,964	19,144	**21,108**	**161,718**	**129,066**
(-)Provision for impairment of trade receivables	-	-	(102,454)	**(102,454)**	**(102,454)**	**(85,339)**
	636,931	**22,131**	**86,215**	**108,346**	**745,277**	**856,975**

	Consolidated					
		Overdue			Total	
	Not yet due	Up to 90 days	More than 90 days	Total	12/31/2011	12/31/2010
Industrial consumers:						
Electric power sales – Contracts	70,550	4,653	78,234	**82,887**	**153,437**	**139,423**
Concessionaires and permittees:						
Electric power sales – Contracts	388,888	14,809	78,035	**92,844**	**481,732**	**591,861**
Sales at CCEE	29,091	-	-	-	**29,091**	**64,463**
Connection to the transmission system	7,792	705	13,256	**13,961**	**21,753**	**17,501**
Transmission system	147,450	2,001	19,440	**21,441**	**168,891**	**136,233**
(-)Provision for impairment of trade receivables	-	-	(102,454)	**(102,454)**	**(102,454)**	**(85,339)**
	643,771	**22,168**	**86,511**	**108,679**	**752,450**	**864,142**

- **PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES**

	Parent and Consolidated			
	12/31/2010	Provision	Reversal	12/31/2011
Industrial consumers	**(81,084)**	(17,172)	106	**(98,150)**
Concessionaries and permittees	**(862)**	(782)	-	**(1,644)**
Others	**(3,393)**	-	733	**(2,660)**
Current	**(85,339)**	**(17,954)**	**839**	**(102,454)**

The Provision for Impairment of Trade Receivables is recognized at an amount considered sufficient by Management to cover probable losses on accounts receivable, which are judged to be unlikely for collection. It is calculated based on an individual analysis of past-due receivables in order to properly evaluate accounts that will likely remain uncollectible, considering Management's experience with actual losses, existence of collateral, among others.

- **RENEGOTIATED RECEIVABLES**

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

	Parent and Consolidated	
	12/31/2011	12/31/2010
Companhia Energética do Piauí S.A.	3,064	58,026
Ligas do Brasil S.A.	14,228	11,199
Celpa S.A.	4,975	-
Santana Têxtil	1,384	-
	23,651	**69,225**
(-) Provision for impairment of trade receivables	(14.228)	(11,199)
Total	**9,423**	**58,026**

The renegotiated electric power receivables have the following characteristics:

- **Companhia Energética do Piauí S.A. – Cepisa** – Eletrobras subsidiary – Agreement of Acknowledgment and Payment of Debt No. 001/2007, dated 07/01/2007, in the amount of R$ 121,569, payable in 52 monthly installments, beginning on 09/03/2007, monetarily restated based on the IGP-M plus interest of 1% per month.
- **Ligas do Brasil S.A. – Libra** – Debt Acknowledgement Agreement, dated 09/01/2004, by and 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 09/25/2004, monetarily restated based on the 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. In view of the Agreement signed between Chesf and Libra, this lawsuit was cancelled on 05/05/2010. This transaction, however, referred only to the invoices for electric power consumption maturing as from May 2010. Chesf filed a new Ordinary Collection Proceeding, with the 17th Lower Civil Court of this Capital City, Lawsuit No. 00282992-95.2010.8.17.0001, aimed at recovering the overdue receivables.

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

- **Celpa S.A.** - Agreement of Acknowledgment and Payment of Debt No. 011/2011, dated 12/09/2011, in the amount of R$ 7,380, payable in three installments restated based on the IPCA plus interest of 1% per month.
- **Santana Têxtil** - Agreement of Acknowledgment and Payment of Debt No. 010/2011, dated 12/07/2011, in the amount of R$ 1,823, payable in four installments restated based on the IGP-M rate plus interest of 1% per month.

9 – TAXES AND CONTRIBUTIONS

a) Breakdown

	Parent		Consolidated	
	12/31/2011	**12/31/2010**	**12/31/2011**	**12/31/2010**
Current				
Taxes recoverable	12,898	26,175	21,964	29,497
	12,898	**26,175**	**21,964**	**29,497**
Non-current				
Taxes recoverable	189,545	176,416	256,073	216,657
Deferred tax assets	376,758	308,542	404,077	329,080
	566,303	**484,958**	**660,150**	**545,737**
	579,201	**511,133**	**682,114**	**575,234**

b) Taxes recoverable

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Current				
IRPJ/CSLL	874	1,726	6,654	1,780
Withholding income tax	82	82	2,721	3,329
Finsocial	1,717	1,611	1,717	1,611
PIS/Pasep	1,613	2,018	1,633	2,020
Cofins	7,430	9,295	7,514	9,300
Others	1,182	11,443	1,725	11,457
	12,898	**26,175**	**21,964**	**29,497**
Non-current				
Withholding income tax	-	-	707	362
Finsocial	12,020	11,280	12,020	11,280
PIS/Pasep	-	-	11,741	7,115
Cofins	177,525	165,136	231,605	197,900
	189,545	**176,416**	**256,073**	**216,657**
	202,443	**202,591**	**278,037**	**246,154**

PIS/Pasep and Cofins – Unconstitutionality of the increase in 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 revenues of a legal entity, regardless of the type of activity carried out and the accounting classification adopted. Such paragraph was not supported by the Constitution and was subsequently amended.

This decision only benefits the companies that filed extraordinary appeals which have already been finally judged.

Based on the National Tax Code (CTN), the Company filed, in June 2005, an administrative appeal at the Brazilian Federal Revenue Service seeking recognition of the right of reimbursement of overpaid amounts resulting from the declaration of the unconstitutionality of the increase in the calculation basis of these taxes by the STF.

The aforementioned appeal was denied by the Brazilian Federal Revenue Service and the Company filed two ordinary lawsuits to recover these PIS/Pasep and Cofins credits.

The final and unappealable decision of the lawsuit to recover Cofins credits was favorable to the Company. Based on the opinion of its legal advisors on this lawsuit, whose judgment was final and unappealable, and on Ibracon's Technical Pronouncement 05/2009 and on CVM Deliberation 594/2009, the Company recognized in "taxes and contributions recoverable", the estimated amount of the credit claimed at the adjusted original amount, corresponding to R$ 177,525, which will be offset in the future against federal taxes payable by the Company, after the court informs the updated amount of this claim.

The lawsuit claiming PIS/Pasep credits for the period of February 1999 to November 2002 is waiting judgment by the 5th Regional Federal Court. The amount of the tax credit, not yet recognized, resulting from this lawsuit amounts through the end of 2011 to R$ 25,728.

c) deferred taxes

- **Income tax and social contribution**

The Company recognizes deferred tax assets in Non-current Assets, pursuant to Technical Pronouncements CPC 26 (IAS 1) and 32 (IAS 12), approved by CVM Deliberation 595 and 599, both of 09/15/2009, in the amount of R$ 376,758, resulting from temporary differences, as follows:

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Temporary differences				
. DNAEE Agreement 250/1985 – restated credit generated in 1994*	77,077	82,544	77,077	82,544
. Provision for contingencies	416,076	274,386	416,076	274,386
. Provision for impairment of trade receivables	102,454	94,714	102,454	94,714
. Provision for losses – studies and projects	10,882	42,039	10,882	42,039
. Scheduled Voluntary Termination Program	-	53,355	-	53,355
. Profit sharing	102,451	91,241	102,451	91,241
. Initial adjustments arising out of Law 11,638/2007	-	-	13,627	-
. Life insurance provision – Actuarial assessment	81,922	81,921	81,922	81,921
. Adoption of new practices - BRGAAP	714,357	430,075	714,357	430,075
. Other provisions	17,243	16,225	51,618	24,127
	1,522,462	**1,166,500**	**1,570,464**	**1,174,402**
Tax loss	**-**	**-**	**32,543**	**51,765**
Social contribution losses	**-**	**-**	**32,543**	**51,765**
Tax credits				
. Income tax on temporary differences	246,673	210,986	258,674	213,021
. Income tax on tax loss	-	-	8,087	13,067
. Social contribution on temporary differences	130,085	97,556	134,405	98,288
. Social contribution on loss carryforwards	-	-	2,911	4,704
Non-current	**376,758**	**308,542**	**404,077**	**329,080**

*Refers to income tax only.

Such tax effects include the application of the following rates: 9% for social contribution and for income tax; 6.25% for adjustments and reclassifications upon the adoption of the new accounting pronouncements – since they will affect the calculation of tax incentive -; and for other temporary differences the rate of 15% of the calculation basis, plus a 10% surtax, pursuant to 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, scheduled voluntary termination program, profit sharing, life insurance provision and adoption of new accounting practices (BRGAAP), will be used upon 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, terminations and withdrawals, payments to employees and changes in Post-Employment Benefits arising from the adoption of CPC 33 (IAS 19), approved by CVM Deliberation 600, of 10/07/2009, respectively.

Realization of these assets is estimated as follows:

	Parent (BRGAAP)	Consolidated (BRGAAP and IFRS)
2012	36,200	37,722
2013 to 2015	4,101	7,182
After 2015	336,457	359,173
	376,758	**404,077**

- **TRANSITION TAX REGIME (RTT)**

The Transition 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 made using the accounting methods and criteria defined by Law 6,404/1976, in effect until December 31, 2007. Accordingly, deferred income tax and social contribution, calculated on the adjustments arising from the adoption of the new practices established in Law 11,638/2007 and the standards mentioned before, 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 establishing the tax effects of the new accounting practices, aimed at reaching tax neutrality, enters into effect.

10–INVENTORIES

	Parent and Consolidated	
	12/31/2011	12/31/2010
Raw materials for electric power production	**6,511**	**7,235**
Material		
Warehouse	57,026	55,869
For sale	16,363	24,806
Others	2,845	1,375
	76,234	**82,050**
Purchases on progress	**1,979**	**1,980**
Advances to suppliers	**374**	**298**
	85,098	**91,563**

11 – PLEDGES AND RESTRICTED DEPOSITS

a) Breakdown

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Current				
Pledges and other restricted deposits	11,003	12,003	36,297	54,731
	11,003	**12,003**	**36,297**	**54,731**
Non-current				
Judicial deposits	267,930	213,430	269,401	218,368
Pledges and other restricted deposits	27,855	41,129	33,022	44,086
	295,785	**254,559**	**302,423**	**262,454**
	306,788	**266,562**	**338,720**	**317,185**

b) Judicial deposits

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Labor	114,121	108,044	114,122	108,044
Civil	80,701	60,233	82,171	61,703
Tax	73,108	45,153	73,108	48,621
	267,930	**213,430**	**269,401**	**218,368**

These amounts refer to lawsuits and administrative proceedings. Of the amount recorded at 12/31/2011 for the parent company, R$ 188,457 are directly related to the provisions for labor and civil lawsuits, whose likelihood of loss is probable, as shown in note 24.

c) Pledges and other restricted deposits

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Current				
Pledges for electric power actions	11,000	12,000	11,000	12,000
Letter of credit BB	-	-	25,283	-
Investments - time deposit	-	-	-	42,722
Others	3	3	14	9
	11,003	**12,003**	**36,297**	**54,731**
Non-current				
Letter of credit BNB	26,773	23,933	26,773	23,933
Contract collateral BNB	1,082	1,082	1,082	1,082
Reserve of contract BNDES	-	-	1,300	1,196
Letter of credit BB	-	-	3,867	1,761
Deposit for incentive of reinvestment	-	16,114	-	16,114
	27,855	**41,129**	**33,022**	**44,086**
	38,858	**53,132**	**69,319**	**98,817**

12– FINANCIAL ASSET – PUBLIC SERVICE CONCESSIONS

The Company has signed concession contracts in the electric power generation and transmission segment with the Concession Authority - the Federal Government represented by Aneel -, and all of the contracts, by segment, are quite 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.

Revenues and collection for electric power generation, through the definition of the price and the sale of electric power, is made by means of contracts signed with the distribution concessionaires, power booking and electric power supply contracts signed with industrial consumers directly served by the Company, contracts arising from electric power auctions held by the Electric Power Trading Chamber (CCEE), as well as through electric power sales and purchase auctions held by traders or free consumers. Potential differences between the electric power generated and the electric power 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 concessionaries guidelines on public utility services concession accounting classification and defines the general principles of recognition and measurement of rights and obligations related to the contracts of concession 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 to the concession which is used 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, either for free or for a charge.

ICPC 01 (IFRIC 12) is not applicable to the electric power generation business, and the infrastructure is maintained classified in Property, plant and equipment.

For the electric power transmission business ICPC 01 (IFRIC 12) is applicable through the use of the Financial Model.

In view of the adoption of these standards and as a result of the electric power 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-owned 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, 2011, the Company had R$ 4,245,062 receivable from the Concession Authority, related to the expected amount receivable at the end of the concessions (R$ 3,970,371, as of December 31, 2010). The amounts of the Financial assets - Authorized Annual Revenue receivable during the concession were recognized at the difference between the fair value of the assets built or acquired for the purpose of providing the concession services and the carrying value of the Financial assets – Indemnifiable financial assets expected to be received at the end of the concession period.

The fair value of the financial asset is calculated based on the cash flow of the contracts, which includes 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 expiry of the concession contract, restated by the corresponding internal return rate.

Changes in financial assets in 2011 were as follows:

Parent

Transmission	Balance	Changes			Balance
	12/31/2010	New	Updating	Amortization	12/31/2011
Indemnifiable financial asset	3,970,371	274,691	-	-	4,245,062
Financial asset – Authorized Annual Revenue	1,705,721	306,398	617,491	(802,691)	1,826,919
Total	**5,676,092**	**581,089**	**617,491**	**(802,691)**	**6,071,981**

Transmission	Consolidated				
	Balance	Changes			Balance
	12/31/2010	New	Updating	Amortization	12/31/2011
Indemnifiable financial asset	3,982,522	308,570	-	-	4,291,092
Financial asset – Authorized Annual Revenue	2,346,248	634,698	702,196	(873,998)	2,809,144
Total	**6,328,770**	**943,268**	**702,196**	**(873,998)**	**7,100,236**

13- OTHER ASSETS

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Current				
Advances to employees	19,125	16,849	19,344	16,869
Global Reversion Reserve	-	474	-	474
Loans to third parties	2,323	227	2,323	227
Sales in progress	7,889	7,898	7,891	7,898
Shutdowns in progress	18,098	29,353	18,233	29,489
Insurance premiums	2,914	3,084	8,023	7,261
Reimbursable expenses	4,432	3,263	4,432	3,263
Sales of assets and rights	1,473	1,486	1,473	1,488
Advances to suppliers	8,490	5,771	8,693	5,809
Advances to Eletropar	5,279	5,279	5,279	5,279
Dividends receivable	13,293	676	4,252	-
Services provided to third parties	6,335	4,144	21,556	4,144
Services in progress	92,244	80,642	93,354	80,915
Others	7,839	6,190	9,528	8,697
	189,734	**165,336**	**204,381**	**171,813**
Non-current				
Advances to Eletropar	1,456	1,456	1,456	1,456
FGTS – Company account	3,926	3,764	3,926	3,765
Insurance premiums	-	-	13,171	16,000
Assets intended for sale	12,122	11,107	12,128	11,113
Global Reversion Reserve	9,965	-	9,965	-
Others	13,228	5,189	13,242	5,193
	40,697	**21,516**	**53,888**	**37,527**
Total	**230,431**	**186,852**	**258,269**	**209,340**

14 - INVESTMENTS

Breakdown:

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
1. Ownership interests				
Associates				
· Energética Águas da Pedra S.A.	75,638	61,286	75,638	61,286
Jointly-controlled companies				
· STN - Sistema de Transmissão Nordeste S.A.	195,267	193,244	-	-
· Integração Transmissora de Energia S.A.	31,692	28,530	-	-
· Interligação Elétrica do Madeira S.A.	179,878	61,574	-	-
· ESBR Participações S.A.	554,408	412,001	-	-
· Manaus Transmissora de Energia S.A.	122,268	(18,187)	-	-
· Manaus Construtora Ltda.	6,392	5,949	-	-
· TDG - Transmissora Delmiro Gouveia S.A.	15,235	13,018	-	-
· Norte Energia S.A.	217,672	26,669	-	-
· Pedra Branca S.A.	1,737	158	-	-
· São Pedro do Lago S.A.	1,803	157	-	-
· Sete Gameleiras S.A.	1,850	158	-	-
· Interligação Elétrica Garanhuns S.A.	980	-	-	-
	1,404,820	**784,557**	**75,638**	**61,286**
Other ownership interests	535	550	535	550
	1,405,355	**785,107**	**76,173**	**61,836**
2. Other investment				
• Assets and rights for future use – Studies and projects	2,250	2,250	2,250	2,250
• Others	1,093	1,089	1,093	1,089
	3,343	**3,339**	**3,343**	**3,339**
Total	**1,408,698**	**788,446**	**79,516**	**65,175**

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 Power Sector, and as established by Law 10,438/2002, the Consortium AC Transmissão, made up of 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 ANEEL, entered into on February 18, 2004, for a concession term of 30 (thirty) 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 2011 totaled R$ 2,055. The Company also recorded equity in the results of this investee in the amount of R$ 28,314 in 2011.

Integração Transmissora de Energia S.A.

The Company has a partnership in the electric power transmission activity with the company Integração Transmissora de Energia S.A. -, established on 12/20/2005, and holds 12% of its capital. Its business purpose is the construction, implantation, operation and maintenance of the Electric Power 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, pursuant to the provisions of Concession Contract 002/2006 - ANEEL, entered into with the Concession Authority on 04/27/2006, through the aneel with a concession period of 30 years.

Integração Transmissora de Energia has an authorized capital of R$ 150 million, represented by registered common shares with no par value. The other stockholders of this company are: Fundo de Investments em Participações Brasil Energia – FIP, 51% and Eletronorte, 37%. Its commercial operations started on 05/30/2008. In 2011, the Company's equity in the results of this investee was R$ 3,095.

Energética Águas da Pedra S.A.

Energética Águas da Pedra S.A., established on 04/03/2007, is an associate of the Company in the electric power 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 power arising from new ventures, whose concession was subsequently granted within the Regulated Contracting Environment (ACR), for installation of the Dardanelos Hydroelectric Power Plant, with an estimated investment of R$ 738 million. The Dardanelos Hydroelectric Power Plant was installed 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 has been sold for the period from 2011 to 2041. The concession period of the venture is 35 years, beginning on 07/03/2007, which is the date on which Concession Contract 002/2007-MME-UHE DARDANELOS was executed. In 2011 the Company recorded positive equity accounting of R$ 18,604.

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 power 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, 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 works, pursuant to Concession Contracts 13/2009-ANEEL and 15/2009-ANEEL. In 2011, the Company made a contribution of R$ 107,432 to this associate and recorded positive equity in the results of this company of R$ 10,872.

ESBR Participações S.A.

The Company holds a 20% ownership interest in the company ESBR Participações S.A., established on 02/12/2009, an associate 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 made a partnership with the aforementioned companies to take part in Auction 005/2008-ANEEL, which has generated the Energia Sustentável do Brasil S.A. company, in order to obtain the concession and trading of the electric power generated by the Jirau Hydroelectric Power 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, and start-up of operations expected for 2013. The concession period of this venture is 35 years, beginning on 08/13/2008, the date on which Concession Contract 002/2008 - MME-UHE JIRAU was executed. In 2011, the Company made a contribution to this associate of R$ 142,800 and recorded equity accounting losses added to other comprehensive income (expense) in the amount of R$ 393.

Manaus Transmissora de Energia S.A.

This company was established on 04/22/2008 as a result of the Consortium Amazonas, for the implantation of the 500 kV Oriximiná (Pará State) – Itacoatiara (Amazonas State) transmission line, with a length of approximately 374 km, and Itacoatiara (Amazonas State) - Cariri (State of Amazonas) transmission line, with a length of approximately 212 km; 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%. The total budgeted investment is R$ 1,421 million, with start-up of operations expected for May 2012. In 2011, the Company recorded revenue from provision of services of R$ 1,722 under agreements entered into with this company. Also in 2011 Chesf made a capital contribution to this company in the amount of R$ 148,029 and recorded equity accounting losses added to other comprehensive income (expense) in the amount of R$ 7,574.

Manaus Construtora Ltda.

Manaus Construtora Ltda. was established on January 30, 2009. The Company is a partner in this company of 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. In 2011, the Company recorded positive equity in the results of R$ 8,875.

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 aneel on November 27, 2009, for the construction, implantation, operation and maintenance of electric power transmission facilities of the basic network of the National Interconnected System, particularly the São Luiz II - São Luiz III Transmission Line, in 230 kV, located in the State of Maranhão, Substations Pecém II, in 500 kV and Aquiraz II, in 230 kV, 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, date on which Concession Contract 004/2010 ANNEL was signed, with an expected investment of R$ 240 million. In 2011, the Company recorded positive equity in the results of the investee of R$ 2,217.

Norte Energia S.A.

The Company holds a 15% ownership interest in Norte Energia S.A. a company created on 07/21/2010 as a result of the winner consortium of Auction 006/2009-ANEEL, whose objective is the concession and sale of the electric power from the Belo Monte Hydroelectric Power 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 Economiários Federais – Funcef (5%), Belo Monte Participações S.A. (10.00%); and Amazônia Energia Participações S.A. (9.77%). The Belo Monte Hydroelectric Power 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, physical guarantee of 4,571 average MW and reservoir with 516 square kilometers. The concession period is thirty-five (35) years beginning on August 26, 2010. In 2011, the Company made capital contributions to this venture of R$ 192,000 and recorded negative equity in the results of the investee of R$ 997.

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 the companies Pedra Branca S.A., São Pedro do Lago S.A. and Sete Gameleiras S.A., created on October 7, 2010, originated -, which were the winners of Auction 007/2010-ANEEL, whose purpose was the contracting, in the Regulated Environment, of alternative power sources, of the electric power availability type. Supply is expected to begin in January 2013, with 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. Chesf holds an ownership interest of 49% in these companies and the other stockholder is Brennand Energia (51%). In 2011, the Company made capital contributions to these companies amounting to R$ 1,758, R$ 1,790 and R$ 1,850, respectively, and recorded negative equity in the results of these investees of R$ 179, R$ 144 and R$ 158, respectively.

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 power 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; 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; 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 thirty (30) years for transmission facilities that will compose the Basic Network and eighteen (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.

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 power 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 is thirty (30) years and concession award confirmation was published on October 6, 2011. The Company made in 2011 a capital contribution to this SPE in the amount of R$ 980.

Junco I, Junco II, Caiçara I and Caiçara II.

The Company, in a consortium with the French company Voltalia, won Aneel Auction 007/2011 held on December 20, 2011, the purpose of which was the purchase of electric power from new wind power generating facilities. The wind power plants are Junco I and II, with capacity of 30 MW each, and Caiçara I and II, with capacity of 30MW and 21MW, respectively, which will be constructed in the municipality of Jijoca de Jericoacoara, State of Ceará, and will represent total installed capacity of 111.6 MW and investment on the order of R$ 370.0 million. Start-up of operations is scheduled for January 2016. The Company and Voltalia will each own 49% and 51% of these four wind power projects through the SPEs that are being established.

Equity in the results of subsidiaries

Associates and jointly-owned subsidiaries	Ownership (%)	Investment	Equity of the investees	Income (Loss) of the investees as of 11/30/2011	Equity in the results of investees	Other comprehensive income (expenses)
Associate						
Energética Águas da Pedra S.A.	24.5	75,638	308,726	75,935	18,604	-
Jointly-owned subsidiaries						
STN – Sistema de Transmissão Nordeste S.A.	49.0	195,267	398,504	57,784	28,314	-
Integração Transmissora de Energia S.A.	12.0	31,692	264,102	25,792	3,095	-
Interligação Elétrica do Madeira S.A.	24.5	179,878	734,196	44,376	10,872	-
ESBR Participações S.A.	20.0	554,408	2,772,041	(18,230)	(3,646)	3,253
Manaus Transmissora de Energia S.A	19.5	122,268	627,014	(41,231)	(8,040)	466
Manaus Construtora Ltda.	19.5	6,392	32,782	45,513	8,875	-
TDG -Transmissora Delmiro Gouveia S.A.	49.0	15,235	31,092	4,524	2,217	-
Norte Energia S.A.	15.0	217,672	1,451,146	(6,647)	(997)	-
Pedra Branca S.A.	49.0	1,737	3,544	(365)	(179)	-
São Pedro do Lago S.A.	49.0	1,803	3,679	(294)	(144)	-
Sete Gameleiras S.A.	49.0	1,850	3,776	(322)	(158)	-
Interligação Elétrica Garanhuns S.A.	49.0	980	2,000	-	-	-

Changes in Investments

Associates and jointly-owned subsidiaries	12/31/2010	Capital increase	Equity in the results	Other comprehensive income	Dividends	12/31/2011
Associate						
Energética Águas da Pedra S.A.	61,286	-	18,604	-	(4,252)	75,638
Jointly-owned subsidiaries						
STN – Sistema de Transmissão Nordeste S	193,244	-	28,314	-	(26,291)	195,267
Integração Transmissora de Energia S.A.	28,530	-	3,095	-	67	31,692
Interligação Elétrica do Madeira S.A.	61,574	107,432	10,872	-	-	179,878
ESBR Participações S.A.	412,001	142,800	(3,646)	3,253	-	554,408
Manaus Transmissora de Energia S.A.	(18,187)	148,029	(8,040)	466	-	122,268
Manaus Construtora Ltda.	5,949	-	8,875	-	(8,432)	6,392
TDG -Transmissora Delmiro Gouveia S.A.	13,018	-	2,217	-	-	15,235
Norte Energia S.A.	26,669	192,000	(997)	-	-	217,672
Pedra Branca S.A.	158	1,758	(179)	-	-	1,737
São Pedro do Lago S.A.	157	1,790	(144)	-	-	1,803
Sete Gameleiras S.A.	158	1,850	(158)	-	-	1,850
Interligação Elétrica Garanhuns S.A.	-	980	-	-	-	980
TOTAL	**784,557**	**596,639**	**58,813**	**3,719**	**(38,908)**	**1,404,820**

Summary of the Financial Statements of the Associates and Jointly-owned subsidiaries

BALANCE SHEET

	2011								2010							
	Assets				Liabilities				Assets				Liabilities			
		Non-current								Non-current						
Companies	Current	Others	PP&E, intang. assets and investments	Total	Current	Non-Current	Equity	Total	Current	Others	PP&E, intang. assets and investments	Total	Current	Non-Current	Equity	Total
Energética Águas da Pedra	62,431	1,723	797,135	**861,289**	70,696	481,867	308,726	**861,289**	24,156	1,397	770,053	**795,606**	39,148	506,311	250,147	**795,606**
ESBR Participações	960,849	416,106	8,625,357	10,002,312	549,213	6,681,058	2,772,041	10,002,312	1,020,957	299,345	5,304,069	6,624,371	320,032	4,244,333	2,060,006	6,624,371
STN	157,937	520,576	847	**679,360**	29,101	251,755	398,504	**679,360**	151,915	520,798	3,847	**676,560**	24,820	257,365	394,375	**676,560**
Integração Transmissora de Energia	103,176	515,519	-	**618,695**	47,025	307,568	264,102	**618,695**	86,710	532,988	-	**619,698**	46,195	335,749	237,754	**619,698**
Interligação Elétrica do Madeira	154,030	1,477,496	331	**1,631,857**	869,739	27,922	734,196	**1,631,857**	19,641	600,913	284	**620,838**	364,455	5,062	251,321	**620,838**
Manaus Transmissora	100,693	1,357,311	-	**1,458,004**	816,587	14,403	627,014	**1,458,004**	53,796	660,271	-	**714,067**	779,801	27,532	(93,266)	**714,067**
Manaus Construtora	83,762	-	-	**83,762**	50,980	-	32,782	**83,762**	33,221	-	-	**33,221**	2,714	-	30,507	**33,221**
TDG	32,253	73,763	110	**106,126**	68,735	6,299	31,092	**106,126**	1,730	24,797	104	**26,631**	62	-	26,569	**26,631**
Norte Energia	407,209	34,448	2,468,397	**2,910,054**	1,313,891	145,017	1,451,146	**2,910,054**	81,512	27,880	202,871	**312,263**	147,076	-	165,187	**312,263**
Pedra Branca	1,099	14	23,364	**24,477**	20,929	4	3,544	**24,477**	264	-	74	**338**	15	-	323	**338**
São Pedro do Lago	919	18	24,367	**25,304**	21,625	-	3,679	**25,304**	245	-	93	**338**	16	-	322	**338**
Sete Gameleiras	1,011	14	26,418	27,443	23,667	-	3,776	27,443	254	-	86	340	16	-	324	340
Interligação Elétrica Garanhuns S.A.	2,000	-	-	**2,000**	-	-	2,000	**2,000**	-	-	-	**-**	-	-	-	**-**
Total	**2,067,369**	**4,396,988**	**11,966,326**	**18,430,683**	**3,882,188**	**7,915,893**	**6,632,602**	**18,430,683**	**1,474,401**	**2,668,389**	**6,281,481**	**10,424,271**	**1,724,350**	**5,376,352**	**3,323,569**	**10,424,271**

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

STATEMENT OF OPERATIONS

	2011								2010							
Companies	Net operating revenue	Operating expenses	Service result	Financial income (expenses)	Operating income (expenses)	Income tax and social contribution	Tax incentives	Profit (loss) for the year	Net operating revenue	Operating expenses	Service result	Financial income (expenses)	Operating income (expenses)	Income tax and social contribution	Tax incentives	Profit (loss) for the year
Energética Águas da Pedra	155,416	(61,819)	93,597	(12,666)	80,931	(4,996)	-	75,935	-	(1,920)	(1,920)	(88)	(2,008)	660	-	(1,348)
ESBR Participações	87	(32,095)	(32,008)	4,445	(27,563)	9,333	-	(18,230)	-	(31,588)	(31,588)	3,238	(28,350)	13,592	-	(14,758)
STN	114,658	(17,012)	97,646	(27,524)	70,122	(21,399)	9,061	57,784	124,521	(21,570)	102,951	(24,098)	78,853	(20,743)	9,769	67,879
Integração Transmissora de Energia	68,616	(10,342)	58,274	(26,146)	32,128	(10,746)	4,410	25,792	73,600	(13,953)	59,647	(30,061)	29,586	(11,422)	5,540	23,704
Interligação Elétrica do Madeira	875,174	(807,938)	67,236	-	67,236	(22,860)	-	44,376	508,244	(495,467)	12,777	(3)	12,774	(4,344)	-	8,430
Manaus Transmissora	695,086	(678,888)	16,198	(72,946)	(56,748)	15,517	-	(41,231)	416,562	(403,951)	12,611	(82,351)	(69,740)	23,683	-	(46,057)
Manaus Construtora	73,715	(21,024)	52,691	997	53,688	(8,175)	-	45,513	44,955	(10,194)	34,761	1,149	35,910	(5,404)	-	30,506
TDG	73,763	(71,062)	2,701	4,153	6,854	(2,330)	-	4,524	-	(688)	(688)	156	(532)	-	-	(532)
Norte Energia	-	(46,676)	(46,676)	37,645	(9,031)	2,384	-	(6,647)	-	(7,245)	(7,245)	3,878	(3,367)	1,144	-	(2,223)
Pedra Branca	-	(410)	(410)	61	(349)	(16)	-	(365)	-	(7)	(7)	(1)	(8)	-	-	(8)
São Pedro do Lago	-	(338)	(338)	59	(279)	(15)	-	(294)	-	(9)	(9)	-	(9)	-	-	(9)
Sete Gameleiras	-	(371)	(371)	65	(306)	(16)	-	(322)	-	(7)	(7)	-	(7)	-	-	(7)
Total	**2,056,515**	**(1,747,975)**	**308,540**	**(91,857)**	**216,683**	**(43,319)**	**13,471**	**186,835**	**1,167,882**	**(986,599)**	**181,283**	**(128,181)**	**53,102**	**(2,834)**	**15,309**	**65,577**

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

15 – PROPERTY, PLANT AND EQUIPMENT

a) Segregated by nature and activity

	Parent					
	Average annual depreciation rates (%)	12/31/2011				12/31/2010
		Cost	Accumulated depreciation	(-) Obligations linked to the concession	Net amount	Net amount
In service						
Generation	2.36%	18,020,392	(7,970,258)	(89,930)	9,960,204	9,986,324
Administration	7.46%	1,208,721	(659,315)	(32,712)	516,694	521,453
		19,229,113	**(8,629,573)**	**(122,642)**	**10,476,898**	**10,507,777**
Under construction						
Generation		564,568	-	-	564,568	409,324
Administration		132,401	-	-	132,401	91,759
		696,969	**-**	**-**	**696,969**	**501,083**
		19,926,082	**(8,629,573)**	**(122,642)**	**11,173,867**	**11,008,860**

	Consolidated					
	Average annual depreciation rates (%)	12/31/2011				12/31/2010
		Cost	Accumulated depreciation	(-) Obligations linked to the concession	Net amount	Net amount
In service						
Generation	2.36%	18,020,500	(7,970,272)	(89,930)	9,960,298	9,986,324
Administration	7.46%	1,209,552	(659,379)	(32,712)	517,461	521,776
		19,230,052	**(8,629,651)**	**(122,642)**	**10,477,759**	**10,508,100**
Under construction						
Generation		2,652,686	-	-	2,652,686	1,482,628
Administration		133,076	-	-	133,076	91,810
		2,785,762	**-**	**-**	**2,785,762**	**1,574,438**
		22,015,814	**(8,629,651)**	**(122,642)**	**13,263,521**	**12,082,538**

As of December 31, 2011 the Company's management tested its long-lived assets for impairment, 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.

In the evaluation process, the circumstances that may require the application of impairment tests on assets are identified, so as to determine the amount of potential losses. The cash generating unit is understood as the total of assets per segment (generation and transmission), 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 a current market evaluation of the currency value at the time and the specific risks of the asset for which the estimated future cash flows had 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 its recoverable amount is recognized in income.

The Company's management, supported by its concession contracts and by the opinion of independent legal advisor, considered the reversal of the residual net assets at the end of the electric power utility service concession based on the carrying value. It also considered the depreciation by taking into consideration the estimated useful life of the assets rather than the concession period, in view of the indemnity clause established in the contracts.

Although the Company does not have any indication of impairment, it performed the impairment test on the assets in service as of 12/31/2011, through discounted cash flows, and did not identify any impairment of these assets.

The costs of borrowings related to acquisition, construction or production are included in the costs of property, plant and equipment under construction until the date when they will be ready for their intended use, as established in CVM Deliberation 577, of 06/05/2009, which approved CPC 20 – Borrowing Costs (IAS 23).

b) Changes in property, plant and equipment

		Parent				
Description	**12/31/2010**	**Additions**	**Write-offs**	**Transfers**	**Service transf.**	**12/31/2011**
In service	18,863,819	-	(13,431)	1,655	377,070	19,229,113
Depreciation	(8,228,483)	(410,850)	9,776	(16)	-	(8,629,573)
Subtotal	**10,635,336**	**(410,850)**	**(3,655)**	**1,639**	**377,070**	**10,599,540**
Under construction	501,083	573,562	(533)	(73)	(377,070)	696,969
Total	**11,136,419**	**162,712**	**(4,188)**	**1,566**	**-**	**11,296,509**
Obligations linked to the Concession	(127,559)	4,917	-	-	-	(122,642)
Total	**11,008,860**	**167,629**	**(4,188)**	**1,566**	**-**	**11,173,867**

		Consolidated				
Description	**12/31/2010**	**Additions**	**Write-offs**	**Transfers**	**Service transf.**	**12/31/2011**
In service	18,864,158	192	(13,444)	1,413	377,733	19,230,052
Depreciation	(8,228,499)	(410,912)	9,776	(16)	-	(8,629,651)
Subtotal	**10,635,659**	**(410,720)**	**(3,668)**	**1,397**	**377,733**	**10,600,401**
Under construction	1,574,438	1,589,628	(542)	(29)	(377,733)	2,785,762
Total	**12,210,097**	**1,178,908**	**(4,210)**	**1,368**	**-**	**13,386,163**
Obligations linked to the Concession	(127,559)	4,917	-	-	-	(122,642)
Total	**12,082,538**	**1,183,825**	**(4,210)**	**1,368**	**-**	**13,263,521**

c) Annual depreciation rates

The Company calculates and accounts for depreciation by applying the rates established by aneel Resolution 367, of 06/02/2009, for the Units of Registration defined by aneel Ordinance 815, of 11/30/1994, in effect through 31/12/2011, in accordance with aneel Regulatory Resolution 422, of 12/07/2010.

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

	Annual depreciation rates (%)
Generation	
Floodgate	3.3
Reservoir	2.0
Power house	2.0
Generator	3.3
Command and measurement panel	3.0
Water turbine	2.5
Bridge crane, crane and portico	3.3
Gas-powered turbine	5.0
Central administration	
General equipment	10.0
Vehicles	20.0

d) Finance charges

According to 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	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
	Generation	Generation	Generation	Generation
Total finance charges	30,130	26,778	141,681	70,248
(-) Transfer to property, plant and equipment under construction	100	10	(108,113)	(43,137)
Net effect to income	**30,230**	**26,788**	**33,568**	**27,111**

e) Obligations linked to the Concession

Breakdown:

	Parent and Consolidated	
	12/31/2011	12/31/2010
Federal government funds	92,557	92,557
Donations and government investment grants	36.855	37,235
Research and Development	605	226
Reversals and amortizations	(7,375)	(2,459)
	122,642	**127,559**

Federal government funds refer to funds received from the Federal Government and invested in electric power generation and transmission works.

In view of their nature, the accounts recorded in this group are presented as reducers 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.

In accordance with Articles 63 and 64 of Decree 41,019/1957, assets and facilities used in the production, transmission, distribution and sale of electric power are restricted to these services and cannot be removed, sold, assigned or pledged as mortgage guarantee without the previous and express authorization of the Regulatory Agency. aneel Resolution 20/1999 regulates the release of electric power utility concession assets, granting prior authorization for the release of assets no longer serviceable to the concession, when intended for sale, and determining that the proceeds from the sale be deposited in a restricted bank account and invested in the Concession. The Company did not identify any material assets regarded as unserviceable in its operations.

16 – INTANGIBLE ASSETS

- **Intangible assets segregated by nature and activity**

Parent

	Average annual amortization rates (%)	12/31/2011 Cost	12/31/2011 Accumulated amortization	12/31/2011 Net amount	12/31/2010 Net amount
In service					
Generation	20%	-	-	-	199
Administration	20%	49,152	(35,442)	13,710	23,295
		49,152	**(35,442)**	**13,710**	**23,494**
In progress					
Generation		-	-	-	21
Administration		15,856	-	15,856	8,585
		15,856	**-**	**15,856**	**8,606**
		65,008	**(35,442)**	**29,566**	**32,100**

Consolidated

	Average annual amortization rates (%)	12/31/2011 Cost	12/31/2011 Accumulated amortization	12/31/2011 Net amount	12/31/2010 Net amount
In service					
Generation	20%	-	-	-	199
Administration	20%	49,775	(35,569)	14,206	23,944
		49,775	**(35,569)**	**14,206**	**24,143**
In progress					
Generation		41,641	-	41,641	17,954
Administration		16,277	-	16,277	9,699
		57,918	**-**	**57,918**	**27,653**
		107,693	**(35,569)**	**72,124**	**51,796**

- **Changes in intangible assets**

Parent

Description	12/31/2010	Additions	Write-offs	Service transf.	12/31/2011
In service	49,080	-		72	49,152
Amortization	(25,586)	(9,822)	-	(34)	(35,442)
Subtotal	**23,494**	**(9,822)**	**-**	**38**	**13,710**
In progress	8,606	7,250	-	-	15,856
Total	**32,100**	**(2,572)**	**-**	**38**	**29,566**

	Consolidated				
Description	**12/31/2010**	**Additions**	**Write-offs**	**Service transf.**	**12/31/2011**
In service	49,746	377	(611)	263	49,775
Amortization	(25,603)	(9,903)	-	(63)	(35,569)
Subtotal	**24,143**	**(9,526)**	**(611)**	**200**	**14,206**
In progress	27,653	30,543	(116)	(162)	57,918
Total	**51,796**	**21,017**	**(727)**	**38**	**72,124**

17 – TRADE PAYABLES

The Trade payables account is broken down as follows:

	Parent		Consolidated	
	12/31/2011	**12/31/2010**	**12/31/2011**	**12/31/2010**
Current				
Material and services	276,659	187,091	468,545	277,657
Charges from electricity network usage:				
Eletronorte	8,760	8,489	8,785	8,489
Eletrosul	7,835	6,614	7,835	6,614
Furnas	14,708	13,346	14,734	13,346
CTEEP	11,892	10,793	11,892	10,793
Cemig	-	3,411	-	3,411
Others	50,934	38,848	50,767	38,848
Total	**370,788**	**268,592**	**562,558**	**359,158**

18–TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

a) Breakdown

	Parent		Consolidated	
	12/31/2011	**12/31/2010**	**12/31/2011**	**12/31/2010**
Current				
Taxes payable	220,996	301,749	231,765	310,962
	220,996	**301,749**	**231,765**	**310,962**
Non-current				
Taxes payable	13,443	10,282	26,300	18,058
Deferred tax liabilities	67,670	44,677	83,716	57,090
	81,113	**54,959**	**110,016**	**75,148**
	302,109	**356,708**	**341,781**	**386,110**

b) Taxes payable

Current and non-current taxes payable are as follows:

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Current				
IRPJ	15,264	78,724	19,069	81,432
CSLL	76,640	121,908	79,558	124,235
Cofins	33,482	31,975	33,656	32,151
ICMS	12,213	10,537	11,366	12,066
INSS	17,417	18,531	18,224	19,195
PIS/Pasep	7,268	6,941	7,419	6,979
IRRF	43,923	20,123	44,184	20,421
FGTS	5,071	5,006	5,132	5,044
Others	9,718	8,004	13,157	9,439
	220,996	**301,749**	**231,765**	**310,962**
Non-current				
IRPJ	-	-	7,934	5,464
CSLL	-	-	2,857	1,967
Deferred ICMS	13,443	10,282	15,508	10,282
Others	-	-	1	345
	13,443	**10,282**	**26,300**	**18,058**
	234,439	**312,031**	**258,065**	**329,020**

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 Deliberations 595 and 599, both of 09/15/2009, the Company recognizes in Non-current liabilities the entire amount of its tax debts, of R$ 67,670, resulting from temporary differences, as follows:

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Temporary differences				
Derecognition of regulatory assets and liabilities	-	6,241	-	6,241
Initial adjustments arising from CPC 33	296,071	174,836	296,071	174,836
Initial adjustments arising from ICPC 01	147,665	111,890	192,346	148,399
	443,736	**292,967**	**488,417**	**329,476**
Tax debts				
Income tax on temporary differences	27,734	18,310	38,047	27,438
Social contribution on temporary differences	39,936	26,367	45,669	29,652
Non-current	**67,670**	**44,677**	**83,716**	**57,090**

These tax effects include 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, according to 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), respectively.

The realization of these liabilities is estimated as shown below:

	Parent (BRGAAP)	Consolidated (BRGAAP and IFRS)
2015	22,519	22,519
After 2015	45,151	61,197
	67,670	**83,716**

19– BORROWINGS

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

a) Breakdown:

	Parent					
	12/31/2011					12/31/2010
	Current			Non-current	Total	Total
	Principal	Charges	Total	Charges		
Eletrobras	21,267	-	21,267	121,753	143,020	153,941
Banco do Brasil	249,966	7,561	257,527	-	257,527	257,133
Banco do Nordeste	48,598	2,307	50,905	340,396	391,301	282,152
Total	**319,831**	**9,868**	**329,699**	**462,149**	**791,848**	**693,226**

Of the total borrowings obtained from Eletrobras, the amount of R$ 127,953 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 amount of R$ 15,067 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 used to finance works of the Company's transmission systems.

The borrowing from Banco do Brasil S.A. is secured through offset and assignment of receivables, should it be demanded by the creditor.

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 repayment, in addition to a liquidity fund of a reserve account, offered as additional guarantee, which is equivalent to three installments of the borrowing.

b) Breakdown of borrowings according to index:

	12/31/2011		12/31/2010	
Index	**R$**	**%**	**R$**	**%**
Fixed rate (1)	142,484	17,99	153,366	22,13
Fixed rate (2)	373,207	47,13	272,240	39,27
Fixed rate (3)	18,094	2,28	9,912	1,43
Fixed rate (4)	257,527	32,52	257,133	37,09
IPCA (5)	536	0,08	575	0,08
Total	**791,848**	**100,00**	**693,226**	**100,00**

(1) Of the total amount obtained from Eletrobras, R$ 142,484 arise from the Global Reversion Reserve (RGR), collected from the Electric Power System to be reinvested in the sector itself. Of this total, R$ 127,418 (89.43%) bear interest of 5% p.a. and administration fee of 2% p.a., and R$ 15,066 (10.57%), bear interest of 5% p.a. and administration fee between 0 and 1.5% p.a., respectively. These borrowings have no monetary restatement as they are linked to the same restatement system as Permanent assets, which is suspended by law;
(2) Agreements with Banco do Nordeste do Brasil S.A., subject to interest of 10% p.a., and a 2.5% bonus for timely repayment;
(3) Agreements with Banco do Nordeste do Brasil S.A., subject to interest of 4.5% p.a.;
(4) Agreements with Banco do Brasil S.A., subject to interest of 105.7% p.a. of the average CDI (Interbank Deposit Certificate) rate.;
(5) Agreement with Eletrobras, bearing interest of 7.2% p.a. – the IPCA variation for the period was 6.5% (5.9% in the same period of the previous year).

c) The principal amount of long-term borrowings, in the amount of R$ 462,149 (R$ 646,514 in 2010), matures as follows:

	12/31/2011	12/31/2010
2012	-	300,389
2013	67,485	50,976
2014	67,485	50,976
2015	67,398	50,888
2016	67,288	50,778
2017	65,171	50,222
After 2017	127,322	92,285
Total	**462,149**	**646,514**

d) Borrowings are subject to the following interest rates:

	Domestic market (% p.a.)
Fixed rates	
12/31/2011	4.50 to 7.50
12/31/2010	5.00 to 7.50
Floating rates	
12/31/2011	10.87
12/31/2010	11.25

e) Changes in borrowings:

	Local currency	
	Current	**Non-current**
As of December 31, 2009	**120,277**	**543,169**
New borrowings	-	147,210
Finance charges	61,729	-
Monetary and exchange variation	16	14
Transfers to current liabilities	43,879	(43,879)
Payment of principal and charges	(179,189)	-
As of December 31, 2010	**46,712**	**646,514**
New borrowings	-	138,732
Finance charges	65,126	-
Monetary and exchange variation		7
Transfers to current liabilities		(323,104)
Payment of principal and charges		-
As of December 31, 2011	**329,699**	**462,149**

f) Breakdown of consolidated borrowings:

	12/31/2011			12/31/2010
	Current	**Non-current**	**Total**	**Total**
Chesf	329,699	462,149	791,848	693,226
STN – Sistema de Transmissão Nordeste S.A.	5,654	107,258	112,912	118,961
Integração Transmissora de Energia S.A.	4,473	32,242	36,715	39,764
ESBR Participações S.A.	-	1,314,042	1,314,042	826,716
Manaus Transmissora de Energia S.A.	98,880	-	98,880	114,231
Interligação Elétrica do Madeira S.A.	106,143	-	106,143	88,937
Norte Energia S.A.	168,044	-	168,044	19,692
TDG–Transmissora Delmiro Gouveia S.A.	33,571	-	33,571	-
São Pedro do Lago S.A.	10,576	-	10,576	-
Sete Gameleiras S.A.	11,575	-	11,575	-
Pedra Branca S.A.	10,227	-	10,227	-
Total	**778,842**	**1,915,691**	**2,694,533**	**1,901,527**

Of the borrowings, which are components of the consolidated financial statements, are those obtained by the company Energia Sustentável do Brasil S.A., a subsidiary of jointly-controlled company ESBR Participações S.A., in the total amount of R$ 6,570,210, in which the Company's share of 20% corresponds to R$ 1,314,042. Following are the details of these borrowings:

Creditor / Subject matter	**Currency**	**Charges**	**Maturity**	**12/31/2011**	**12/31/2010**
BNDES	R$	TJLP+2.08%	Jan/2033	3,292,203	2,080,453
Banco do Brasil	R$	TJLP+2.65%	Jan/2033	923,625	581,899
Caixa Econômica Federal	R$	TJLP+2.65%	Jan/2033	923,625	581,899
Bradesco BBI	R$	TJLP+2.65%	Jan/2033	665,014	418,968
Itaú BBA	R$	TJLP+2.65%	Jan/2033	623,441	392,782
Banco do Nordeste	R$	TJLP+2.65%	Jan/2033	175,491	110,562
				6,603,399	**4,166,563**
Borrowing costs				(33,189)	(32,981)
Non-current				**6,570,210**	**4,133,582**

20 – DEBENTURES

	Interest rate	Maturity	Consolidated 12/31/2011	Consolidated 12/31/2010
Debentures	106.5% CDI	9/15/2012	105,492	-
			105,492	**-**

In September 2011 the Company's jointly-owned subsidiary, Interligação Elétrica do Madeira S.A., issued 420 debentures of a single series, in the unit value of R$ 1 million, bearing interest of 106.5% of CDI rate and maturity for September 15, 2012. The Company's interest of 24.5% of the balance of R$ 430,580 corresponds to R$ 105,492. These debentures are estimated to be entirely redeemed with funds from BNDES long-term financing.

21 – OTHER LIABILITIES

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Current				
Aneel inspection fee	1,788	959	1,887	959
Post-employment benefit –regular contribution	9,317	11,179	9,317	11,179
Acquisition of real properties – camp	1,493	1,493	1,493	1,493
MME agreement	4,210	5,999	4,210	5,999
Collateral security	3,313	2,293	3,313	2,293
Chesf/Senai settlement agreement	759	628	759	628
Insurance entity	58	300	58	5,239
Acquisition of Pirapama II Substation connection	22,314	-	22,314	-
Payroll	14,362	13,713	15,710	14,286
Environmental compensation	13,640	-	13,640	-
Others	6,063	2,194	10,591	6,827
	77,317	**38,758**	**83,292**	**48,903**
Non-current				
FGTS – Company account	3,926	3,764	3,926	3,764
Eletropar	1,456	1,456	1,456	1,456
Others	-	-	5,926	6,734
	5,382	**5,220**	**11,308**	**11,954**
Total	**82,699**	**43,978**	**94,600**	**60,857**

22–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 system of Fachesf is the capitalization system and the Plan originally established is of the Defined Benefit type (BD Plan). On 06/29/2001, 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, reaching 97.1% of the participants.

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

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

The commitments referring to the Pension Plans, pursuant to CVM Deliberation 600/2009, at 12/31/2011, are detailed below:

PENSION PLAN

- **Basic characteristics**

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

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

The Defined Contribution Retirement 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 Benefit Plan to the Defined Contribution Retirement Plan 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 Retirement 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**

	12/31/2011			12/31/2010		
AGE CHARACTERISTICS	**BD Plan**	**BS Plan**	**CD Plan**	**BD Plan**	**BS Plan**	**CD Plan**
1. Active participants						
1.1. Number of participants	48	2,038	5,298	58	2,262	5,705
1.2. Average age	58.2	56.3	49.4	57.8	55.6	48.9
1.3. Credited service (total)	32.9	31.3	22.2	32.6	30.5	21.9
1.4. Time to retirement	3.1	4.5	11.2	2.7	4.6	12.3
1.5. Average salary in R$	8,929.38	1,888.55	8,761.62	9,304.07	9,100.72	7,403.99
2. Retirees						
2.1. Number of retirees	4,933	433	550	5,017	297	350
2.2. Average age	68.7	61.7	61.6	67.9	61.3	61
2.3. Average benefit in R$	3,137.50	2,700.47	1,072.42	2,715.32	2,521.07	668.06
3. Pensioners						
3.1. Number of pensioners	1,556	95	164	1,529	91	146
3.2. Average age	64.7	50.6	49.7	72.9	50.4	48.8
3.3. Average benefit in R$	1,109	899	791	958	680.99	575
Total population	6,537	2,566	6,012	6,604	2,650	6,201

- **Actuarial and Financial Assumptions**

General mortality table	AT 2000
Disability table	Light F
Disability mortality table	AT 83
Turnover table / rate	Zero
Actuarial interest rate	5.39%
Projected inflation rate	4.50%
Short-term return rate	10.13%
Actual salary increase rate	2% p.a.
Capacity factor of benefits	1
Salary capacity factor	1
Actual benefit evolution rate	0%
% married employees on the retirement date	95%
Age difference between men and women	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, given the age characteristics of the populations 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**

	12/31/2011	12/31/2010
Active participants		
Number of participants	3,580	3,717
Average age	52.4	52.9
Inactive participants		
Number of participants	3,840	4,174
Average age	69	67.96
Eligible post-employment population	**5,483**	**5,367**
Actual population	**3,840**	**4,174**
Adhesion rate (%)	**70.03%**	**77.77%**
Pure premium calculated/1,000	**0.0012334**	**0.0014248**
Premium paid/1,000	**0.0010279**	**0.0010780**

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 occurred in other comprehensive income (expense) in accordance with CPC 33 and IAS 19.

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**	**4,063,478**
Cost of service (b)	1,560	17,392	28,027	1,007	47,985
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)/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 the assets at the beginning of the year (b)	2,131,948	957,014	1,098,580	-	4,187,542
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	449	53,491	-	60,768
Benefits paid / advanced (l)	(218,041)	(15,470)	(8,278)	-	(241,789)
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 end of the year (o) = (h) + (i) + (j) + (k) + (l) + (m) + (n)	2,407,964	1,025,085	1,278,050	-	4,711,099
STATE OF COVERAGE AT THE END OF THE YEAR (p) = (o) – (g)	**(255,835)**	**249,819**	**(5,883)**	**(82,887)**	**(94,786)**
Shares to offset – CD Plan (q)	-	-	5,883	-	5,883
Restriction on recognition of assets – Rule 58 - IAS 19 (r)	-	(249,819)	-	-	(249,819)
OBLIGATIONS AT THE END OF THE YEAR	**(255,835)**	**-**	**-**	**(82,887)**	**(338,722)**
OBLIGATIONS AT THE END OF THE YEAR AND AGREEMENTS	**(289,506)**	**-**	**(9,167)**	**(82,887)**	**(381,560)**

BENEFIT PLANS AS OF 12/31/2010

	2010				
	BD Plan	BS Plan	CD Plan	Insurance	Consolidated
CHANGES IN THE OBLIGATIONS					
Benefit Obligations Projected at the Beginning of the Year (a)	**2,073,473**	**642,135**	**622,207**	**81,922**	**3,419,737**
Cost of service (b)	1,490	14,839	15,226	128	31,683
Cost of interest (c)	197,886	66,118	67,606	7,935	339,545
Benefits paid/advanced (d)	(202,591)	(12,135)	(9,124)	-	(223,850)
Acquisition of shares – CD Plan (e)	-	-	329,786	-	329,786
Actuarial (gains) or losses (f)	123,948	46,244	-	(3,615)	166,577
Benefit Obligations Projected at the End of the Year (g)= (a) + (b) + (c) + (d) + (e) + (f)	**2,194,206**	**757,201**	**1,025,701**	**86,370**	**4,063,478**
CHANGES IN THE FINANCIAL ASSETS					
Fair value of assets at the beginning of the year (h)	2,323,390	642,135	622,207	-	3,587,732
Expected return on investments (i)	286,465	59,517	79,372	-	425,354
Employer's contributions (j)	4,855	1,901	48,195	-	54,951
Participants' contributions (k)	6,557	282	46,896	-	53,735
Benefits paid/advanced (l)	(202,591)	(12,135)	(9,124)	-	(223,850)
Actuarial gains (losses) (m)	(286,728)	265,315	-	-	(21,413)
Offset of shares (n)	-	-	311,033	-	311,033
Fair value of the assets at the beginning of the year (o) = (h) + (i) + (j) + (k) + (l) + (m) + (n)	2,131,948	957,015	1,098,579	-	4,187,542
STATE OF COVERAGE AT THE END OF THE YEAR (p) = (o) – (g)	**(62,258)**	**199,814**	**72,878**	**(86,370)**	**124,064**
Shares to offset – CD Plan (q)	-	-	(72,878)	-	(72,878)
Restriction to recognition of assets – Rule *58* – IAS 19 (r)	-	(199,814)	-	-	(199,814)
OBLIGATIONS AT THE END OF THE YEAR	**(62,258)**	-	-	**(86,370)**	**(148,628)**
OBLIGATIONS AT THE END OF THE YEAR AND AGREEMENTS	**(261,607)**	-	**(14,714)**	**(86,370)**	**(362,691)**

PERIODIC COST, NET

	2011				
	BD Plan	BS Plan	CD Plan	Insurance	Consolidated
PERIODIC COST COMPONENTS					
Cost of service	(5,268)	16,943	(25,464)	1,007	(12,782)
Cost of interest	210,893	78,659	114,285	5,132	408,969
Expected return on investments	(220,359)	(101,420)	(118,509)	-	(440,288)
COST OF BENEFITS IN THE PERIOD	**(14,734)**	**(5,818)**	**(29,688)**	**6,139**	**(44,101)**

PROJECTED COST OF THE BENEFITS

	2012				
	BD Plan	BS Plan	CD Plan	Insurance	Consolidated
PERIODIC COST COMPONENTS					
Cost of service	501	8,091	74,210	1,247	84,049
Cost of interest	264,572	64,614	119,839	8,399	457,424
Participants' contributions	(7,520)	(494)	(37,126)	-	(45,140)
Expected return on the financial assets	(233,820)	(102,374)	(129,488)	-	(465,682)
COST OF BENEFITS IN THE PERIOD	**23,733**	**(30,163)**	**27,435**	**9,646**	**30,651**

PROJECTED FLOW OF BENEFIT PAYMENTS

	BD Plan	BS Plan	CD Plan	Insurance	Consolidated
PROJECTED CASH FLOW					
Regular employer's contributions – 2012	6,311	-	37,105	-	**43,416**
Benefit payments					
2012	219,490	32,684	74,462	2,394	**329,030**
2013	219,698	36,562	89,930	2,932	**349,122**
2014	219,856	40,347	109,051	3,087	**372,341**
2015	219,861	44,139	129,671	3,299	**396,970**
2016	219,560	47,744	150,570	3,518	**421,392**
2017-2021	1,079,401	272,812	1,036,934	21,014	**2,410,161**

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

Description	Pension Plans	Insurance	Total
Prior balance	(308,157)	(56,331)	(364,488)
Actuarial gains and losses	(238,654)	9,621	(229,033)
(-) IRPJ/CSLL	36,394	(1,467)	34,927
Current balance	**(510,417)**	**(48,177)**	**(558,594)**

ACTUARIAL LIABILITIES OF THE PENSION PLANS CONTRACTED

As of December 31, 2011 the Company has an actuarial liability recorded pursuant to CVM Deliberation 600/2009, corresponding to contracts signed with Fachesf in the amount of R$ 298,672 (R$ 276,321, in 2010).

TYPE	12/31/2011	12/31/2010
Contract CF 01.1.266-017-A/8	289,505	261,607
Contract CF 03.1.337-013	9,167	14,714
TOTAL	**298,672**	**276,321**

The agreement entered into between the parties contains 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. In 2011, the cost of these benefits to the Company was R$ 135,330 (R$ 118,054 in 2010).

23 – SCHEDULED VOLUNTARY TERMINATION PROGRAM – PDVP

The Company approved in 2009 a termination program for employees who were eligible for retirement and opt to adhere to the program on a voluntary basis. The program is called Scheduled Voluntary Termination Program (PDVP) and the deadline for the resignations until February 28, 2011.

The PDVP expenses included financial incentives, FGTS fine, prior notice indemnity, the maintenance of the Employer's Assistance Program (PAP) for a 12-month period from the termination date, among other expenses.

During the life of the program, which terminated in the first quarter, 1,806 employees adhered to the program, with 397 resignations and 1,409 gave up the adhesion to the plan. In 2011 the payment under this caption amounted to R$ 53,355.

24–TAX, CIVIL, LABOR AND ENVIRONMENTAL RISKS

	Parent			
	Provision as of 12/31/2010	Additions (reversals)	Write-offs	Provision as of 12/31/2011
Labor	102,811	16,874	(9,964)	109,721
Civil	634,723	175,661	(7,187)	803,197
Tax	10,631	-	-	10,631
Total	**748,165**	**192,535**	**(17,151)**	**923,549**

	Consolidated			
	Provision as of 12/31/2010	Additions (reversals)	Write-offs	Provision as of 12/31/2011
Labor	102,835	16,874	(9,964)	109,745
Civil	635,436	175,661	(7,187)	803,910
Tax	10,853	-	-	10,853
Total	**749,124**	**192,535**	**(17,151)**	**924,508**

Chesf and its jointly-owned subsidiaries are parties to tax, civil and labor lawsuits and administrative proceedings in course 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:

- For the legal cases in which an unfavorable outcome is regarded as ***probable***, provisions are set up;
- 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 premium, overtime, contributions to Fachesf on a joint liability basis with the sponsor; and severance indemnities arising from the default of outsourced companies.

Most significant civil cases refer to compensation claims, expropriations and the financial restructuring of agreements.

In the Tax area, there are disputes basically involving annulment actions against tax delinquency 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 main cases for which an unfavorable outcome is regarded as ***probable*** are the following:

1.1) Parent Company

1.1.1) Chesf filed a lawsuit claiming partial annulment of the amendment (K Factor of Analytical Price Adjustment) to the civil works agreement of the Xingó Hydroelectric Power Plant, entered into with the Consortium made up of 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 it should be heard by the State Court of Pernambuco. The Company's claim was deemed groundless. The counterclaim filed 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 of the principal claim and related decisions thereon, which may 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 case, 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 deemed groundless the declaratory action filed by Chesf and considered the counterclaim filed by the defendants, valid. In this judgment, the STJ reduced substantially the amount of attorney's fees and court costs. The parties have not yet been notified of these decisions, which may still be subject to appeals.

In November 1998, the defendants filed a request for injunction aiming at the provisional enforcement of the decision, in the amount of R$ 245 million, at which time the case was suspended by determination of the STJ (PET 1621). The Consortium filed a Special Appeal according to Specific Court Regulations against such injunction, and the decision was rendered on 06/24/2002, unanimously maintaining the STJ injunction, and the Consortium didn't obtain the early relief to receive the enforcement amount.

Subsequently, the defendants requested award calculation to the 12th Lower Civil Court of Recife in order to obtain the judgment amount, in the event all appeals filed by Chesf and the Federal Government were rejected.

The judge of the 12^{th} Lower Civil Court recognized the jurisdiction of the Federal Courts as the competent ones to judge the case, considering the participation of the Federal Government as an interested party in the lawsuit. Xingó Consortium filed a motion for clarification of judgment against this decision, and the Appeals Court of Pernambuco changed this decision determining that the jurisdiction to judge the award calculation proceeding lies with the State Courts. Chesf and the Federal Government filed special and extraordinary appeals against this decision of the Appeals Court of Pernambuco, but in October 2010 these appeals were judged unfavorable for Chesf and the Federal Government, except for the reduction of the attorney's fees payable by the Consortium. The corresponding judgment will be published on March 31, 2011.

Subsequently, the Deputy 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, under the argument that the subject matter was still awaiting judgment by STJ. Against this decision, Xingó Consortium filed a bill of review at the Appeals Court of Pernambuco. On 05/26/2011, the 6th Civil Panel of Judges of the Appeals Court of Pernambuco converted the motion for clarification of judgment into an appeal and allowed it to proceed. Against such decision, Chesf filed a motion for clarification of judgment, which is still awaiting judgment. On 31/12/2011 a motion for clarification of judgment filed by Xingó Consortium against the STJ judgment on the amount of the case and the unsuccessful party's court costs and attorneys' fees, was still awaiting judgment, for which Chesf presented its statement of arguments. The motion for clarification of judgment filed by Chesf, as mentioned above, is also still awaiting judgment by the Appeals Court of Pernambuco.

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, management maintains a provision in Non-current Liabilities in the amount of R$ 460,887 as of December 31, 2011, to cover potential losses resulting from this issue. Such provision corresponds to the partial disallowance of the K Factor between July 1990 and December 1993, in compliance with Law 8,030/1990, and full suspension of payment of the K Factor from January 1994 to January 1996, based on the Company's understanding.

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

1.1.2) 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. On 03/31/2009 the court records were transferred to the Federal Courts because the Federal Government was included in the case as an interested third-party. On 09/30/2009, Chesf had not been notified in relation to the redistribution of the court records. On 06/30/2011 an appeal filed by Chesf at the Federal Regional Court was partially accepted, and the plaintiff's appeal was rejected, as per judgment published on 06/24/2011. On 09/30/2011 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.

1.1.3) 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 Power Plant. The Claimant states that the agreement signed with the Rural Workers' Union on 12/06/1986 lacks legitimacy, and claims 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 Pernambuco Appeals Court (TJPE), however the STJ, upon a special appeal filed by the Claimant, recognized the legitimacy of the MPPE and determined that the case records be sent to the TJPE. On 04/19/2010, the TJPE judged the merits of Chesf's appeal and dismissed it by unanimous vote. Chesf filed jointly a Special and Extraordinary Appeal and corresponding bills of review. On 31/12/2011 STJ accepted the bill of review filed by Chesf, as well as the Special Appeal, which is under analysis by the reporting judge. The Company recognizes in Non-current liabilities a provision to cover possible loss on this action, in the amount of R$ 87,000.

1.1.4) Indemnity lawsuit for damages resulting from failure to contract the so-called Companhia Brasileira de Petróleo Ipiranga under bidding proceeding for supply of fuel for Usina Termelétrica de Camaçari (Bahia State). In this action, the Claimant is arguing loss of profits, i. e., amounts it actually did not gain for the Respondent's failure to enter into the supply agreement. Chesf successively filed an appeal, special appeal, bill of review under special appeal and appeal against court regulations in bill of review, however; the decisions were unfavorable for Chesf. On 12/31/2011 the case is in the phase of enforcement at the 5th Lower Civil Court of Recife, State of Pernambuco, awaiting judgment of the challenge against the enforcement. The Company recognizes in Non-current liabilities a provision to cover possible loss on this action, in the amount of R$ 23,292.

1.2) Jointly-owned subsidiaries

1.2.1) STN - Sistema de Transmissão Nordeste S.A.

The provision for contingencies refers exclusively to civil actions related to the definition of the indemnity amounts for the easements for the Company' transmission lines. As of December 31, 2011 the Company recognizes a provision in the amount of its share in this case, of R$ 713 (R$ 713 as of December 31, 2010).

The subsidiary's management, based on the opinion of its legal advisors as to the possibility of a favorable decision for various lawsuits, believes that the provisions set up and recorded in the balance sheet are sufficient to cover probable losses.

1.2.2) Integração Transmissora de Energia S.A.

This subsidiary recorded a provision of R$ 201 to cover any contingent liabilities based on the estimate of probable loss on the labor lawsuits in course, where it is a party as the 2nd Claimant for joint liability in agreements with third parties.

1.2.3) ESBR Participações S.A.

The Company recorded a provision of R$ 506 to cover any contingent liabilities based on the estimate of probable loss on the labor lawsuits in course, where ESBR is a party as the 2nd Claimant for joint liability in agreements with third parties.

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

	Parent		Consolidated	
Contingencies	**12/31/2011**	**12/31/2010**	**12/31/2011**	**12/31/2010**
Labor	53,852	108,552	55,985	108,552
Civil and tax	783,016	532,953	786,866	546,297
Total	**836,868**	**641,505**	**842,851**	**654,849**

2.1) Parent

The main lawsuits are as follows:

2.1.1) Damage lawsuit filed by the Consortium formed by the companies CBPO/CONSTRAN/Mendes Júnior, requesting condemnation of the Company and payment of additional financial compensation due to late payment of invoices under the agreement related to Xingó Hydroelectric Power Plant, dated 06/08/1999, related to the invoices issued after 04/30/1990. In this case, the plaintiffs presented generic requests, limited to claiming the existence of an alleged right to financial compensation, and the calculation of the amounts involved was postponed to the award calculation.

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

In August 2005, after the results of the expert examination and additional explanations were presented, a hearing was held 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 03/31/2010, 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, in the amount of R$ 100 million, at the 2nd Federal Court of Sergipe (case record No. 20028500002809-6), seeking indemnity for alleged environmental damage to fishermen of Cabeço, downstream of the Xingó Hydroelectric Power Plant, caused by the construction of this power plant.

The lawsuit was filed at the Federal Court on 06/27/2002, and the defense was filed within the legal time frame. After a series of procedural events, which did not affect the procedural course, on 08/31/2005, the judge in charge determined that Ibama, IMA-AL, CRA-BA, Federal Government and Adema-SE should be included as codefendants in the case, also ordering summons to be served on them.

On 9/30/2005, the service of process was being expected and on 9/30/2006 the records were remitted to the Judge for analysis, after attachment of the power-of-attorney of Chesf's new attorneys. On 12/31/2006, the lawsuit was suspended by the decision of the Judge and awaits 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 codefendants (the Federal Government, Ibama, IMA-AL, CRA-BA and Adema-SE) had already been summoned. On 09/12/2007, the judge passed the following routine order: "Await the information on the *res judicata* of the bill of review, which will 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 03/31/2008.

Another public civil action was filed against Chest by the Community Association of Cabeço and Saramém in the judicial district of Brejo Grande, Sergipe State, whose amount attributed to the case is R$ 100 million, under the same grounds of the aforementioned lawsuit, However, this case has been abandoned by the plaintiff since February 2005. The last procedural action occurred in November/2007, when the judge determined the Public Attorney's Office to be notified and issue its opinion on the lawsuit. On 03/31/2008, the procedure was still suspended and the Public Attorney's Office had not given any opinion. On 06/30/2008, the Judge of the Judicial District of Brejo Grande rendered a decision recognizing the lack of jurisdiction of the state to judge the case, and determining the remittance of the records to the Federal Courts. On 09/30/2008, the records were being analyzed by Ibama. On 12/31/2008, the return of the records by Ibama was pending. On 02/19/2009 this lawsuit, which had been remitted, on account of jurisdiction, to the Federal Court, was considered connected to another lawsuit of a similar nature, which was under analysis at that court - transcribed at the beginning - and both lawsuits have been dealt with jointly since that date.

On 6/13/2008, the decision of the judge was rendered, ordering summons to be served on the Federal Government and Ibama, and subpoena be served on the plaintiff so that it could file its reply in relation to the terms of the defense. On 9/30/2008, the records were given for Ibama´s analysis. On 12/31/2008, the conciliation hearing scheduled for 2/19/2009 was being awaited. No reconciliation occurred during the hearing that took place on 2/19/2009 and the judge ordered new measures for the existing 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, being assigned to such jurisdiction. Accordingly, the judge decided to recognize the procedural connection between both cases, which have been dealt with jointly since that date. Later, the date of 05/14/2009 was established for a new hearing aiming at deciding on the nature of the procedural evidence to be accepted, including the performance of an expert examination. At this hearing, the judge set out a term of 03 (three) 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 should submit, for this purpose, a draft of the Reference Term. On 9/30/2009, the judge in charge of the case postponed the hearing scheduled for 9/15/2009, to 10/22/2009. At this hearing, the judge scheduled a new hearing for 3/02/2010, aiming at appointing a court expert and setting a deadline for the performance of the expert examination. In this hearing the action was cleared of encumbrances and the date of 6/08/2010 was set up for the pre-trial hearing. At this hearing the specifics of the expert examination were discussed and the Judge decided to set up 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 the decision that inverted the burden of proof and the financial burden. In August 2010, an order of Reporting Justice Francisco Barros Dias was published, converting the bill of review into a bill of exception and ordering that the case records be sent to the court of origin where, on 8/03/2010 a decision of the judge of the 2nd Federal Court of Sergipe maintaining the appealed decision on its own grounds and ordering that a possible suspensive effect by the Federal Regional Court of the 5th Region be awaited for ninety (90) days. On 8/09/2010, the Company filed Motions for Clarification of the decision that converted the Bill of Review into a Bill of Exception. 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. On 10/18/2010 the decision of the Federal Reporting Justice who received the Appeal filed as a petition for reconsideration was published, dismissing it. As of December 31, 2010 the mentioned appeal was pending judgment by the TRF. 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. On 4/08/2011 Chesf submitted a list of its experts and the corresponding questions. On 9/30/2011 the hearing is awaited, scheduled for 11/30/2011, whose purpose is 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 set out the date of 2/29/2012 for the hearing with the judge and the court-appointed experts, without attendance of the parties, to determine the experts' line of work.

Supported by the opinion of the Company's attorneys, management's expectation about the possibility of loss of 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 lawsuit filed by AES Sul Distribuidora Gaúcha de Energia (proc. 2002.34.00,026509-0 – 15th Federal Court - DF) aimed at 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 AES SUL's Bill of Review (Lawsuit 2002.01.00,040870-5) filed against Aneel, resulted in a debt of approximately R$ 110 million, whose payment was ordered to be made on 11/07/2008.

In order to suspend the debt, the following legal steps were adopted at that time (November 03 to 07, 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 codefendant. 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 codefendant and challenged the action, which is in 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, which is being analyzed by the Reporting Justice of the STJ.

2.1.4) Declaratory action (Proc. 7125-2009/434-78.2009.8.06.0115) filed by Carbomil Química S.A. seeking indemnity due the installation of an electric power 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 is possible, at the amount of R$ 70,000.

2.2) Jointly-owned subsidiary

2.2.1)ESBR Participações S.A.

2.2.1.1) The ISSQN (service tax) paid on the Jirau Hydroelectric Power Plant construction agreement entered into with the supplier Construções e Comércio Camargo Corrêa S.A., is calculated with a reduction of 60% in tax base. This procedure is supported by Decree 10.244/2005 and Decree 10,363/2006, of the municipality of Porto Velho (State of Roraima). The Municipal Finance Secretariat of Porto Velho questioned the application of these Decrees to the agreement. The claim is limited to the amounts incurred up to 12/31/2009, taking into account the publication of Supplementary Law 369/2009, of the municipality of Porto Velho, which rectifies the applicability of the 60% reduction in the ISSQN tax base as from 2010.

On 5/13/2010, the company Energia Sustentável do Brasil S.A., wholly-owned subsidiary of ESBR Participações S.A., deposited in court the principal amount involved in the proceeding (R$ 17,339), supported by an injunction granted in the precautionary measure filed jointly with the co-plaintiff Construções e Comércio Camargo Corrêa S.A. On 6/11/2010, a ordinary declaratory action was filed relating to this issue, also jointly with the supplier as the co-plaintiff. The monetarily adjusted amount is R$ 19,248 as of December 31, 2011, and the Company's share corresponds to R$ 3,850.

On 7/28/2010, the Municipal Finance Secretariat of Porto Velho, (State of Roraima), issued Regulatory Circular 001/2010 and Opinion 001/2010, which altered the prior tax opinion, and considered the ISSQN tax base reduction, valid. The company is requesting the Municipal Finance Secretariat to dismiss the case with favorable judgment of the merits, so as the amounts deposited in court can be withdrawn.

Based on the foregoing and on the opinion of its internal and external legal counsels, the Company believes that the likelihood of loss for this cause is remote. Accordingly, it recorded a provision exclusively to cover attorneys' fees, in the amount of R$ 865 (R$ 173 corresponding to the Company's portion).

2.2.1.2) The subsidiary is a codefendant to ongoing labor lawsuits for joint liability in agreements with third parties, in the amount of R$ 10,665 (R$ 2,133 corresponding the Company's portion, with possible likelihood of loss.

3) The main lawsuits whose ***risk of loss is remote*** are the following:

3.1) Parent Company

Despite the remote risk of loss according to the opinion of the Company's legal counsels, there is an ongoing collection action filed by Construtora Mendes Junior S.A., a company contracted by the Company to build the Itaparica Hydroelectric Power 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, thus requiring financial reimbursement.

In this collection action, Construtora Mendes Júnior S.A. was granted a decision by the 4th Lower Civil Court, which was later annulled, ordering Chesf to pay a sum that, 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, an amount which 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, so that a new expert examination could be performed 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 works". 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 grounds.

The Federal Public Attorney's Office issued its opinion and requested the annulment of the process. As regards the merit, it requested the lawsuit to be considered groundless.

The lawsuit was partially maintained through a decision issued on 03/08/2008. Against this decision, Chesf filed a motion for clarification of judgment, 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 works of Itaparica, due to the delay of Chesf to make 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 appeals in the same sense as 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 referred to action to be entirely groundless. It has been informed 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 response to these appeals. As of 12/31/2011 a decision from TRF is awaited on the development of the extraordinary appeal filed by Mendes Júnior, whose special appeal previously filed had been denied by that TRF.

Considering the decision of the Federal Regional Court of the 5th Region, the risk that Chesf may lose 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 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.

25 – CONCESSIONS PAYABLE – USE OF PUBLIC ASSETS

The Company, through its jointly-owned 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 power at the 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 business characteristics, of the contracts, and of the stage of the enterprises, the amount of the Jirau and Belo Monte Hydroelectric Power Plants, concession was recorded in intangible assets as a contra entry to non-current liabilities.

The amount identified in the contract, calculated at 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 adjustment of the obligation based on the discount rate and on the monetary variation is capitalized in assets during the Plant's construction and, starting from the date it goes in commercial operation, it will be recognized directly in income.

	Consolidated	
	12/31/2011	12/31/2010
Use of Public Assets	41,641	17,808

26- ADVANCE FOR FUTURE CAPITAL INCREASE (AFAC)

In order to finance the investment program and the SPEs, Chesf's parent company Eletrobras provided funds in the amount of R$ 1,293,000, in the form of Advance for Future Capital Increase.

The capital increase as a result of this Advance for Future Capital Increase (AFAC) is expected to occur in 2012 after Chesf having met all applicable legal requirements.

27 – COMMITMENTS

The Company has individually at the date of these financial statements purchase commitments to several suppliers for assets and supplies for new enterprises and to effect the necessary replacement, which are estimated for 2012 to amount to R$ 1,237,802.

28 - EQUITY

• Share capital

The Company's share capital, in the amount of R$ 7,720,760 (R$ 7,720,760, in 2010), is represented by shares with no par value, held as follows:

Stockholders	Number of shares – in thousands					
	Common		Preferred			
	Number	%	Number	%	Total	%
Eletrobras	50,095	100.000	1,240	84.371	51,335	99.554
Ministry of Finance	-	-	194	13.184	194	0.376
Light	-	-	9	0.586	9	0.017
Others	-	-	27	1.859	27	0.053
	50,095	**100.000**	**1,470**	**100.000**	**51,565**	**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, these shares have priority in the payment of dividends, of at least 10% per year, calculated on the preferred capital.

In 2011 the Company received Advance for Future Capital Increase, whose capitalization is estimated for 2012, after all necessary measures for the capital increase, are fulfilled (note 26).

• Capital reserves

	12/31/2011	12/31/2010
Donations/government investment grants	4,759,353	4,759,353
Remuneration of assets and rights established with own capital	156,846	156,846
	4,916,199	**4,916,199**

• Revenue reserves

	12/31/2011	12/31/2010
Legal	501,886	439,822
Statutory	8,179	8,179
Unrealized profits	428,599	446,532
Tax incentives	693,200	380,357
Profit retention	2,209,834	3,503,626
	3,841,698	**4,778,516**

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

The Unrealized Profit Reserve, arising from the credit balance of the monetary restatement of 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' compensation.

The Tax Incentive Reserve was established by Law 11,638/2007. Item 'd' of paragraph 1 of Article 182 of Law 6,404/1976 - which permitted the recognition of Donations and government investment grants as a capital reserve - was revoked and Article 195-A was included, authorizing the Annual Stockholders' Meeting, based on a proposal of management, to allocate the portion of net income arising from donations and government investment grants to the tax incentive reserve, as well as to exclude it 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 minimum mandatory established in the bylaws, not approved in an Annual Stockholders' Meeting, is presented in equity as additional proposed dividends.

The calculation of interest on capital and additional dividends are stated in note 36.

• **Other comprehensive income**

In 2011, the Company recognized in equity, under the equity method of accounting, the effects of adjustments in other comprehensive income arising from the result of the effective cash flow hedge operations recorded in equity of its jointly-owned subsidiaries ESBR Participações S.A. and Manaus Transmissora de Energia S.A., proportionally to its interest in these companies, in the amount of R$ 3,719 (loss of R$ 1,702, in 2010).

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 (expense), in the amount of R$ 194,106 (loss of R$ 162,045, in 2010).

29 – RECONCILIATION OF NET OPERATING REVENUE

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

	Parent		Consolidated	
	12/31/2011	**12/31/2010**	**12/31/2011**	**12/31/2010**
GROSS OPERATING REVENUE				
Electric power sale	779,472	752,037	779,472	752,037
Electric power supply	3,407,106	3,356,039	3,407,106	3,356,039
Transmission system	630,849	485,561	639,490	486,523
Short-term electric power (CCEE)	(829)	305,885	(829)	305,885
Construction revenue	581,089	420,451	943,268	624,446
Financial income	617,491	690,179	702,196	759,023
Other operating revenue	16,168	11,691	29,707	25,937
	6,031,346	**6,021,843**	**6,500,410**	**6,309,890**
DEDUCTIONS FROM OPERATING REVENUE				
Global Reversion Reserve – RGR	(130,353)	(131,007)	(132,089)	(132,599)
ICMS on electric power	(97,061)	(84,212)	(97,065)	(84,212)
Tax on Services (ISS)	(816)	(568)	(816)	(815)
Research & Development	(47,240)	(48,944)	(47,836)	(49,544)
Fossil Fuel Consumption Account (CCC)	(126,433)	(105,837)	(126,433)	(105,837)
Energy Development Account (CDE)	(17,925)	(19,598)	(17,925)	(19,598)
Proinfa	(39,206)	(51,077)	(39,206)	(51,077)
PIS/Pasep	(80,692)	(78,698)	(81,195)	(79,194)
Cofins	(373,133)	(351,354)	(375,453)	(353,956)
	(912,859)	**(871,295)**	**(918,018)**	**(876,832)**
NET OPERATING REVENUE	**5,118,487**	**5,150,548**	**5,582,392**	**5,433,058**

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

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

30– REGULATORY CHARGES

In 2011 the Company incurred regulatory charges totaling R$ 611,514 (R$ 565,981, in 2010), as follows:

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Global Reversion Reserve – RGR	130,353	131,007	132,089	132,599
Research & Development – R&D	47,240	48,944	47,836	49,544
Fossil Fuel Consumption Account - CCC	126,433	105,837	126,433	105,837
Energy Development Account – CDE	17,925	19,598	17,925	19,598
Alternative Energy Source Incentive Program – Proinfa	39,206	51,077	39,206	51,077
Electric Power Utility Service Inspection Fee – TFSEE	21,638	11,509	21,951	11,778
Financial Compensation for Use of Water Resources – CFURH	224,374	192,768	224,374	192,768
Reserve Electric Power Charge – EER	4,345	5,241	4,345	5,241
Total	**611,514**	**565,981**	**614,159**	**568,442**

31- OPERATING COSTS AND EXPENSES

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

	Parent			
	12/31/2011			12/31/2010
	Operating costs	Operating expenses	Total	Total
Electric power purchased for resale	7,635	-	7,635	24,061
Charges for electricity network usage	805,270	-	805,270	765,661
Construction cost	581,089	-	581,089	420,451
Personnel	312,987	475,730	788,717	578,649
Material	15,705	13,408	29,113	24,138
Fuels for electric power production	4,793	-	4,793	2,296
Third-party services	65,263	124,491	189,754	177,999
Depreciation and amortization	342,778	75,230	418,008	416,097
Fin. compensation for use of water resources	224,374	-	224,374	192,768
Post-employment Benefits	-	(44,101)	(44,101)	(27,998)
Leases and rentals	6,957	16,275	23,232	21,342
Taxes	143	3,609	3,752	3,594
Provision for contingencies	-	158,839	158,839	82,357
Provision (reversal) for impairment of trade receivables	(734)	17,849	17,115	18,740
Losses on clients	-	24,367	24,367	21,752
Profit sharing	-	102,451	102,451	91,241
Others	(20,866)	51,121	30,255	19,986
Total	**2,345,394**	**1,019,269**	**3,364,663**	**2,833,134**

	Consolidated			
	12/31/2011			12/31/2010
	Operating costs	Operating expenses	Total	Total
Electric power purchased for resale	7,635	-	7,635	24,061
Charges for electricity network usage	805,270	-	805,270	765,661
Construction cost	943,268	-	943,268	624,446
Personnel	314,493	483,572	798,065	585,956
Material	16,017	13,726	29,743	24,306
Fuels for electric power production	4,793	-	4,793	2,296
Third-party services	66,663	133,209	199,872	182,547
Depreciation and amortization	342,817	75,321	418,138	416,117
Fin. compensation for use of water resources	224,374	-	224,374	192,768
Post-employment Benefits	1,004	11,757	12,761	(27,998)
Leases and rentals	7,055	34,547	41,602	21,968
Taxes	171	9,160	9,331	3,624
Provision for contingencies	-	158,839	158,839	82,357
Provision (reversal) for impairment of trade receivables	(734)	17,849	17,115	18,740
Losses on clients	-	24,367	24,367	21,752
Profit sharing	-	102,451	102,451	91,241
Others	(17,358)	(23,814)	(41,172)	23,582
Total	**2,715,468**	**1,040,984**	**3,756,452**	**3,053,424**

32 – FINANCIAL INCOME (EXPENSES)

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Financial income				
Income from financial investments	133,179	78,043	144,853	80,488
Monetary variations and late payment charges – electric power sold	86,953	154,275	86,954	154,277
Other monetary variation income	1,757	1,454	1,985	1,454
Other financial income	35,848	23,247	31,654	33,970
PIS/Pasep and Cofins	(553)	99,686	(553)	99,686
	257,184	**356,705**	**264,893**	**369,875**
Financial expenses				
Debt charges	(65,375)	(60,897)	(69,813)	(74,235)
Monetary variations on borrowings	(940)	(493)	(12,349)	(493)
Other monetary variation expenses	(151)	(141)	(498)	(141)
Other financial expenses	(202,242)	(35,474)	(215,749)	(65,251)
	(268,708)	**(97,005)**	**(298,409)**	**(140,120)**
	(11,524)	**259,700**	**(33,516)**	**229,755**

33-RECONCILIATION OF THE EFFECTIVE AND STATUTORY RATES OF SOCIAL CONTRIBUTION AND INCOME TAX

The reconciliation of the effective and statutory rates used to calculate the provision for social contribution and income tax is as follows:

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Profit before social contribution and income tax	**1,801,113**	**2,608,367**	**1,811,028**	**2,609,059**
Total income tax and social contribution charge calculated at the 15% plus surtax, and 9% rates, respectively	612,354	886,821	615,484	887,056
Tax effects of permanent additions or exclusions	(52,543)	(75,329)	(42,406)	(69,420)
Income tax and social contribution for the year	**559,811**	**811,492**	**573,078**	**817,636**
Current income tax and social contribution	**570,107**	**715,563**	**580,037**	**726,489**
Social contribution	157,024	195,800	159,777	198,677
Income tax	413,083	519,763	420,260	527,812
Deferred income tax and social contribution	**(10,296)**	**95,929**	**(5,342)**	**91,147**
Social contribution	1,687	37,551	3,260	36,285
Income tax	(11,983)	58,378	(8,602)	54,862
Income tax and social contribution for the year	**559,811**	**811,492**	**574,695**	**817,636**

34 – TAX INCENTIVES – SUDENE/SUDAM

Provisional Measure 2,199-14, of 8/24/2001, amended by Law 11,196, of 11/21/2005, allows companies based in the regions covered by the Superintendence for the Development of the Northeast Region (Sudene) and the Superintendence for the Development of the Amazon (Sudam), which have developments in the infrastructure sector, 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 facilities, expansion, modernization or diversification projects.

In 2008, Chesf was granted the right to a 75% reduction in Income Tax and Non-refundable Additional Amounts, calculated based on operating profit, as defined. Such incentive is effective for the years from 2008 to 2017.

In 2010 Chesf filed with Sudene a project applying for the Reinvestment incentive set forth in Article 19, of Law 8,167, of January 16, 2001, as amended by Article 3, of Provisional Measures 2,199-14/2001. This project was approved by Sudene in September 2011.

In 2011 the incentive of reduction in Income Tax and Non-refundable Additional Amounts totaled R$ 302,985 (R$ 380,357, in 2010), and the Reinvestment tax incentive totaled R$ 9,858 (no comparison in 2010), and were recorded in the statement of income as a reduction of the income tax computed, in compliance with Technical Pronouncement CPC 07 (*IAS* 20). The gain arising from this tax incentive will be allocated to the Revenue Reserve – Tax Incentive Revenue, in compliance with Article 195-A of Law 6,404/1976, and can only be used to increase share capital social or offset losses.

In the consolidated with its jointly-owned subsidiaries STN – Sistema de Transmissão Nordeste S.A. and Integração Transmissora de Energia S.A., the Company's tax incentive gains for the year amounted to R$ 317,812 (R$ 385,809, in 2010).

35 –PROFIT SHARING

As a result of the Collective Labor Agreement and in compliance with legal provisions, the Company classified the amount of R$ 102,451 (R$ 91,241, in 2010) as employee profit sharing for the year, to be submitted for approval at the Annual Stockholders' Meeting (AGO).

36 – STOCKHOLDERS' COMPENSATION

	12/31/2011	12/31/2010
Profit for the year	1,554,145	2,177,232
Recognition of Tax Incentive Reserve	(312,843)	(380,357)
Recognition of Legal reserve	(62,065)	(89,844)
Realization of Unrealized profit reserve	17,933	18,027
Adjusted profit – calculation basis	**1,197,170**	**1,725,058**
Initial adoption of new accounting practices	-	168,195
Profit for distribution	**1,197,170**	**1,893,253**
Mandatory minimum dividends (25%)	299,293	431,266
Proposed remuneration:		
Mandatory minimum dividends	299,293	431,266
Additional dividends	897,877	1,461,987
Net remuneration	**1,197,170**	**1,893,253**
Percentage of profit for distribution	100.00%	100.00%
Gross dividends per common share (R$)	23.22	36.72
Gross dividends per preferred share (R$)	23.22	36.72

The Company's Bylaws establish as minimum mandatory dividends the distribution of 25% of 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, not 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 12/31/2011 through the payment date, based on the variation of the Selic rate.

The 63th Annual Stockholders' Meeting held on 6/16/2011, which approved the Financial Statements for 2011, decided to allocate the entire 2011 net profit as dividends, and on that date the controlling stockholder undertook to ensure the provision of all resources necessary for the Company's investment program, completed in 2011, through Advance for Future Capital Increase (note 26).

37 – EARNINGS PER SHARE

a) Basic earnings per share

Basic earnings per share is calculated by dividing profit for the period attributable to the stockholders by the number of outstanding shares of the capital in the respective period.

	12/31/2011			12/31/2010		
	Common	Preferred	Total	Common	Preferred	Total
Basic						
Numerator						
Diluted profit attributable to stockholders	1,509,840	44,305	1,554,145	2,115,164	62,068	2,177,232
Denominator						
Number of shares	50,095	1,470	51,565	50,095	1,470	51,565
Basic earnings per share in R$	**30.14**	**30.14**	**30.14**	**42.22**	**42.22**	**42.22**

b) Diluted earnings

Diluted earnings 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 only dilutive instrument of the Company is the Advance for Future Capital Increase (AFAC) that occurred in December 2011.

	12/31/2011			12/31/2010		
	Common	Preferred	Total	Common	Preferred	Total
Diluted						
Numerator						
Net profit attributable to stockholders	1,509,823	44,322	1,554,145	2,115,164	62,068	2,177,232
Denominator						
Number after the supposed conversion	53,857	1,581	55,438	50,095	1,470	51,565
Diluted earnings per share in R$	**28.03**	**28.03**	**28.03**	**42.22**	**42.22**	**42.22**

38 – RELATED PARTIES

Related-parties transactions are carried out under market conditions and prices or based on contracts of the Electric Power Sector. Below are the companies/entities which are related parties of the Company:

		12/31/2011			12/31/2010		
Companies	Nature of the transactions	Assets	Liabilities	Result	Assets	Liabilities	Result
Eletrobras	Receivables	1,547	-	-	1,106	-	-
	Borrowings	-	143,020	-	-	153,941	-
	Trade payables	-	494	-	-	407	-
	Dividends	-	295,852	-	-	427,824	-
	Financial expense	-	-	(9,739)	-	-	(15,442)
	Dividend restatement	-	-	(178,696)	-	-	(16,099)
	AFAC	-	1,293,000	-	-	-	-
		1,547	**1,732,366**	**(188,435)**	**1,106**	**582,172**	**(31,541)**
Furnas	Clients	4,912	-	-	4,288	-	-
	Receivables	11	-	-	10	-	-
	Trade payables	-	14,708	-	-	13,346	-
	Dividends	-	14	-	-	2	-
	Charge for network usage	-	-	(126,651)	-	-	(129,251)
	Dividend restatement	-	-	(2)	-	-	-
		4,923	**14,722**	**126,653)**	**4,298**	**13,348**	**(129,251)**
Eletrosul	Receivables	25	-	-	27	-	-
	Trade payables	-	7,835	-	-	6,614	-
	Charge for network usage	-	-	(65,290)	-	-	(63,666)
		25	**7,835**	**(65,290)**	**27**	**6,614**	**3,666)**
Eletronorte	Clients	7,832	-	-	6,587	-	-
	Trade payables	-	8,760	-	-	8,489	-
	Payables	-	91	-	-	-	-
	Receivables	8	-	-	8	-	-
	Charge for network usage	-	-	(78,445)	-	-	(72,637)
		7,840	**8,851**	**(78,445)**	**6,595**	**8,489**	**(72,637)**
Eletronuclear	Clients	617	-	-	534	-	-
	Dividends	-	8	-	-	1	-
	Dividend restatement	-	-	(1)	-	-	-
		617	8	**(1)**	**534**	**1**	-
CGTEE	Clients	37,078	-	-	37,720	-	-
	Trade payables	-	-	-	-	3	-
	Supply of power	-	-	41,894	-	-	255,273
		37,078	-	**41,894**	**37,720**	**3**	**255,273**
Eletropar	Receivables	14,693	-	-	14,693	-	-
	(-) Provision for losses	(13,237)	-	-	(13,237)	-	-
	Advance to suppliers	5,279	-	-	5,279	-	-
	Payables	-	1,456	-	-	1,456	-
		6,735	**1,456**	-	**6,735**	**1,456**	-

To continue

Companies	Nature of the transactions	12/31/2011 Assets	12/31/2011 Liabilities	12/31/2011 Result	12/31/2010 Assets	12/31/2010 Liabilities	12/31/2010 Result
Ceal	Clients	27,817	-	-	23,553	-	-
	Receivables	25	-	-	23	-	-
	Supply of power	-	-	57,088	-	-	54,394
		27,842	**-**	**57,088**	**23,576**	**-**	**54,394**
Fachesf	Trade payables	-	7,181	-	-	1,695	-
	Regular contributions	-	9,317	-	-	8,290	-
	Actuarial contracts	-	381,560	-	-	362,691	-
	Operating expenses	-	-	(16,381)	-	-	(13,493)
	Actuarial expenses	-	-	44,101	-	-	27,998
		-	**398,058**	**27,720**	**-**	**372,676**	**14,505**
Cepisa	Clients	11,325	-	-	65,846	-	-
	Supply of power	-	-	47,585	-	-	46,767
		11,325	**-**	**47,585**	**65,846**	**-**	**46,767**
	Receivables	174	**-**	**-**	**-**	**-**	**-**
STN	Investment	195,267	-	-	193,244	-	-
	Trade payables	-	1,271	-	-	1,151	-
	Revenue from services provided	-	-	2,055	-	-	1,854
	Financial income (Interest on capital)	-	-	5,872	-	-	3,342
	Equity in the results	-	-	28,314	-	-	33,262
	Charge for network usage	-	-	(10,869)	-	-	(10,410)
		195,441	**1,271**	**25,372**	**193,244**	**1,151**	**28,048**
Integração Transmissora de Energia S.A.	Investment	31,692	-	-	28,530	-	-
	Trade payables	-	929	-	-	903	-
	Dividends	609	-	-	676	-	-
	Charge for network usage	-	-	(8,429)	-	-	(8,045)
	Equity in the results	-	-	3,095	-	-	2,844
		32,301	**929**	**(5,334)**	**29,206**	**903**	**(5,201)**
Energética Águas da Pedra S.A.	Investment	75,638	-	-	61,286	-	-
	Clients	244	-	-	-	-	-
	Dividends	4,252	-	-	-	-	-
	Equity in the results	-	-	18,604	-	-	(330)
		80,134	**-**	**18,604**	**61,286**	**-**	**(330)**
ESBR Participações S.A.	Investment	554,408	-	-	412,001	-	-
	Equity in the results	-	-	(3,646)	-	-	(2,952)
	Other comprehensive income (expense)	-	(3,253)	-	-	(2,170)	(1,235)
		554,408	**(3,253)**	**(3,646)**	**412,001**	**(2,170)**	**(4,187)**
I.E. Madeira	Investment	179,878	-	-	61,574	-	-
	Equity in the results	-	-	10,872	-	-	2,066
		179,878	**-**	**10,872**	**61,574**	**-**	**2,066**
Manaus Transmissora	Investment	122,268	-	-	(18,187)	-	-
	Trade payables	-	112	-	-	-	-
	Other comprehensive income (expense)	-	(467)	-	-	(466)	-
	Revenue from services provided	-	-	1,722	-	-	-
	Equity in the results	-	-	(8,041)	-	-	(8,981)
		122,268	**(355)**	**(6,319)**	**(18,187)**	**(466)**	**(8,981)**

To continue

Companies	Nature of the transactions	12/31/2011 Assets	12/31/2011 Liabilities	12/31/2011 Result	12/31/2010 Assets	12/31/2010 Liabilities	12/31/2010 Result
Manaus Construtora	Investment	6,392	-	-	5,949	-	-
	Dividends	8,432	-	-	-	-	-
	Equity in the results	-	-	8,874	-	-	5,948
		14,824	**-**	**8,874**	**5,949**	**-**	**5,948**
TDG	Investment	15,235	-	-	13,018	-	-
	Equity in the results	-	-	2,217	-	-	(261)
		15,235	**-**	**2,217**	**13,018**	**-**	**(261)**
Norte Energia S.A.	Investment	217,672	-	-	26,669	-	-
	Equity in the results	-	-	(997)	-	-	(333)
		217,672	**-**	**(997)**	**26,669**	**-**	**(333)**
Ceron	Clients	197	-	-	-	-	-
		197	**-**	**-**	**-**	**-**	**-**
Eletroacre	Clients	242	-	-	-	-	-
	Supply of power	-	-	1,211	-	-	-
		242	**-**	**1,211**	**-**	**-**	**-**
Sete Gameleiras	Investment	1,850	-	-	158	-	-
	Equity in the results	-	-	(157)	-	-	(3)
		1,850	**-**	**(157)**	**158**	**-**	**(3)**
São Pedro	Investment	1,803	-	-	157	-	-
	Equity in the results	-	-	(143)	-	-	(4)
		1,803	**-**	**(143)**	**157**	**-**	**(4)**
Pedra Branca	Investment	1,737	-	-	158	-	-
	Equity in the results	-	-	(179)	-	-	(3)
		1,737	**-**	**(179)**	**158**	**-**	**(3)**
Cepel	Operating expenses	-	-	(12,826)	-	-	(9,863)
		-	**-**	**(12,826)**	**-**	**-**	**(9,863)**
IE Garanhuns	Investment	**980**	**-**	**-**	**-**	**-**	**-**
		980	**-**	**-**	**-**	**-**	**-**

Following are the origins of the main transactions, by company:

Eletrobras

- Loan agreements entered into between the parties, pursuant to the terms and conditions mentioned in note 19;
- Dividends;
- Instruments of Advance for Future Capital Increase (AFAC), as mentioned in note 26.

Furnas

- Agreements entered into for availability of the transmission system.
- Agreements entered into for transmission system network usage.
- Dividends.

Eletrosul

- 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.

CGTEE

- Agreements entered into for supply of electric power;
- Agreements entered into for the availability of the transmission system.

Eletropar

- Agreements entered into for the provision of services;

Ceal

- Agreements entered into for the supply of electric power;
- 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 power;

STN – Sistema de Transmissão do Nordeste S.A.

- Amount invested in equity, evaluated by the equity accounting method;
- Agreements for the provision of services of operation and maintenance of transmission lines;
- Dividends.

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.

Energética Águas da Pedra S.A.

- Amount invested in equity, evaluated by the equity accounting method;
- Dividends.

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 entered.

Manaus Construtora Ltda.

- Amount invested in equity, evaluated by the equity accounting method;
- Dividends.

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 power supply agreements.

Companhia de Eletricidade do Acre – Eletroacre

- Electric power supply agreements.

Sete Gameleiras

- Amount invested in equity, evaluated by the equity accounting method.

São Pedro do Lago

- Amount invested in equity, evaluated by the equity accounting method.

Pedra Branca 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 before presented, 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 2011 were as follows:

	12/31/2011	12/31/2010
Remuneration of directors and officers	2,910	2,709
Social charges	730	740
Benefits	327	207
Profit sharing	324	282
	4,291	**3,938**

Management members do not receive share-based payments.

39 – FINANCIAL INSTRUMENTS

In compliance with CVM Deliberation 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- General considerations:

As of December 31, 2011, the main financial instruments are described as follows:

ASSETS

- Cash and cash equivalents

  Classified as held for trading and stated at market value in the balance sheet.

- Trade and other receivables

  These result directly from the Company's operations, are classified as receivables and are recorded at their original values, subject to provision for losses and adjustment to present value, when applicable

- Financial asset – 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 carrying value of the financial assets expected to be received at the end of the concession.

- Pledges and restricted deposits

  Pledges and restricted deposits refer to collaterals granted to financial institutions, and for electric power 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

  Financial investments in Treasury Bills (LFT) are held for trading in an exclusive investment fund, according to current regulation. Other securities, which constitute a small portion of this account, refer to Agrarian Debt Notes (TDA) and National Treasury Notes (NTN), 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 P&L, and are adjusted to the probable realizable value, if applicable.

LIABILITIES

- 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; the related charges are accrued based on fixed or floating rates effective at 12/31/2011. Of the intercompany borrowing agreements with our parent company, Eletrobras, which represent approximately 22% of the Company's total indebtedness, 3.7% 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 Power 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

Refer to 420 debentures issued by the jointly-owned subsidiary Interligação Elétrica do Madeira S.A. in September 2011, in the unit value of R$ 1 million, bearing interest of 106.5% of CDI rate, for entire redemption on September 15, 2012. Of the balance of R$ 430,580, the Company's share, of 24.5%, corresponds to R$ 105,492.

- Concessions payable – Use of Public Assets

Refer to onerous concession agreements by and between its jointly-owned subsidiaries and the Federal Government for use of public assets for generation of electric power at Jirau and Belo Monte Hydropower Plants (note 25);

The carrying amounts of the financial instruments in the financial statements as of December 31, 2011 are equivalent to their fair values, taking into account the respective measurement criteria.

39.2 – Types of financial instruments

Type	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Financial assets:				
Measured at fair value				
Cash and cash equivalents	268,638	299,397	564,024	497,993
Held for trading				
Marketable securities	914,071	962,306	914,071	962,306
Receivables				
Trade receivables	745,277	856,975	752,450	864,142
Financial asset - Public service concessions	6,071,981	5,676,092	7,100,236	6,328,770
Pledges and restricted deposits	295,785	254,559	302,423	262,454
Held to maturity				
Marketable securities	8,541	8,403	8,541	8,403
	8,304,293	**8,057,732**	**9,641,745**	**8,924,068**
Financial liabilities:				
Measured at amortized cost				
Trade payables	370,788	268,592	562,558	359,158
Borrowings	791,848	693,226	2,694,533	1,901,527
Debentures	-	-	105,492	-
Concessions payable – Use of public assets	-	-	41,641	17,808
	1,162,636	**961,818**	**3,404,224**	**2,278,493**

39.3- Capital management

The Company's objectives when managing capital are to safeguard the Company's 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 used by the Company's parent for the Eletrobras System. This ratio is equal 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, 2011 and 2010 can be summarized as follows:

	Parent		Consolidated	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Borrowings and debentures	791,848	693,226	2,800,025	1,901,527
(-) Cash and cash equivalents	268,638	299,397	564,024	497,993
Net debt	523,210	393,829	2,236,001	1,403,534
(+) Total equity	16,818,638	17,216,161	16,818,638	17,216,161
Total share capital	17,341,848	17,609,990	19,054,639	18,619,695
Debt-to-equity ratio	3.0%	2.2%	11.7%	7.5%

In 2011 the Company received from its parent company, Eletrobras, Advance for Future Capital Increase (AFAC) in the amount of R$ 1,293,000, whose capitalization is estimated for 2012 (note 26).

39.4 – Risk management

The Company incurs the following risks associated with its financial instruments:

- 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 will incur losses due to fluctuations of interest rates or other debt indexes that could increase the financial expenses related to borrowings or that 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, 2011, 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-owned 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 may result in the early maturity of the debt.

- Risk of electric power shortage

The Brazilian Electric Power System is supplied predominantly by hydroelectric power 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 power will rise in the short-term market as well as the System's charges as a result of the dispatch of thermoelectric power plants. In an extreme situation, it may be necessary to adopt a power rationing program which would imply 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 power 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 cash will be sufficient 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 profit margins, as determined by the aforementioned projections.

The table below analyzes non-derivative financial liabilities of the Company by maturity, based upon the remaining period at the balance sheet date to 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, 2011				
Borrowings	336,680	133,348	173,262	123,507
Trade payables	370,788	-	-	-
Advance for future capital increase	1,293,000	-	-	-
As of December 31, 2010				
Borrowings	62,730	361,156	130,191	126,939
Trade payables	299,328	-	-	-

				Consolidated
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Above 5 years
As of December 31, 2011				
Borrowings	1,111,103	146,667	583,613	1,547,582
Debentures	105,492			
Trade payables	562,558	-	-	-
Advance for future capital increase	1,293,000	-	-	-
Concessions payable – Use of public assets	41,641	-	-	-
As of December 31, 2010				
Borrowings	306,758	374,475	262,816	732,543
Trade payables	359,158	-	-	-
Concessions payable – Use of public assets	17,808	-	-	-

- Regulatory risk

The Company holds concessions for electric power generation and transmission services that, pursuant to prevailing legislation, may not be renewed. If renewal of these concessions is denied or if renewal is granted upon imposition of additional charges for the Company, the Company's operating performance may be compromised.

39.5– *HEDGE*

The Company individually did not have hedging instruments or other derivative instruments as of December 31, 2011 nor does it expect to enter into this type of transaction. However, the Company's jointly-owned subsidiaries hold the following financial instruments:

39.5.1- ESBR Participações S.A.

In 2009, in order to reduce the exchange rate exposure of certain amounts of the contract with the Chinese company Dong Fang, this jointly-owned subsidiary signed currency forward contracts without physical delivery (NDF) with financial institutions. The amounts of these contracts, US$ 41,000 and US$ 16,400, mature on September 17, 2009 and December 18, 2009, at rates of R$ 2.29 and R$ 2.18, respectively. These operations were classified as cash flow hedges. As established by Brazilian accounting standards, the exchange variations of the NDFs were recorded in other comprehensive income (expense) account and transferred to property, plant and equipment upon the actual settlement of the liability to the supplier.

On September 17, 2009, this company settled the NDF operation, in the amount of US$ 41,000, with a loss of R$ 20,360.

The NDF contract in the amount of US$ 16,400 was settled on its maturity date with a negative result of R$ 6,599, without the supplier having complied with its contractual obligations. The NDF's Exchange variations were recorded in the subsidiary's equity where it remained until Dong Fang complied with its obligations, which occurred at the end of the first half of 2010.

As from the end of 2009, the subsidiary 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 hedge.

The complete changes in the equity variation adjustments account in the years ended December 31, 2011 and 2010, are as follows:

	12/31/2011	12/31/2010
Balance at the beginning of the year	(12,778)	(6,599)
Exchange variation of NDF	-	-
Exchange variation of the main restricted deposits	10,485	(11,845)
Effect of trade payments – prior year balances	5,780	6,599
Effect of trade payments – current year balances	-	(933)
Balance at the end of the year	**3,487**	**(12,778)**

These operations generated in 2011 a comprehensive income, which is reflected in the consolidated Statement of Changes in Equity in the amount of R$ 3,253.

- **Sensitivity analysis**

The Company performed a sensitivity analysis of the effects on the results of the subsidiary, proportional to its equity interest, arising from the exchange appreciation and depreciation between 25% and 50%, as shown below:

Depreciation of Indexes

Contract	Balance (US$ thousand)	Balance (R$ thousand)	Index (US$)	Scenario I (-25%) Index	Scenario II (-50%) Index	Scenario I (-25%) Amount	Scenario II (-50%) Amount
SPE							
1: Banco do Brasil R$/US$	**3,110**	5,631	1.8109	1.3582	0.9055	4,223	2,816
2: Itaú R$/US$	**10,852**	19,652	1.8109	1.3582	0.9055	14,739	9,826
TOTAL	**13,962**	**25,283**				**18,962**	**12,642**

Appreciation of Indexes

Contract	Balance (US$ thousand)	Balance (R$ thousand)	Index (US$)	Scenario I (+25%) Index	Scenario II (+50%) Index	Scenario I (+25%) Amount	Scenario II (+50%) Amount
SPE							
1: Banco do Brasil R$/US$	**3,110**	5,631	1.8109	2.2636	2.7164	7,039	8,447
2: Itaú R$/US$	**10,852**	19,652	1.8109	2.2636	2.7164	24,565	29,478
TOTAL	**13,962**	**25,283**				**31,604**	**37,925**

39.5.2- Manaus Transmissora de Energia S.A.

Subsidiary Manaus Transmissora de Energia S.A. contracted derivative financial instruments to protect its operations against risks of exchange rate fluctuations and aluminum price variations in the international market, which have significant weight on its investment plan. These derivatives are not used for speculative purposes and were classified in 2008 as cash flow hedges. These instruments were contracted with prime financial institutions in Brazil and abroad.

Actual portion of valuation or devaluation of the financial instruments classified as cash flow hedges was recorded in 2008, net of taxes, in a separate account in equity, under "Other comprehensive income (expense)" up to the purchase of the related property, plant and equipment item, when that amount adjusts the cost of that asset. The actual portion is that one in which the variation in the item subject to hedge, directly related to the corresponding risk, is offset by the variation in the financial instrument used for hedging purposes, considering the accumulated effect of the operation. The other variations of these instruments are recognized directly in the income for the year.

On 8/18/2008, the jointly-owned subsidiary signed a commitment contract for future purchase of aluminum (LME) with the Société Générale Bank of Paris, to protect itself against variations in the price of this raw material in the international market, in view of the need to purchase cables for the construction of transmission lines. The amount in foreign currency corresponded to US$ 73,486 thousand and this operation matures substantially in 2011. As of 12/31/2009, the fair value of the operation generated a gain of R$ 42,530, recorded in "Financial income".

On 7/1/2008, the jointly-owned subsidiary signed a forward transaction to purchase US$ 221,000 thousand with BNP Paribas and Citibank banks. This transaction was settled in November 2008 for the fair value of R$ 500,720 generating a financial gain of R$ 131,212, recorded in the "Carrying value adjustments "Carrying value adjustments" in equity, to meet, at the time, the requirements needed for hedge accounting.

In 2009, due to changes in the Company's strategy, highly probable transactions subject of hedging, which were estimated in 2008 to occur up to the maturity of the derivatives, will no longer occur, in view of the Company's option to acquire the equipment from suppliers which assumed the risk of aluminum price variation. Consequently, the gain or loss, which in 2008 had been accounted for directly under "Carrying value adjustments" were transferred to income (expenses) for the year 2009, under the "Financial income (expense)" caption. As of December 31, 2009, the fair value of the transactions generated a gain of R$ 42,530, recorded in "Financial income".

At March 4, 2010, the subsidiary entered into a Non-deliverable Forward (NDF) agreement with HSBC Bank Brasil S.A. - Banco Múltiplo in order to obtain cash to meet its obligations.

Until November 26, 2010, as conditions were not met for hedge accounting, gain and/or loss on financial instruments continued to be taken to the P&L account for the year.

On November 27, 2010, based on a review of hedge strategies in relation to operational strategies for purchase of materials, the subsidiary's management, as approved at the Board of Directors' meeting held on December 2, 2010, decided to settle early a portion of the derivatives portfolio, adjusting positions and operations to meet conditions for hedge accounting. Thus, the financial coverage of NDF and LME transactions was settled on December 27 and 30, 2010, respectively.

The derivative transactions were settled in full in 2011 and generated a gain that was recorded in Other Comprehensive Income in the Consolidated Statement of Changes in Equity, in the amount of R$ 466.

39.5.3- Interligação Elétrica do Madeira S.A.

During the year this entity entered into a derivative contract to hedge against foreign exchange risk arising from supply contracts for steel angles, aluminum and aluminum cables.

The management of financial instruments is in line with the Business Plan. The result of this transaction and the control employed to manage the risk involved form part of financial risk management practices adopted by the Company.

This entity adopted hedge accounting and classifies the contracted derivative as a fair value hedge according to Accounting Pronouncement CPC 48 and IAS 39.

39.6 – Fair value estimate

The Company uses the following hierarchy to estimate and disclose the fair value of financial instruments under the valuation technique:

				Parent
	Level 1	**Level 2**	**Level 3**	**Total**
As of December 31, 2011				
Assets				
Financial investments	265,332	-	-	265,332
Marketable securities	922,612	-	-	922,612
Total	**1,187,944**	**-**	**-**	**1,187,944**
As of December 31, 2010				
Assets				
Financial investments	289,856	-	-	289,856
Marketable securities	970,709	-	-	970,709
Total	**1,260,565**	**-**	**-**	**1,260,565**

				Consolidated
	Level 1	**Level 2**	**Level 3**	**Total**
As of December 31, 2011				
Assets				
Financial investments	511,430	-	-	511,430
Marketable securities	922,612	-	-	922,612
Total	**1,434,042**	**-**	**-**	**1,434,042**
As of December 31, 2010				
Assets				
Financial investments	487,300	-	-	487,300
Marketable securities	970,709	-	-	970,709
Total	**1,458,009**	**-**	**-**	**1,458,009**

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, other inputs that are not observable within Level 1 for the asset or liability, either directly or indirectly, and;

Level 3 – assets and liabilities whose prices do not exist or prices or valuation techniques are supported by a small or nonexistent, unobservable or illiquid market. At this level, fair value estimate is highly subjective.

40 – STATEMENT OF INCOME BY ACTIVITY

	Parent					
	12/31/2011			12/31/2010		
	Generation	Transmission	Total	Generation	Transmission	Total
NET OPERATING REVENUE	**3,565,536**	**1,552,951**	**5,118,487**	**3,814,609**	**1,335,939**	**5,150,548**
OPERATING COST						
Electric power cost						
Electric power purchased for resale	(7,635)	-	(7,635)	(24,061)	-	(24,061)
Charges for electricity network usage	(805,270)	-	(805,270)	(765,661)	-	(765,661)
Operating cost						
Personnel	(78,816)	(231,982)	(310,798)	(85,363)	(241,533)	(326,896)
Material	(3,123)	(11,806)	(14,929)	(3,327)	(8,147)	(11,474)
Fuels for electric power production	(4,793)	-	(4,793)	(2,296)	-	(2,296)
Third-party services	(14,292)	(50,397)	(64,689)	(17,575)	(43,793)	(61,368)
Financial compensation for use of water resources	(224,374)	-	(224,374)	(192,768)	-	(192,768)
Depreciation and amortization	(342,778)	-	(342,778)	(345,896)	-	(345,896)
Aneel inspection fee	(12,995)	(8,643)	(21,638)	(2,943)	(8,566)	(11,509)
Others	43,171	(7,734)	35,437	32,161	(2,385)	29,776
	(1,450,905)	**(310,562)**	**(1,761,467)**	**(1,407,729)**	**(304,424)**	**(1,712,153)**
COST OF SERVICES PROVIDED TO THIRD PARTIES	**734**	**(3,572)**	**(2,838)**	**(3,394)**	**-**	**(3,394)**
CONSTRUCTION COST	**-**	**(581,089)**	**(581,089)**	**-**	**(420,451)**	**(420,451)**
GROSS OPERATING PROFIT	**2,115,365**	**657,728**	**2,773,093**	**2,403,486**	**611,064**	**3,014,550**
OPERATING EXPENSES	**(306,856)**	**(712,413)**	**(1,019,269)**	**(253,135)**	**(444,001)**	**(697,136)**
RESULT FROM SERVICE	**1,808,509**	**(54,685)**	**1,753,824**	**2,150,351**	**167,063**	**2,317,414**
EQUITY IN THE RESULTS OF INVESTEES						
Equity in earnings of investees	45,189	26,788	71,977	31,168	13,737	44,905
Equity in losses of investees	(8,265)	(4,899)	(13,164)	(10,544)	(3,108)	(13,652)
	36,924	**21,889**	**58,813**	**20,624**	**10,629**	**31,253**
FINANCIAL INCOME (EXPENSES)						
Income from financial investments	92,583	40,596	133,179	57,722	20,321	78,043
Monetary variation and late payment charges – electric power sold	80,893	6,060	86,953	137,028	17,247	154,275
Other monetary variation income	430	1,327	1,757	391	1,063	1,454
Other financial income	18,496	17,352	35,848	8,742	14,505	23,247
PIS/Pasep and Cofins	(403)	(150)	(553)	78,672	21,014	99,686
Debt charges	(30,230)	(35,145)	(65,375)	(26,788)	(34,109)	(60,897)
Monetary variation on borrowings	-	(940)	(940)	(115)	(378)	(493)
Other monetary variation expenses	(75)	(76)	(151)	(1,516)	1,375	(141)
Other financial expenses	(191,475)	(10,767)	(202,242)	(27,323)	(8,151)	(35,474)
	(29,781)	**18,257**	**(11,524)**	**226,813**	**32,887**	**259,700**
PROFIT BEFORE TAXES	**1,815,652**	**(14,539)**	**1,801,113**	**2,397,788**	**210,579**	**2,608,367**
Income tax and social contribution	(568,605)	(1,502)	(570,107)	(783,124)	67,561	(715,563)
Deferred income tax and social contribution	(16,524)	26,820	10,296	(24,780)	(71,149)	(95,929)
Tax incentives	310,208	2,635	312,843	384,590	(4,233)	380,357
PROFIT FOR THE YEAR	**1,540,731**	**13,414**	**1,554,145**	**1,974,474**	**202,758**	**2,177,232**
Basic earnings per share (R$)	-	-	30,14	-	-	42,22
Diluted earnings per share (R$)	-	-	28,03	-	-	42,22

	Consolidated					
	12/31/2011			12/31/2010		
	Generation	Transmission	Total	Generation	Transmission	Total
NET OPERATING REVENUE	**3,565,332**	**2,017,060**	**5,582,392**	**3,814,609**	**1,618,449**	**5,433,058**
OPERATING COST						
Electric power cost						
Electric power purchased for resale	(7,635)	-	(7,635)	(24,061)	-	(24,061)
Charges for electricity network usage	(805,270)	-	(805,270)	(765,661)	-	(765,661)
Operating cost						
Personnel	(78,818)	(233,486)	(312,304)	(85,363)	(242,904)	(328,267)
Material	(3,134)	(12,107)	(15,241)	(3,327)	(8,245)	(11,572)
Fuels for electric power production	(4,793)	-	(4,793)	(2,296)	-	(2,296)
Third-party services	(14,307)	(51,781)	(66,088)	(17,575)	(44,339)	(61,914)
Financial compensation for use of water resources	(224,374)	-	(224,374)	(192,768)	-	(192,768)
Depreciation and amortization	(342,779)	(38)	(342,817)	(345,896)	-	(345,896)
Aneel inspection fee	(12,995)	(8,956)	(21,951)	(2,943)	(8,835)	(11,778)
Others	43,169	(7,973)	35,196	32,161	(2,603)	29,558
	(1,450,936)	**(314,341)**	**(1,765,277)**	**(1,407,729)**	**(306,926)**	**(1,714,655)**
COST OF SERVICES PROVIDED TO THIRD PARTIES	**734**	**(7,657)**	**(6,923)**	**(3,394)**	**-**	**(3,394)**
CONSTRUCTION COST	**-**	**(943,268)**	**(943,268)**	**-**	**(624,446)**	**(624,446)**
GROSS OPERATING PROFIT	**2,115,130**	**751,794**	**2,866,924**	**2,403,486**	**687,077**	**3,090,563**
OPERATING EXPENSES	**(320,795)**	**(720,189)**	**(1,040,984)**	**(260,551)**	**(450,378)**	**(710,929)**
RESULT FROM SERVICE	**1,794,335**	**31,605**	**1,825,940**	**2,142,935**	**236,699**	**2,379,634**
EQUITY IN THE RESULTS OF INVESTEES						
Equity in earnings of investees	11,680	6,924	18,604	-	-	-
Equity in losses of investees	-	-	-	(255)	(75)	(330)
	11,680	**6,924**	**18,604**	**(255)**	**(75)**	**(330)**
FINANCIAL INCOME (EXPENSES)						
Income from financial investments	100,878	43,975	144,853	58,691	21,797	80,488
Monetary variation and late payment charges – electric power sold	80,893	6,061	86,954	137,028	17,249	154,277
Other monetary variation income	430	1,555	1,985	391	1,063	1,454
Other financial income	15,887	15,767	31,654	40,493	(6,523)	33,970
PIS/Pasep and Cofins	(403)	(150)	(553)	78,672	21,014	99,686
Debt charges	(30,230)	(39,583)	(69,813)	(26,788)	(47,447)	(74,235)
Monetary variation on borrowings	(3,133)	(9,216)	(12,349)	(115)	(378)	(493)
Other monetary variation expenses	(75)	(423)	(498)	(1,516)	1,375	(141)
Other financial expenses	(156,811)	(58,938)	(215,749)	(34,638)	(30,613)	(65,251)
	7,436	**(40,952)**	**(33,516)**	**252,218**	**(22,463)**	**229,755**
PROFIT BEFORE TAXES	**1,813,451**	**(2,423)**	**1,811,028**	**2,394,898**	**214,161**	**2,609,059**
Income tax and social contribution	(568,271)	(11,766)	(580,037)	(783,172)	56,683	(726,489)
Deferred income tax and social contribution	(14,657)	19,999	5,342	(21,842)	(69,305)	(91,147)
Tax incentives	310,208	7,604	317,812	384,590	1,219	385,809
PROFIT FOR THE YEAR	**1,540,731**	**13,414**	**1,554,145**	**1,974,474**	**202,758**	**2,177,232**
Basic earnings per share (R$)	-	-	30.14	-	-	42.22
Diluted earnings per share (R$)	-	-	28.03	-	-	42.22

41- INSURANCE

Chesf has currently three insurance agreements, each one effective for one year and all of them starting from 4/30/2011, whose objective is to provide coverage for its main assets, such as property, plant and equipment in service and warehouse. These assets are also covered by annual insurance policies, specified by type of risk, as shown in the table below:

Policies	Insured amounts	Annual premiums
- **Specified risks**:		
Fire, lightening, explosion, electrical damage, electronic equipment	4,258,526	9,019
- **Aircraft**	33,348	368
- **Transportation**	144,796	142
	4,436,670	**9,529**

The policy contracted for Specified Risks, states separately the electric power 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, risks for electronic and IT equipment.

In addition to the amount of R$ 7,656 relating to aircraft damages, the aircraft insurance includes R$ 2,436 for civil liability and R$ 23,356 for civil liability of second risk, as set out in the Brazilian Aeronautical Code, which refer to damages caused to third parties.

The Company has insurance policies to cover transportation of materials as follows: road transportation and national and international maritime and air transportation, endorsed monthly, with insured registered amounts up to 12/31/2011.

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 - GENERAL AGREEMENT OF THE ELECTRIC POWER SECTOR – EXTRAORDINARY TARIFF ADJUSTMENT (RTE), CHANGE IN "PORTION A" ITEMS AND TRANSFER OF FREE POWER

The General Agreement of the Electric Sector - AGSE, entered into by and among the Federal Government and the electric energy generation and distribution agents on December 18, 2001, initially in the form of Adhesion Agreement, and, subsequently, on July 4, 2002, in the form of specific documents, including the Agreement for Reimbursement of Electricity from Independent Suppliers, formalized the discussions about the electricity rationing which was in force from June 2001 to February 2002. The AGSE was consummated by means of several legal instruments, among which Law 10,438, of April 26, 2002, whose Article 4 authorized aneel to make the Special Tariff Recovery – RTE.

The purpose of RTE was to cover the financial impacts to which the energy distribution companies were submitted, and which had their revenues reduced during the electricity rationing period established in the Emergency Energy Rationing Program – PERCEE, in addition to definitively recovering the amounts related to "Portion A" (Article 6 of that law). The recovery of amounts related to Electricity from Independent Suppliers, set forth in Article 2 of the Law, and established during the rationing, was also included in RTE.

The first two portions (Loss of Revenue and "Portion A") due to the Distributors could be supported by financing from the National Economic and Social Development Bank – BNDES, or an equivalent financial transaction. The option of borrowing from BNDES was open to all generation and distribution agents, in the maximum of 90% of the RTE amount and that established in the Agreement for Reimbursement of Electricity from Independent Suppliers, entered into between the Agents, with amortization in periods equivalent to those of RTE, which is set forth in Article 11 of that law.

By virtue of the AGSE, the Generators of electric energy who take part in the Energy Reallocation Mechanism – MRE were responsible for the full payment to the independent Generators of the portion related to the "Electricity from Independent Suppliers" of RTE, charged from the consumers of energy of the distributors, which amounts should be collected by them and passed on to the MRE Generators.

On August 29, 2002, through Resolutions 480 and 481, aneel approved the amounts related to losses due to rationing in the periods from June to December 2001, and January and February 2002, respectively. The amounts related to "Portion A" and "Electricity from Independent Suppliers" were approved, respectively, by aneel Resolutions 482 and 483, of the same data. The maximum period of RTE for each distribution company was regulated by aneel Resolution 484, also of August 29, 2002, in compliance with the legal provision that sets forth that the maximum limit of the weighted average of terms should be 72 months.

On January 12, 2004, through Regulatory Resolution 1, aneel confirmed the amounts approved by Resolution 483/2002, related to Electricity from Independent Suppliers, and changed the maximum periods of RTE in the electric energy supply tariffs, excluding from this period the recovery of items from Portion A, and through Resolution 45, of March 3, 2004, aneel changed the percentages applicable to the collection of RTE, as transfer of Electricity from Independent Suppliers to Generators and Distributors, set forth by its Resolutions 036/2003 and 089/2003.

In compliance with the provisions of Official Letter 2,409/2007-SFF/ANEEL, the Company reversed, in its accounting records, the amounts related to taxes and regulatory charges, which financial burden was attributed to the concessionaires of generation, and which were not effectively borne by consumers, pursuant to Technical Note 392/2007-SFF/ANEEL. As the periods for transfer had expired and all amounts had been transferred, upon such record an overpayment of R$ 2,859 thousand was noted, and it should be returned by the distribution concessionaires.

The Company, also in compliance with the provisions of the Official Letter 2,409/2007-SFF/ANEEL, recorded the write-off of accounts receivable from Electricity from Independent Suppliers not invoiced by the Distributors within the period established by aneel, in the amount of R$ 404,193, as well as the reversal of tax costs and regulatory charges borne by it, deducted by the Distributors from the financial transfer of the Electricity from Independent Suppliers, the amounts of which were not effectively borne by consumers, pursuant to Technical Note 392/2007-SFF/ANEEL, in the amount of R$ 13,795 thousand.

On January 12, 2010, aneel published Regulatory Resolution 387/2009, of December 15, 2009, determining that the concessionaires and permittees of electric energy distribution utilities made the calculations required for recovery of the final amount of Electricity from Independent Suppliers and Loss of Revenue, using the methodology of said Resolution, in order to calculate the final balances to be passed on to the generators.

The deadline for submission of such calculations to aneel was February 28, 2010, which should, by means of a Decision within 90 days, define the amounts that would be paid within 30 days.

On May 19, 2010, aneel published Decision 1,403, stipulating the reconciliation of the amounts of Electricity from Free Suppliers between the Generators and Distributors. The Company made such reconciliation, in accordance with Attachment II to said Decision and forwarded it to that Agency.

On August 26, 2010, aneel published Decision 2,517, establishing final transfer amounts of Electricity from Free Supplies updated through July 2010, considering the reconciliation forwarded by the Distributors and Generators that were signatories to the General Agreement of the Electric Sector. The amounts related to the overstated receipt of the Distributors amount to R$ 3,063 thousand as of December 31, 2011. However, in view of the Official Circular 938/2010-SFF/ANEEL, of September 24, 2010, Aneel suspended these liabilities until the judgment of the administrative appeal filed by the Company.

On September 28, 2010, a court decision on a lawsuit filed by Associação Brasileira de Distribuidores de Energia Elétrica – ABRADEE, suspended the financial transactions resulting from aneel Decision 2,517/2010 for several Distributors.

In March 2011, aneel published Decisions 1,072, 1,443 and 1,469 in response to various administrative proceedings filed by the concessionaries in view of aneel Decision 2,517/2010. aneel also published Decision 1,068/2011, establishing the final transfer amounts of Electricity from Free Supplies of Distributors Ampla, CPFL Paulista, CPFL Piratininga and Light, updated through February 2011, considering the reconciliation made in accordance with Attachment I to Decision 1,403, of 05/19/2010.

On April 4, 2011, aneel published Decree 1,469, which accepted the administrative appeal filed by the Company, and amended the amounts set out in aneel Decision 2,517/2010.

In the table below we show, by debtor, the amounts of the Regulatory Assets receivable by the Company and related to Electricity from Independent Suppliers, not included in the accounting records, in accordance with the international practices:

Amounts receivable	**12/31/2011**
Companies	**Amount (R$)**
EBE	3,554
CEB	904
Celpe	4,593
Cepisa	1,901
Coelba	4,497
Coelce	430
CSPE	145
Eletronorte	30,452
Eletropaulo	4,536
Energisa Paraíba	120
Energisa Sergipe	892
Escelsa	4,918
CPFL Piratininga	4,166
Light	9,570
CPFL	12,987
RGE	222
Total	**83,887**

Given the interpretation of aneel about non-realization of the accounts receivable from Electricity from Independent Suppliers, which resulted in significant losses to the Generators, the Company, jointly with companies of the Eletrobras System, is using efforts before the competent bodies and authorities to enforce its rights set forth in the General Agreement of the Electric Sector.

Lawsuits related to the short-term power recognized for the period from September/2000 to December/2002

Lawsuits filed against Aneel are in progress, referring to the short-term power sales recognized for the period from September/2000 to December/2002, carried out by the Electric Power Trading Chamber (CCEE). As part of the lawsuit, the Company may be required to pay the amount of R$ 285,923, in historical amounts. However, based on the opinion of its legal advisors, the risk of an unfavorable outcome in this lawsuit is classified as *possible*, and, therefore, there is no need to recognize a provision for this amount.

43 – ASSETS AND RIGHTS OF THE FEDERAL GOVERNMENT USED BY THE CONCESSIONAIRE

Pursuant to Accounting Instruction 6.3.13 of the Accounting Manual for the Electric Power Sector, the Company recognizes in subsidiary records the assets and rights of the Federal Government under a special use system, segregated by activity, in the amount of R$ 68,465 (adjusted cost), as shown below:

	12/31/2011								12/31/2010	
	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	(53,446)	3,412	-	-	-	-	4,549	-
Land	10	2,958	-	2,958	4	223	-	223	2,958	223
Buildings	223	1,688	(1,688)	-	2	13	(13)	-	-	1
Resettlement at the Itaparica Power Plant	1	5,201	(2,711)	2,490	-	-	-	-	2,698	-
Guadalupe Airport – Piaui	1	926	(926)	-	-	-	-	-	-	-
Access road to the Castelo Branco Plant	1	508	(508)	-	-	-	-	-	-	-
Others	-	-	-	-	3	90	(86)	4	-	7
Total	**237**	**68,139**	**(59,279)**	**8,860**	**9**	**326**	**(99)**	**227**	**10,205**	**231**

44 – EMPLOYEE AND MANAGEMENT COMPENSATION

Based on December 2011 and in accordance with the Company's salary policy, the highest and lowest monthly compensation paid to employees were R$ 40,243.01 and R$ 1,190.44, respectively. The highest fee payable to the Company's officers was R$ 32,909.01. Such compensation comprises fixed salaries, bonuses and additional amounts.

45 – ENVIRONMENT

The following are Chesf's individual expenditures to meet its environmental commitments:

Nature of the expenditures	12/31/2011			12/31/2010
	Use			
	Property, plant and equipment	Result	Total	Total
Maintenance of operating processes to improve the environment	4,024	1,412	**5,436**	**7,340**
Preservation and/or recovery of degraded environments	61	1,463	**1,524**	**1,273**
Environmental education for the community	23	904	**927**	**1,009**
Other environmental projects	14,036	2,046	**16,082**	**9,409**
Total	**18,144**	**5,825**	**23,969**	**19,031**

- *Maintenance of operating processes to improve the environment* comprises expenses 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 expenses for the performance 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 can relate to water, land or air 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* comprises expenses for other actions adopted by the Company aiming at the preservation of the environment.

The Company has environmental commitments in the amount of R$ 23,535, and expects to disburse R$ 15,898 in 2012, and R$ 7,637 as from 2013.

46-PERSONNEL TRAINING AND DEVELOPMENT (unaudited)

Chesf adopts the permanent policy of qualifying its managers and employees, and presented in 2011 and 2010 the following indicators:

Indicators	12/31/2011	12/31/2010
Number of employees who have undergone training	4,678	4,822
Man/hours of training	476,679	417,636
Average/hours of training	85.6	75.92
Rate of trained employees (%)	84	88
Trained workforce (%)	4.46	3.99
Total investment (R$ thousand)	9,075	7,695
Average amount invested per employee (R$ 1.00)	1,629	1,399

47 – SUBSEQUENT EVENTS

Pursuant to Normative Resolution 474/2011, of February 7, 2012, the National Electric Power Agency (Aneel) established new depreciation rates for in-service assets of electricity concessionaires and permittees, changing tables I and XVI of the Asset Control Manual of the Electric Power Sector (MCPSE) approved by Normative Resolution 367, of June 2, 2009. Concessionaires and permittees will calculate new periodic shares of depreciation starting January 1, 2012 in accordance with this Resolution.

Under Official Letter 1228/2011-SFF/ANEEL, of December 30, 2011, especially for the Company, Aneel extended until July 1, 2012 the deadline for adoption of Normative Resolution 367, of June 2, 2009, where it will be possible to better analyze the relevance of the new depreciation rates.

The Company expects no material effects of such changes since the depreciation rates of the assets of significant value have not been changed.

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

Swedenberger do Nascimento Barbosa
Director

Altino Ventura Filho
Director

Marilene Ferrari Lucas Alves Filha
Director

STATUTORY AUDIT BOARD

Pedro Gaudêncio de Castro
Chairman

Fabiana Magalhães Almeida Rodopoulos
Member

Marcelo Cruz
Member

BOARD OF EXECUTIVE 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

EXECUTION AND FINANCIAL/ECONOMIC CONTROL SUPERINTENDENCE

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

(A free translation of the original in Portuguese)

Report of Independent Auditors on the Financial Statements

To the Board of Directors and Stockholders
Companhia Hidro Elétrica do São Francisco

We have audited the accompanying individual financial statements of Companhia Hidro Elétrica do São Francisco ("Company" or "Parent Company"), which comprise the balance sheet as at December 31, 2011 and the related statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, as well as the summary of the main accounting policies and other notes to the financial statements.

We have also audited the consolidated financial statements of Companhia Hidro Elétrica do São Francisco and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2011 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the summary of the main accounting policies and other notes to the financial statements.

Management's responsibility on the financial statements

The Company's management is responsible for the preparation and adequate presentation of the individual financial statements in accordance with accounting practices adopted in Brazil and of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil, as well as for the internal controls which it has established as necessary to allow the preparation of these financial statements free of significant misstatements, whether caused by fraud or error.

Independent auditors' responsibility

Our responsibility is to express an opinion on these financial statements, based on our audit conducted in accordance with Brazilian and international auditing standards. These standards require that the auditor comply with ethical demands and that the audit be planned and performed to obtain reasonable assurance that the financial statements are free from significant misstatements.

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 controls relevant to the preparation and adequate presentation of the Company's financial statements in order to plan the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the 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 individual financial statements

In our opinion, the individual financial statements audited by us present fairly, in all material respects, the financial position of Companhia Hidro Elétrica do São Francisco as at December 31, 2011, the performance of its operations and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Companhia Hidro Elétrica do São Francisco and its jointly-owned subsidiaries as at December 31, 2011, the consolidated performance of its operations and of its consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

Emphasis

As described in Note 4.1, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Companhia Hidro Elétrica do São Francisco, these practices differ from IFRS, as far as the individual financial statements are concerned, only as regards the valuation of investments in subsidiaries, associates and jointly-owned subsidiaries under the equity method of accounting, as, for IFRS purposes, they would be valued at cost or fair value. We do not express a qualified opinion because of this matter.

Other matters
Supplementary information - Statements of value added

We have also audited the individual and consolidated statements of value added (DVA), for the year ended December 31, 2011, which are the responsibility of the Company's management and whose presentation is required by Brazilian Corporation Law for publicly-held companies, and as supplementary information under IFRS, as these do not require the presentation of DVA. These statements were submitted to the same audit procedures previously described and, in our opinion, are adequately presented, in all material respects, in relation to the financial statements taken as a whole.

Rio de Janeiro, March 7, 2012

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" PE

Gilberto Bagaiolo
Accountant CRC 1RS069038/O-o "T" 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, reviewed the **Management Report**, as well as the **Balance Sheet and other Financial Statements,** for the year ended December 31, 2011, based on the unqualified opinion of the independent auditors PricewaterhouseCoopers Auditores Independentes, issued on March 7, 2012, prepared in accordance with the auditing standards applicable in Brazil.

This Board was also informed of the proposal to be submitted for approval at the Company's Annual Stockholders' Meeting for allocation of the profit for the year, which includes distribution of dividends in the amount of R$ 1,197,170 thousand.

The Statutory Audit Board is of the unanimous 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.

Furthermore, the Statutory Audit Board unanimously endorses the **submittal of the aforementioned documents** to the Annual Stockholders' Meeting, as presented by the Board of Directors.

Brasília, March 7, 2012.

Pedro Gaudêncio de Castro
Chairman

Fabiana Magalhães Almeida Rodopoulos

Marcelo Cruz