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Management Report

2005

MANAGEMENT REPORT

The Stockholders,

Companhia Hidro Elétrica do São Francisco – Chesf is pleased to submit its Annual Management Report and the Financial Statements for the year ended December 31, 2005, accompanied by the Independent Auditors' Report and the Fiscal Council Report. All the documentation referring to the accounts presented is available to the stockholders, to whom the Directors will be honored to provide any further information required.

A WORD FROM THE BOARD OF DIRECTORS

In 2005, as a public electric power service concessionaire operating in an increasingly competitive environment, which resulted from consolidation of the industry's new model, Chesf had a good economic and financial performance, keeping itself sound and profitable.

The Company sought a balanced expansion for its business structure, focused on corporate sustainability, the following accomplishments being noteworthy:

- Substantial net profits of R\$ 746 million.
- Completion of implementation of a hybrid fuel natural gas-diesel oil system for operation of Camaçari's Thermoelectric Power Plant's five groups of turbogenerators.
- Participation in the Transmission Auction 001/2005, held by ANEEL – National Electric Power Agency, with a 12% quota in the Lot B winning business consortium, comprising the 500 kV Transmission Lines Colinas / Miracema / Gurupi / Peixe 2 / Serra da Mesa 2 and the 500 kV Substations Peixe 2 and Serra da Mesa 2.
- Award of national prizes in the Energetic Efficiency area: Recognition for Merit for Participation in the “Projeto Reluz-Cidade Eficiente”, awarded by the Fortaleza-CE Municipality, and “Menção de Destaque” in the “10º Prêmio Nacional de Conservação e Uso Racional de Energia 2005” in the category “Empresas do Setor Energético”.
- Completion of Certification under NBR ISO 9001 – Version 2000 at all its substations, power plants and operation centers.
- Development of a process mapping work relevant for identification of controls and minimization of related risks, aiming at the Eletrobrás Certification in compliance with section 404 of US Law Sarbanes-Oxley – SOX.
- Intensification of Social-Oriented Actions, consistently with the Federal Government's principles, through participation in multidisciplinary infrastructure, food security and human development programs in several regions where the Company operates.
- Incentive to cultural and artistic events by sponsoring 581 projects inspired in the Northeastern popular culture and sports.

Throughout its existence, Chesf has been tuned with the social and economic guidelines of the Federal Government in the Northeastern Region, operating as a socio-economic development catalyst by working towards the increase of regional participation in the Brazilian economy and the reduction in regional differences.

Aware of its social responsibility, Chesf focuses on the strengthening of citizenship through action in the scientific and technological research, in addition to education, health and environment, as well as sustainable development of the Northeastern region.

THE COMPANY'S PROFILE

Chesf, a mixed-economy, publicly-held company was formed pursuant to the Decree-Law number 8.031 of October 3, 1945, and organized at the 1st General Stockholders' Meeting held on March 15, 1948.

The generation system is composed of hydro-thermal plants, majority of hydraulic plants which are responsible for over 97% of its total production. Its current generating complex with 10.618 MW of installed capacity is composed of 15 power plants supplied by 9 reservoirs with storage capacity of 52 billion cu.m of water, as detailed below:

Power Plants	River	Installed Capacity (MW)
HYDROELECTRIC:	-	10.268,328
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
Apolônio Sales (Moxotó)	São Francisco	400,000
Luiz Gonzaga (Itaparica)	São Francisco	1.479,600
Xingó	São Francisco	3.162,000
Funil	das Contas	30,000
Pedra	das Contas	20,007
Castelo Branco	Parnaíba	237,300
Sobradinho	São Francisco	1.050,300
Curemas	Piancó	3,520
Araras	Acaraú	4,000
Piloto	São Francisco	2,000
THERMOELECTRIC:		350,000
Camaçari	-	350,000
TOTAL		10.618,328

As part of the SIN – National Interconnected System, Chesf exchanges energy with the North, South and Southeast/Mid-West systems.

Given the location of its main plants, Chesf is under the influence of the Northeast and Southeast hydrologic cycles, and accordingly, in the period 2004/2005, the main reservoir in the Northeastern region, Sobradinho, was at a mere 67% of its total useful volume at the end of the year.

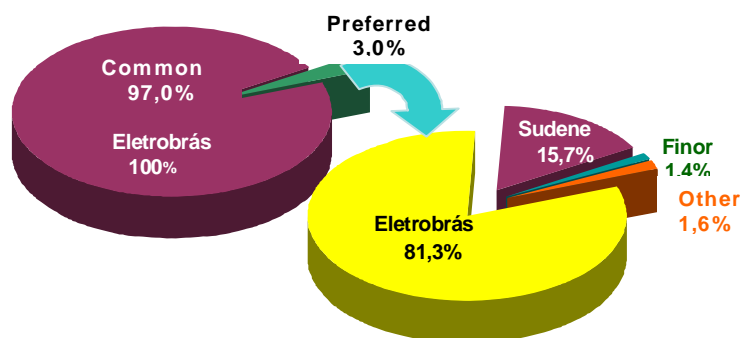
In 2005, the Company generated 49.480 GWh against 43.875 GWh in 2004, with a 13% growth. These variances were mostly due to a market on the rising, the SIN's conditions, and the policy of centralizing dispatches put into practice by the ONS – National Electric System Operator.

The transmission system, the first units of which became operative in 1954, covers the states of Alagoas, Bahia, Ceará, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and Sergipe, with 18.260 km of transmission lines in operation, of which 5.122 km are 500 kV transmission circuits; 12.329 km of 230 kV transmission circuits; 809 km of lower tension transmission circuits; 95 substations with higher than 69 kV tension and 698 transformers in operation, with a total transformation capacity of 40.090 MVA, plus 4.697 Km of optical fiber cables.

CORPORATE GOVERNANCE

Ownership

Capital of company, in the amount of R\$ 1.278,6 million, is comprised in 41.709.653 shares, of which 40.477.564 are common and 1.232.089 are preferred, all without nominal value. Of these, 99.45% is held by Eletrobrás, 0.46% by SUDENE, 0.04% by FINOR and 0.05% by other shareholders.



Relations with Investors

Chesf also keeps an updated document “Política de Divulgação de Informações ao Mercado de Capitais Sobre Ato ou Fato Relevante da Companhia” (Disclosure of Information to the Money market on Relevant Act or Fact for the Company) setting guidelines for good relationship between the Company and the Money Market, through an information channel at its site on the web www.chesf.gov.br, link “Relações com Investidores”.

Internal Controls and Auditing

With the objective of ensuring the best corporate governance practices, in 2005 the Company started a process mapping work relevant for identification of adequate controls and related risks, aiming at the Eletrobrás Certification in compliance with section 404 of US Law Sarbanes-Oxley – SOX, of United States of America.

Administration

The Company is administered by an Administrative Council and a Board of Directors.

The Board of Directors is composed of a Chairman, elected among the members of the Administrative Council, and up to 5 Directors, all Brazilian, who are elected by the Administrative Council for a 3-year tenure on a full time basis.

The Administrative Council is composed of a President and five (5) members, all shareholders elected at the General Stockholders' Meeting for a three-year tenure, who are entitled to re-election. One of the Administrative Council's members is appointed by the Ministry of Planning, Budgeting and Management.

The Fiscal Council, formed by three (3) regular members and three (3) substitutes, all Brazilian elected at the General Stockholders' Meeting for a one-year tenure. One regular member of the Fiscal Council and their substitute will be representatives of the Federal Treasury.

Code of Ethics

Chesf's principles and values follow its code of ethics and the Corporate Governance standards, all of which serve as a reference for its personnel..

ELECTRIC POWER ENERGY MARKET

The market projections point to increase of 4.8% an annual in the Brazilian electric power consumption to the period from 2005 through 2015, which represents 29.657 MW average at the end of 2015, i.e., an increase from the current 46.341 MW average to 73.998 MW average by 2015. The Northeast will see an average expansion of 4.8% p.a., the same as the growth forecast for Brazil, from 6.725 MW average to 10.712 MW average, on a single horizon.

This depicts point to the need for more energy generation sources, and a business expansion opportunity for the Company, now that it is entirely focused on the National Interconnected System.

ELECTRIC POWER COMMERCIALIZATION

In 2005 Chesf sold 49.911.009 MWh to twenty two Brazilian states, with a 2.2.% increase in relation to the 2004 sales. The states with the greater part were to Bahia (23.1%), São Paulo (14.4%) and Pernambuco (11.6%).

Of the total sales, the Northeast accounted for 31.359.134 MWh, or 62.8% , as compared to 18.551.875 MWh, or 37,2%. of the other regions. This distribution is due to the initial agreements with distributors from the Northeast, in force during the year 2005 , which finished at the end of the year.

The energy sold at auctions, the agreements of which were executed in 2005 totaled 30.731.531 MWh.

Three auctions of energy produced by existing enterprises were held, at which Chesf sold 530 MW average, the equivalent to 41.8% of the total traded at these auctions. And, 450 MW average of this total was sold for supply as from 2008 and 80 MW average as from 2009, all agreements being valid for eight-years.

Chesf also participated in auctions in the Free Engagement Environment, which resulted in 41 agreements signed with Sellers and Free Consumers, for varied supply periods. The main transactions performed at these auctions referred to long-term energy sales to Usina Siderúrgica do Ceará-USC (180 MW average, due to begin in December /2006) and to Gerdau Aços Longos - Ceará (15 MW average, started in October /2005).

OPERATING PERFORMANCE

In 2005 Chesf maintain high levels of Generation and Transmission availability, which contributed to its better operating performance. These results were influenced by the investment of human resources training and development, the improvement of intervention planning resources and the implementation of new equipment, transmission line, safety, control and supervisory devices techniques and maintenance procedures.

The company also implemented improvements in the transmission and generation systems, with the replacement of obsolete equipment, the digitalization of safety systems and the installation of Electro-Energetic System supervisory and control devices.

Actions to modernize the Operation Centers were taken, with implementation of advanced functions such as: status estimator, network configurator, alarm treatment system, and one system of operator training simulator to exercise its operators.

Supply the Chesf Telecommunications network, were added new services to the optical-digital transmission system services for the seaside route, thereby increasing the data transmission capacity, adding flexibility and availability to the services in connection due to the additional alternatives for operating data conveyance.

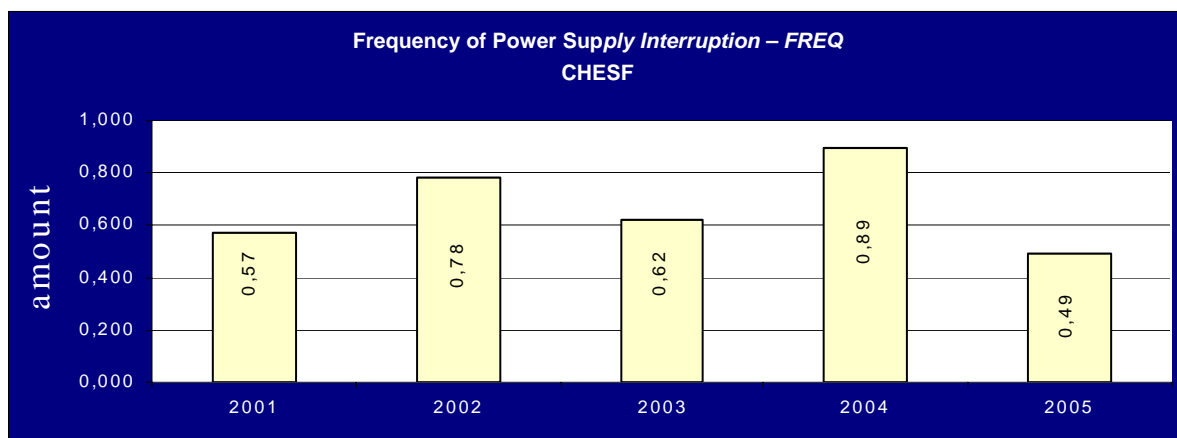
In 2005, Chesf also provided Operational and Maintenance services to other electric power concessionaires in the Northeast region, as supporter of 438.5 km of transmission lines of the Sistema de Transmissão Nordeste S.A. and Termobahia S.A. companies.

Performance Indicators

In 2005, the FREQ - Frequency of Power Interruption was the best in Chesf's history and the DREQ – Equivalent Power Interruption Duration also improved in relation to the previous year. A slight downward trend marked the Operational Availability Equivalent as compared to the previous year.

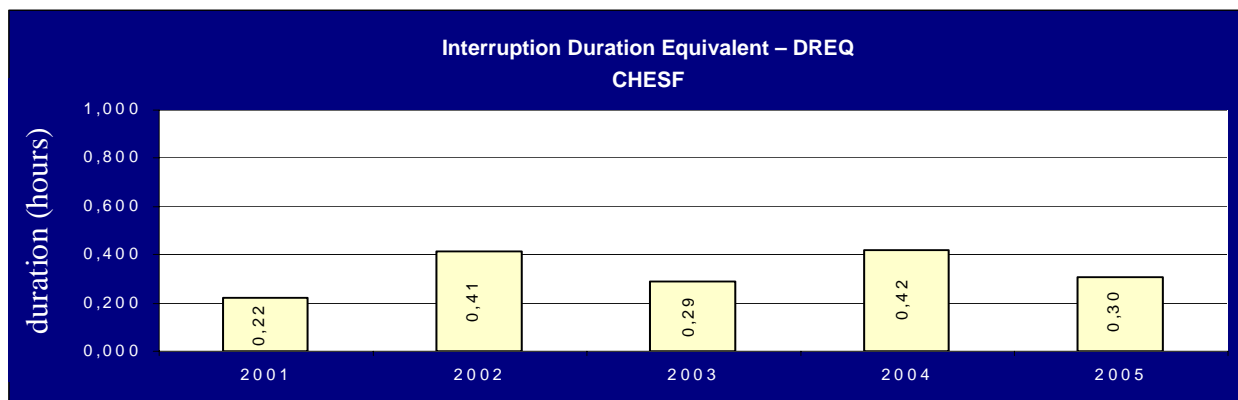
Frequency of Power Supply Interruption - FREQ

This indicates the equivalent number of electric power supply interruptions.



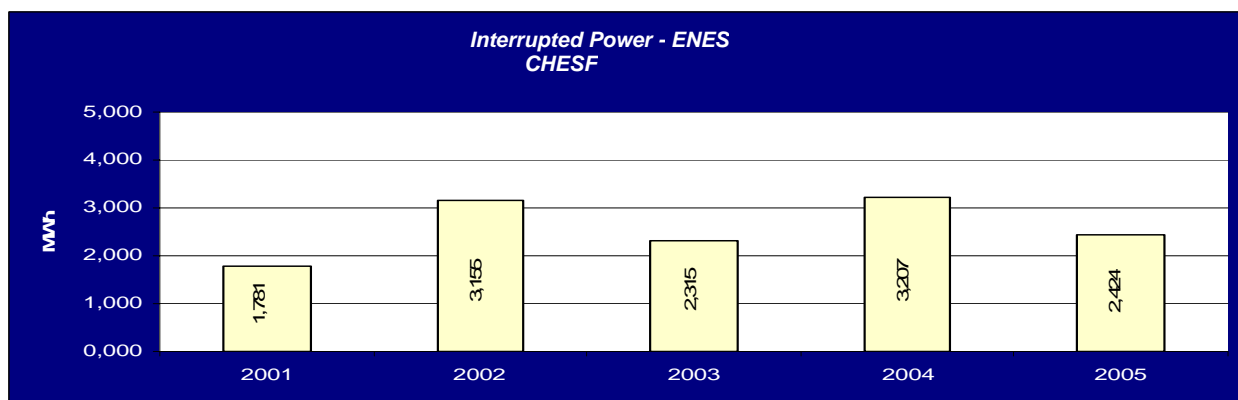
Interruption Duration Equivalent - DREQ

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



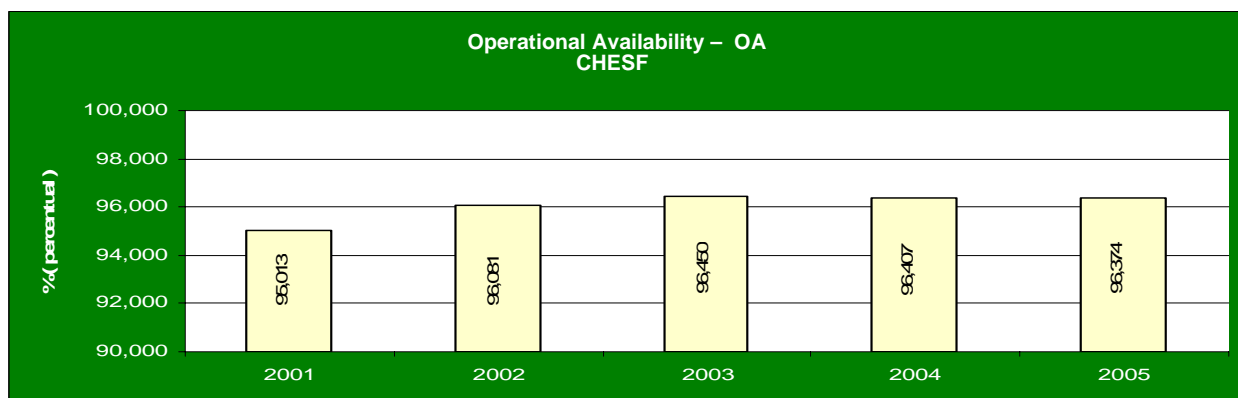
Interrupted Power - ENES

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



Operational Availability - OA

This indicates the likelihood of the equipment being operational, performing its functions, or ready to operate, at any given moment.



INVESTMENTS IN THE SYSTEM EXPANSION

This year, the financial resources invested by the Company in expansion of its electric system totaled R\$ 493,7 million, of which R\$ 283,6 million in the transmission system works; R\$ 167,3 million in energy generation and R\$ 42,8 million in infrastructure.

Below, the actions taken by Chesf for expanding the capacity of its electric system's production and transmission:

Generation

In terms of generation, as determined by the Ministry of Mining and Energy (MME), through the Electric Sector Monitoring Committee (CMSE), the Company completed the implementation of a hybrid-fuel system (use of diesel or natural gas) in the Camaçari Thermoelectric Power Plant and expanded its generation capacity from 174 MW to 350 MW, with concurrent improvement of its energy efficiency and reliability.

With the purpose of restoring operative conditions of the Boa Esperança Hydroelectric Unit (phase 1 and 2) to reliable levels, the restoring and re-rating services were completed in order to increase the availability of power from 55 MW to 68 MW.

As concerning modernization of the existing power plants, were started the digitalization work at 13 generating units of the hydroelectric power plants Paulo Afonso I, II and III. This work will enable centralization of command and higher operating reliability, among other benefits.

In the Hydroelectric Power Potentials Program, the following key actions were taken to increase the supply of power generation in the Northeast:

- In partnership with Construtora Queiroz Galvão and CNEC Engenharia S.A., the Company started technical, economic and environmental feasibility studies involving five potential hydroelectric sites detected in the inventory studies carried out on the River Parnaíba basin sites: Ribeiro Gonçalves (174 MW), Uruçuí (164 MW), Castelhana (94 MW), Cachoeira (93 MW) and Estreito (86 MW), in a total of 611 MW to be installed.
- In other partnership with Construtora Norberto Odebrecht, Engevix Engenharia S.A. and DESENVIX S.A. the technical, economic and environmental feasibility studies involving two potential hydroelectric sites identified by the inventory studies conducted by DESENVIX on the lower-mid São Francisco: Pedra Branca (320 MW) and Riacho Seco (240 MW), totaling 560 MW to be installed.

Both studies are due to be completed in 2006, with the expected to bid relating to the two potential hydroelectric sites being in 2007.

- In partnership with Construtora Norberto Odebrecht, the inventory studies involving the potential hydroelectric site Pão de Açúcar (270 MW), located on the lower São Francisco River, were completed. Supplementary studies requested by ANEEL were conducted, its approval being expected for the feasibility studies.

Transmission

The Chesf Transmission System was expanded with the completion of the following projects:

- The transmission lines (230kV): Sobral II / Sobral III (18 km long); Fortaleza II/Pici, (27.7 km long) and 3rd link between the Fortaleza II and Fortaleza I Substations.
- Re-rating of the 230kV transmission line Mossoró / Açu (71.3 km long), and re-rating of Links 1 and 2 between the Fortaleza II and Fortaleza I Substations.
- Eliseu Martins Substations - 230 kV 100 MVA – located in the Municipality of Eliseu Martins – PI.
- Increase in the transformation capacity of Sobral III Substation, 230/69 kV – 600 MVA.
- Increase in the reactive compensation capacity by 500 kV at substation Angelim II, with 150 MVar, and by 230 kV at the Campina Grande II Substation, with 30 MVar.
- Construction, assembly and energization of 8 line entries by 230 kV, of which one at the Fortaleza Substation, two at the São João do Piauí Substation, two at the Sobral II Substation and two at the Sobral III Substation, as well as a supplement of one line entry at the Pici Substation.
- Construction, assembly and energization of 4 line entries by 69 kV, of which one at the Banabuiú Substation, and a supplement of 3 at the Santo Antônio de Jesus Substation.

Chesf has been authorized by ANEEL to implement 1,200 MVA of transformation in the years 2006 and 2007, and a further 3,255 MVA until 2008, if necessary. Additionally, the invitation to bid for construction and granting of concession of 3,640 km of transmission lines is programmed for 2006, as 618 km of these are located in the Northeastern Region, there is the prospect of expansion of the Company's transmission system and the opportunity to participate in new businesses.

ECONOMIC-FINANCIAL PERFORMANCE

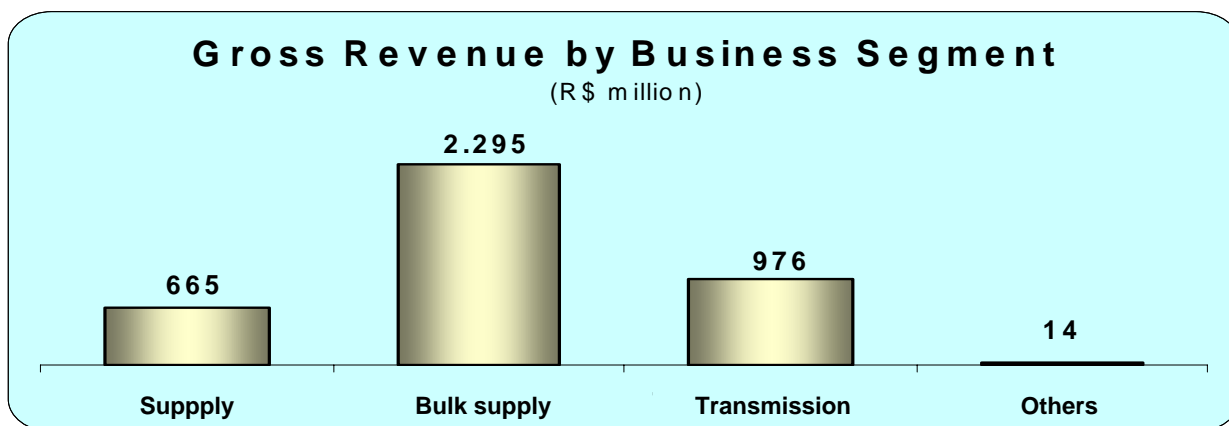
The Company's economic and financial performance in 2005 was good and consistent, thus confirming the trend to provide its stockholders profits and return.

Gross Operating Revenue

The Company's sales amounted to R\$ 3.949,6 million, 1.5% more than in 2004 (R\$ 3.890,8 million). The direct energy supply to industries fell by 1.2% and the supply to distributors and sellers by 4.7% in relation to the previous year. The Transmission Segment, in turn, rose by 23.6% over 2004.

It should be stressed that in the prior year, the Company's sales in the short-term market administered by the CCEE – Electric Power Commercialization Chamber amounted to R\$ 124,1 million, against R\$ 26.4 million in 2005. This decrease, coupled with changes in the invoicing of supply contracted with industries, whereby the basic network charges are now included in the transmission invoices, the revenues from energy sales fell. On the other hand, the higher transmission revenues were due to the

tariff adjustment and the new expansion and revamping work done at the basic network. Below, a statement of revenue by business segment in 2005:



Net Operating Revenue

The net operating revenue - R\$ 3.298,9 million – fell by 5.8% in relation to the R\$ 3.502,5 million of 2004, mainly due to the increase in contributions to the PASEP and COFINS, which totaled R\$ 307,6 million in 2005 against R\$ 136,3 million in 2004, with a total 125.7% growth.

Operating Costs and Expenses

In 2005, the operating costs and expenses totaled R\$ 1.849,5 million, against R\$ 1.681,1 million in 2004, with a 10.0% growth. This growth reflected the high increase – 136% - in non-manageable items such as *charges on use of the electric power network* (2005 - R\$ 367,3 million as compared to R\$ 155,7 million in 2004) and *financial compensation for water use*, which rose by 34,2% (R\$ 175,6 million in 2005, as compared to R\$ 130,8 million in 2004).

Service Income and Operating Margin

The performance of operating revenues, costs and expenses resulted in Service Income of R\$ 1.449,4 million, directly reflecting the behavior of its main activity, the electric power business, which was 20.4% lower than the R\$ 1,821.3 million recorded in 2004.

As a consequence, the Operating Margin (service income / net revenues) fell from 52.0% in 2004 to 43.9% in 2005.

Operating Cash Generation (EBITDA)

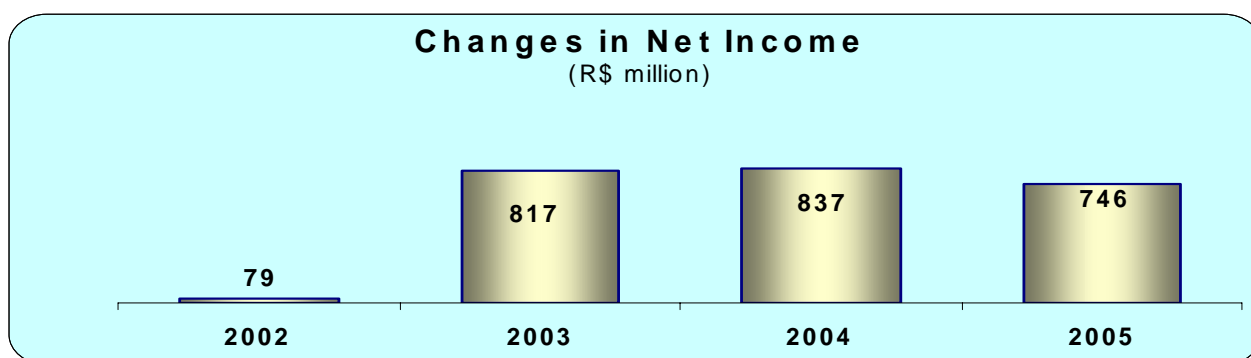
The operating cash generation as measured by EBITDA (pretax income, interest, depreciation and amortization) fell to R\$ 2.285 million in 2005, from R\$ 2.674 million in 2004, with a 14.6% decrease. This was basically due to a lower operating margin. The EBITDA in relation to net revenues – 69.3% -, in turn fell by 7.1 percent points as compared to 2004.

Financial Income

The net financial income for the year rose by 36.9% over 2004, with debits of R\$ 406,9 million and R\$ 645,0 million, respectively. The main reason was the reduced monetary variation and financial expenses on loans and financing, which amounted to R\$ 642,7 million in 2005, against R\$ 837,6 million in 2004.

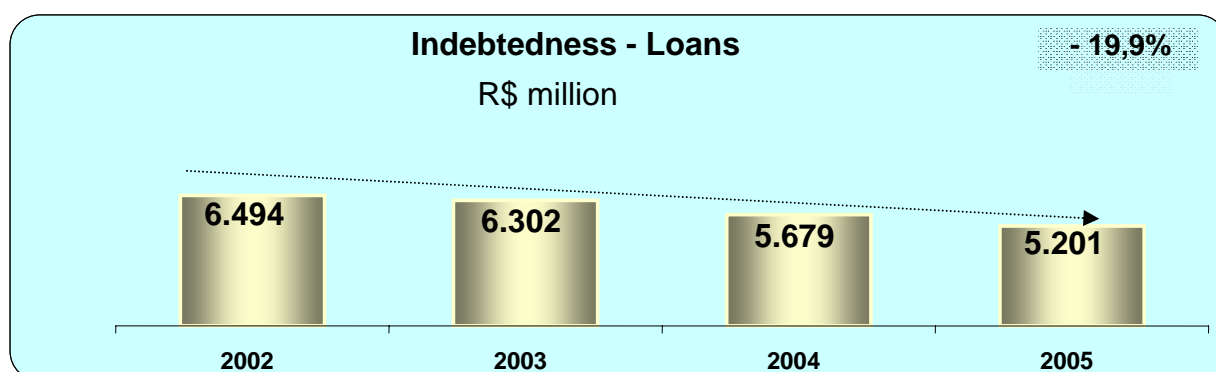
Net Income

Despite the rise in some non-manageable costs which exceeded the average revenue growth, the Company's net income in 2005 was R\$ 746,4 million, 10.8% below the R\$ 836.8 million recorded in 2004.



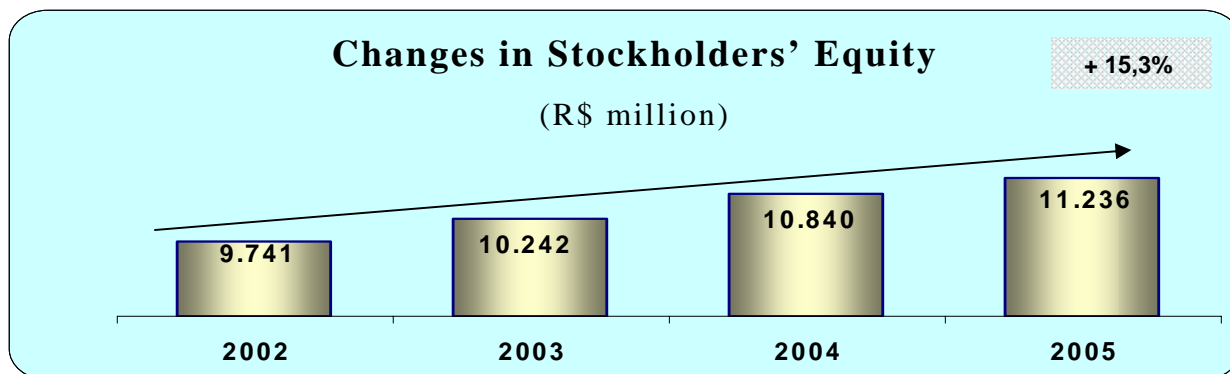
Indebtedness

At the end of 2005, the Company's debt (loans and financing) amounted to R\$ 5.200,9 million, against R\$ 5.678,7 million in 2004, having been reduced by 19,9% in the period from 2002 through 2005. The financial leverage as measured by the debt/equity ratio maintained its downward trend, falling from 1.52 at December 31, 2004 to 1.46 at December 31, 2005.



Stockholders' Equity

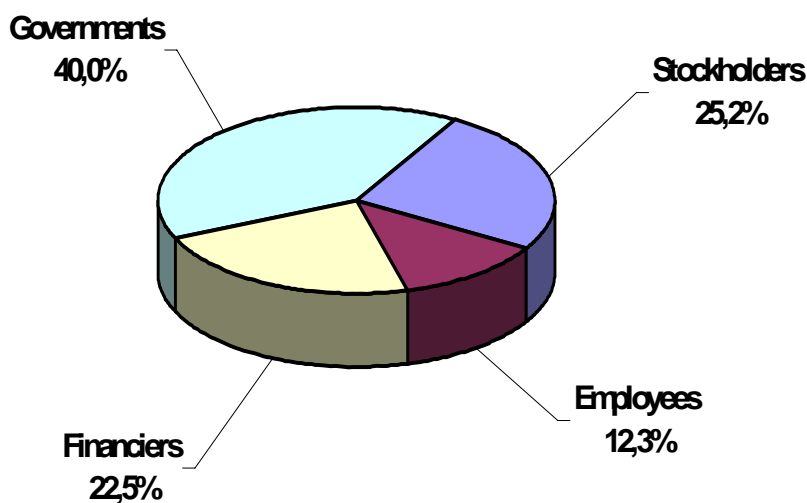
At the end of the year, the Stockholders' Equity totaled R\$ 11.236,0 million against R\$ 10.839,6 million at the end of 2004, with a 3.7% growth. This increase was the result of earnings partially retained since 2003, in order to fund substantial portions of the Company's investments.



Value Added

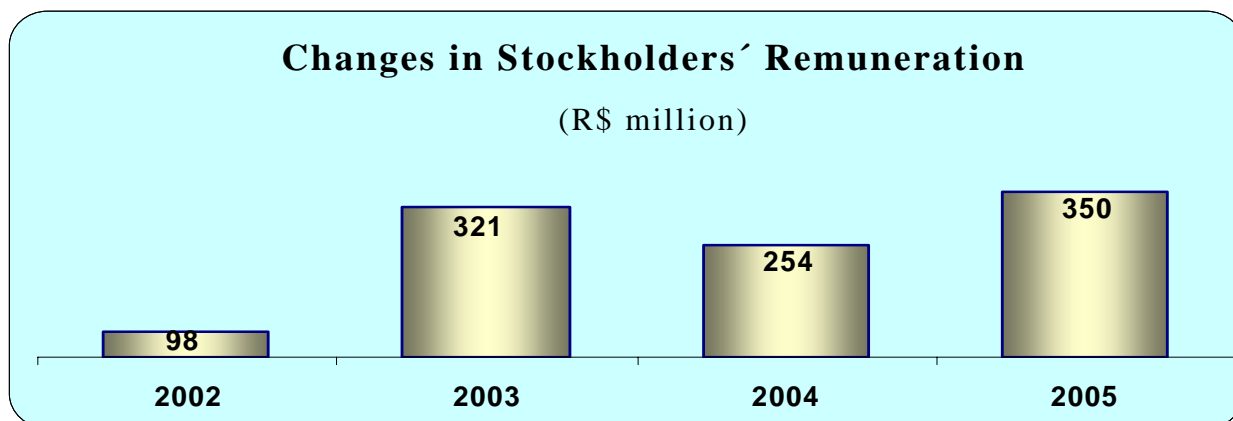
The Company's contribution to the Brazilian economic growth was R\$ 2.961,7 million of value added, the equivalent to 75.0 % of its revenues, down from the 80,1% recorded in 2004, with a 5-percent-point reduction. This amount was given in return to the society as a whole, by way of salaries, payroll taxes and benefits to its employees and their families (12.3%); taxes, rates and contributions to the municipal, state and federal governments (40.0%); interest paid to the financiers of assets and services (22.5%); and profits and return to stockholders (25.2%).

Value- Added Distribution



STOCKHOLDERS' REMUNERATION

Based on the income for the year 2005, the Company's management intends to propose to the General Stockholders' Meeting gross remuneration of R\$ 350 million, thus composed: R\$ 230 million of interest on own capital and R\$ 120 million of dividends, the equivalent to R\$ 8.39 per share, both common and preferred. This represents a 37.7% increase over the remuneration paid in 2004: R\$ 254 million in the equivalent to R\$ 6.09 per share.



RELATIONS WITH INDEPENDENT AUDITORS

The Company's policy for engagement of independent auditors relies on principles that preserve their independence. Accordingly, a service contract was signed with the auditing firm BDO Trevisan Auditores Independentes on 12/17/2002, covering the period from December 2002 through May 2007. It should be stressed that in compliance with CVM Instruction 381, of 01/14/2003, ratified by the Circular Letter/CVM/SNC/SEP/number 02/2005, of 08/24/2005, no other service contract exists with this firm.

SHAREHOLDING

In partnership with Companhia Técnica de Engenharia Elétrica - ALUSA, the Company holds 49% of the voting capital of STN - Sistema de Transmissão Nordeste S.A., founded in 2003, for exploring the concession for installation of the National Interconnected System's basic network in Teresina II – Sobral III - Fortaleza II stretch, with 500kV. These works were completed on 12/19/2005 and the commercial operation stage started on 01/01/2006.

RESEARCH AND DEVELOPMENT PROGRAM

One of the key reasons for the Company's success throughout its history is the ongoing investment in cutting-edge technology to implement its physical systems. To that fact, and considering the provisions of Laws 9.991/00 and 10.847/04, including the funding opportunities provided by the Sectorial Funds, Chesf has been developing Research & Development programs with some of the most prestigious schools in the country. These projects include the wide scope of activities directly and indirectly involved in the value chain of the Company's business.

The results are very promising as these efforts act as catalyzes of one of the key tools for any country's development: the joint efforts of schools, with their research centers, and business. With that focus, a number of Master's and Doctor's courses are being developed around the said projects, which become more straightforward and efficient by focusing on solution of real-world problems as observed in practice in the electrical system operation. As a consequence, the Chesf technical staff is developed by focusing on the search of scientific excellence, producing a body of knowledge that is consistent with the current state of the art.

The year 2005, specifically, was marked by the first results of R&D projects submitted to ANEEL, under the Company's program for this area. 19 projects were completed with important results, not only for the Company, but also for teaching and research entities, ultimately favoring the Electric Sector as a whole.

Still in 2005, the Chesf's Research and Development Program, cycle 2003/2004, was entirely approved by ANEEL. This program includes 23 projects now being contracted with Brazilian teaching and research entities, which involve some R\$ 14 million in resources. Also, 37 projects referring to the 2004/2005 cycle were submitted to ANEEL, involving resources in the amount of R\$ 15 million.

Also noteworthy are projects under development by the CEPEL – Electric Power Research Center, using statutory contributions of the Eletrobrás's System supporting partners, among which is Chesf, whose contribution represents 8% of CEPEL's annual budget.

SOCIALLY-ORIENTED ACTIONS – AN ASSESSMENT

Throughout its existence, Chesf has played an important role in the development of the Northeastern Region. Its mission includes Social Responsibility represented by contributions to social and economic development and better quality of life for people living in the areas covered by the Organization.

Human resources management, interaction with suppliers and relations with external communities, as well as maintenance of environmental quality are the focus of the Company's main programs involving education, health, environment, culture and incentive to sustainable development, all intended to strengthen citizenship and regional development.

Chesf relies on the Ethos's Social and Corporate Responsibility indicators for self-evaluation, using the results for drawing up an Improvement Plan to be implemented in the 2006/2007 two-year period.

PEOPLE MANAGEMENT

The maintenance of its own work force, qualitatively and quantitatively well sized, is essential for developing the Company's business plans. Accordingly, in 2005, after hiring 237 employees from different backgrounds, who passed a Public Contest, the Company ended the year with 5,628 employees at its various plants, almost all located in the Northeast. The personnel turnover rate for the year was 4.22%.

The Company proceeded with its Competency-based People Management Model, under which several functions will be performed based on professional competence (knowledge, abilities and attitudes) defined as essential for Chesf's businesses. By adopting this model, the Company will improve the management of its intellectual assets and bring the human resources strategies into line with the business strategies, all for better corporate results.

Relations with Unions

Regarded as its most important asset, people management deserves special attention from Chesf. That is why each year its employees' participation in management increases through their unions, with which a mutual respect relation is maintained. This year, the unions participated in four equally-composed commissions for developing people management projects, namely: Anotação de Responsabilidade Técnica (Technical Responsibility Recording), Plano de Cargos, Carreira e Salários (Job, Career and Salary Plan), Passivo Trabalhista (Labor Obligations), Saúde e Segurança no Trabalho (Labor Health and Security), all under way.

Organizational Atmosphere

To Chesf, knowing and taking its employees' needs and desires into consideration is fundamental, and accordingly, the organizational atmosphere is periodically assessed. The report on the 4th periodical research, in which 76.9% of employees participated, was completed early in 2005. According to this research, 87.9% of the participants find that Chesf is an excellent place to work, the favorable impression on the atmosphere remaining at the same level of the previous research. Based on an analysis of the research findings and suggestions made by the employees, the Company held workshops for defining corporate and sectoral actions to be taken for improving the organizational atmosphere.

Employees' Compensation, Benefits and Profit-Sharing

One of the management's concerns is to maintain its employees' compensation in line with the market and provide highly competitive benefits and profit sharing, contingent upon accomplishment of previously set targets. In 2005, R\$ 43,5 million was distributed, after accomplishment of 100% of the corporate goals agreed upon in the previous year.

Chesf proceeded with the “Programa de Assistência ao Portador de Deficiência” (Assistance to Disabled People Program) which assists employees and their families with disability or special needs, who numbered 335 in 2005. Besides providing specialized treatment, Chesf bears education, equipment and orthopaedic devices acquisition expenses. The new “Manual de Benefícios da Empresa” (Chesf's Benefits Manual) was translated into Braille to facilitate access thereto by visually impaired employees and their families.

The employees receive meal allowances (“tickets”), Day-Care Assistance and supplementary Disease-Allowance, when on leave of absence for medical reasons.

Since they join Chesf, the employees are stimulated to adhere to the Private Pension Fund administered by FACHESF – Chesf's Assistance and Social Security Foundation, which at the end of 2005 had 12.287 participants, 5.298 of whom are active and 6.989 assisted. Also, the Company maintains a “Programa de Preparação para Aposentadoria” (Preparation-for-Retirement Program) which is designed to enable employees to lead the best possible post-retirement life.

Diversity Valuation

In Chesf's view, enhancing diversity is fundamental for ensuring a healthy and solidary organization atmosphere. To this end, in 2005, it started the “Programa para Equidade de Gênero” (Sex Equality Program), whereunder employees had the opportunity to attend to specialized lectures on subjects such as: “A Trajetória da Mulher na História” (Women's Historical Route); “Direitos da Mulher” (Women's Rights); “Participação Política das Mulheres e Acesso ao Poder” (Women's Participation in Politics and Access to Power); “Prevenção à Violência Contra a Mulher” (Prevention of Violence against Women); and “Prevenção ao Assédio Moral e Sexual” (Prevention of Moral and Sexual Harassment).

Investment in Professional Development

In 2005, among Chesf's investments in its employees' professional development is 80.46 hours of training per employee on average, or the equivalent to 4.19% of working hours, which represents an average investment of R\$ 1.342,22 per employee.

Development and specialization courses in several areas of interest for the Company were held..

The “Programa Chesf de Educação à Distância – CONEXÃO” (Chesf's Distance Learning Program) was the pillar for expansion of professional development actions, with 291 courses given at all the Company's main plants in the states of Piauí and Bahia.

Health, Security and Working Conditions

In the health care field, several programs and campaigns planned based on the employees's health profile and absenteeism for medical reasons were put into practice. Many of these were of a preventive nature, namely: the collective vaccination against influenza; lectures, health advice, ergonomic exercises at work site. In 2005, the “Monitoramento Biopsicossocial” (Bio-psycho-social Monitoring), originally aimed at the Company's maintenance workforce was extended to all the other departments. A course in food handling was given to owners and employees of restaurants in the neighborhood of Chesf's headquarters where its employees usually eat.

Other health-oriented actions proceeded, such as the “Plano de Ação Emergencial” (Emergency Action Plan) consisting of visits to employees absent for over 60 days and systematic monitoring of health conditions of specific employee groups.

In 2005, 97.08% of Chesf's employees had periodical medical examination, which are performed taking into account each employee's activity and profile.

The Company's heavy investment in educational and preventive actions was intended to reinforce security at work. The result was a 7% reduction of occupational accidents in relation to the previous year, a significant decrease in traffic accidents with 25% less occurrences.

SOCIAL-ENVIRONMENTAL RESPONSIBILITY

MAIN COMMUNITY-ORIENTED ACTIONS

With a view to enhancing social projects oriented towards the community, the Company entered into partnership with government agencies, civil entities, and third sector's entities to implement several projects designed to assist destitute people living around its generation and transmission facilities in some big cities and other municipalities in the Northeastern Region.

For developing social responsibility actions, three macro-programs were structured by Chesf, as follows: “Programa de Geração” (Generation Program) covering micro-regions where hydroelectric power plants and reservoirs are located; “Programa de Transmissão” (Transmission Program) covering all municipalities where substations or transmission lines are located; and “Programa de Regiões Metropolitanas” (Metropolitan Regions Program), including municipalities in metropolitan areas of eight capital cities where its main facilities are installed.

Government-Sponsored Social Programs

Tuned with the Federal Government social programs, Chesf implemented several actions connected with the “Plano Nacional de Políticas para as Mulheres” (National Political Program for Women) and the “Programa Luz Para Todos” (Light for All).

The result was several actions designed to improve women's conditions such as: development, health care, violence prevention and citizenship enhancement in poor communities surrounding Chesf's facilities in Recife, Salvador, Teresina, Paulo Afonso and Sobradinho, where 2,700 women were assisted.

Intended to supply electric power to 10 million people in the Brazilian rural area without access to this utility, until 2008, the “Programa Luz Para Todos” is put into practice by Eletrobrás and its subsidiaries, under the coordination of the Ministry of Mining and Energy. Chesf is in charge of coordinating the electric power supply in the Northeast where 162,000 connections were made in 2005, benefiting 932,000 people.

Education

In 2005, with an outstanding participation in the effort to improve education in the Northeast, Chesf has several projects under way at communities located in the generation facilities, namely: “Formação de Equipes Pedagógicas” (Formation of Teaching Teams); “Acompanhamento Pedagógico em Sala de Aula” (Teaching Follow Up at Classrooms); “Oficinas Pedagógicas para Educadores” (Teaching Workshops for Educators); and “Alfabetização para Jovens e Adultos” (Young and Adult Literacy).

In the Recife and Salvador urban areas, the projects implemented enabled improvement of the quality of school facilities and equipment of schools and day-care units at low-income communities, supplementary schooling and food for children and adolescents; development of adolescents' entrepreneurship abilities; violence prevention and citizenship promotion, all of which benefited 851 young people and children.

A project for developing 75 disabled people's capacity was put into practice, in order to prepare them for entering the labor market and earn income of their own, thus becoming autonomous.

Under the two-year long “Programa de Aprendizagem” (Learning program), highly skilled 62 adolescents from several Chesf's areas were given the opportunity to have their first job.

The Company's program for supplementing trainees' professional background prepared 174 trainees from mid- and university level, while the “Programa de Estágio para Pessoas com Deficiência” (People with Disability's Training Program) open to 16 trainees made it possible for them to start working.

Health

At the Nair Alves de Souza hospital maintained by Chesf in Paulo Afonso-BA, 257.900 people coming from 20 municipalities in the states of Bahia, Pernambuco, Alagoas and Sergipe were attended to in 2005. This year, the Company invested some 15 million in implementation of improvements and the hospital maintenance.

Faithful to the Rio São Francisco revitalization concept, health and sanitation actions were taken (sewage implementation projects).

In the public health field, the municipalities which already have or are about to have household water treatment systems count on Chesf's support to improve their water treatment stations, expand their capacity and modernize and improve the efficiency of its equipment, so as to minimize risks of disease transmission among rural population through water use.

In partnership with governmental and non-governmental entities, Chesf held several workshops on breast-milking, multimix and serum preparation, leprosy, tuberculosis, high blood pressure and diabetes, breast and uterus cancer prevention, and DST/AIDS prevention, with distribution of reading material and female and male contraceptive devices. Also, 840 women living in the communities near the Company's plants in Recife-PE, Salvador-BA, Paulo Afonso-BA, Sobradinho-BA and Teresina-PI benefited from specialized tests and examinations such as breast ultrasound, mammography and colposcopy.

Culture and Sports

Chesf continued to encourage a number of initiatives in cultural and sports areas, by promoting local artists, cultural development projects using music, dance, theater, plastic arts, literature, and cinema, and athletes who stood out in some sports such as lawn tennis, swimming, beach volley and horse riding.

Also, its efforts to preserve the Archeology and Historical Assets in the Lagos do Rio São Francisco region were maintained.

In 2005, 581 projects inspired by the Northeast popular culture and sports were sponsored, involving R\$ 17,5 million, with what Chesf's repute as culture and sports supporter increases, reinforcing its name and conveying a positive institutional image among the members of the communities where it operates.

Itaparica Relocation Program

In 2005 Chesf invested R\$ 100,7 million in the Itaparica Relocation Program, 26.1% of which in works, services and acquisition of equipment for implementation of new projects and rural infrastructure improvements in the areas involved and 73.9% in assistance to relocated people and farming production in the same areas, environmental protection programs, indemnity to the indigenous community of Tuxá, regularization of title to property, and management actions.

As far as project implementation is concerned, the pressure water main system and gravity network works proceeded, while the pump house, command and substation construction and the adjustment of the household water supply system under the “Projeto Barreiras Bloco 2” was completed. As for the “Projeto Jusante”, invitations to bid for acquisition of equipment and engagement of constructors of the pressure water main system and the reservoir are being issued.

The improvement of irrigated areas in use continued by means of rural infrastructure works, among which the following stand out: adjustment of the household water supply system, fence recovery, water meter installation, automation of pumping stations, implementation of draining systems and improvement of electric installations.

With respect to assistance to relocated people and production in the irrigated areas in use, Chesf bore the costs of operation, maintenance, electric power supply, technical assistance and rural extension and paid the Verba de Manutenção Temporária – VMT (Temporary Maintenance Allowance) to relocated people whose irrigated lot was not ready for production yet. Also, environmental protection programs and assistance for obtaining licence for operating in the irrigated areas were provided.

Additionally, Chesf managed and funded public health, potable water supply and road maintenance services in municipalities located in the Relocation area with which no agreement for transfer of these services had been signed.

As regards the relocation of the indigenous community of Tuxá, the Company paid indemnities for houses built and a “Provisão Temporária de Subsistência” (Temporary Subsistence Provision) as required under the “Termo de Ajustamento de Conduta (TAC)” (Term of Conduct Adjustment) signed with the Federal Public Prosecution Office and FUNAI.

Actions concerning the regularization of title to rural and urban property were taken, with payment of “Verba de Apoio à Produção – VAP” (Production Support Allowance) to relocated people who came into possession of irrigated plots of land suitable for agriculture.

Also, the assignment of title of two remaining rural areas to INCRA (National Settlement and Agrarian Reform Institute) was authorized, for purposes of the Federal Government agrarian reform. These areas measuring 9,064 ha. are located in the municipalities of Itacuruba and Santa Maria da Boa Vista, in the state of Pernambuco.

Lastly, the discussions between Chesf and Codevast on the transfer of management of land in use were resumed, with the involvement of the Ministry of Mining and Energy, National Integration and the the Civilian House of the Presidency of the Republic. Chesf's participation is expected to be gradually reduced until total withdrawal.

ENVIRONMENTAL QUALITY AND MANAGEMENT OF ENVIRONMENTAL IMPACT

From its economic, social and environmental sustainability perspective, Chesf is careful about the use of its generation and transmission assets and the storage and handling of hazardous products.

All the Company's generation units operate under environmental licenses and studies are being conducted for regularization of existing transmission enterprises, ultimately aiming at obtaining license for all its transmission complex. It is worth mentioning that in 2005, Chesf was neither fined nor assessed for breach of environmental legislation.

Committed as it is to the environment protection, Chesf assigned some R\$ 8,5 million to the following environmental programs:

- “Programas de Educação e Saúde Ambiental (PESA)” (Environmental Education and Health Programs) intended for communities surrounding the transmission and generation enterprises. These programs involve 23 municipalities, with training of 2,175 people and 558 multipliers.
- “Programas de Comunicação Sócio-Ambiental (PCSA)” (Social-Environmental Communication Programs) in several communities, with the participation of 2,754 people from 7 municipalities.
- “Programa de Prevenção e Controle de Queimadas” (Fire Prevention and Control Program), providing training to 144 people from 4 municipalities.
- Programs dealing with studies and monitoring of water eco-systems including “Monitoramento Limnológico da Qualidade da Água” (Limnologic Monitoring of Water Quality); “Monitoramento da Cunha Salina” (Salt Water Wedge Monitoring), “Monitoramento e a Conservação da Fauna Aquática” (Monitoring and Preservation of Water Fauna); “Resgate de Peixes em Paradas de Máquinas e Fechamento de Vertedouros,” (Fish Rescue upon Machine Stop and Spillway Closing) and “Levantamento e Monitoramento de Tanques-Rede” (Identification and Monitoring of Network-Tanks); “Levantamento de Potenciais Poluidores dos Reservatórios” (Identification of Potential Reservoir Polluting Agents); and “Transferência de Tecnologia para Produção de Surubim” (Technology Transfer for Creation of Surubim fish).
- Programs dealing with flora and fauna studies and monitoring including “Monitoramento das Matas Ciliares” (Monitoring of Riverside Woods); “Programa de Produção de Mudas Nativas da Caatinga” (Production of Native Caatinga Cuts); “Monitoramento da Avifauna, Herpetofauna e Mastofauna” (Monitoring of Birds, Reptiles and Mammals); “Monitoramento das Áreas de Reserva Legal” (Monitoring of Legal Reserve Areas); “Levantamento Fitossociológico” (Phyto-Sociological Survey); “Projetos Paisagísticos” (Landscaping Projects); “Monitoramento da Flora nas áreas de reserva legal” (Monitoring of Legal Reserve Flora); “Programa de Poda e Corte Seletivo da Vegetação” (Pruning and Selective Cut of Vegetation Program); “Programa de Replante Seletivo das faixas de Servidão” (Selective Re-Planting of Roadside Areas); and “Programa de Monitoramento da Flora das faixas de servidão das linhas de transmissão” (Monitoring of Flora on the Roadside Areas under Transmission Lines).
- Programs dealing with monitoring of environmental risks caused by hazardous residues: “Monitoramento das Emissões Atmosféricas” (Monitoring of Atmospheric Emissions); “Análise de Perigos e Operabilidade – HAZOP” (Analysis of Hazards and Operability); “Descarte das Embalagens de Agrotóxicos” (Pesticide Packaging Disposal); “Descarte de Baterias Chumbo-ácido” (Acid-Lead Battery Disposal); and “Descarte de Resíduos da Construção Civil dos Silos de Bauxita” (Disposal of Construction Debris from Bauxite Silos).
- “Programa de Levantamento Arqueológico” (Archeological Survey Program) aimed at preserving social and cultural assets.
- Environmental programs consisting of: “Recuperação de Áreas Degradadas” (Recovery of Degraded Areas); “Controle e Monitoramento de Processos Erosivos” (Control and Monitoring of Eroding Processes); “Reuso de Água Residual para Aproveitamento Hidroagrícola através de Reatores” (Re-Utilization of Residual Water for Hydro-Agricultural Purposes, through Reactors).
- Other programs developed: “Demarcação e Sinalização das áreas de Reserva Legal” (Demarcation and Signaling of Legal Reserve Areas); “Balizamento e Sinalização Náutica,” (Nautic Signaling); “Sobre a Produção Agrícola” (Agricultural Production Study); “Programa de Prevenção e Controle de Incêndios Florestais” (Forest Fire Prevention and Control Program).

SOCIO-ENVIRONMENTAL INFORMATION

Below, the main social indicators representing Chesf’ social and corporate responsibility towards its co-workers and the community where it operates:

SOCIO-ENVIRONMENTAL INFORMATION

(Expressed in thousands of Reais)

1 - Wealth generation and distribution		In 2005:		2.961.689		In 2004:		3.118.518					
Value-Added Distribution		40,0% government		12,3% employees		33,6% government		11,1% employees					
The DVA - Value-Added Statement is fully disclosed jointly with the Financial Statements.		25,2% shareholders		22,5% financiers		26,8% shareholders		28,5 % financiers					
2 - HUMAN RESOURCES		In 2005:				In 2004							
2.1 - Compensation													
Payroll - Gross (FPB)		389.821				343.359							
- Employees		387.474				341.243							
- Management		2.347				2.116							
Relationship between the highest and the lowest compensation:													
- Employees		24,2				26,9							
- Management		1,0				1,0							
2.2 - Benefits Granted		Amount (000)		% on FPB		% on RL		Amount (000)		% on FPB		% on RL	
Payroll taxes		84.819		21,8%		2,6%		75.767		22,1%		2,2%	
Meals		28.052		7,2%		0,9%		25.156		7,3%		0,7%	
Transportation		654		0,2%		0,0%		1.446		0,4%		0,0%	
Private pension funds		20.414		5,2%		0,6%		18.798		5,5%		0,5%	
Health care		28.558		7,3%		0,9%		19.210		5,6%		0,5%	
Labor security and medicine		2.146		0,6%		0,1%		1.702		0,5%		0,0%	
Education		4.555		1,2%		0,1%		4.141		1,2%		0,1%	
Culture		-		0,0%		0,0%		-		0,0%		0,0%	
Professional development		6.674		1,7%		0,2%		4.285		1,2%		0,1%	
Day-care and day-care allowance		539		0,1%		0,0%		451		0,1%		0,0%	
Profit sharing		43.476		11,2%		1,3%		37.707		11,0%		1,1%	
Total		219.887		56,4%		6,7%		188.663		54,9%		5,4%	
2.3 - Personnel Composition													
Number of employees at year end		5.628								5.625			
Nunber of employees hired		237								173			
Number of employees dismissed		234								117			
Number of trainees at year end		17								179			
Number of employees with special needs at year end		39								35			
Number of service providers on an outsourcing basis at year end		-								-			
Number of employees by gender:													
- Men		4.495								4.487			
- Women		1.133								1.138			
Number of employees by age:													
- Below 18 years of age		-								-			
- From 18 to 35 years of age		980								854			
- From 36 to 60 years of age		4.468								4.623			
- Above 60 years of age		180								148			
Number of employees by level of schooling :													
- Illiterate		21								24			
- Basic schooling		1.286								1.348			
- Intermediate schooling		858								875			
- Technical schooling		2.045								1.961			
- Superior schooling		1.247								1.238			
- Post-graduates		171								179			
Percent distribution of people in chief positions, by gender:													
- Men		87,3%								87,6%			
- Women		12,7%								12,4%			
2.4 - Labor contingencies and obligations:													
Number of labor actions filed against the entity		1.252								1.035			
Number of labor actions deemed valid		225								212			
Number of labor actions deemed unfounded		256								235			
Justice		1.050								5.316			
3 - Interaction between the Entity and the External Environment		Amount (000)		% on RO		% on RL		Amount (000)		% on RO		% on RL	
3.1 - Relations with the Community													
Total investment in:													
Education		2.311		0,3%		0,1%		1.426		0,2%		0,0%	
Culture		15.401		1,9%		0,5%		14.202		1,5%		0,4%	
Health care and infrastructure		283		0,0%		0,0%		1.520		0,2%		0,0%	
Sports and leisure		1.995		0,2%		0,1%		581		0,1%		0,0%	
Meals		1.360		0,2%		0,0%		749		0,1%		0,0%	
Employment and income generation		2.541		0,3%		0,1%		-		0,0%		0,0%	
Relocation of families		100.755		12,4%		3,1%		89.683		9,7%		2,6%	
Total investments		124.646		15,3%		3,8%		108.161		11,7%		3,1%	
Taxes (payroll taxes excluded)		648.343		79,8%		19,7%		559.590		60,7%		16,0%	
Financial compensasion for water use		175.566		21,6%		5,3%		130.790		14,2%		3,7%	
Total - Relations with the Community		948.555		116,7%		28,8%		798.541		86,6%		22,8%	
3.2 - Interaaction with Suppliers		Required controls on :											
Social responsibility criteria used for selecting suppliers		Environmental risks, environmental work conditions, medical control on environmental health, work-by-night or unhealthful work practice by people under 18 years of age.											

4 - Interaction with the Environment	In 2005			In 2004		
	Amount (000)	% on OR	% sobre NR	Amount (000)	% on OR	% sobre NR
Investments in and maintenance expenses arising from operational processes for environmental improvement	5.730	0,7%	0,2%	3.867	0,4%	0,1%
Investments and expenses on preservation and/or recovery of degraded environments	972	0,1%	0,0%	663	0,1%	0,0%
Investments in expenses on environmental education of employees, outsourced personnel, autonomous employees and the entity's management	74	0,0%	0,0%	45	0,0%	0,0%
Investments in and expenses on environmental education of the community	1.707	0,2%	0,1%	1.312	0,1%	0,0%
Investments in and expenses on other environmental projects	-	0,0%	0,0%	-	0,0%	0,0%
Quantity of environmental, administrative and legal processes filed against the entity	6	0,0%	0,0%	-	0,0%	0,0%
Fines and indemnities relating to environmental issues, determined at administrative level and/or in court.	-	0,0%	0,0%	-	0,0%	0,0%
Environmental obligations and contingencies	-	0,0%	0,0%	-	0,0%	0,0%
Total Interaction with the environment	8.489	1,0%	0,3%	5.887	0,6%	0,2%
5 - Additional information	2005			2004		
Net Revenue (RL)	3.298.910			3.502.459		
Operating Income (RO)	812.484			922.153		

ACKNOWLEDGEMENTS

The Board of Directors of Chesf thanks its shareholders, the President of the Republic, the Ministry of Mining and Energy, Eletrobrás and the state and municipal governments of the Northeastern Region for their support provided.

Our thanks also to the members of the Administrative and the Fiscal Councils of Chesf, clients, suppliers, government agencies and civil society institutions for their attention, cooperation and trust during the year 2005. Special gratitude is also expressed to co-workers for their dedication and efforts, thanks to which the Company attained excellent results.

Recife, March 13, 2006

The Board of Directors

Financial Statements

2005

BALANCE SHEET AS OF DECEMBER 31,

(In thousands of Reais)

	Corporate Legislation	
	2005	2004 (Reclassified)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	11.897	10.261
Open market investments – note 5	148.747	14.669
Consumers and concessionaires – note 6	875.718	769.459
Taxes and contributions to compensate	25.473	69.430
Advances to employees	12.074	25.749
Stocks	69.157	63.553
Securities – note 5	31	145.830
Tax credits – note 8	14.371	15.176
Advances to suppliers	4.287	4.777
Collateral security and linked deposits	4.480	21.567
Global Reversal Reserve	3.689	5.831
Others – note 9	103.717	87.929
	1.273.641	1.234.231
LONG TERM RECEIVABLES		
Consumers and concessionaires – note 6	507.063	652.349
Transferred financing	4.895	5.686
Deposits linked to litigations	50.565	31.506
Tax credits – note 8	174.630	189.657
Others	10.104	12.652
	747.257	891.850
PERMANENT ASSETS		
Investments – note 10	95.906	51.839
Property, plant and equipment – note 11	16.328.628	16.388.248
Deferred charges	651	838
	16.425.185	16.440.925
TOTAL ASSETS	18.446.083	18.567.006

The accompanying notes are an integral part of these financial statements

BALANCE SHEET AS OF DECEMBER 31

(In thousands of Reais)

LIABILITIES

CURRENT LIABILITIES

Suppliers - note 13	
Payroll	
Taxes and social contributions - note 16	
Loans and financing - note 14	
Charges on debts - note 14	
Tax debits - note 15	
Profit sharing - note 25	
Stockholders' remuneration - note 20	
Estimated liabilities	
Private pension plan entity - note 26	
Provisions for contingencies - note 18	
Others - note 17	

LONG-TERM LIABILITIES

Suppliers - note 13	
Loans and financing - note 14	
Tax debits - note 15	
Taxes and social contributions - note 16	
Provisions for contingencies - note 18	
Private pension plan entity - note 26	
Others	

STOCKHOLDERS' EQUITY

Capital - note 19	
Capital reserves - note 19	
Profit reserves - note 19	

Funds for capital increase

TOTAL LIABILITIES

Corporate Legislation

2005	2004 (Reclassified)
235.844	218.884
5.079	4.319
57.823	129.817
595.356	551.622
108.814	5.342
2.013	36.267
43.478	37.707
315.687	216.295
50.285	42.801
198.571	203.562
93.907	83.422
93.984	59.568
1.800.841	1.589.606
15.950	31.314
4.496.744	5.121.740
-	10.450
58.121	52.645
252.978	235.869
569.927	666.285
15.498	19.478
5.409.218	6.137.781
1.278.585	1.278.585
7.416.199	7.416.199
2.246.844	1.850.439
10.941.628	10.545.223
294.396	294.396
11.236.024	10.839.619
18.446.083	18.567.006

The accompanying notes are an integral part of these financial statements

STATEMENT OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31

(In thousands of Reais)

OPERATING REVENUE

Electric power supply – note 21
Electric power bulk supply – note 21
Electricity transmission system – note 21
Others

Deductions from operating revenue

Global Reversal Reserve – RGR
ICMS on electric power (Added value tax)
Charge on emergency capacity
Fuel Consumption Account – CCC
Energetic Development Account – CDE
PROINFA
COFINS (Contribution for social security financing)
PASEP (Civil servants savings program)

Net operating revenue

COST OF ELECTRIC POWER SERVICE – note 23

Cost with electric power

Electric power purchased for resale – note 22
Charges on the use of electric power network

Operating cost

Personnel
Material
Fuel for production of electric power
Third-party services
Fuel Consumption Account – CCC
Energetic Development Account – CDE
Financial compensation for the use of hydric resources
Depreciation and amortization
Others

COST OF SERVICE RENDERED TO THIRD PARTIES – note 23

GROSS OPERATING PROFIT

OPERATING EXPENSES – note 23

SERVICE RESULT

FINANCIAL REVENUE (EXPENSE)

Revenue from short-term investments in the money market
Monetary variation and additions – electric power sold
Other monetary variations - assets
Other financial revenues
Pasep/Cofins
Debt charges
Monetary variations on loans and financing
Other monetary variations – liabilities
Other financial expenses

Operating result before interest on equity

Interest on equity

OPERATING RESULT

Non-operating revenues

Non-operating expenses

Non-operating income

Profit before social contribution and income tax

Social contribution – note 24

Income tax – note 24

Profit before sharing and reversal of interest on equity

Reversal of interest on equity

Profit sharing – note 25

NET INCOME FOR THE YEAR

Net profit per share (R\$)

Corporate Legislation

2005	2004 (Reclassified)
664.702	673.007
2.294.733	2.408.298
976.122	789.873
14.021	19.638
3.949.578	3.890.816
(101.732)	(99.720)
(75.511)	(71.677)
(47.825)	(79.712)
(100.919)	(804)
(14.703)	(107)
(2.412)	-
(247.108)	(119.993)
(60.458)	(16.344)
(650.668)	(388.357)
3.298.910	3.502.459
(88.532)	(167.078)
(367.334)	(155.672)
(123.009)	(111.185)
(9.000)	(8.045)
(10.504)	(11.884)
(54.354)	(37.251)
5.911	(77.800)
958	(11.491)
(175.566)	(130.790)
(514.989)	(498.221)
(55.418)	(35.287)
(1.391.837)	(1.244.704)
(632)	(473)
1.906.441	2.257.282
(457.016)	(435.965)
1.449.425	1.821.317
21.774	36.454
228.455	200.430
5.345	22.154
(9.947)	2.290
(16)	(11.420)
(673.817)	(716.529)
109.347	(43.098)
(78.253)	(77.976)
(9.829)	(57.302)
(406.941)	(644.997)
1.042.484	1.176.320
(230.000)	(254.167)
812.484	922.153
2.214	1.653
(9.506)	(279)
(7.292)	1.374
805.192	923.527
(54.808)	(86.952)
(192.463)	(223.589)
557.921	612.986
230.000	254.167
(41.516)	(30.370)
746.405	836.783
17,90	20,06

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands of Reais)

Corporate Legislation

	SUBSCRIBED PAID-UP CAPITAL	CAPITAL RESERVES	PROFIT RESERVES (**)	RETAINED PROFITS	SUBTOTAL	FUNDS FOR CAPITAL INCREASE	TOTAL
AT DECEMBER 31, 2003	1.263.333	7.416.199	1.267.823	-	9.947.355	294.396	10.241.751
Capital increase with funds							
From Finor	15.252	-	-	-	15.252	-	15.252
Realization of profit reserves	-	-	(21.807)	21.807	-	-	-
Net income for the year	-	-	-	836.783	836.783	-	836.783
Appropriations:							
Legal reserve	-	-	41.839	(41.839)	-	-	-
Interest on equity	-	-	-	(254.167)	(254.167)	-	(254.167)
Retained profits reserve	-	-	562.584	(562.584)	-	-	-
AT DECEMBER 31, 2004	1.278.585	7.416.199	1.850.439	-	10.545.223	294.396	10.839.619
Realization of revenue reserves	-	-	(22.312)	22.312	-	-	-
Net income for the year	-	-	-	746.405	746.405	-	746.405
Appropriations:							
Legal reserve	-	-	37.320	(37.320)	-	-	-
Interest on own capital	-	-	-	(230.000)	(230.000)	-	(230.000)
Dividends proposed	-	-	-	(120.000)	(120.000)	-	(120.000)
Retained earnings reserve (*)	-	-	381.397	(381.397)	-	-	-
AT DECEMBER 31, 2005	1.278.585	7.416.199	2.246.844	-	10.941.628	294.396	11.236.024

(*) The amount of R\$ 381.397 thousand, allocated to retained profits reserve, equivalent to the unpaid portion of the net income of the year, is part of the sources of funds that comprise the capital investment budget of the Company.

(**) The amount of R\$ 417.721 thousand, which exceeds the profit reserve limit stipulated by art. 199 of Law 6.404/1976, will be used to increase the capital of the Company as will be discussed at the next General Extraordinary Stockholders' Meeting.

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION YEARS ENDED DECEMBER 31

(In thousands of Reais)

FINANCIAL RESOURCES WERE PROVIDED BY:

Operations

Net income for the year	
Expenses (revenues) not affecting net working capital:	
Depreciation and amortization	
Long-term monetary and exchange rate variation (net)	
Deferred income tax and social contribution	
Regulatory assets (Pasep/Cofins) – note 7	
Free energy – note 31	
Others	

Stockholders

Capital increase with funds from Finor

Third parties

Financing obtained	
Current liabilities transferred to long-term:	
Private pension plan entity	
Charges on taxes	
Long-term receivables transferred to current assets:	
Financing to third parties – local currency	
Tax credits	
Securities receivable – consumers	
Deposits linked to litigations	
Securities	
Collateral securities and linked deposits	
Prepaid expenses	
Others	
Consumer charges to pay	
Others	

TOTAL PROVIDED FUNDS

FINANCIAL RESOURCES WERE USED FOR:

In increase in long-term receivables:

Financing to third parties – local currency	
Securities receivable – consumers	
Deposits linked to litigation	
Securities	
Prepaid expenses	
Tax credits	
Others	

Acquisition of property, plant and equipment

Long-term liabilities transferred to current:

Loans and financing	
Private pension plan entity	
Tax debits	
Taxes and social contributions	
Suppliers	
Others	

Consumer's liabilities to pay charges payable

Financial charges and inflation effects

Permanent stockholding

Remuneration to stockholders – note 20

TOTAL FUNDS USE

Decrease in net working capital

Current Assets

At the beginning of the year

At the end of the year

Current Liabilities

At the beginning of the year

At the end of the year

Corporate Legislation

2005	2004 (Reclassified)
746.405	836.783
546.812	529.193
(71.288)	100.466
(6.425)	9.670
18.895	(30.735)
65.194	148.692
18.400	2.071
1.317.993	1.596.140
-	15.252
1.806	1.929
62.922	70.411
8.208	7.170
3.371	1.296
40.964	31.114
76.856	115.850
54.226	25.151
-	139.729
2.497	13.497
21.892	-
787	243
2.561	3.908
29.460	15.936
305.550	426.234
1.623.543	2.037.626
2.580	1.162
7.021	128.059
71.913	31.675
42	9.854
13.606	-
25.937	17.677
638	6.022
493.753	618.662
530.617	551.724
175.074	250.205
4.025	36.267
2.732	3.338
31.928	95.173
5.856	-
11.208	5.485
24.371	27.818
44.067	48.642
350.000	254.167
1.795.368	2.085.930
(171.825)	(48.304)
1.234.231	1.323.892
1.273.641	1.234.231
39.410	(89.661)
1.589.606	1.630.963
1.800.841	1.589.606
211.235	(41.357)
(171.825)	(48.304)

The accompanying notes are an integral part of these financial statements

STATEMENT OF CASH FLOW YEARS ENDED DECEMBER 31 (In thousands of Reais)

Operating Activities

Net income for the period

Expenses (revenues) not affecting cash:	
Depreciation and amortization	
Long-term monetary and exchange variations (net)	
Write off of property, plant and equipment in use	
Deferred income tax and social contribution	
Regulatory assets (Pasep/Cofins) – not e7	
Free energy – note 31	
Others	

Changes in current assets

Consumers and concessionaires	
Stocks	
Taxes and contributions to be compensate	
Advances to employees	
Fuel consumption account	
Collateral securities and linked deposits	
Tax credits	
Services in progress	
Other operating assets	

Changes in current liabilities

Suppliers	
Taxes and social contributions	
Provisions for contingencies	
Estimated liabilities	
Tax debits	
Profit sharing	
Consumer liabilities to pay	
Other operating liabilities	

Use of long-term receivables

Securities	
Judicial, compulsory and guarantee deposits	
Credit notes receivable	
Collateral securities and linked deposits	
Tax credits	
Others	

Increase in long-term liabilities

Civil lawsuit	
Consumer's liabilities to pay	
Other creditors – Fachesf	

Total operating activities

Investment activities

Investments in property, plant and equipment	
Stockholding Investment	

Financing activities

Funds received from stockholders and related parties	
Current loans and financing	
Long-term loans and financing	
Charges to pay on loans and financing	
Monetary variation on loans and financing	
Payment of current liabilities installments referring to long-term loans and financing	
Financial charges paid to shareholders and third parties	
Financial charges paid to financial institutions and others	
Stockholders' remuneration paid	
Private pension plan entity – Fachesf	
Others	

TOTAL EFFECTS ON CASH

Cash and cash equivalents at the beginning of the year	
Cash and cash equivalents at the end of the year	

CHANGES IN CASH

Corporate Legislation

2005

2004

(Reclassified)

746.405	836.783
546.812	529.193
(71.288)	100.466
16.643	6.415
(6.425)	9.670
18.895	(30.735)
65.194	148.692
1.757	(4.344)
1.317.993	1.596.140
(106.259)	(44.162)
(5.604)	6.094
43.957	(67.284)
13.675	(15.474)
1.361	8.930
17.087	29.199
805	(186)
(28.367)	(21.210)
13.850	27.568
(49.495)	(76.525)
16.588	28.793
(71.994)	61.224
10.485	52.760
7.484	3.829
(34.254)	(53.073)
5.771	(3.163)
(4.821)	(2.614)
40.369	14.392
(30.372)	102.148
145.757	(5.634)
(17.687)	(6.524)
69.835	(12.209)
2.435	7.802
15.027	12.657
9.288	830
224.655	(3.078)
17.109	13.702
2.561	3.908
4.611	-
24.281	17.610
1.487.062	1.636.295
(493.753)	(618.662)
(44.067)	(48.642)
(537.820)	(667.304)
-	15.252
230.000	-
1.806	1.929
618.762	664.157
(21.884)	929
(696.980)	(670.773)
(439.109)	(581.879)
(98.571)	(108.527)
(216.286)	(273.081)
(117.143)	(182.198)
(74.123)	(136.497)
(813.528)	(1.270.688)
135.714	(301.697)
24.930	326.627
160.644	24.930
135.714	(301.697)

The accompanying notes are an integral part of these financial statements

VALUE-ADDED STATEMENT YEARS ENDED DECEMBER 31

(In thousands of Reais)

	Corporate Legislation	
	2005	2004 (Reclassified)
GENERATION OF VALUE-ADDED		
Revenues	3.942.286	3.892.190
(-) Goods and services from third parties		
Material	29.527	21.724
Fuel for production of electric power	10.504	11.884
Third-party services	133.305	99.106
Electric power purchased for resale	88.532	167.078
Charges on the use of electric power network	367.334	155.672
Others	50.210	50.343
	679.412	505.807
(=) Gross added value	3.262.874	3.386.383
(-) Retention		
Reintegration quotas (Depreciation and Amortization)	546.812	529.193
(=) Net added value	2.716.062	2.857.190
(+) Transferred added value		
Financial revenues	245.627	261.328
(=) Added value to distribute	2.961.689	3.118.518
DISTRIBUTION ADDED VALUE		
To personnel:		
Salaries/benefits/FGTS	287.912	249.326
Profit sharing	41.516	30.370
Provisions for labor contingencies/labor indemnities	13.727	47.157
Private pension plan entity – normal contributions	20.414	18.798
	363.569	345.651
To the governments:		
Payroll taxes	67.548	59.107
Taxes	648.343	559.590
Sectoral charges	467.868	429.537
	1.183.759	1.048.234
Financing entities		
Financial charges, monetary variation and other		
Eletróbrás	482.946	629.325
Other financing entities	156.456	243.474
Rentals	28.554	15.051
	667.956	887.850
Stockholders:		
Interest on equity	230.000	254.167
Dividends	120.000	-
Retained profit	396.405	582.616
	746.405	836.783
	2.961.689	3.118.518
Added value (average) per employee	526	554

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2005

(In thousands of Reais, unless otherwise stated)

1 - OPERATIONAL CONTEXT

Companhia Hidro Elétrica do São Francisco – CHESF, with central office at Rua Delmiro Gouveia, 333, Bairro do Bongi, CEP 50761-901, in the city of Recife, state of Pernambuco, is a listed mixed capital company, controlled by Eletrobrás. The Company was created through Decree-Law number 8.031/1945, and started its operations on March 15, 1948. Its key business activities are the generation and transmission of electric power. Its main market is located in the Northeast region of Brazil, where it serves directly the states of Bahia, Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, and Piauí, covering an area of more than 1.2 million square kilometers, equivalent to 14.3% of the Brazilian territory. As from 2002, with the gradual release of its supply contracts (initial contracts) at the rate of 25% per year, as established by Law 9.648, of May 27, 1998, the Company began to serve other Brazilian regions.

The Company's electric power is generated at 14 hydroelectric power plants and 1 thermoelectric power plant, for a total installed capacity of 10.618,328 MW. Power transmission takes place through a system comprised of 80 transmission substations, 15 step-up-substations and 18.260 kilometers of high voltage lines.

The electric power is sold through contracts entered into with distribution concessionaires, and also through power reserve contracts and electric power supply contracts, entered into with industrial consumers serviced directly by the Company; also through contracts in connection with electric power auctions promoted by the Electric Power Commercialization Chamber (CCEE) and through the electric power sale and purchase auctions, promoted by sellers or by free consumers. Any differences between generated electric power and sold under said agreements are commercialized on the spot market through CCEE, which is the successor of the Brazilian Wholesale Electricity Market (MAE).

The Transmission Activity and the resulting RAP - Annual Revenue Permitted as determined by ANEEL - National Electric Power Agency - for an amount that is subject to annual reviews, is supported by the CPST - Transmission Services Contract and by the CCT - Transmission System Connection Contract, all connected to the Transmission Concession Contract. The latter provides for a periodical (every four years) review of the RAP, in order to ensure efficient and moderate tariffs.

As from March 1, 1999, the National Electric System Operator - ONS, a private civil rights and non-profit organization, whose operation was authorized by Resolution number 351/1998, issued by ANEEL, assumed the control and the operation of the National Interconnected System - SIN. In this context, the Company's power plants and transmission network are under the coordination, supervision and control of said entity.

Pursuant to Law 10.848, of March 15, 2004, the Company, together with the main companies of Eletrobrás System, was excluded from the National Privatization Program (PND).

2 - CONCESSIONS

The Company holds the following concessions:

Power plants	River	Installed Capacity (Mw)	Capacity Used (Mw average/year)	Concession Dates	Maturity Dates
Hydroelectric					
Paulo Afonso I	São Francisco	180,001	60,537	10/03/1945	10/02/2015
Paulo Afonso II	São Francisco	443,000	91,677	10/03/1945	10/02/2015
Paulo Afonso III	São Francisco	794,200	233,728	10/03/1945	10/02/2015
Paulo Afonso IV	São Francisco	2.462,400	1.452,110	10/03/1945	10/02/2015
Apolônio Sales (Moxotó)	São Francisco	400,000	95,321	10/03/1945	10/02/2015
Luiz Gonzaga (Itaparica)	São Francisco	1.479,600	905,032	10/03/1945	10/03/2015
Xingo	São Francisco	3.162,000	2.136,748	10/03/1945	10/02/2015
Funil	Das Contas	30,000	9,980	08/25/1961	07/07/2015
Pedra	Das Contas	20,007	2,438	08/25/1961	07/07/2015
Castelo Branco	Parnaíba	237,300	145,314	10/11/1965	10/10/2015
Sobradinho	São Francisco	1.050,300	509,165	02/10/1972	02/09/2022
Curemas	Piancó	3,520	0,842	11/26/1974	11/25/2024
Araras (*)	Acaraú	4,000	0,000	08/29/1958	07/07/2015
Piloto	São Francisco	2,000	0,000	02/16/1949	07/07/2015
Thermoelectric					
Camaçari	-	350,000	5,555	08/11/1977	08/10/2007

TRANSMISSION SYSTEM

In use:

- 80 transmission substations, 15 elevator substations and 18.260 Km of high tension lines.

Under construction:

- Transmission line Milagres/Tauá (CE), in 230 kV, approximately 200 Km long.
- Transmission line Milagres / Coremas (CE), in 230 kV, approximately 120 Km long.

(*) Transferred from DNOCS to Chesf as a donation.

Note: The used capacity corresponds to the average generation (in Mw) for the period.

The maturity dates of these concessions are provided under the Generation Concession Contract number 006/2004-ANEEL, an excerpt of which was published in the Federal Government Official Gazette (the "D.O.U.") of November 22, 2004.

The plants' installed capacity is always higher than their production and considers:

- any periods, along the day and throughout the year, in which energy demand is either higher or lower in the system for which the plant or generation system is dimensioned.
- any periods in which equipment is shutdown for maintenance purposes, both preventive and corrective;
- the production of hydroelectric plants further relies on the availability of waters in the river where they are located. In periods of higher waters it may be possible to increase generation, as it may be reduced in periods of water scarcity, as it takes place in periods of energy rationing.

The production of the Chesf System's plants is connected with the Electro-Energetic Operation Planning and Scheduling, with such horizons and breakdown that range from annual through daily and hourly scheduling; currently, the planning is prepared by the National Electrical Power Operator (ONS). ONS determines the generation amount and source that are required to meet the energy requirements of the country in an optimized way. It takes into account market requirements, water and equipment availability and the cost of generation and the feasibility of transmission of any such energy through a complex system that interconnects all regions.

3 – PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements are presented in accordance with the Brazilian Corporate Law (Law number 6404/76), the Brazilian Security Exchange Commission (CVM) standards and the National Electric Power Agency (ANEEL) regulations, in compliance with accounting practices.

For the purpose of comparison with this year, the Balance Sheet and the Statement of Income as of and for the previous year were reclassified as follows:

	2005	2004		
		Reclassified	Adjustment	Prior year
Balance sheet				
Current Assets				
Taxes and contributions to compensate	25.473	69.430	25.725	43.705
Current Liabilities				
Suppliers	235.844	218.884	18.284	200.600
Statement of operations				
Deductions from Operating Revenue				
Fuel Consumption Account – CCC	(100.919)	(804)	77.800	(78.604)
Energetic Development Account - CDE	(14.703)	(107)	11.491	(11.598)
Cost of Electric Power Service				
Operating cost				
Third-party services	(54.354)	(37.251)	(8.977)	(28.274)
Others	(55.418)	(35.287)	8.977	(44.264)
Fuel Consumption Account - CCC	5.911	(77.800)	(77.800)	-
Energetic Development Account - CDE	958	(11.491)	(11.491)	-
Financial Revenue (Expense)				
Monetary variation on loans and financing	109.347	(43.098)	(33.118)	(9.980)
Other monetary variations - liabilities	(78.253)	(77.976)	33.118	(111.094)

4 - MAIN ACCOUNTING PRINCIPLES

a) Inflationary effects

- As provided by Law 9.249/1995, only the effects of monetary variations are reflected on indexed assets and liabilities, as contracted. The entries to headings such as permanent assets, shareholders' equity and concession liabilities are restated up to December 31, 1995 according to the monetary restatement method (recognition of the effects of inflation) then in force.

b) Current assets and long-term receivables

- Open market investments are recorded at cost plus the related earnings up to the balance sheet date;

- Securities are recorded at their acquisition cost plus yield up to the balance sheet date, where applicable, with a provision for adjustment to probable realizable value;
- Materials in stocks recorded as current assets are stated at their average acquisition costs; those for investment purposes are recorded in property, plant and equipment, at their acquisition cost;
- Deferred tax assets are recognized at the income tax and social contribution rates then ruling in connection with temporary differences and negative basis;
- Collateral Securities and linked deposits in connection with guarantees provided to suppliers are recorded at cost, plus yield as of the balance sheet date;
- Indexed assets are restated as of the balance sheet dates; other assets are recorded at cost, net of provision for losses.

c) Permanent assets

- Permanent equity interest is recorded at acquisition cost, while those recorded before December 31, 1995 are recorded after monetarily restated up to that date.
- Property, plant and equipment are recorded at acquisition or construction cost, plus monetary restatement up to December 31, 1995; depreciation is calculated on the straight line method. As from 1999, the Company adopted the depreciation rates set out in Resolution 44, of March 17, 1999, issued by ANEEL, ranging between 2% and 20% p.a. (see note 11).
- According to the Accounting Instruction 6.3.23 of the Accounting Manual for the Electric Power Public Utilities, the amount arising from liabilities in connection with concessions is stated as a deduction of Property, Plant and Equipment.
- In compliance with the Accounting Instruction 6.3.10 of the Accounting Manual for the Electric Power Public Utilities, interest and other financial charges, as well as inflationary effects, in connection with third-party loans and financing that are used in works in progress are registered in this subgroup as cost (see note 11.c).

d) Current and long-term liabilities

- These are stated at known or estimated amounts plus, where applicable, the related charges and monetary variations incurred up to the balance sheet dates.
- Deferred tax debits arising from income tax and social contribution on regulatory assets, are stated as current;
- Costs associated with the private pension plan – the Fundação Chesf de Assistência e Seguridade Social – Fachesf, are recognized as contributions as these are incurred;
- Actuarial liabilities and expenses thereon are recorded according to the standards issued by CVM, especially Resolution 371/2000.

e) Stockholders' equity

- Unrealized income arising from monetary restatement credit balance are appropriated to a reserve up to 1995 and reversed to retained earnings ratably to write-offs, depreciation and amortization of permanent assets;
- Funds intended for capital increase are stated as such, providing that they are irreversible.

f) Results of operations

- Income is determined on the accrual basis, taking into account the tax credits arisen and realized in the period;
- The statement of operations accounts are recorded in accordance with the Accounting Manual for the Electric Power Public Utilities, as approved by the ANEEL Resolution 444 of October 26, 2001, and provides for segregation of revenues and expenses arising from generation and transmission activities, thereby allowing the calculation of each segment's book income;
- In compliance with Generally Accepted Accounting Principles, the exchange rate variations are fully recognized in the result for the period.

g) Statements of Cash Flow and Value-Added

The Company has published the above statements in compliance with the Accounting Manual for the Electric Power Public Utilities.

5 - INVESTMENTS IN THE OPEN MARKET AND SECURITIES

Financial Institution	Type of investment	Maturity	Remuneration	2005	2004
<u>Investments in the Open Market</u>					
BB-DTVM	Extra-market fund	-	99% Selic rate	148.747	14.669
<u>Marketable Securities</u>					
Minority interest	Shares	-	J.C.P/Dividends	42	42
	Provision for losses			(11)	(11)
				31	31
Brazilian National Treasury	NTN-Series P	07/09/2012	TR + 6% p.a.	285	268
	NTN-Series P	07/09/2014	TR + 6% p.a	134	125
	NTN-Series P	12/28/2015	TR + 6% p.a	246	230
				665	623
Brazilian National Treasury	ELET 950716	07/16/2005	IGP-DI	-	196.204
				-	196.204
	Provision for losses			-	(50.405)
				-	145.799
TOTAL				696	146.453
Current				31	145.830
Long-Term				665	623

- Investments in the Open Market

Under this heading are short-term investments in Banco do Brasil Distribuidora de Títulos e Valores Mobiliários S.A. – BB-DTVM, under the specific legislation applicable to state-owned companies (Decree-Law 1.290 of 12/03/1973) as amended by the BACEN Resolution 2.917 of 12/19/2001, which established new mechanisms for investments by public companies and mixed-economy companies under Federal Indirect Administration.

- Securities

Common and preferred shares basically represent minority interest in the Telecommunications Sector; their value being adjusted to their probable realizable value and recorded as current assets:

Treasury Notes – P Series refer to sale of shares representing minority interest, deposited with the National Privatization Fund (the “FND”), pursuant to Decree 1.068/1994, and are stated in long-term receivables.

The Securitized Treasury Notes (ELET) in the net amount of R\$ 200.231 thousand, which arise from remaining credits to the extinct CRC - Results-to-be-Compensated Account, were redeemed in July 2005.

6 - CONSUMERS AND CONCESSIONAIRES

Credits receivable from energy sales and availability of the transmission system , in the short- and the long-term can be summarized as follows:

	Falling due	Overdue			Total	
		In up to 90 days	For over 90 days	Total	2005	2004
Industrial consumers:						
Energy sales - Contracts	73.974	4.357	57.738	62.095	136.069	141.367
Extraordinary Tariff						
Recomposition. (*)	87.531	-	-	-	87.531	102.944
Concessionaires:						
Energy sale – Contracts	407.214	21.602	29.422	51.024	458.238	483.542
Comercialization at CCEE	12.583	-	-	-	12.583	8.068
Free energy – Reimbursement	573.868	3.596	-	3.596	577.464	569.742
Connection to the transmission system	4.083	420	1.333	1.753	5.836	7.088
Transmission system availability	98.344	784	12	796	99.140	78.322
Regulatory Assets - Pasep/Cofins	5.920	-	-	-	5.920	30.735
	1.263.517	30.759	88.505	119.264	1.382.781	1.421.808
Current					875.718	769.459
Long-Term					507.063	652.349

(*) See note 31

7 - REGULATORY ASSETS – CONTRIBUTIONS TO PIS/PASEP AND COFINS

Due to the changes brought about by Laws 10.637/2002 and 10.833/2003, which increased the rates of the PIS/PASEP from 0.65% to 1.65%, and of the COFINS, from 3% to 7.6%, respectively, and considering the right to pass on to customers any increases in such rates, as provided under Law 8.987/1995 and the contracts signed by the Company, the PIS/PASEP and COFINS's Regulatory Assets were determined, corresponding to the differences not yet passed on to customers. This procedure is supported by Circular Letters 2.093/2004-SFF/SRT/ANEEL; 2.306/2004-SFF/ANEEL, 190/2005-SFF/ANEEL and 302/2005-SFF/ANEEL, dated, respectively, 12/3/2004, 12/24/2004, 2/1/2005 and 2/25/2005. Below, the Regulatory Assets-related amounts :

	Amounts determined
▪ Regulatory Assets – PIS/PASEP (period from Dec/2002 through Dec/2005)	19.551
▪ Regulatory Assets – COFINS (period from Feb/2004 through Dec/2005)	45.457
	65.008

Through the Ratifying Resolution 149 of 06/30/2005 and the Publication 160/2005 SRT/ANEEL of 09/28/2005, aiming at counteracting the financial and economic impact of the increase in PIS/PASEP and COFINS rates, ANEEL approved part of these Regulatory Assets in the amount of R\$ 11.840 thousand, which began to be realized in July 2005, in twelve (12) monthly installments, through the RPA. This year, R\$ 5.920 thousand was realized.

As a consequence, the Company recorded only the balance of the recognized amount – R\$ 5,920 thousand – while the negotiations with ANEEL in search of approval for the remainder – R\$ 53,168 thousand – continue. These calculations were made based on pertinent legislation.

8 – TAX CREDITS

▪ Corporate Income Tax and Social Contribution

Pursuant to CVM Resolution 273 of 8/20/1998, the Company recognizes tax credits to be offset against future taxable income as its current assets and long-term receivables. These credits, in the amount of R\$ 189.001 thousand, arise from temporary differences and negative social contribution basis, as detailed below:

	2005	2004
Temporary differences		
. Ordinance DNAEE n. 250/1985 – creditor effect in 1994	109.876	115.342
. Provision for contingencies	147.558	123.836
. Provision for adjustment to market value (securities)	11	50.416
. Other provisions	421	442
	257.866	290.036
Negative social contribution basis	1.235.728	1.470.262
	1.493.594	1.760.298
Tax credits		
. Income tax on temporary differences	64.466	72.509
. Social contribution on temporary provisions	13.319	-
. Negative social contribution basis	111.216	132.324
	189.001	204.833
Current	14.371	15.176
Long-term	174.630	189.657

These tax effects consist of a 9% rate on social contribution and a 10% surtax over the 15% basic rate on the calculation basis to ascertain income tax payable, pursuant to Law 9.430, of 12/30/1996.

In 2005, the Company recorded social contribution credits on temporary differences in the amount of R\$ 13,319 thousand.

The amount of tax credits arising from Social Contribution (CSLL) negative basis totaled R\$ 21.108 thousand, this year. R\$ 111.216 thousand remains to be used: R\$ 12.900 thousand in current assets, and R\$ 98.316 thousand in long term receivables – against a negative tax basis of R\$ 1.235.728 thousand.

According to the Technical Study performed by the Management and reviewed on 12/31/2005, the estimates for the realization of said credit are:

	R\$ million					
	2006	2007	2008	2009	2010	2011
Tax credits on CSLL negative basis	12.9	18.1	23.3	22.9	22.8	11.2

Other tax credits, in connection with temporary differences - provisions for contingencies, provisions for adjustments to market value and for inflationary effects recorded under “Property, Plant and Equipment” - in the amount of R\$ 77.785 thousand will be realized in connection with the final court decision about lawsuits, with realization of marketable securities and property, plant and equipment, respectively.

These estimates are reviewed periodically to reflect any changes in the realization of any such values for financial statement purposes.

▪ PIS/PASEP and COFINS

The STF – Supreme Court declared unconstitutional the section 1, art. 3 of Law 9.718/98, which increased the PIS/PASEP and COFINS bases of calculation, so that the sales concept was modified to cover all revenues earned by a company, irrespective of the type of activity performed and the accounting classification adopted. This provision had no legal supporting basis, having been the object of constitutional amendment subsequently.

This decision favors companies who have filed extraordinary appeals. However, according to the Minister Carlos Veloso’s declarations to the press, a process dealing with the same subject under judgement at the Supreme Court will end up having the same sentence given by the Plenary, with no need for analysis by the collegiate, i.e., being decided upon by the relater, himself.

Based on the CTN – National Taxation Code, in June 2005 the Company filed an appeal to the Secretaria da Receita Federal (Federal Income Tax Authority), claiming for the recognition of its right to overpayment and refunding thereof. This overpayment was the result of unconstitutional increase in tax bases of calculation, on which there has been no pronouncement/judgement to the date of completion of these financial statements.

The Company’s PIS/PASEP potential credits for the period from February 1999 through November 2002, and COFINS’s credits for the period from February 1999 through January 2004 amount to R\$ 15.443 thousand and R\$ 106,142 thousand respectively, adding up to R\$ 121,585 thousand, restated up to this year end. In this new scenario the possibilities and procedures to be taken for filing a lawsuit claiming for recognition of this credit are being analyzed.

9 – OTHERS CURRENT ASSETS

	2005	2004 (Reclassified)
Financing to third-parties	3.189	1.441
Service in progress	81.827	53.460
Disposals in progress	2.879	2.499
Deactivations in progress	3.598	2.518
Lightpar	14.693	15.170
Lightpar (allowance for doubtful accounts)	(13.237)	-
Other	10.768	12.841
	103.717	87.929

10 - INVESTMENTS

Composition:

	2005	2004
1. Permanent equity interest		
Affiliates		
• STN - Sistema de Transmissão Nordeste S.A.	93.100	49.033
Other equity interest	490	490
2. Other investments	2.316	2.316
Total	95.906	51.839

Investment in STN

In line with the Federal Government policy of attracting private capital to enhance investments in the energy sector, and pursuant to Law 10.438/2002, the Consórcio AC Transmissão, formed by Chesf and Cia. Técnica de Engenharia Elétrica - Alusa, participated in auction 001/2003-ANEEL for concession of transmission lines; the Consórcio was the winner of Lot C, corresponding to a transmission line of 541 km, 500 kV, in the sections Teresina (state of Piauí), Sobral and Fortaleza (state of Ceará), with estimated annual revenues of R\$ 77.9 million.

For this purpose, the Company and Alusa organized the venture company STN – Sistema de Transmissão Nordeste S.A. - to build and operate the said transmission line; Alusa holds 51% of the equity interest of STN and Chesf holds 49%.

The enterprise was completed in December 2005, having become operative on January 1, 2006, instead of February 18, 2006, as originally scheduled, as authorized by ANEEL Authorizing Resolution number 380, of 12/19/2005.

Still about this venture, Chesf was contracted by STN for the technical management of the works and for operation and maintenance of the transmission line. The Company received the total amount of R\$ 6.490 thousand for the services rendered.

As of 12/31/2005, STN had total assets of R\$ 496.509 thousand and shareholders' equity of R\$ 190.000 thousand.

11 – PROPERTY, PLANT AND EQUIPMENT

a) Property, plant and equipment segregated by nature and activity

	2005	2004
In use	14.506.175	14.486.703
In progress	1.977.599	2.056.691
	16.483.774	16.543.394
Liabilities related to the Concession	(155.146)	(155.146)
	16.328.628	16.388.248

		2005			2004
	Annual average depreciation rates (%)	Cost	Accumulated Depreciation and amortization	Net	Net
In use					
Generation	2,30	16.588.996	(5.955.007)	10.633.989	10.888.392
Transmission	3,19	6.372.790	(2.782.795)	3.589.995	3.298.876
Administration	5,23	649.358	(367.167)	282.191	299.435
		23.611.144	(9.104.969)	14.506.175	14.486.703
In progress					
Generation		370.609	-	370.609	282.851
Transmission		1.347.391	-	1.347.391	1.564.324
Administration		259.599	-	259.599	209.516
		1.977.599	-	1.977.599	2.056.691
		25.588.743	(9.104.969)	16.483.774	16.543.394

b) Annual depreciation rates

The depreciation quotas of each assets or facilities item are calculated and accounted for at rates established by ANEEL Resolution number 44, of 03/17/1999, taking as a basis the book balances shown in the respective UC – Reference File Units, as instructed by DNAEE Ordinance number 815 of 11/30/1994.

The main annual depreciation rates applicable to activities in general are as follows:

	Annual Depreciation Rates (%)
<u>Generation</u>	
Sluice gate	3,3
Reservoir	2,0
Control House	2,0
Generator	3,3
Panel – Control and Measurement	3,6
Hydraulic turbine	2,5
Overhead bridge, crane and gantry	3,3
Turbogenerator	4,0
<u>Transmission</u>	
Capacitors bench	5,0
Lathe bed	3,3
Key	4,0
Circuit breaker	4,0
Supporting structure	3,6
Access structure	4,0
LT structure	3,3
Control panel	3,6
Reactor	3,8
Ground-cabling system	3,3
Power transformer	3,3
Measure transformer	4,0
<u>Central Management</u>	
General equipment	10,0
Vehicles	20,0

c) Financial charges and inflation effects

According to item 4 of Accounting Instruction 6.3.10 of the Accounting Manual for the Electric Power Public Utilities, and CVM Deliberation 193, of 7/11/1996, part of the financial charges and the effects of inflation were transferred to property, plant and equipment in progress, as shown below:

	2005			2004 (Reclassified)
	Generation	Transmission	Total	Total
Total financial charges	584.316	111.759	696.075	747.235
(-)Reclassification as property, plant and equipment in progress	(2.990)	(19.268)	(22.258)	(30.706)
Net effect on income	581.326	92.491	673.817	716.529
Total effects of inflation	(92.513)	(25.556)	(118.069)	43.457
(-)Reclassification of property, plant and equipment in progress	375	8.347	8.722	(359)
Net effect on income	(92.138)	(17.209)	(109.347)	43.098

d) Liabilities related to the concession

These represent amounts received from the Federal Government, states, municipalities and consumers, as well as donations not conditioned to return of any kind to the donor. The deadline to settle these liabilities is set out by the Regulatory Agency and will be due upon expiry of the Concession agreement.

As from January 1, 1996, these liabilities have ceased to be restated to reflect inflation, pursuant to legal provisions.

Composition:

	2005	2004
Federal Government's participation	108.052	108.052
Amortization	20.269	20.269
Consumers' contributions	6.048	6.048
Donations and subventions for investments	1.330	1.330
Others	19.447	19.447
	155.146	155.146

The Federal Government share relates to funds received from the federal government to be used in generation and transmission of electric power expansion.

The amortization balance arises from the "Reserve for Amortization" set up until 1971, under Federal Decree 41.019/1957; the funds were used, as of that year, in the expansion of the electric power utilities.

Contributions from consumers refer to funds used to perform the works that were necessary to meet the demand for energy supply connections.

Due to their nature, the accounts under this heading do not represent effective financial liabilities and therefore are not included as liabilities for the purpose of financial-economic index calculations.

According to Articles 63 and 64 of Federal Decree 41.019, of 2/26/1957, assets and facilities used in the production, transmission, distribution and sale, are tied to these services and cannot be retired, sold, assigned or subject to lien without the written consent of the Regulatory Agency. Resolution 20/1999 issued by ANEEL regulates the disentailment of assets from Public Electric Power Utilities, and provides a prior consent for the separation of assets that is not fit for the Concession, when put up for sale and determining that the sales product is deposited in a bank account for use at the Concession's sole discretion. In its operations, the Company has not identified assets of a significant value considered as unserviceable.

12 – COMMERCIAL LEASING

On 7/4/2002, the Company entered into a commercial lease agreement of R\$ 3.925 thousand, with an amendment thereto in the amount of R\$ 1.461 thousand signed on 10/7/2004. This agreement referred to the lease of a helicopter, with purchase option at the residual value upon expiry of the agreement. The settlement was due after payment of 36 (thirty-six) installments, calculated at 0,02815 on the contracted amount and restated based on the variation of the average CDI – (Interbank Deposit Certificate) rates published by CETIP. The agreement was settled in June 2005 through payment of R\$ 1,336 this year, after which the assets was added to the Company's assets at its residual value.

13 - SUPPLIERS

The balance of the Suppliers account is detailed bellow:

	2005	2004 (Reclassified)
Current		
Materials and services	158.807	158.527
Electric power:		
Eletronorte	4.903	8.763
Furnas	5.374	8.838
Free energy refunding - note31	20.436	22.715
Other	2.801	1.757
Charges on electric network use :		
Eletronorte	4.249	2.308
Eletrosul	3.833	1.798
Furnas	9.919	4.604
CTEEP – Cia. de Transmissão	6.450	2.785
Cemig	2.544	1.157
TSN – Transmissão Sudeste	2.051	980
Other	14.477	4.652
	235.844	218.884
Long-term Liabilities		
Free energy reimbursement - note31	15.950	31.314
Total	251.794	250.198

14 – LOANS AND FINANCING

The main information about the loans and financing in local and foreign currencies is shown below:

a) Composition

	Current		Long Term	Total	Total
	Principal	Charges	Principal	2005	2004
<u>Foreign Currency</u>					
Eletrobrás	46.946	-	304.994	351.940	451.186
Financial Institutions	47.752	1.119	143.254	192.125	313.915
	94.698	1.119	448.248	544.065	765.101
<u>Local Currency</u>					
Eletrobrás	371.568	105.021	3.860.963	4.337.552	4.487.139
BNDES	128.413	2.669	187.079	318.161	424.522
Other	677	5	454	1.136	1.942
	500.658	107.695	4.048.496	4.656.849	4.913.603
Total	595.356	108.814	4.496.744	5.200.914	5.678.704

- b) The above debt in foreign currency with financial institutions is guaranteed by the Federal Government's sureties. The BNDES loan is guaranteed by the proceeds of the Company's sales. For approximately R\$ 4.063.402 thousand in loans taken from Eletrobrás, no surety was required.

However, at the discretion of the lender it may be claimed and the Company will have to provide it, under the risk of having the maturity dates anticipated.

The financing provided by the Parent Company (Eletrobrás) are funded by the Global Reversal Reserve (RGR) for the works at the Itaparica and the Xingó Hydroelectric power plants and their transmission systems as well.

- c) This year, the variation of the main indices used for restatement of loans and financing were as follows:

<u>Index</u>	Annual Variation	
	2005	2004
US\$	-11,82	-8,13
Eur	-23,50	-0,86
IGP-M	1,21	12,42
SELIC	19,05	16,24

- d) Composition of loans and financing by currency and restatement index:

<u>Currency (equivalent in R\$)/Index</u>	2005		2004	
	R\$ thousand	%	R\$ thousand	%
Foreign Currency				
US\$	351.940	6,77	451.186	7,94
Eur	192.125	3,69	313.915	5,53
	544.065	10.46	765.101	13.47
Local Currency				
Not restated (*)	3.627.496	69,75	3.703.041	65,21
IGP-M	710.056	13,65	784.098	13,81
SELIC	318.161	6,12	424.522	7,48
Other	1.136	0,02	1.942	0,03
	4.656.849	89,54	4.913.603	86,53
	5.200.914	100,00	5.678.704	100,00

(*) Of the total Eletrobrás loan, R\$ 3.627.496 thousand derives from the RGR – Global Reversal Reserve, collected by the Electric Sector and earmarked for reinvestment therein. Of this total amount, R\$ 3.619.523 thousand (99.78%) bears interest at 10% p.a. and administrative rate at 2% p.a.; whereas R\$ 7.973 thousand (0.22%), bears interest at 5% p.a. and administrative rate at 1.5% p.a. These loans are not subject to monetary restatement, because the permanent assets' restatement method applicable to these loans, too, has been legally suspended.

- e) The principal of long-term loans and financing amount – R\$ 4.496.744 thousand – matures as follows:

	Local currency	Foreign currency	2005	2004
2006	-	-	-	525.352
2007	497.007	96.578	593.585	553.803
2008	399.909	98.544	498.453	587.028
2009	395.419	100.602	496.021	537.303
2010	374.007	48.553	422.560	427.085
2011	329.635	50.807	380.442	384.109
2012	364.134	53.164	417.298	420.043
After 2012	1.688.385	-	1.688.385	1.687.017
Total	4.048.496	448.248	4.496.744	5.121.740

f) Loans and financing are subject to the following interest rates:

	Domestic Market	Foreign Market
	(% p.a.)	(% p.a.)
<u>Fixed rates</u>		
2005	5,00 a 10,00	-
2004	5,00 a 10,00	-
<u>Variable rates</u>		
2005	18,05	4,55 a 7,55
2004	17,75	2,71 a 7,54

g) Changes in Loans and Financing:

	Local currency		Foreign currency	
	Current	Long-term	Current	Long-term
As of December 31, 2003	548.814	4.824.059	124.699	804.980
Receipts	-	1.929	-	-
Charges	643.822	-	48.153	-
Monetary and exchange variations	5.834	78.335	(4.903)	(35.839)
Reclassifications	429.073	(429.073)	122.651	(122.651)
Repayment of principal and charges	(1.189.190)	-	(171.989)	-
As of December 31, 2004	438.353	4.475.250	118.611	646.490
Receipts	230.000	1.806	-	-
Charges	602.307	-	40.826	-
Monetary and exchange variations	196	8.407	(22.080)	(104.592)
Reclassifications	436.967	(436.967)	93.650	(93.650)
Repayment of principal and charges	(1.099.470)	-	(135.190)	-
As of December 31, 2005	608.353	4.048.496	95.817	448.248

15 – TAX DEBITS

- Deferred income tax on unrealized inflationary gains

The tax debits arising from prior years' inflationary gains in the amount of R\$ 36,267 thousand, are realized at 6% and 25% .

- Deferred income tax and social contribution on regulatory assets

As a result of regulatory assets recording (Note 7) already approved, with unrealized balance of R\$ 5,920 thousand, the Company has provisions for deferred income tax and social contribution under "Current Liabilities", which are thus composed:

	2005	2004
. Income tax	1.480	7.684
. Social contribution	533	2.766
	2.013	10.450

These tax debits will be realized in accordance with the regulatory assets's realization.

16 – TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

Below, the Company's taxes and contributions payable as of 12/31/2005, which are recorded as current and long-term liabilities:

	2005		2004	
	Current	Long-term	Current	Long-term
COFINS	15.982	-	59.427	-
ICMS	8.922	-	8.535	-
ICMS – deferred	-	58.121	-	52.645
INSS	9.500	-	11.751	-
PASEP	3.469	-	12.897	-
IRRF	6.051	-	20.248	-
IRPJ	-	-	3.739	-
FGTS	7.137	-	6.952	-
Other	6.762	-	6.268	-
	57.823	58.121	129.817	52.645

17 – OTHER CURRENT LIABILITIES

Regulatory Rates

Financial Compensation for the use of hydric resource	30.452	24.178
Global Reversal Reserve – RGR	9.097	8.007
Fuel Consumption Account – CCC	15.345	5.911
ANEEL Inspection Rates	1.396	1.251
Emergency Capacity Charge	2.809	3.409
Energetic Development Account – CDE	2.385	958
PROINFA	2.189	-

	2005	2004
	30.452	24.178
	9.097	8.007
	15.345	5.911
	1.396	1.251
	2.809	3.409
	2.385	958
	2.189	-
	63.673	43.714

Other

Private pension entity	2.375	2.530
Other creditors – Fachesf	7.645	-
Codevasf Agreement	4.000	-
Acquisition of properties – camping facilities	3.437	3.136
Other	12.854	10.188

Total

	30.311	15.854
	93.984	59.568

18 – CONTINGENCIES

Contingencies	2005			2004		
	Provision Amount		Judicial Deposits	Provision Amount		Judicial Deposits
	In the year	Accumulated		In the year	Accumulated	
Current						
Labor	13.865	66.230	25.103	50.260	57.632	23.263
Civil	30.983	27.480	25.462	28.874	23.263	8.243
Tax	452	197	-	1	2.527	-
Total	45.300	93.907	50.565	79.135	83.422	31.506
Long-term liabilities						
Civil	17.109	252.978	-	13.702	235.869	-

In compliance with the provisions of the Accounting Manual for Electric Power Public Utilities, approved by ANEEL Resolution 444, on 10/26/2001, Chesf adopts the procedure of classifying the intended cases against the Company due to the risk of loss, based on the opinion of its legal advisors, as follows:

- For legal actions for which a negative outcome for the company is considered probable, a provision is set up;
- For legal actions for which a negative outcome for the company is considered possible, the corresponding information is published in explanatory notes.
- For legal actions for which a negative outcome for the company is considered remote, only information deemed relevant for fully understanding of the financial statements is published in the explanatory notes.

Below, some comments on the provisions set up:

- a) Labor contingencies mostly refer to claims concerning risk, overtime, FGTS fine miscalculations due to the past economic recovery plans; severance indemnities due by outsourced companies;

The following actions for which the risk of a negative outcome is **probable**, stand out:

- A lawsuit filed by the “Sindicato de Eletricitários da Bahia” (Bahia Electricity Sector Workers Union) is under way at the “Tribunal Regional do Trabalho do Estado da Bahia”(State of Bahia Regional Labor Court) claiming for payment of the salary difference due to employees from Paulo Afonso – BA, under the Amendment to the Decree Law 1971 – ADL and the Annuity on Risk Additional, to the “Gerência Regional de Paulo Afonso – GRP” (Regional Paulo Afonso Management), involving an estimated R\$ 21 million. The Company filed an Interlocutory Appeal under Review Recourse with the TST – Superior Labor Court, which was sentenced unfounded. The lawsuit had a final judgment not subject to further appeal, after which the execution phase started, with the process now at the accounting department for settlement.
- An action was filed with the 8th Fortaleza Court by the SINDIELETRO - “Sindicato de Eletricitários do Ceará” (Ceará Electricity Sector Workers Union) claiming for refunding for losses borne by the “Gerência Regional Norte – GRN” (Northern Regional Management) (Ceará and Rio Grande do Norte) employees after interruption of the collective transportation services, involving an estimated R\$ 6 million. The request for resumption of the transportation services was partially accepted, and the Company obeyed the judicial order. The plaintiff claimed for supplementation of transportation and the condemnation of the Company to pay a daily fine, which the Company contested. After a hearing on August 23, 2005, in which one of the parties and Chesf submitted their final arguments, the previous decision was modified, the resumption of transportation services being ordered only to the extent previously existing. Also in the same decision, the parameters for settlement of the sentence were defined, so that the labor credit was reduced to R\$ 1.344.170,00. The execution is under way at the Labor Justice of 1st Instance in Fortaleza, CE.

- b) More serious civil cases are compensation claims, expropriations, and those filed by suppliers, among which the following are worth noting:

The Company filed a lawsuit claiming for partial invalidity of amendment (K Factor –Analytical Price Restatement) to the contract of civil work contracted for the Xingó Hydroelectric Power Plant, agreed on by the Consortium formed by Companhia Brasileira de Projetos e Obras – CBPO, CONSTRAN S.A. – Construções e Comércio and Mendes Junior Engenharia S.A. and the return of amounts paid - approximately R\$ 350 million.

The reconvention presented by the defendants was determined to be correct at the 1st Instance Court.

The Company filed an appeal, which, according to the Official Government Gazette issue of 07/08/1998, was received, the sentence given by the Initial Court Judge being suspended. On the other hand, the Federal Regional Court – TRF – 5th Region forwarded to the Superior Court of Justice – STJ Special Recourse relative to the relocating of jurisdiction to the Federal Justice, responsibility of the Federal Government assistance to Chesf.. In the initial decision, the STJ failed to recognize the recourse.

Chesf filed embargoes, which were denied in December 1999. The decision was under judgment, later being forwarded to state jurisdiction.

In November 1998, the defendants requested temporary execution of anticipated custody, in the amount of R\$ 245 million, the case being suspended by determination of the 12th Civil Court Judge, per the Company's request and due to extensions granted by the Pernambuco Court of Justice, in appeal of instruments issued by the Company.

The Appeal issued by the Company against the 12th Civil Court Judge's decision, which was determined to the legal action by the Company to be without basis and determined to the reconvention presented by the defendants to be correct, forwarded to the Pernambuco Court of Justice – TJPE and released to the 2nd Civil Court, where it was judged on 11/20/2001, failing to receive provisioning.

On the other hand, at the session held on November 13, 2001, the TJPE 2nd Civil Court denied provisioning on an appeal instrument by Chesf, maintaining the sentence handed down by the 1st Court Judge with respect to custody granted in favor of the Consortium, whereas said custody is suspended by extension granted by the STJ President Minister (PET 1621). This extension was the result of a Regimental Appeal by the Consortium, which was judged on 06/24/2002, unanimously maintaining the extension previously handed down by the STJ President, remaining, as such, discarded the possibility of obtaining by the Consortium, the anticipated custody.

The sentence regarding the Appeal judged by the TJPE 2nd Civil Court was printed on 04/17/2002, with Chesf having issued Declared Embargos to clarify a specific point in its Appeal that was omitted by the 2nd Civil Court in its decision. These embargos were tried and denied by the 2nd Civil Court. Chesf's counsels issued immediately, thereafter, a special and extraordinary recourse against the agreement handed down by the 2nd Civil Court in the above mentioned appeal. On 03/31/2004 the special recourses brought before the court by Chesf, were admitted by the TJPE and sent to the STJ, while the extraordinary recourses, also prepared by Chesf, were not admitted, which is the reason why this Company presented, against this refusal, the legal appeal instruments, which were not yet tried. On 06/30/2005, said recourses were still under judgment in the Superior Courts. On 09/30/2005, the expert work required by the judge in charge of the case was being done, for the purpose of determining the real amount involved. This is because of the tentative sentence execution proposed by the Consortium. On 12/31/2005, the expert work was completed and the records sent to the judge.

At its legal counsel's advice the Management set up a provision of R\$ 252,978 thousand under "Long-Term Liabilities" for possible losses on this process. The time required for this process to be completed cannot be foreseen.

- c) As regards taxation, there are minor questions basically involving IPI (excise tax) and Import Tax.

All these contingencies are being taken care of by the Company, with the pertinent judicial deposits made, where necessary.

The following additional lawsuits filed against the Company involving possible risk of loss have not been provided for:

Contingencies	2005	2004
Labor	22.833	16.624
Civil and tax	146.670	84.182
Total	169.503	100.806

Among these 2 (two) deserve special attention, the compensation lawsuits brought before the court by the Consortium formed by the following companies: CBPO/CONSTRAN/Mendes Junior, who claim for condemnation of the Company and payment of additional financial compensation, because of late payment on contract invoices relating to the Xingó Hydroelectric Power Plant. A petition dated 06/08/1999 refers to the invoices issued as of 04/30/1990 and the other, dated 05/31/2000, to the invoices issued up to that date. In these legal actions, the plaintiffs filed a generic request, limited to pointing out the existence of an alleged right to financial compensation, the calculation of the amounts involved being postponed to the date of settlement.

The Company contested the legal actions and requested that the Federal Government be admitted to the proceedings, which were sent to one of the courts in the Pernambuco Federal Justice. The Consortium presented a request mentioning the admission of the Federal Government in the proceedings.

In August 2005, after the results of the expert work and additional explanations, a hearing took place and the final arguments were scheduled to be presented on 10/17/2005. Currently, the processes are ready for dispatch and the final clearing and the sentence will follow.

Also, two (2) public civil actions have been filed against Chesf by the “Associação Comunitária do Povoado do Cabeço e Adjacências” (Community Association of the Cabeço County and Surrounding Areas) in the state of Sergipe, involving R\$ 100 million each. One at the 2nd. Federal Court in Sergipe (process no. 20028500002809-6) and the other at the Brejo Grande Court, SE (process no. 200338500000420-5), claiming for financial compensation for alleged material environmental damage caused to the fishermen from Cabeço, downstream UHE Xingo, all caused by the construction of this power plant.

The first action was filed at the Federal Court, on 06/27/2002, and contested within the legal timeframe. After a series of events which did not affect the process or the claims, on 08/31/2005 the judge in charge determined that IBAMA, IMA/AL, CRA/BA, the Federal Government and ADEMA/SE should be included as defendant in the action, while ordering that they be summoned.

On 09/30/2005 compliance with the summons was expected and on 12/31/2005 the records were completed for the Judge, after inclusion of the proxy of the new Chesf's lawyers.

The second action was filed at the Brejo Grande District Court, SE, on January 10, 2003, and Chesf was summoned on March 26, 2004. Contested in due time, the action, nevertheless had not proceeded by September 30, 2005. On 12/31/2005, the records were completed for the Judge, after inclusion of the proxy of the new Chesf's lawyers.

According to its lawyers, an unfavorable outcome for the Company is possible, due to possible defense failure, but not concerning the amounts claimed for.

- d) In spite of being deemed to involve a remote risk of loss, in the Company's legal counsel opinion, there is an ongoing case initiated by Mendes Junior, hired by the Company to build the Itaparica Hydroelectric Power Plant, for alleged financial losses due to late payment of invoices by the Company.

This collection action is based on the Declaratory Action judged valid for the purpose of declaring the existence of a Mendes Junior's credit against Chesf, thus ensuring financial refunding. To be entitled to financial refunding, in compliance with the decisions of the Pernambuco Justice Court, and the Supreme Court, Mendes Junior was expected to prove that it raised funds specifically for financing Itaparica works, due to Chesf's delay in paying some invoices and that these additional fund-raising expenses were higher than the arrears charges paid by Chesf.

As determined by the Federal Justice of the 12th Court's division of Pernambuco, an expert accounting examination is under way, whereby, in reply to Chesf's inquiry, the expert declared that "it was impossible, based on an analysis of Mendes Junior's accounting records, to affirm that it raised funds in the money market in the periods of delay in payment of invoices, specifically for financing Itaparica works".

With the expert examination report on hand, the parties requested clarifications to the Expert, which have not been examined by the 12th Federal Court's division Judge. The records were sent to the Federal Prosecution Office which is completing its pronouncement on the matter for subsequent delivery to the Judge.

Given the cancellation of all deeds developed within the State Justice's sphere and the strict determinations of the MM Federal Judge regarding the new examination, requiring the complete identification of Mendes Junior's own or obtained resources, and proof of their actual use in the construction, it is not possible to estimate the litigation amount, not even as an expectation. If one considers that, thus far, the Expert has not been able to prove the existence of credit in favor of the plaintiff, even after having had access to the latter's accounting records and to those of the defendant, Chesf's legal counselors confirm the lawyers's opinion that currently the risk of loss is remote.

On 06/30/2005, the records of the process were completed for the Judge and ready for the notary public action, awaiting the pronouncement of the Federal Prosecution Office. On September 30, 2005, the expert had already handed over the Supplementary Appraisal Report, in reply to the parties' questions, but without adding anything new to the previous opinions. On 12/31/2005, the records were examined by the Federal Prosecution Office for issuance of their opinion.

19 - STOCKHOLDERS' EQUITY

▪ Capital

Capital in the amount of R\$ 1.278.585 thousand, comprises shares without nominal value, thus distributed:

Stockholders	Number of shares – In thousands					
	Common		Preferred		Total	%
	Qty.	%	Qty.	%		
Eletrobrás	40.478	100,000	1.002	81,351	41.480	99,449
Sudene	-	-	194	15,718	194	0,464
Finor	-	-	17	1,362	17	0,040
Other	-	-	19	1,569	19	0,047
	40.478	100,000	1.232	100,000	41.710	100,000

Common shares are nominative and entitled to vote. The preferred shares, also nominative, have no specific class nor are voting or convertible into common shares, although they take priority in dividend distribution at 10% p.a., as a minimum, calculated on capital corresponding to this class of share.

▪ **Capital Reserves**

	2005	2004
Premium on share issue	769.028	769.028
Donations/subventions for investments	4.759.353	4.759.353
Yield on assets and rights formed out of own capital	1.691.475	1.691.475
Monetary restatement of property, plant and equipment	196.343	196.343
	7.416.199	7.416.199

▪ **Revenue Reserves**

	2005	2004
Legal	209.715	172.395
Statutory	8.179	8.179
Unrealized earnings	550.538	572.850
Retained earnings	1.478.412	1.097.015
	2.246.844	1.850.439

The Legal Reserve is set up at 5% of the net income for the year, in accordance with corporate legislation and limited to 20% of the capital.

The Unrealized Earnings Reserve, which is set up out of the credit balance of monetary restatement for years prior to 1995, is reversed to the retained earnings account, based on the realization of property, plant and equipment, and included in the shareholders' remuneration basis of calculation.

The Retained Earnings Reserve is composed of portions of the net income, is intended to compose the source of funds for use in the Company's investments. In the year, R\$ 381.397 thousand was appropriated to this reserve.

20 - STOCKHOLDERS' REMUNERATION

Pursuant to the Corporate Law and the Company's by-laws, the following dividend distribution is proposed for the year:

	2005	2004
Net income for the year	746.405	836.783
Legal reserve set up	(37.320)	(41.839)
Realization of unrealized earnings reserve	22.312	21.807
Remuneration basis of calculation	731.397	816.751
Minimum statutory dividends (25%)	182.849	204.188
Remuneration proposed:	350.000	254.167
Interest on own capital		
- R\$ 5,51 per preferred share (R\$ 6.09 in 2004)	6.794	7.508
- R\$ 5,51 per common share (R\$ 6.09 in 2004)	223.206	246.659
	230.000	254.167
Dividends		
- R\$ 2,88 per preferred share	3.545	-
- R\$ 2,88 per common share	116.455	-
	120.000	-

Because in 2005 remuneration in the form of interest on own capital was proposed, which is subject to withholding income tax at 15%, the net remuneration to shareholders for 2005 amounted to R\$ 315.678 thousand.

21 – ELECTRIC POWER SUPPLY/PROVISION AND THE TRANSMISSION SYSTEM AVAILABILITY

The Company's revenues arise substantially from the sale of electric power and availability of the Transmission System. These operations are backed by power sales and purchase contracts, by short term transactions in the market, involving the Electric Power Commercialization Chamber – CCEE, and by contracts from the Transmission System.

This revenue is thus composed:

	2005			2004		
	Number of Clients	GWh	R\$ thousand	Number of Clients	GWh	R\$ thousand
Industrial supply	26	8.301	664.702	22	8.112	673.007
Energy provision (*)	51	41.610	2.294.733	27	40.724	2.408.298
Transmission system avail.	134	-	976.122	118	-	789.873
Total		49.911	3.935.557		48.836	3.871.178

(*) Including short-term operations (CCEE) worth R\$ 26.385 thousand (2004 - R\$ 124.122 thousand)

22 – ELECTRIC POWER PURCHASED FOR RESALE

In order to comply with sales agreements with its clients, the Company purchased electric power as follows:

Supplier	2005		2004	
	GWh	R\$ thousand	GWh	R\$ thousand
Eletronorte	703	41.086	1.410	73.600
Furnas	650	41.640	1.304	76.174
CCEE (short-term)	-	5.802	-	3.367
Other	-	4	-	13.937
Total		88.532		167.078

23 – OPERATING COSTS AND EXPENSES

The general and administrative costs and expenses shown in the income statement are thus composed:

Operating Costs and Expenses	2005		2004	
	Operating costs	Costs of services to third parties	Operating expenses	Total
Electric power purchased for resale	88.532	-	-	88.532
Charges on use of electric power network	367.334	-	-	367.334
Personnel	123.009	91	252.774	375.874
Material	9.000	164	20.363	29.527
Fuel for energy production	10.504	-	-	10.504
Third-party services	54.354	75	78.876	133.305
Fuel Consumption Account – CCC	(5.911)	-	-	(5.911)
Energetic Development Account – CDE	(958)	-	-	(958)
Depreciation and amortization	514.989	-	31.823	546.812
Financial compensation for water use	175.566	-	-	175.566
Nat'l Scientific and Technological Development Fund	14.830	-	-	14.830
Leases and Rentals	4.289	-	24.265	28.554
Provisions for contingencies	-	-	43.151	43.151
Taxes	175	302	3.490	3.967
Other	36.124	-	2.274	38.398
Total	1.391.837	632	457.016	1.849.485

24 – RECONCILIATION OF ACTUAL AND NOMINAL RATES OF PROVISIONS FOR INCOME TAX AND SOCIAL CONTRIBUTION

Below, the reconciliation of actual and nominal rates used in calculating provisions for income tax and social contribution:

	2005	
	Social Contribution	Income Tax
Pretax income	805.192	805.192
Total income tax and social contribution burden calculated at 15% plus surtax and 9%, respectively.	72.468	201.274
Tax effects on:		
Permanent additions or exclusions	(1.937)	(8.811)
Temporary exclusions	(15.723)	-
Income tax and social contribution for the year	54.808	192.463

25 – PROFIT SHARING

As a result of the Collective Bargaining Agreement and observing the legal determinations, the Company booked the amount of R\$ 43.476 thousand intended for employee profit sharing for the year, to be submitted to the Annual General Shareholders' Meeting - AGO. The amount of R\$ 41.516 thousand, recorded in the Statement of Income, considers the reduction of R\$ 1,960 thousand, corresponding to the unrealized portion of 2004 profit sharing.

26 – SOCIAL SECURITY PLAN AND OTHER BENEFITS TO EMPLOYEES

The Company sponsors the Fundação Chesf de Assistência e Seguridade Social – Fachesf, a private not-for-profit entity, with the purpose of ensuring supplementary benefits to those provided by the Government-Sponsored Social Security.

Fachesf's actuarial model is one of capitalization and the Plan originally established is the Defined Benefit (BD Plan). On 06/29/2001, Defined Contribution Plans (CD Plan) and Liquidated Benefit (BS Plan) were implemented, where Participants converted from the BD Plan to the new Plans, closed on 11/19/2001, reaching 97.1%.

Based on the actuarial evaluation results performed on the base date of 12/31/2005, the commitments assumed by the Company were reviewed and updated, and calculated per the CVM Deliberation 371/2000, reaching an actuarial liability in the amount of R\$ 768.498 thousand.

Since the accounting principles laid down in CVM Deliberation 371/2000 have been adopted, the plans jointly sponsored by the Company and Fachesf have accumulated losses, due to the difference between budgeted and actual figures – adjustments for deferrals permitted – which based on the independent actuarial report as of the base date 12/31/2005, added up to R\$ 106.456 thousand. Recognition of said losses, under items 53 and 54 of the above mentioned Deliberation, is being proceeded by the Participant's average service in the Plans, which, according to said actuarial report, will take place up to 9.5 years.

In the applicable legislation terms, the Complementary Social Security Secretary – SPC, determines that contracts be drawn up between the sponsors and the Complementary Social Security entities, seeking full actuarial coverage for complementary benefit plans to that received from the Official Social Security.

The contracted actuarial commitments with Fachesf until 12/31/2005 add up to R\$ 898.007 thousand.

As the balance of contracts signed with Fachesf in the amount of R\$ 898.007 thousand exceeded the amount of the actuarial liability calculated in accordance with the CVM Deliberation 371/2000, in order to adjust its accounting records to the net actuarial liability, in the amount of R\$ 768.498 thousand, an amount determined through the actuarial appraisal report issued on the base date of 12/31/2005, Chesf recorded the surplus of R\$ 129.509 thousand, as a reduction of the actuarial liability, under "Long-term liabilities" by way of deferral, as stipulated by the Deliberation. This portion is subject to annual reviews.

The following are detailed commitments related to Retirement Plans, as described in the applicable paragraphs of item 81 of CVM Deliberation 371/2000, as of the base date 12/31/2005.

Basic Characteristics of the Benefit Plan

On behalf of Chesf's employees, Fachesf administers 03 (three) Retirement Plans: The Benefit Plan, the Defined Contribution Retirement Plan and the Settled Benefit Plan.

The Benefit Plan, of the defined benefit type, guarantees to participants 100% benefit calculated based on the average of their last salaries and is now closed to new enrollments.

The Defined Contribution Retirement Plan is a plan in which the participants choose their level of contribution and the sponsor adds a variable percentage of the contribution chosen by the participants. The accumulation of these funds is what will determine the amount of the participant's benefit in the future. Chesf is responsible for the costs of the risk benefits and for managing the plan. This is the only plan open for enrollments.

The participants who chose to be transferred to the Defined Contribution Retirement Plan had the option to maintain in the Settled Benefit Plan, the proportional amount, which they accumulated in the original plan, or transfer the present value of said benefits to the Defined Contribution Retirement Plan. The Settled Plan, as of the closing of the transfer period, is also closed to enrollments.

1. Accounting Policy Chosen by the Entity for Recognizing Actuarial Gains and Losses

The amount of actuarial gains and losses recognized will correspond to the portion of gain or loss exceeding 10% of the Present Value of the Actuarial Obligation or 10% of the Fair Amount of the Plan's Assets, whichever is higher, amortized by the average future services of the plan's participants (Item 53 of the IBRACON Pronouncement on Accounting for Employee Benefits)

2. Conciliation of Assets and Liabilities Recognized in the Balance Sheet as of 12/31/2005

2.1. Present value of funded actuarial liabilities	2.605.190
2.2. Present value of unfunded actuarial liabilities (Plans without Financial Assets)	-
2.3. Present value of actuarial liabilities (2.1 + 2.2)	2.605.190
2.4. Fair value of the plan's assets	(1.730.236)
2.5. Present value of liabilities in excess of the fair value of assets (2.3 + 2.4)	874.954
2.6. Adjustments for deferrals permitted	
a) Actuarial (gains) or losses, not recognized	106.456
b) Cost of past service not recognized	-
c) Increase in (assets)/liabilities in adopting unrecognized pronouncement	-

d) Total (a + b + c)	106.456
2.7. Total actuarial liabilities / (Assets) to be provided for (2.5 – 2.6d)	768.498
3. Deadlines for Recognition as from 12/31/2005 (in years)	
3.1. Actuarial gains or losses, not recognized	9,5
3.2. Cost of past service not recognized	N/A
3.3. Increase in liabilities in adopting unrecognized pronouncement	N/A
4. Changes in Net Actuarial Liabilities (Assets)	
4.1. Net Actuarial Liabilities /(Assets) at the beginning of the year	869.847
4.2. Expenses (revenues) recognized in previous year's statement of income	131.196
4.3. Sponsor's contributions during the year	232.545
4.4. Impact of reduction on the benefit plan	-
4.5. Impact of early settlement on the benefit plan	-
4.6. Net Actuarial Liabilities /(Assets) at the end of the year (4.1 + 4.2 - 4.3 + 4.4 + 4.5)	768.498
5. Reconciliation of Fair Value of the Plan's Assets	
5.1. Fair value of the plan's assets at the beginning of the year	1.405.130
5.2. Benefits paid in the year	171.088
5.3. Participants' contributions paid in the year	18.358
5.4. Sponsor's contributions paid during the year	248.286
5.5. Actual income on assets in the year (5.6-(5.1-5.2+5.3+5.4))	229.550
5.6. Fair value of the plan's assets at the end of the year	1.730.236
6. Reconciliation of Present Value of Actuarial Liabilities	
6.1. Amount of obligations at the beginning of the year	2.512.122
6.2. Gross costs of current service (with interest)	995
6.3. Regular Participants' and Sponsor's Contributions to retirement plan	33.525
6.4. Interest on actuarial liabilities	300.058
6.5. Benefits paid in the year	171.088
6.6. Obligations - (G)/P (6.7 - (6.1+6.2+6.3+6.4-6.5))	(70.422)
6.7. Amount of liabilities calculated at the end of the year	2.605.190
7. Calculations of (Gains) / Losses	
7.1. Amount of (gain) / loss at the beginning of the year	237.145
7.2. Amortization in the year	4.779
7.3. (Gain) / loss on actuarial liabilities	(70.422)
7.4. (Gain) / loss on plan assets	(55.406)
7.5. (Gain) / loss on employees' contribution	(82)
7.6. Impact of reduction on the benefit plan	-
7.7. Impact of early settlement on the benefit plan	-
7.8. (Gain) / loss at the end of the year	106.456
7.9. Calculation of transition (10% equity or the obligation amount, whichever is higher)	260.519
7.10. Portion to be amortized (max 0; 7.8 -7.9)	-
7.11. Amortization (7.10 / 3.1)	-

8. Expected Return on Assets for the Next Year

8.1. Fair value of the plan's assets as of 12/31/2005	1.730.236
8.2. Contributions expected from participants for the next year	436
8.3. Contributions expected from sponsor for the next year	238.137
8.4. Expected benefits for the next year	180.780
8.5. Expected return on assets $(8.1 * \text{rate} + (8.2 + 8.3 - 8.4) * \text{rate}^{1/2})$	217.325

9. Interest on Actuarial Liabilities for the Next Year

9.1. Present value of actuarial liabilities as of 12/31/2005	2.605.190
9.2. Expected benefits for the next year	180.780
9.3. Interest on Actuarial Liabilities for the next year $(9.1 * \text{interest} - 9.2 * \text{interest}^{1/2})$	311.155

10. Expenses (Revenues) to be Recognized in the Statement of Income for 2006

10.1. Current service costs (with interest)	748
10.2. Interest on Actuarial Liabilities	311.155
10.3. Expected Return on the Plan's Assets	217.325
10.4. Amortization costs	
a) Actuarial (gains) or losses, not recognized	-
b) Cost of past service not recognized	-
c) Increase of (asset)/liabilities in adopting unrecognized pronouncement	-
d) Total (a + b + c)	-
10.5. Total gross expenses (revenues) to be recognized $(10.1 + 10.2 - 10.3 + 10.4d)$	94.578
10.6. Contributions expected from participants for the next year	436
10.7. Total gross expenses (revenues) to be recognized $(10.5 - 10.6)$	94.142
10.8. Expected administrative expenses for the next year	(A)
10.9. Total	94.142

(A) The total expense determined for the next year does not include administrative expenses forecast for the

11. Summary of Registered Participants' Data (in R\$)

Active + Enrolled Participants

Quantitative (*)	5.444
Average age (years)	46,0
Average length of service (years)	19,3
Average length of future service (years)	9,5
Average monthly salary/wages	3.661
Annual payroll (13x)	259.124.467

(*) All those participating in BS Plan participate in CD Plan , too.

Participants awaiting benefits

Quantitative	26
Average age (years)	49,1
Average monthly benefit	1.952

Participants assisted / Beneficiaries enjoying benefit

Quantitative	7.269
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Average age (years)	62,8
Average monthly benefit	1.759
Payroll benefits (13x)	166.237.762
Actual income in the year	266.644.443
Employee contribution	18.358.421
Sponsor's contribution	248.286.022
Actual expenses in the year	171.087.324

12. Actuarial Assumptions Adopted in Calculation

Nominal discount rate for actuarial liabilities	12,36%
Nominal yield rate expected on the plan's assets	12,36%
Estimated rate of nominal salary increase	7,06%
Estimated rate of nominal benefit increase	6,00%
Nominal growth rate of medical costs	0,00%
Estimated long term inflation rate (basis for the determination of above rates)	6,00%
General mortality biometric table:	UP94 with 4 years of discount
Biometric admittance for disability table	Mercer admittance for disability
Expected turnover rate	1% per year
Likelihood of beginning retirement	100% on initial eligibility to a full plan benefit under the BD and BS Plans 10% at 50 years of age, 3% between 51 and 54 years of age and 100% at 55 years of age (CD Plan)

13. Additional Information

- 1) The Plan's assets are set as of 12/31/2005
- 2) Individually recorded asset data are set as of 09/30/2005 and were projected to 12/31/2005, while the Assisted and Beneficiaries' data are set as of 12/31/2005
- 3) The registered statistics presented consider the family group benefits as one benefit

Additional Benefits

In addition to the benefits granted through the complementary social security plans, the Company offers advantages to its employees, such as: health care plan, meal allowance, transportation allowance and day-care assistance, which are periodically negotiated through a collective bargaining agreement. The expenses in connection therewith, during the year, amounted to R\$ 47.275 thousand (2004 - R\$ 43.532 thousand).

27 – RELATED-PARTY TRANSACTIONS

These are performed under market terms and conditions, or based on contracts applicable to the Electric Sector.

	2005									2004
Description	ELETROBRÁS	FURNAS	ELETROSUL	ELETRONORTE	ELETRONUCLEAR	CGTEE	LIGHTPAR	STN	TOTAL	TOTAL (Reclassified)
• Consumers and Concessionaires	-	3.176	-	4.554	357	37	-	-	8.124	5.741
• Accounts Receivable	290	-	-	257	-	-	14.693	-	15.240	15.339
• Allowance for doubtful accounts	-	-	-	-	-	-	(13.237)	-	(13.237)	(1.663)
• Permanent shareholding	-	-	-	-	-	-	-	93.100	93.100	49.033
• Suppliers	-	(15.293)	(3.833)	(9.152)	-	-	-	-	(28.278)	(26.359)
• Loans and financing Taken	(4.689.492)	-	-	-	-	-	-	-	(4.689.492)	(4.938.325)
• Interest on own capital /Dividends	(313.761)	(8)	-	-	(5)	-	-	-	(313.774)	(214.703)
• Accounts payable	(359)	-	-	-	-	-	(1.456)	-	(1.815)	(1.663)
Total	(5.003.322)	(12.125)	(3.833)	(4.341)	352	37	-	93.100	(4.930.132)	(5.112.600)

	01/01/2005 to 12/31/2005									2004
Description	ELETROBRÁS	FURNAS	ELETROSUL	ELETRONORTE	ELETRONUCLEAR	CGTEE	LIGHTPAR	STN	TOTAL	TOTAL
• Revenue from use of electric network	-	29.031	-	36.565	3.197	333	-	-	69.126	49.882
• Service revenue	-	-	-	-	-	-	-	6.490	6.490	4.722
• Other revenues	-	-	-	-	-	-	(477)	-	(477)	477
• Energy purchased for resale	-	(41.640)	-	(41.086)	-	-	-	-	(82.726)	(149.774)
• Charge on use of electric network	-	(85.348)	(32.744)	(38.797)	-	-	-	-	(156.889)	(75.806)
• Financial expense on loans and financing taken	(482.946)	-	-	-	-	-	-	-	(482.946)	(600.484)
• Interest on own capital /Dividends	(228.733)	(5)	-	-	(3)	-	-	-	(228.741)	(252.605)
• Capital contributed	-	-	-	-	-	-	-	(44.067)	(44.067)	(48.642)
• Other expenses	-	-	-	-	-	-	(16.345)	-	(16.345)	-
Total	(711.679)	(97.962)	(32.744)	(43.318)	3.194	333	(16.822)	(37.577)	(936.575)	(1.072.230)

28 - FINANCIAL INSTRUMENTS

Through its Instruction 235 of March 23, 1995, CVM established mechanisms for disclosure in explanatory notes of the market value of financial instruments, whether reflected in the financial statements or not.

The Company's financial instruments are as follows:

ASSETS

- Investments in the Open Market

These are stated at market value, due to their maturity in extremely short-term.

LIABILITIES

- Loans and financing

These local and foreign lending operations are restated based on currencies of the respective countries of origin up to the balance sheet date, being provided for at fixed or variable rates ruling at 12/31/2005 or based on loan agreements with the parent company, Eletrobrás, which represent 90% of the total debt, almost all of which (92%) bearing interest at 10% p.a. The market rate for Eletrobrás is defined taking into account the risk premium compatible with the activities of the Electric Sector. Given the special circumstances surrounding the funding of its expansion projects, the market value of these loans is the same as their book value.

Exchange risk

Of the total debt of the Company as of 12/31/2005, R\$ 544.065 thousand refers to agreements in foreign currency comprising US\$ 150.357 thousand (basically relending from Eletrobrás) and Eur 69.383 thousand (balances of UHE Xingó financing), which is why the Company is exposed to exchange risks (Real : US\$ and Real : Eur). This year, however, these two currencies were devaluated in relation to the Real by 11.82% and 23.50%, respectively.

29 –STATEMENT OF INCOME BY ACTIVITY

	2005			2004 (Reclassified)		
	Generation	Transmission	Total	Generation	Transmission	Total
OPERATING REVENUE						
Electric power supply	664.702	-	664.702	673.007	-	673.007
Electric power provision	2.294.733	-	2.294.733	2.408.298	-	2.408.298
Transmission system availability	-	976.122	976.122	-	789.873	789.873
Other operating revenues	5.002	9.019	14.021	8.207	11.431	19.638
	2.964.437	985.141	3.949.578	3.089.512	801.304	3.890.816
Deductions from operating revenue						
Global Reversal Reserve – RGR	(76.686)	(25.046)	(101.732)	(78.850)	(20.870)	(99.720)
ICMS on electric power	(75.511)	-	(75.511)	(71.677)	-	(71.677)
Emergency Capacity Charge	(47.825)	-	(47.825)	(79.712)	-	(79.712)
Fuel Consumption Account - CCC	-	(100.919)	(100.919)	-	(804)	(804)
Energetic Development Account – CDE	-	(14.703)	(14.703)	-	(107)	(107)
PROINFA	-	(2.412)	(2.412)	-	-	-
COFINS	(170.833)	(76.275)	(247.108)	(93.129)	(26.864)	(119.993)
PASEP	(45.566)	(14.892)	(60.458)	(12.154)	(4.190)	(16.344)
	(416.421)	(234.247)	(650.668)	(335.522)	(52.835)	(388.357)
Net Operating Revenue	2.548.016	750.894	3.298.910	2.753.990	748.469	3.502.459
COST OF ELECTRIC POWER SERVICE - note23						
Electric power cost						
Electric power purchased for resale - note22	(88.532)	-	(88.532)	(167.078)	-	(167.078)
Charges on use of electric network use	(367.334)	-	(367.334)	(155.672)	-	(155.672)
Operating cost						
Personnel	(36.087)	(86.922)	(123.009)	(31.627)	(79.558)	(111.185)
Material	(2.616)	(6.384)	(9.000)	(2.746)	(5.299)	(8.045)
Fuel for energy production	(10.504)	-	(10.504)	(11.884)	-	(11.884)
Third parties' service	(13.509)	(40.845)	(54.354)	(14.108)	(23.143)	(37.251)
Fuel Consumption Account – CCC	5.911	-	5.911	(77.800)	-	(77.800)
Energetic Development Account – CDE	958	-	958	(11.491)	-	(11.491)
Financial compensation for water use	(175.566)	-	(175.566)	(130.790)	-	(130.790)
Depreciation and amortization	(345.533)	(169.456)	(514.989)	(335.206)	(163.015)	(498.221)
Other	(31.358)	(24.060)	(55.418)	(29.888)	(5.399)	(35.287)
	(1.064.170)	(327.667)	(1.391.837)	(968.290)	(276.414)	(1.244.704)
COST OF SERVICE RENDERED TO THIRD	(162)	(470)	(632)	(137)	(336)	(473)
GROSS OPERATING INCOME	1.483.684	422.757	1.906.441	1.785.563	471.719	2.257.282
OPERATING EXPENSES - note23	(187.160)	(269.856)	(457.016)	(140.760)	(295.205)	(435.965)
SERVICE INCOME	1.296.524	152.901	1.449.425	1.644.803	176.514	1.821.317
FINANCIAL REVENUE (EXPENSE)						
Revenue from short-term investments in the money	16.844	4.930	21.774	28.683	7.771	36.454
Monetary variation and arrears charges – energy	228.244	211	228.455	200.226	204	200.430
Other monetary gains	4.406	939	5.345	21.655	499	22.154
Other financial revenues	(7.819)	(2.128)	(9.947)	818	1.472	2.290
Pasep/Cofins	(16)	-	(16)	(10.673)	(747)	(11.420)
Debt charges	(581.326)	(92.491)	(673.817)	(617.993)	(98.536)	(716.529)
Monetary variations on loans and financing	92.138	17.209	109.347	(30.254)	(12.844)	(43.098)
Other monetary losses	(22.838)	(55.415)	(78.253)	(20.941)	(57.035)	(77.976)
Other financial expenses	(25.243)	15.414	(9.829)	(34.130)	(23.172)	(57.302)
	(295.610)	(111.331)	(406.941)	(462.609)	(182.388)	(644.997)
Operating Income before Interest on Own	1.000.914	41.570	1.042.484	1.182.194	(5.874)	1.176.320
Interest on own capital	(230.000)	-	(230.000)	(254.167)	-	(254.167)
OPERATING INCOME	770.914	41.570	812.484	928.027	(5.874)	922.153
Non-operating revenue	552	1.662	2.214	414	1.239	1.653
Non-operating expense	(491)	(9.015)	(9.506)	(18)	(261)	(279)
Non-operating income	61	(7.353)	(7.292)	396	978	1.374
Pretax Income (Loss)	770.975	34.217	805.192	928.423	(4.896)	923.527
Social contribution			(54.808)			(86.952)
Income tax			(192.463)			(223.589)
Income before profit sharing and reversal of interest on own capital			557.921			612.986
Reversal of interest on own capital			230.000			254.167
Profit sharing			(41.516)			(30.370)
NET INCOME FOR THE YEAR			746.405			836.783
Net earnings per share (R\$)			17,90			20,06

30 – INSURANCE

Under a contract signed with Bradesco Auto/RE – Cia. de Seguros, with 4-year duration as from 04/30/2005, the Company's main assets such as construction work and stored material are insured under annual policies for R\$ 2.774.220 thousand. The policy in force is valid from 04/30/2005 to 04/30/2006. Specification by risk is as follows:

Policies

- **Risks:** Fire, lightning strike, explosion, electric damage
 Engineering risks (operational functioning)

- **Aeronautic Risks**

Amount insured	Annual Premium
2.760.888	5.006
13.332	651
2.774.220	5.657

The amount insured under the aeronautic risk policy includes R\$ 713 thousand of third-party liability.

Besides these, the Company has transportation insurance policies to guarantee the handling of materials, which are valid from May 2005 through May 2009, totaling R\$ 64,502 thousand payable in monthly installments, as follows:

Transportation Insurance

- Domestic – general

Amount insured	Premium
64.502	209

In setting the insurance and risk management policies, the physical location, level of exposure of assets and cost/benefit relationship are taken into consideration.

31 - GENERAL ELECTRIC SECTOR AGREEMENT – EXTRAORDINARY TARIFF RECOMPOSITION – RTE; VARIATION OF THE “PORTION A” ITEMS AND FREE ENERGY PASSED ON.

1. RTE composition ratified by ANEEL, representing Loss of Revenue and Free Energy.

ITEMS	RATIFICATION INSTRUMENT NO.	RATIFIED AMOUNT	REMUNERATION ACCUMULATED UP TO 12/31/2005	AMOUNT AMORTIZED UP TO 12/31/2005	UNAMORTIZED BALANCE AS OF 12/31/2005
		(1)	(2)	(3)	(4) = (1 + 2 - 3)
Loss of Revenue	Resolutions nos. 480/02, 481/02 and 01/04.	40.674	10.627	45.839	5.462
Free Energy	Resolutions nos. 01/04 and 45/04.	77.303	39.650	80.567	36.386
Total		117.977	50.277	126.406	41.848

2. The variation of Portion A Items (period from 01/01/2001 through 10/25/2001) ratified by the ANEEL.

ITEMS	RATIFIED AMOUNT RESOLUTIONS NOS. 482/02 AND 001/04	REMUNERATION ACCUMULATED UP TO 12/31/2005	AMOUNT ACCUMULATED UP TO 12/31/2005	AMOUNT AMORTIZED UP TO 12/31/2005	UNAMORTIZED BALANCE AS OF 12/31/2005
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) - (4)
“Portion A” (period from 01/01 through 10/25/2001)	21.827	23.856	45.683	-	45.683

3. Composition of amounts ratified by ANEEL, representing Free Energy Passed On, i.e., energy purchased at the MAE – Wholesale Electric Power Market, currently CCEE – Electric Power Commercialization Chamber over the duration of the Emergency Reduction of Electric Power Consumption Program.

ITEMS	RATIFIED AMOUNT RESOLUTIONS NOS-001/04 E 045/04	REMUNERATION ACCUMULATED UP TO 12/31/2005	AMOUNT ACCUMULATED UP TO 12/31/2005	AMOUNT AMORTIZED UP TO 12/31/2005	BALANCE TO BE PASSED ON AS OF 12/31/2005
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) - (4)
Free Energy Passed On	77.303	39.650	116.953	80.567	36.386

Under the Electric Sector General Agreement, signed by the generators and the distributors on 12/18/2001, this year the Company received R\$ 34.121 thousand and R\$ 159.533 thousand, corresponding to the Extraordinary Tariff Recomposition – RTE and the free energy refunding, respectively, and paid R\$ 32.128 thousand, for free energy.

Still under this General Agreement and in compliance with the Circular Letters nos. 2.212/2005-SFF/SRE/ANEEL, 2.218/2005-SFF/ANEEL and 074/2006-SFF/SRE/ANEEL, dated respectively, 12/20/2005, 12/23/2005 and 01/23/2006, a detailed analysis of free energy balances by debtor/creditor follows:

Receivables	12/31/2005	Payables	12/31/2005
Company	Amount (R\$ 000)	Company	Amount (R\$ 000)
CAIUÁ	2.753	AES TIETÊ	1.628
CEAL	2.921	CDSA	681
CEB-BRASÍLIA	9.364	CEEE	861
CELB	1.641	CELESC	521
CELG	9.786	CELTINS	94
CELPA	8.023	CEMIG	7.725
CELPE	20.688	CESP	5.666
CELTINS	129	CGTEE	95
CEMAR	1.316	CHESF G	8.194
CEMAT	619	COPEL GERAÇÃO	618
CEMIG	92.247	CPFL PAULISTA	110
CENF - NOVA FRIBURGO	311	DUKE ENERGY	1.413
CEPISA	5.946	EEVP - VALE PARANAPANEMA	16
AMPLA (CERJ)	23.166	ELETRONORTE	2.430
CESP	3.392	EMAE	628
CFLCL – CATAGUAZES	197	EEB - BRAGANTINA	2
CFLSC - SANTA CRUZ	1.127	ENERGIPE	4
CHESF D	8.194	FURNAS	5.032
CJE – JAGUARI	161	RIO GRANDE ENERGIA – RGE	150
CNEE – NACIONAL	489	TRACTEBEL ENERGIA	518
COELBA	28.145		
COELCE	17.177		
COSERN	9.202		
CPFL - PAULISTA	48.053		
CPFL - PIRATININGA	19.142		
CSPE - SUL PAULISTA	832		
EBE - BANDEIRANTE	23.797		
EEB - BRAGANTINA	79		
EEVP - VALE PARANAPANEMA	147		
ELEKTRO	14.710		
ELETRONORTE	48.775		
ELETROPAULO	74.650		
ENERGIPE	3.635		
ENERSUL	6.821		
ESCELSA	17.610		
LIGHT	65.767		
SAELPA	6.452		
Total receivable	577.464	Total payable	36.386

32 - FEDERAL GOVERNMENT'S ASSETS AND RIGHTS USED BY THE CONCESSIONAIRE

According to the Accounting Instruction 6.3.13 of the Accounting Manual for the Electric Power Public Utilities, the Company keeps in auxiliary records Federal Government's assets and rights amounting to R\$ 68.925 thousand (restated cost), under special use scheme, segregated by activity, as shown below:

	2005								2004	
	Generation				Transmission				Generat.	Transm.
	Qty. Items	Restated Cost	Estimated Depreciation	Net	Qty. Items	Restated Cost	Estimated Depreciation	Net	Net	Net
UHE Castelo Branco Dam	1	56.858	(46.623)	10.235	-	-	-	-	11.372	-
Plots of land	10	2.958	-	2.958	4	223	-	223	2.958	-
Buildings	223	1.688	(1.638)	50	2	13	(9)	4	118	75
UHE Itaparica Relocation	1	5.201	(1.515)	3.686	-	-	-	-	3.894	-
Guadalupe-PI Airport	1	926	(898)	28	-	-	-	-	65	-
Access road to UHE										
Castelo Branco	1	508	(493)	15	-	-	-	-	35	-
Other	4	460	(239)	221	3	90	(65)	25	321	29
Total	241	68.599	(51.406)	17.193	9	326	(74)	252	18.763	104

33 – EMPLOYEES' AND THE MANAGEMENT'S COMPENSATION

With December 2005 as a basis and pursuant to the Company's salary policy, the highest and the lowest monthly compensation paid to employees were R\$ 19.329,20 and R\$ 799,00, respectively; the highest fees paid to top management was R\$ 24.044,00. These compensations comprise permanent salaries, bonuses and additional fees.

34 – PERIODICAL TARIFF REVIEW

The Electric Power Public Transmission Service Concession Contract, agreed upon between the Company and ANEEL – National Electric Power Agency, forecast that every four years, after signing said contract, ANEEL will begin a periodical review of the RAP - annual permitted revenue - seeking to promote efficiency and moderate tariffs. However, the first review due for June 2005 was postponed by ANEEL to June 2006.

Since the criteria for reviewing tariffs have not been defined as yet, the Company does not have an adequate basis for evaluating their impact on its future results.

BOARD OF DIRECTORS AND ADMINISTRATIVE AND FISCAL COUNCILS

BOARD OF DIRECTORS

Dilton da Conti Oliveira
President

Marcos José Mota de Cerqueira
Economic and Financial Director

José Ailton de Lima
Engineering and Construction Director

João Bosco de Almeida
Administrative Director

Mozart Bandeira Arnaud
Operations Director

SUPERINTENDENCY OF EXECUTION AND ECONOMIC-FINANCIAL CONTROL

José Ivan Pereira Filho
Superintendent
CRC-PE-007552/O-6 – Contador
CPF - 080.801.434-04

ADMINISTRATIVE COUNCIL

José Drumond Saraiva
Chairman

Dilton da Conti Oliveira
Council Member

Swedenberger do Nascimento Barbosa
Council Member

Ricardo Spanier Homrich
Council Member

Erenice Alves Guerra
Council Member

Maurício Moura Portugal Ribeiro
Council Member

FISCAL COUNCIL

Paulo Sérgio Petis Fernandes
Council Member

João Alderi do Prado
Council Member

Paulo Henrique Feijó da Silva
Council Member