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## MESSAGE FROM THE BOARD OF EXECUTIVE OFFICERS

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, 2010, accompanied by the Independent Auditors' Report and the Statutory Audit Board's Report.

In the course of its 63 years, Chesf maintained a path of consistent evolution, marked both by its strong operational performance and by its economic and financial results.

In 2010, Chesf obtained an expressive profit of R\$ 2,177.2 million, the best result ever in its history.

Chesf sought a balanced expansion for its business structure, focused on corporate sustainability. In the transmission segment, the Company bought, with its own capital, six batches at auctions held by the National Electric Power Agency (Aneel), obtaining concession for the implementation of new substations and new transmission lines.

In the generation segment, it participated in the winning consortium at the auction which awarded the concession of the Belo Monte hydroelectric power plant in the Xingu River, State of Pará, with 11,233 MW capacity, resulting in the creation of Specific Purpose Company Norte Energia S.A., in which the Company holds interest of 15%.

In the alternative energy sources area, Chesf obtained authorization, through auction, to implement the Casa Nova eolic park in the municipality of Casa Nova, State of Bahia, with capacity of 180 MW, fully owned by Chesf, and also for the Pedra Branca, Sete Gameleiras and São Pedro do Lago, in the municipality of Sento Sé, State of Bahia, totaling 86.4 MW, in partnership with the Brennand Energia Group, where Chesf holds interest of 49% in each enterprise, signaling the beginning of the Company's commercial investments in this segment.

As the operating improvements in the generation and transmissions systems are determinant for Chesf to maintain satisfactory continuity and availability levels to meet demand, improvements were made in the generation park of various plants as well as a 395 MVA expansion in the transformation capacity and of 135 km in transmission lines.

In the electric power sales area it is worth mentioning the significant 11.5% increase as compared to the amount sold in 2009.

In the business management field, the approval of the Business Planning for the 2010-2015 period is emphasized. The global target of this Plan is defined as the offer of solutions and services for the electric power market, in a profitable and sustainable manner, with the recognition of stockholders, the society, and of its employees.

Chesf's operations are governed by business efficiency, profitability and social-environmental responsibility, as the Company is committed to the conservation of environmental resources and the reduction of social and regional inequalities. In 2010, the Company continued to invest in the social and environmental areas.

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

## COMPANY PROFILE

Chesf, an electric power public service concessionaire controlled by Eletrobras, is a mixed private/state publicly-held company formed pursuant to Decree-Law No. 8031, of October 3, 1945, and established at the First Annual Stockholders' Meeting held on March 15, 1948. Its aim is to generate, transmit and sell electric power.

Its generation system is comprised of hydrothermal plants, with a majority of hydroelectric power plants that are responsible for over 97% of its total production. Its current generating complex with 10,615 MW of installed capacity is made up of 14 power plants supplied by nine reservoirs with a maximum storage capacity of 52 billion cubic meters of water, and one dual-fuel thermoelectric power plant with 346.8 MW of installed capacity, as detailed below:

Power Plants	River	Installed Capacity (MW)
<b>HYDROELECTRIC:</b>	-	<b>10,268,328</b>
Sobradinho	São Francisco	1,050,300
Luiz Gonzaga (Itaparica)	São Francisco	1,479,600
Apolônio Sales (Moxotó)	São Francisco	400,000
Paulo Afonso I	São Francisco	180,001
Paulo Afonso II	São Francisco	443,000
Paulo Afonso III	São Francisco	794,200
Paulo Afonso IV	São Francisco	2,462,400
Piloto	São Francisco	2,000
Xingó	São Francisco	3,162,000
Funil	de Contas	30,000
Pedra	de Contas	20,007
Boa Esperança	Parnaíba	237,300
Curemas	Piancó	3,520
Araras	Acaraú	4,000
<b>THERMOELECTRIC:</b>		<b>346,803</b>
Camaçari	-	346,803
<b>TOTAL</b>		<b>10,615,131</b>

Also, through its interest in Specific Purpose Companies for generation enterprises, Chesf has 2,451.2 MW to be installed, equivalent to the Company's interest in those companies.

Chesf's transmission system is composed of 18,723 km of transmission lines in operation, of which 5,122 km are 500 kV transmission circuits, 12,792 km are 230 kV transmission circuits, 809 km are lower tension transmission circuits; 99 substations with higher than 69 kV tension, and 762 transformers in operation at all tensions, with a total transformation capacity of 44,181 MVA, plus 5,683 km of optical fiber cables.

## RELATIONSHIP WITH THE STOCKHOLDERS

As a publicly-traded company, Chesf is subject to the rules of the Comissão de Valores Mobiliários – CVM (The Brazilian Securities Commission).

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

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

## OWNERSHIP CONTROL

The Company's capital, in the amount of R\$ 7,720.8 million, is represented by 51,564,834 nominative shares, of which 50,094,606 are common and 1,470,228 preferred, with no par value. Of the total shares, 99.5544% are held by Eletrobras, 0.3759% by the Ministry of Finance, 0.0167% by Light, and 0.0530% by other stockholders.

## **CORPORATE GOVERNANCE**

### **Administration**

The Company is administered by a Board of Directors and a Board of Executive Officers. The Board of Executive Officers is made up of a President, elected from among the members of the Board of Directors, and up to five Directors, all Brazilian, who are elected by the Board of Directors for a three-year mandate on a full time basis.

The Board of Directors is made up of a Chairman and five members, all of whom are stockholders, elected at the Annual Stockholders' Meeting for a three-year mandate, and entitled to reelection. One of the members of the Board of Directors is appointed by the Minister of Planning, Budgeting and Management.

The Statutory Audit Board is permanent and made up of three regular members and three substitutes, who are Brazilian and elected at the Annual Stockholders' Meeting for a one-year tenure. One regular member of the Statutory Audit Board and his or her substitute are representatives of the Federal Treasury.

### **Code of Ethics**

In 2010, Chesf adopted a new Code of Ethics, which is the same for all companies of the Eletrobras System. This code explains the ethical principles, values and commitments which govern the Company's conduct in its interactions with different stakeholders, as well as the behavior of its employees and the whole internal public. Its use contributes to reduce the ambiguities and personal interpretations of moral and ethical principles and of the professional conducts valued and indicated by Chesf, and to improve practices that ensure individual and collective rights and that preserve the Company's interests. The Code is also available in *Braille*.

The Company's Ethics Commission, responsible for the management of the Code, acts regularly to disseminate to the internal public the ethical principles, values and conduct commitments stated in the Code, as well as to monitor its compliance, evaluate denunciations of infraction and eliminate possible deviations.

### **Ombudsman's Office**

Chesf's Ombudsman's Office is a direct dialogue channel between the Company and its stakeholders, an open door for requests, claims, praises and denouncements. It treats the manifestations received, seeking to satisfy requests quickly and objectively, and for making Chesf more transparent, in conformity with Corporate Governance good practices.

In 2010, a total of 1,638 manifestations were received, representing a monthly average of 137 demands, an increase of 58% over those made in 2009, its first year of operation. Most of the demands (91%) are from the external public. This configuration is caused by the significant number of inquiries related to the Public Competition of 2007 which, in 2010, represented 53% of the total.

The average response time in 2010 was seven days and the Ombudsman's Office answered directly to 70% of the manifestations.

### **Internal Audit**

The Internal Audit Department, which reports to the Board of Directors, plans and carries out the Annual Plan of Internal Audit Activities (PAINT), performing independent, impartial and timely evaluations of the effectiveness and adequacy of the internal controls, as well as the compliance with standards, regulations and legislation related to its operations. The Internal Audit Planning proposal, based on PAINT, is submitted to the Federal Government's Controllershship (CGU).

### **Corporate Sustainability**

Chesf believes that its future will only be guaranteed by a management that consolidates economic and financial strength with social responsibility and commitment to the environment.

In this sense, in 2010 the Company participated in the construction and formalized the internal approval of the Sustainability Policy of the Eletrobras System's Companies. This document states that corporate sustainability means doing business promoting social inclusion (respecting cultural diversity and the interests of all stakeholders directly or indirectly involved in the business), reducing – or optimizing – the use of natural resources and impact on the environment, preserving the planet's integrity for future generations without neglecting the economic and financial profitability of the business.

Among the actions performed, we point out the issue of the first Sustainability Report following the model of the Global Reporting Initiative (GRI), considered the worldwide standard in this type of report, in addition to the adhesion to Unifem/Pacto Global's Principles of Women's Empowerment, to the National Pact for the Eradication of Slave Labor established by Instituto Ethos de Empresas e Responsabilidade Social, by Instituto Observatório Social, by the Repórter Brasil NGO and by the International Labor Organization.

Also in 2010, the Corporate Sustainability Committee was created, whose main objective is to formulate proposals for policies and guidelines related to the subject, in addition to propose and monitor action plans aimed at improving sustainability practices.

### **Corporate Risks Management**

The Company has a Risks Committee formed by representatives of every Board, which is responsible for defining and approving global policies for the management of corporate risks.

The Corporate Risks Management aims at identifying, assessing and reporting the risks inherent to the business processes. In 2010, the first actions directed to risk management were initiated, including such activities as training, interviews with the main managers, definition of Chesf's risk matrix and selection of four corporate risks for a pilot project, still in the execution stage. In 2011, priority will continue to be given to risks specific to generation, transmission and other business areas of the Company.

### **Management of Internal Controls**

The objective of the Internal Control function is to guarantee the efficiency and reliability of the process, ensuring, in a corporate and timely manner, that the various units of the organization respect and comply with the rules and standards applicable to its business. In 2010, the various areas performed actions aimed at eliminating pending items to guarantee Eletrobras' compliance with the Sarbanes-Oxley Act, which is necessary to maintain its registration of American Depositary Receipts (ADR) level II with the Securities and Exchange Commission (SEC), the agency that regulates the stock market of the United States of America.

### **Corporate Planning**

In 2010, the Corporate Planning Committee was created, formed by representatives from each Board, whose main objective is the formulation, dissemination and management of the Corporate Planning.

A planning for the period 2010-2015 was performed with the support of this Committee, which aimed not only to point out the best future to be sought, but also, to invest in the implementation of a new and complete continued management process, so as to intensify the integration of all of its organizational segments.

In addition, the Corporate Management Process was prepared and institutionalized through the Company's regulatory tools, covering the whole management PDCA cycle – plan, do, check and act.

## **THE ELECTRIC POWER MARKET**

The market projections disclosed by the Electric Power Research Company (EPE) for the period from 2010 to 2019, indicate expected growth in the national consumption of electric power in the regions

served by the National Interconnected System (SIN) of approximately 5.0% per year. This performance is supported by the expansion of the commercial (6.2% per year), industrial (5.1% per year) and residential (4.6% per year) classes. The residential class' participation in total consumption decreases from 25.4% in 2010 to 24.7% at the end of the horizon. The commercial class, on the other hand, increases its participation over the period, going up from 16.6% in 2010 to 18.7% in 2019.

The growth in the ten-year period represents an increase in electric power of 28,654 average MW by the end of 2019, evolving from the current 56,577 average MW to 85,231 average MW, considering the interconnection of isolated systems in the North Region. Among the electric subsystems, the North region presents the highest growth (8.2% per year), justified by the interconnection of the isolated systems Manaus/Macapá/left margin of the Amazonas River, and the installation of big industrial charges. The Northeast region will see an average expansion of 5.4% per year, with a growth above that which is predicted for Brazil as a whole, increasing from 6,737 average MW to 10,566 average MW in 2019, representing an increase of 3,829 average MW up to the end of the last year.

The Brazilian consumption *per capita* will go up from 2,345 kWh/inhabitant in 2010 to 3,447 kWh/inhabitant in 2019.

### SALE OF ELECTRIC POWER

The electric power sold by Chesf in 2010 reached a total of 51,748 GWh, distributed between 21 Brazilian states and the Federal District. Of this amount, 43,492 GWh were for sales to distributors within the Regulated Contracting Environment (ACR) to serve captive distributors and consumers, which represent 84.05% of the total amount sold, whereas 8,256 GWh were distributed to the Free Contracting Environment (ACL), to serve free traders and consumers, which account for 15.95% of the total.

In 2010, the sale of electric power to distributors accounted for 70.63% of the total sold by Chesf. The states with the largest share of sales in the segment of distribution were: São Paulo (21.67%), Rio de Janeiro (11.68%), Paraná (11.00%), Minas Gerais (7.36%), Bahia (7.03%) and Rio Grande do Sul (5.90%).

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

In 2010, Chesf carried out 10 auctions which resulted in 55 new contracts with free traders and consumers. These new contracts in the free environment accounted for 40.49% sold in the year within this segment.

The Northeast region, where the Company is based, accounted for 34.48% of Chesf's sales in 2010. Part of this power was destined to attend 23 large-scale industrial consumers in the region.

### NEW BUSINESSES

Prospecting for new business is part of Chesf's strategy to expand its Generation and Transmission systems. In 2010, the Company participated and was successful in various auctions for new undertakings, held by the National Electric Power Agency (Aneel), listed below:

- Transmission Auction 001/2010, in which the Company was awarded the concession of Batch G, for the implantation of the new Arapiraca III 230/69 kV - 100 MVA substation.
- Transmission Auction 001/2010, in which the Company was awarded the concession of Batch H, for the implantation of the new Pólo 230/69 kV - 100 MVA substation.
- Transmission Auction 005/2010, in which the Company was awarded the concession of Batch F, for the implantation of the new Camaçari IV 500/230/13.8 kV – 2,400 MVA substation.
- Transmission Auction 006/2010, in which the Company was awarded the concession of Batch A, for the implantation of the 230 kV Paraíso/Açu II C3 - 123 km, 230 kV Açu II/Mossoró II C2 - 69 km, 230 Extremoz/João Câmara - 82 km transmission lines, and of the new Extremoz II 230 kV and João Câmara 230/69 kV - 360 MVA substations.



- Transmission Auction 006/2010, in which the Company was awarded the concession of Batch B, for the implantation of the 230 kV Igaporã/Bom Jesus da Lapa - 115 km transmission line and of the new Igaporã 230/69 kV - 300 MVA substation.
- Transmission Auction 006/2010, in which the Company was awarded the concession of Batch C, for the implantation of the 230 kV Sobral III/Acaraú II - 97 km transmission line and of the new Acaraú II 230/69 kV - 200 MVA substation.
- Generation Auction 06/2009, held on 04/20/2010, for the concession of the Belo Monte hydroelectric plant, in the Xingu River, State of Pará, which will generate power of 11,233 MW, currently the third largest hydroelectric plant in the world. This auction gave rise to Specific Purpose Company (SPE) Norte Energia S.A., in which Chesf holds interest of 15%.
- Auction 07/2010, held on 08/28/2010, specifically to contract energy from Alternative Generation Sources. In this bidding, Chesf qualified to obtain the authorization to implement the Casa Nova eolic park, the largest in Brazil, in the municipality of Casa Nova, State of Bahia, where capacity of 180 MW will be installed, fully owned by the Company.
- Auction 07/2010, held on 08/28/2010, specifically to contract energy from Alternative Generation Sources. In this bidding, Chesf qualified to obtain the authorization to implement the Pedra Branca, Sete Gameleiras and São Pedro do Lago eolic parks, in the municipality of Sento Sé, Bahia, each one with capacity to be installed of 28.8 MW. Chesf has a 49% interest in each one of these parks, which will be implemented in partnership with Brennand Energia S.A. and Brennand Energia Eólica S.A.

## OPERATING PERFORMANCE

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

Given the localization of its main power plants in the São Francisco River basin, the generation of power is influenced by the hydrological systems of the Northeast and Southeast regions. Due to this localization and the rainfall in the 2009/2010 wet season, the main reservoir of the Northeast Region, Sobradinho, reached, in April 2010, storage of 77.6% and, on December 31, the storage reached 37.3% of its capacity.

The Company generated 44,162 GWh, in 2010, as compared with 49,956 GWh in 2009, representing a reduction of 11.6%. This decrease resulted from the power conditions of the National Interconnected System (SIN) and the Exchange of power with the other regions, due to the centralized dispatch policy exercised by the National Electric System Operator (ONS).

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

In 2010, the Company continued to make improvements in the transmission and generation systems, with the replacement of obsolete equipment, digitalization of protection systems and installation of new devices to supervise and control the electric power system. The Company also continued to modernize the Operational Centers with the implementation of advanced functions, such as the state estimator, network configurator, alarm configuration system and simulator to train operators.

In order to reinforce Chesf's telecommunications network, new support and services were added to the optic digital transmission system, highlighting the Ibicoara substation construction work, in addition to the digital radio routes from the Icó substation to the Tauá substation and the Sobradinho, Juazeiro II, Jaguarari and Senhor do Bonfim II substations. Structured cabling networks (local area networks – LANs) were implemented in the Ibicoara, Brumado, Irecê, Bom Jesus da Lagoa and Barreiras substations, in addition to amplifications in Jaguarari and Senhor do Bonfim II.

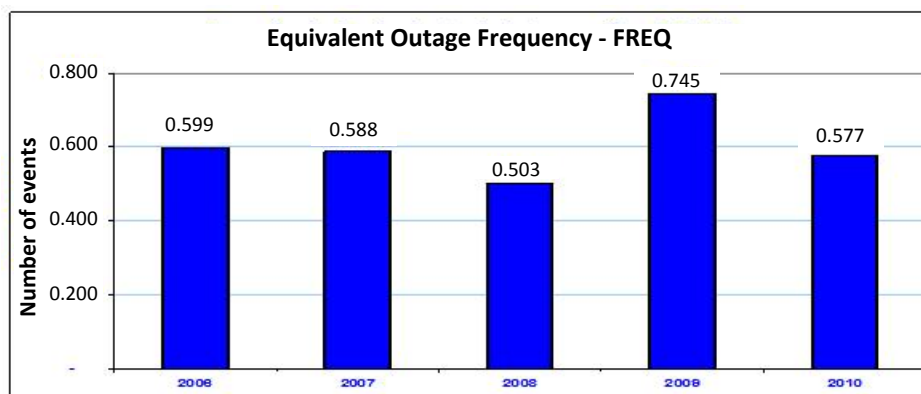
## Performance Indicators

The results of the Equivalent Outage Frequency (FREQ), Power Outage Duration (DREQ) and Interrupted Power (ENES) of 2010 were better than in the previous year. The reduction in the incidence of events, as well as in the number of interrupted demand above 50 MW, contributed to improve these indicators.

The indicators of the Operational Availability of Generation and of Transmission Lines were good, especially that of Generation, which was the best in the last five years.

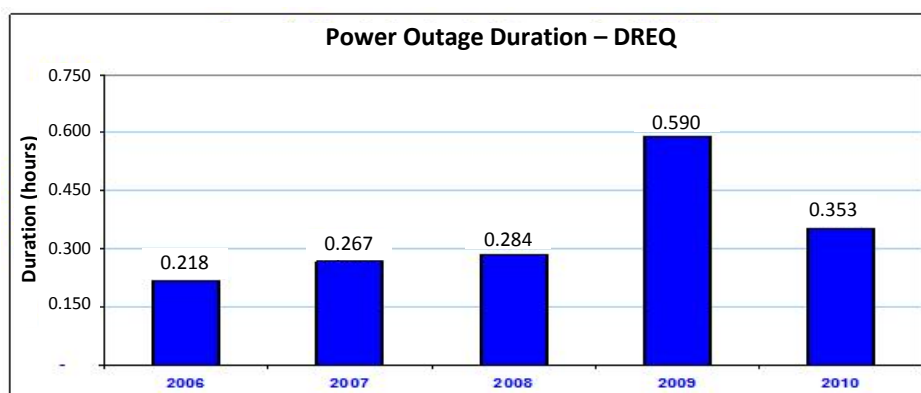
### Equivalent Outage Frequency - FREQ

This indicates the equivalent number of electric power supply interruptions.



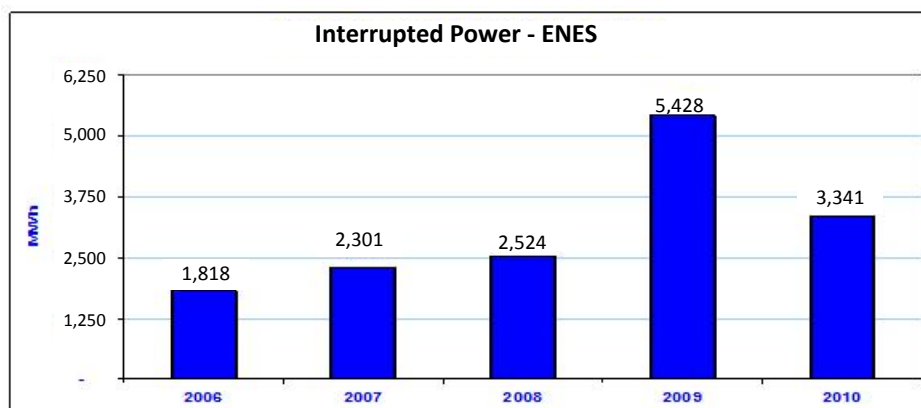
### Power Outage Duration - DREQ

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



### Interrupted Power - ENES

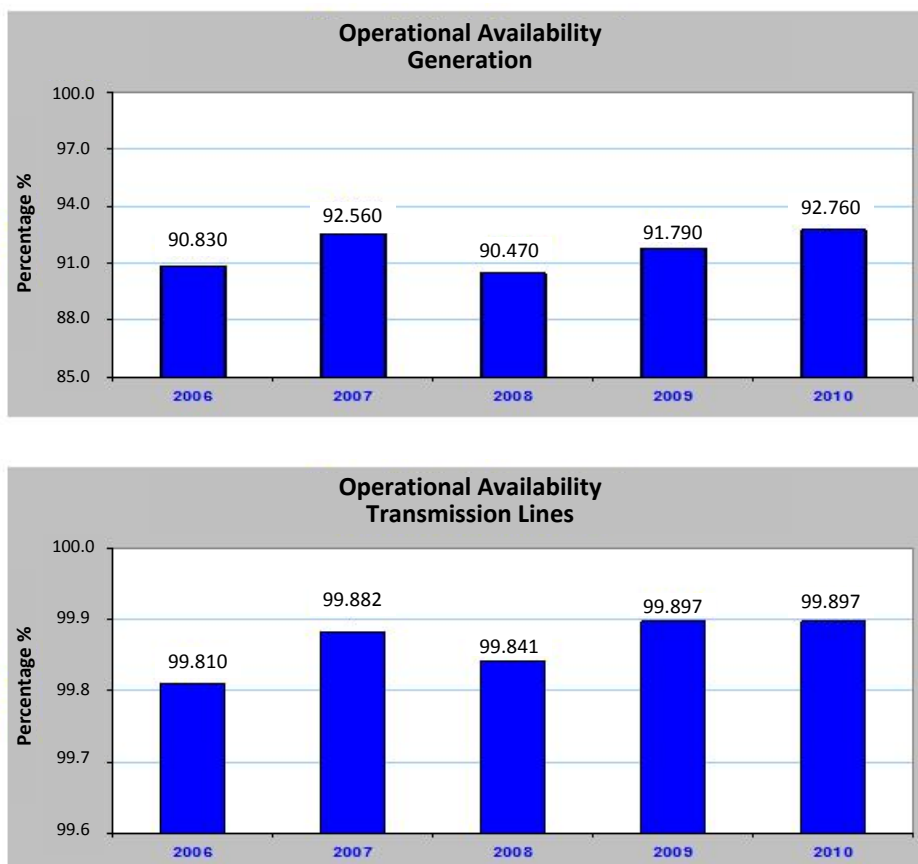
This indicates the equivalent amount of electric power, in GWh, during supply interruptions.





## Operational Availability - OA

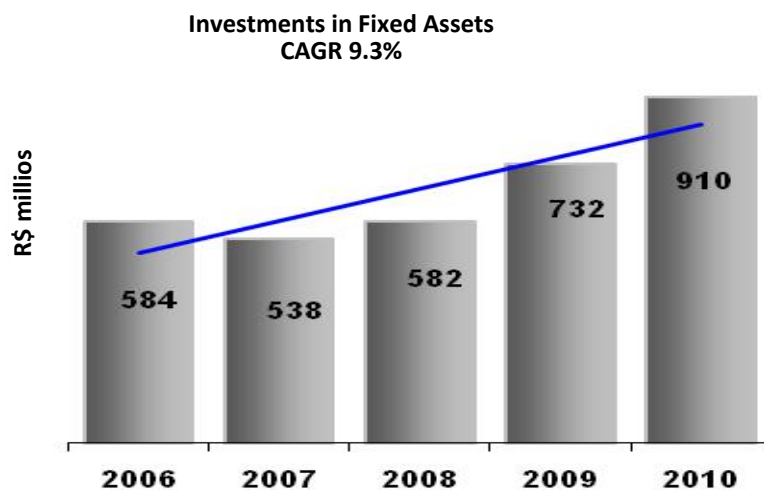
This indicates the likelihood that the equipment, at any given moment, will be operational, performing its function, or ready to operate.



## INVESTMENTS

During the year, Chesf's investments in fixed assets for the expansion and modernization of its production capacity totaled R\$ 909.8 million. This amount was allocated as follows: R\$ 127.1 million to energy generation; R\$ 545.0 million to transmission system works; R\$ 142.3 million to the Itaparica Resettlement program; and R\$ 95.4 million to infrastructure. From 2006 to 2010, the Compound Annual Growth Rate (CAGR) was 9.3%.

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



## Generation System

In order to keep the hydroelectric generation system at satisfactory continuity and availability levels to meet demand and honor the power sale contracts signed, the following actions were carried out:

- Paulo Afonso I, II and III Complex: modernization of the Measuring, Protection, Control, Supervision and Regulation System and other improvements in the Subsidiary and Monitoring and Diagnosis Systems. In 2010, modernization actions were carried out in the Paulo Afonso III Power Plant.
- Paulo Afonso I and II hydroelectric power plants: modernization of the generation units that will provide for the change from insulation B to F in six generators, recovery of two turbines and of various hydromechanics.
- Apolônio Sales hydroelectric power plant: revision of generation unit No. 4, with the repositioning of submerge parts, replacement of secondary concrete and the recentralization and releveling of the turning assembly.

With respect to new hydroelectric power plants, the Company had already concluded, in partnership with private companies, the Technical and Economic Feasibility Studies (EVTE) of five hydroelectric projects on the Parnaíba River: Ribeiro Gonçalves (113 MW), Uruçuí (134 MW), Cachoeira (63 MW), Estreito (56 MW) and Castelhana (64 MW), as well as the potential of Riacho Seco (276 MW), in submedium São Francisco River. The respective environmental studies (EIA/RIMA) had also been delivered to the Brazilian Institute for the Environment and Natural Renewable Resources (Ibama). In December 2010, Ibama issued a previous license for two of these undertakings: Cachoeira and Estreito, which were included in Aneel 04/2010 auction held in December 2010. However, the ceiling prices stipulated in the Call for Bids would result in insufficient profitability. In view of this fact, no interested parties bid for the two undertakings. It is now expected that Ibama will issue the previous license for the other enterprises, which will permit the Company to compete for their concession at auctions to be held by Aneel.

In the eolic power area, the Company, in addition to its successful participation in Aneel 07/2010 Auction, made progress in its contacts with entrepreneurs, in studies and field activities, aiming at the implantation of new parks in the Northeast Region.

## Transmission System

In 2010, Chesf's Transmission System was expanded by 135 km of 230 kV transmission lines and by 395 MVA of electric power transformation capacity. This expansion resulted from the conclusion of the following projects:

- Construction of the 230 kV Paraíso/Açu II transmission line, with 135 km, and the respective 230 kV terminals in the Paraíso and Açu II substations – PAC project.
- Expansion of the transformation capacity of the Senhor do Bonfim II substation with the installation of the fourth 230/138 kV - 100 MVA three-phase transformer and associated connections.
- Implantation of the 230 kV – 15 MVar three-phase reactor, not maneuverable, at the entry of the Milagres line; busbar interconnection module, in 230 kV, double bar arrangement; and general module complement in 230 kV, double bar arrangement, at the Tauá substation.
- Expansion of the Bom Nome substation, with the implantation of the third 230/138 kV - 100 MVA three-phase transformer and associated connections, and reallocation of the 230 kV transfer busbar.
- Implantation of the 500 kV (3x50 MVar) single-phase bar reactor bank, 500 kV connection module and 500 kV bar interconnection module, in the Fortaleza II substation.
- Replacement of the second 230/138 kV – 55 MVA three-phase transformer by a 230/138 kV – 100 MVA three-phase transformer, in the Açu II substation.

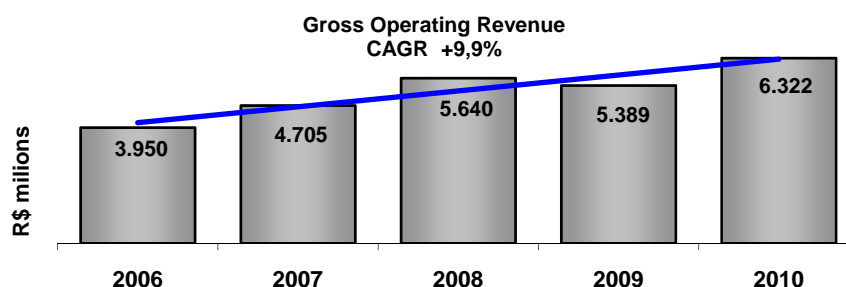
- Expansion of the transformation capacity of the Cícero Dantas substation with the installation of the third 230/69 kV - 50 MVA three-phase transformer and associated connections.
- Expansion of the Campina Grande II substation, with the energization of the 230 kV transfer busbar and 230 kV busbar interconnection.
- Expansion of the Campina Grande II substation with the implantation of the line entries to the Natal II, to the Natal III and to the Tacaimbó substation.
- Expansion of the Bom Nome substation, with the implantation of the line entries to the Cabrobó, to the Milagres and to the Flores substation.

## ECONOMIC AND FINANCIAL PERFORMANCE

The economic and financial performance is presented in conformity with the Company's consolidated financial statements for 2009 and 2010, when the consolidation process of the Company's investees was initiated.

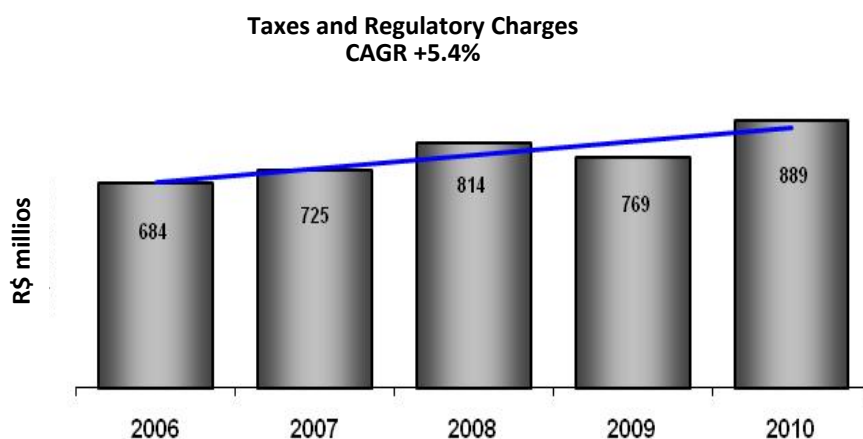
### Gross Operating Revenue

Chesf's gross operating revenue reached, in 2010, R\$ 6,322.6 million, representing an increase of 17.3% when compared to the R\$ 5,389.2 million of 2009. This result was due to the following increases: 18.8% in electric power sales/supply; 11.3% in transmission revenue; 19.6% in electric power sales in the short-term market; 44.4% in construction revenue; and the remaining 5.9% in other operating revenues. From 2006 to 2010, the Compound Annual Growth Rate (CAGR) was +9.9%.



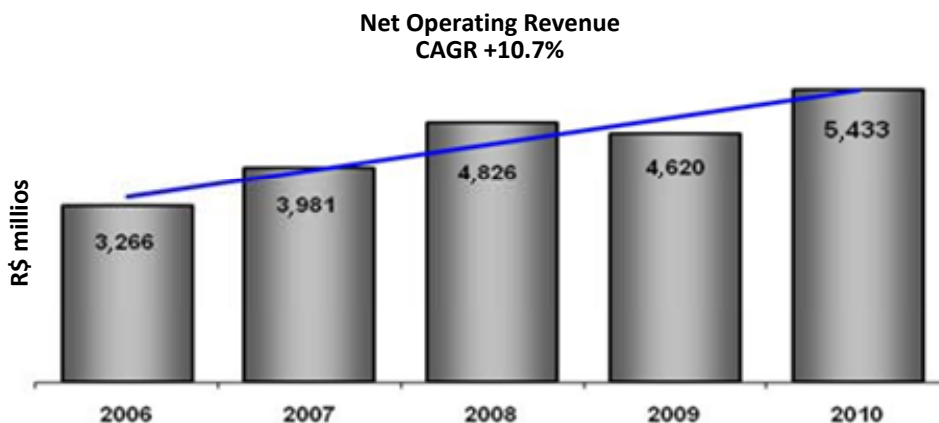
### Taxes and Regulatory Charges on Sales

Taxes and regulatory charges on sales totaled R\$ 889.5 million in 2010 (+15.7% in comparison to 2009). Of this total, R\$ 530.9 million relate to taxes and social contributions (+10.5% in comparison to 2009) and R\$ 358.6 million to regulatory charges (+24.3% in comparison to the previous year). The Compound Annual Growth Rate (CAGR) from 2006 to 2010 was +5.4%.



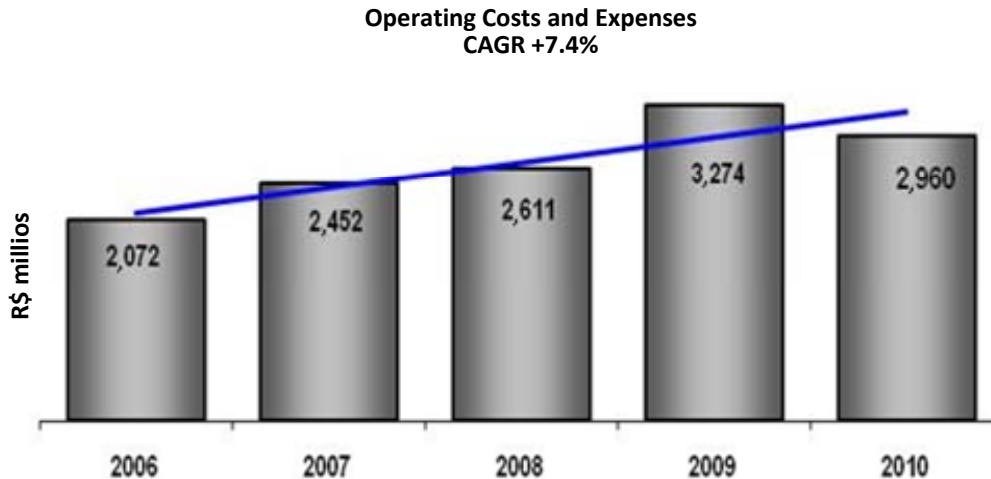
## Net Operating Revenue

Net operating revenue, which reflects taxes and sectorial charges, increased by 17.6% (+ R\$ 812.9 million) as compared to 2009, reaching R\$ 5,433.1 million in 2010. From 2006 to 2010, the Compound Annual Growth Rate (CAGR) was +10.7%.



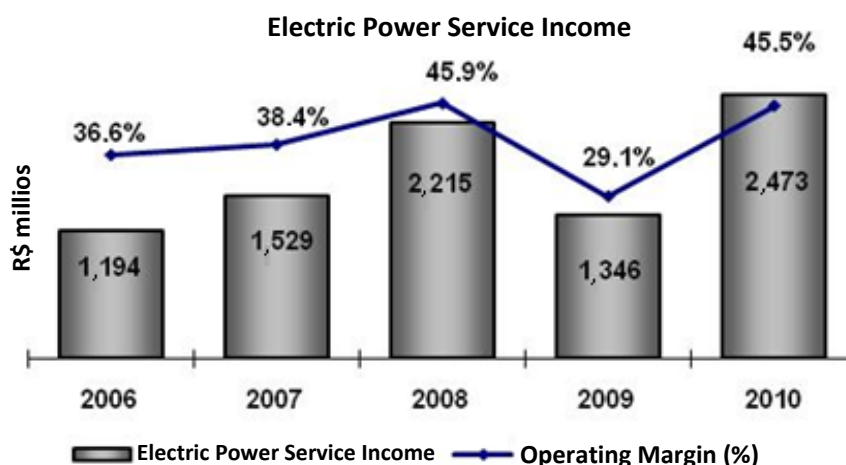
## Operating Costs and Expenses

Operating costs and expenses amounted to R\$ 2,960.2 million in 2010, -9.6% in comparison to the previous year. This reduction reflects, mainly, the following variations: -33.5% in the personnel account; +20.7% in construction costs; +60.9% in third-party services; -75.0% in provisions for impairment of trade receivables and free power losses; +181.2% in the material caption; and +59.8% in provision for contingencies. The Compound Annual Growth Rate (CAGR) was +7.4% from 2006 to 2010.



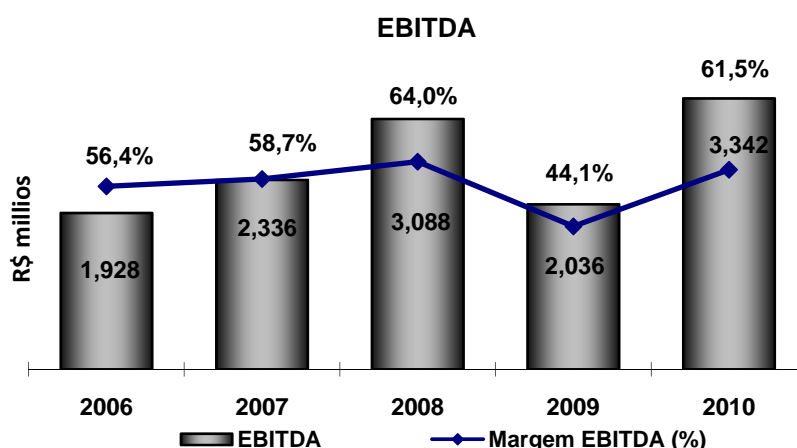
### Electric Power Service Income and Operating Margin

As a consequence of the facts before mentioned, the operating profit of the service (EBIT), in the amount of R\$ 2,472.8 million, was 83.7% higher than the R\$ 1,345.9 million achieved in 2009. With this result, the operating margin of the service, (service income/net operating revenue), increased from 29.1% in 2009 to 45.5% in 2010, an increase of 16.4%.



### Operating Cash Generation (EBITDA)

The operating cash generation expressed by the EBITDA (earnings before interest, taxes, depreciation and amortization) was R\$ 3,342.5 million, an increase of 64.2% in comparison to the R\$ 2,035.9 million recorded in 2009. The EBITDA margin (EBITDA/Net operating revenue) of 61.5% compared to the 44.1% achieved in 2009, represents an increase of 17.4%.



	(R\$ million)	
EBITDA Calculation	2010	2009
Profit	2.177.2	905.9
(+) Income tax and social contribution on net income	431.8	141.1
(+) Profit sharing	91.2	72.1
(+) Non-recurring income (expenses)	1.1	-4.7
(+) Financial expenses	142.7	455.5
(+) Depreciation	416.1	414.5
(+) Provisions for contingencies	82.4	51.5
<b>(=) EBITDA</b>	<b>3,342.5</b>	<b>2,035.9</b>

## Financial Income

The financial income for the year presented net revenue of R\$ 228.5 million, while in 2009 it presented expense of R\$ 231.6 million. The main change resulted from a reduction in the financial charges on borrowings, caused by the conversion of a portion of the borrowings granted by Eletrobras into Advance for Future Capital Increase (AFAC). The composition of this income is shown below:

	(R\$ million)	
<b>Finance income (expenses)</b>	<b>2010</b>	<b>2009</b>
Income from financial investments	80.5	81.7
Income from refinancing granted to clients	154.3	31.7
Charges on borrowings	(74.2)	(410.8)
Monetary variations on borrowings	(0.5)	53.0
Other financial income (expenses)	68.4	12.8
<b>(=)Net financial income (expenses)</b>	<b>228.5</b>	<b>(231.6)</b>

## Profit for the Year

Chesf's consolidated profit in 2010 was R\$ 2,177.2 million, an increase of 140.3% as compared to the R\$ 905.9 million of 2009. This growth is basically explained by the increase in net operating revenues (17.6%), by the decrease in operating costs and expenses (-9.6%) and by the financial income of R\$ 228.5 million against financial expense of R\$ 231.6 million in 2009. The Compound Annual Growth Rate (CAGR) from 2006 to 2010 was +36.6%.



## Borrowings

Consolidated gross indebtedness, which includes the interest and principal of the debt to the Parent Company and financial institutions, was R\$ 1,901.5 million at the end of the year, 48.8% higher than the R\$ 1,278.0 million at the end of 2009.

The Company's net indebtedness (borrowings less cash and cash equivalents) presented a balance of R\$ 441.2 million at the end of the year, as shown below:

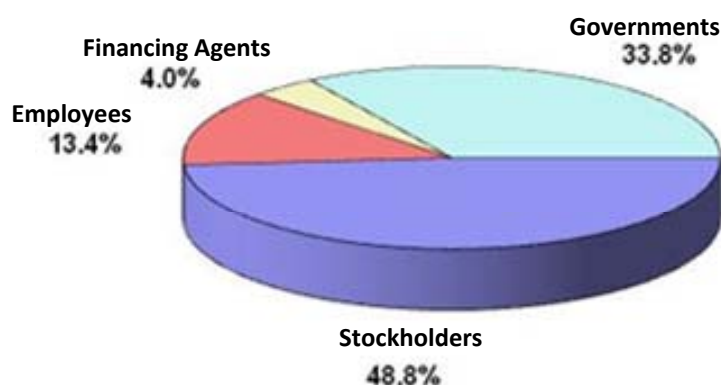
	(R\$ million)		
<b>Consolidated Debt</b>	<b>2010</b>	<b>2009</b>	<b>Δ%</b>
Short-term – local currency	278.8	216.7	28.7
Long-term – local currency	1,622.7	1,061.3	52.9
<b>Total gross indebtedness</b>	<b>1,901.5</b>	<b>1,278.0</b>	<b>48.8</b>
(-) Cash and cash equivalents	10.7	49.2	-78.3
(-) Financial investments	1,449.6	931.0	55.7
<b>Net indebtedness</b>	<b>441.2</b>	<b>297.8</b>	<b>48.2</b>



## Value Added

The economic value generated by the Company in 2010 as per the consolidated balance sheet was R\$ 4,464.6 million, an amount 28.9% higher than the R\$ 3,464.4 million recorded in 2009. This amount was distributed as follows: salaries, social charges and employee benefits (13.4%); taxes and contributions to the federal, state and municipal governments (33.8%); interest paid to financing agents (4.0%) and dividends paid to the stockholders (48.8%).

**Distribution of Value Added**



## Regulatory Accounting

The National Electric Power Agency (Aneel) introduced, through Regulatory Instruction No. 396/2010, the Regulatory Accounting, which requires that providers of electric power transmission services prepare financial statements that reflect the Brazilian tariff regulatory framework. The main difference between such financial statements and the corporate financial statements is the nonapplication of Technical Interpretation ICPC 01, issued by the Brazilian Accounting Pronouncements Committee (CPC), and the recording of regulatory assets and liabilities.

Accordingly, in compliance with the provisions of Aneel's Order No. 4,097, of 12/30/2010, following are the Balance Sheets and the Statements of Income in conformity with the regulatory standard established by that Agency, as well as the reconciliation with the amounts recorded in corporate accounting.

**REGULATORY BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2010  
AND RECONCILIATION WITH THE BALANCE SHEET FOR CORPORATE PURPOSES**

(amounts in thousands of reais)

	2010			
	12/31/2010 Regulatory	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	12/31/2010 Corporate
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	1,261,703	-	-	1,261,703
Consumers, concessionaires and permittees	1,031,958	-	(89,644)	942,314
(-) Provision for impairment of trade receivables	(94,714)	-	9,375	(85,339)
Indemnifiable financial assets	-	189,187	-	189,187
Taxes and contributions recoverable	191,311	-	-	191,311
Marketable securities	2,818	-	-	2,818
Inventories	82,590	8,973	-	91,563
Services in progress	80,642	-	-	80,642
Other	85,141	11,556	-	96,697
	<b>2,641,449</b>	<b>209,716</b>	<b>(80,269)</b>	<b>2,770,896</b>
<b>NON-CURRENT ASSETS</b>				
<b>Long-term receivables</b>				
Consumers, concessionaires and permittees	1,006	-	(1,006)	-
Taxes and contributions recoverable	11,280			11,280
Marketable securities	5,585			5,585
Assets and rights for sale	11,107	-	-	11,107
Judicial deposits	213,430	-	-	213,430
Pledges and restricted deposits	41,129	-	-	41,129
Tax credits	308,542	-	-	308,542
Indemnifiable financial assets	-	3,970,371	-	3,970,371
Financial asset – Authorized Annual Revenue	-	1,516,534	-	1,516,534
Other	10,409	-	-	10,409
	<b>602,488</b>	<b>5,486,905</b>	<b>(1,006)</b>	<b>6,088,387</b>
<b>Investments</b>	788,446	-	-	788,446
<b>Property, plant and equipment</b>	16,593,430	(5,584,570)	-	11,008,860
<b>Intangible assets</b>	32,262	(162)	-	32,100
	<b>18,016,626</b>	<b>(97,827)</b>	<b>(1,006)</b>	<b>17,917,793</b>
<b>TOTAL ASSETS</b>	<b>20,658,075</b>	<b>111,889</b>	<b>(81,275)</b>	<b>20,688,689</b>

	2010			
	12/31/2010 Regulatory	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	12/31/2010 Corporate
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade payables	310,395	-	(41,803)	268,592
Payroll	13,713	-	-	13,713
Taxes and social contributions	301,749	-	-	301,749
Borrowings	39,499	-	-	39,499
Charges on debts	7,213	-	-	7,213
Profit sharing	91,241	-	-	91,241
Stockholders' compensation	431,282	-	-	431,282
Estimated obligations	121,454	-	-	121,454
Post-employment benefits	38,809	-	-	38,809
Scheduled Voluntary Termination Program– PDVP	53,355	-	-	53,355
Research & development	55,113	-	-	55,113
Consumer charges payable	46,586	-	-	46,586
Financial compensation f/use of water resources	34,438	-	-	34,438
Other	70,758	-	(45,713)	25,045
	<b>1,615,605</b>	<b>-</b>	<b>(87,516)</b>	<b>1,528,089</b>
<b>NON-CURRENT LIABILITIES</b>				
Taxes and social contributions	10,282	-	-	10,282
Tax debts	26,663	17,062	952	44,677
Borrowings	646,514	-	-	646,514
Post-employment benefits	323,882	-	-	323,882
Scheduled Voluntary Termination Program– PDVP	-	-	-	-
Research & development	134,555	-	-	134,555
Consumer charges payable	31,144	-	-	31,144
Provision for contingencies	748,165	-	-	748,165
Other	5,220	-	-	5,220
	<b>1,926,425</b>	<b>17,062</b>	<b>952</b>	<b>1,944,439</b>
<b>EQUITY</b>				
Share capital	7,720,760	-	-	7,720,760
Capital reserves	4,916,199	-	-	4,916,199
Revenue reserve	4,846,595	(68,079)	-	4,778,516
Additional dividends	-	162,906	5,289	168,195
Other comprehensive income	(367,509)	-	-	(367,509)
	<b>17,116,045</b>	<b>94,827</b>	<b>5,289</b>	<b>17,216,161</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>20,658,075</b>	<b>111,889</b>	<b>(81,275)</b>	<b>20,688,689</b>

**REGULATORY STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2010  
AND RECONCILIATION WITH THE STATEMENT OF INCOME FOR CORPORATE PURPOSES**  
(amounts in thousands of reais)

	<b>12/31/2010 Regulatory</b>	<b>ICPC 01 Transmission</b>	<b>Derecognition of regulatory assets and liabilities</b>	<b>12/31/2010 Corporate</b>
<b>NET OPERATING REVENUE</b>	<b>4,822,731</b>	<b>269,940</b>	<b>57,877</b>	<b>5,150,548</b>
<b>COST OF ELECTRIC POWER SERVICE</b>				
<b>Electric power costs</b>				
Electric power purchased for resale	(24,061)			(24,061)
Charges for electricity network usage	(765,661)	-	-	(765,661)
<b>Operating costs</b>				
Personnel	(326,896)	-	-	(326,896)
Material	(11,474)	-	-	(11,474)
Fuel for electric power production	(2,296)	-	-	(2,296)
Third-party services	(61,368)	-	-	(61,368)
Financial compensation f/use water resources	(192,768)	-	-	(192,768)
Depreciation and amortization	(561,006)	215,110	-	(345,896)
Other	31,750		(13,483)	18,267
	<b>(1,913,780)</b>	<b>195,355</b>	<b>-</b>	<b>(1,712,153)</b>
<b>COST OF SERVICE PROVIDED TO THIRD PARTIES</b>	<b>(3,394)</b>	<b>-</b>	<b>-</b>	<b>(3,394)</b>
<b>CONSTRUCTION COSTS</b>	<b>-</b>	<b>(420,451)</b>	<b>-</b>	<b>(420,451)</b>
<b>GROSS PROFIT</b>	<b>2,905,557</b>	<b>64,599</b>	<b>44,394</b>	<b>3,014,550</b>
<b>OPERATING EXPENSES</b>	<b>(603,396)</b>	<b>-</b>	<b>(1,419)</b>	<b>(604,815)</b>
<b>INCOME FROM SERVICES</b>	<b>2,302,161</b>	<b>64,599</b>	<b>42,975</b>	<b>2,409,735</b>
<b>FINANCIAL INCOME (EXPENSE)</b>				
Income from financial investments	78,043	-	-	78,043
Mon. Var. and late pay charges – el. pwr. sold	192,417	-	(38,142)	154,275
Other monetary variation gains	1,454	-	-	1,454
Other financial income	68,152	-	-	68,152
PIS/Pasep and Cofins	99,686	-	-	99,686
Charges on debts	(50,922)	(9,975)	-	(60,897)
Monetary variation on borrowings	(493)	-	-	(493)
Other monetary variation on liabilities	(141)	-	-	(141)
Other financial expenses	(49,126)			(49,126)
	<b>339,070</b>	<b>(9,975)</b>	<b>(38,142)</b>	<b>290,953</b>
<b>OTHER INCOME (EXPENSES)</b>				
Income	355	-	-	355
Expenses	(1,435)	-	-	(1,435)
	<b>(1,080)</b>	<b>-</b>	<b>-</b>	<b>(1,080)</b>
<b>OPERATING PROFIT</b>	<b>2,640,151</b>	<b>54,624</b>	<b>4,833</b>	<b>2,699,608</b>
Social contribution	(228,000)	(4,916)	(435)	(233,351)
Income tax	(574,425)	(3,414)	(302)	(578,141)
Tax incentives	380,357	-	-	380,357
<b>Profit before profit sharing</b>	<b>2,218,083</b>	<b>46,294</b>	<b>4,096</b>	<b>2,268,473</b>
Profit sharing	(91,241)	-	-	(91,241)
<b>PROFIT FOR THE YEAR</b>	<b>2,126,842</b>	<b>46,294</b>	<b>4,096</b>	<b>2,177,232</b>

**REGULATORY BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2009  
AND RECONCILIATION WITH THE BALANCE SHEET FOR CORPORATE PURPOSES**  
(amounts in thousands of reais)

	2009			
	12/31/2009 Regulatory (Reclassified)	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	12/31/2009 Corporate
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	796,158	-	-	796,158
Consumers, concessionaires and permittees	725,005	-	(13,880)	711,125
(-)Provision for impairment of trade receivables	(77,875)	-	11,276	(66,599)
Indemnifiable financial asset	-	150,511	-	150,511
Taxes and contributions	10,882	-	-	10,882
Marketable securities	36	-	-	36
Inventories	75,325	2,450	-	77,775
Services in progress	145,048	-	-	145,048
Other	73,416	3,156	-	76,572
	<b>1,747,995</b>	<b>156,117</b>	<b>(2,604)</b>	<b>1,901,508</b>
<b>NON-CURRENT ASSETS</b>				
<b>Long-term receivables</b>				
Consumers, concessionaires and permittees	31,479	-	-	31,479
Taxes and contributions recoverable	10,672	-	-	10,672
Marketable securities	812	-	-	812
Assets and rights for sale	11,559	-	-	11,559
Judicial deposits	188,253	-	-	188,253
Pledges and restricted deposits	31,547	-	-	31,547
Tax credits	339,582	-	-	339,582
Indemnifiable financial asset	-	3,759,110	-	3,759,110
Financial asset – Authorized Annual Revenue	-	1,496,531	-	1,496,531
Other	10,910	-	-	10,910
	<b>624,814</b>	<b>5,255,641</b>		<b>5,880,455</b>
<b>Investments</b>	429,809	51,751	-	481,560
<b>Property, plant and equipment</b>	16,325,441	(5,354,338)	-	10,971,103
<b>Intangible assets</b>	31,710	(156)	-	31,554
	<b>17,411,774</b>	<b>(47,102)</b>	<b>-</b>	<b>17,364,672</b>
<b>TOTAL ASSETS</b>	<b>19,159,769</b>	<b>109,015</b>	<b>(2,604)</b>	<b>19,266,180</b>

	2009			
	12/31/2009 Regulatory (Reclassified)	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	12/31/2009 Corporate
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade payables	259,558	-	(3,038)	256,520
Payroll	28,144	-	-	28,144
Taxes and social contributions	249,022	-	-	249,022
Borrowings	114,417	-	-	114,417
Charges on debts	5,860	-	-	5,860
Profit sharing	72,145	-	-	72,145
Stockholders' compensation	183,303	-	-	183,303
Estimated obligations	95,893	-	-	95,893
Post-employment benefits	101,328	-	-	101,328
Scheduled Voluntary Termination Program– PDVP	14,898	-	-	14,898
Research & Development	54,285	-	-	54,285
Consumer charges payable	57,802	-	-	57,802
Financial compensation f/use water resources	37,571	-	-	37,571
Other	26,200	-	(975)	25,225
	<b>1,300,426</b>	<b>-</b>	<b>(4,013)</b>	<b>1,296,413</b>
<b>NON-CURRENT LIABILITIES</b>				
Taxes and social contributions	21,053	-	-	21,053
Tax debts	-	8,733	215	8,948
Borrowings	543,169	-	-	543,169
Post-employment benefits	352,395	-	-	352,395
Scheduled Voluntary Termination Program– PDVP	259,220	-	-	259,220
Research & Development	120,470	-	-	120,470
Consumer charges payable	15,109	-	-	15,109
Provision for contingencies	599,366	-	-	599,366
Concessions payable	-	-	-	-
Advance for future capital increase -AFAC	3,018,051	-	-	3,018,051
Other	7,703	(2)	-	7,701
	<b>4,936,536</b>	<b>8,731</b>	<b>215</b>	<b>4,945,482</b>
<b>EQUITY</b>				
Share capital	4,539,557	-	-	4,539,557
Capital reserve	4,916,199	-	-	4,916,199
Revenue reserve	3,195,703	-	-	3,195,703
Additional dividends	475,111	100,283	1,194	576,588
Other comprehensive income	(203,762)	-	-	(203,762)
	<b>12,922,808</b>	<b>100,283</b>	<b>1,194</b>	<b>13,024,285</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>19,159,769</b>	<b>109,015</b>	<b>(2,604)</b>	<b>19,266,180</b>



**REGULATORY STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2009**  
**AND RECONCILIATION WITH THE STATEMENT OF INCOME FOR CORPORATE PURPOSES**  
(amounts in thousands of reais)

	<b>2009</b>			
	<b>12/31/2009 Regulatory (Reclassified)</b>	<b>ICPC 01 Transmission</b>	<b>Derecognition of regulatory assets and liabilities</b>	<b>12/31/2009 Corporate</b>
<b>NET OPERATING REVENUE</b>	<b>4,242,613</b>	258,118	<b>2,476</b>	<b>4,503,207</b>
<b>COST OF ELECTRIC POWER SERVICE</b>				
<b>Electric power cost</b>				
Charges for electricity network usage	(751,680)	-	-	(751,680)
<b>Operating cost</b>				
Personnel	(234,330)	-	-	(234,330)
Material	(8,847)	-	-	(8,847)
Fuel for electric power production	(7,242)	-	-	(7,242)
Third-party services	(44,632)	-	-	(44,632)
Financial compensation f/use water sources	(210,061)	-	-	(210,061)
Depreciation and amortization	(554,141)	205,910	-	(348,231)
Other	14,449	(10,555)	-	3,894
	<b>(1,796,484)</b>	<b>195,355</b>	<b>-</b>	<b>(1,601,129)</b>
<b>COST OF SERVICES PROVIDED TO THIRD-PARTIES</b>	<b>(11)</b>	-	-	<b>(11)</b>
<b>CONSTRUCTION COST</b>	<b>-</b>	<b>(386,774)</b>	<b>-</b>	<b>(386,774)</b>
<b>GROSS PROFIT</b>	<b>2,446,118</b>	66,699	<b>2,476</b>	<b>2,515,293</b>
<b>OPERATING EXPENSES</b>	<b>(1,233,382)</b>	-	<b>9,445</b>	<b>(1,223,937)</b>
<b>INCOME FROM SERVICES</b>	<b>1,212,736</b>	<b>66,699</b>	<b>11,921</b>	<b>1,291,356</b>
<b>FINANCIAL INCOME (EXPENSE)</b>				
Income from financial investments	77,778	-	-	77,778
Mon.Var.and late pay charges – el. pwr. sold	31,731	-	-	31,731
Other monetary variation gains	2,639	-	-	2,639
Other financial income	104,456	-	-	104,456
PIS/Pasep and Cofins	(606)	-	-	(606)
Charges on debts	(387,505)	(9,433)	-	(396,938)
Monetary variation on borrowings	53,017	-	-	53,017
Other monetary variations on liabilities	(49)	-	-	(49)
Other financial expenses	(65,657)	16,283	<b>(192)</b>	(49,566)
	<b>(184,196)</b>	<b>6,850</b>	<b>(192)</b>	<b>(177,538)</b>
<b>OTHER INCOME (EXPENSES)</b>				
Income	10,481	-	-	10,481
Expenses	(5,793)	-	-	(5,793)
	<b>4,688</b>	<b>-</b>	<b>-</b>	<b>4,688</b>
<b>OPERATING PROFIT</b>	<b>1,033,228</b>	73,549	<b>11,729</b>	<b>1,118,506</b>
Social contribution	(78,369)	(5,154)	<b>(1,056)</b>	(84,579)
Income tax	(214,762)	(3,579)	<b>(733)</b>	(219,074)
Tax incentives	163,153	-	-	<b>163,153</b>
<b>Profit before profit sharing</b>	<b>903,250</b>	<b>64,816</b>	<b>9,940</b>	<b>978,006</b>
Profit sharing	(72,145)	-	-	<b>(72,145)</b>
<b>PROFIT FOR THE YEAR</b>	<b>831,105</b>	<b>64,816</b>	<b>9,940</b>	<b>905,861</b>

## OWNERSHIP INTERESTS

At December 31, 2010, Chesf held minority interests in the following companies:

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

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

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

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

- **Energética Águas da Pedra S.A.**

24.5% in the capital of the company Energética Águas da Pedra S.A., established on April 3, 2007, whose purpose is the implantation of the Dardanelos Hydroelectric Power Plant on the Aripuanã River, located on the North of Mato Grosso State, with capacity of 261 MW and total assured energy of 154.9 average MW, with start-up of operations expected in January 2011 and concession period of thirty-five (35) years. Start-up of the generating units, now expected for March 2011, did not occur in the planned deadline due to delay in the implantation of the 230 kV transmission line Juína – Brasnorte, whose concessionaire, EBTE (Batch D of ANEEL Auction No. 004/2008), did not meet the deadline defined by Aneel.

- **ESBR Participações S.A.**

20% interest in the share capital of the company ESBR Participações S.A., established on February 12, 2009, which, as from May 2009, became the holder of the total number of shares of Energia Sustentável do Brasil S.A., the purpose of which is the installation of the Jirau Hydroelectric Power Plant on the Madeira River in the city of Porto Velho, Rondônia State, with capacity of 3,300 MW and total assured energy of 1,975.3 MW average. Start-up of operations is expected in January 2013 and the concession period is thirty-five (35) years. The start-up of operations of the first unit of this hydroelectric power plant is now expected to occur in the third quarter of 2012.

- **Norte Energia S.A.**

Chesf was the leader of the Consortium that won Auction No. 06/2009, held on 04/20/2010 for contracting the electric power from the Belo Monte Hydroelectric Power Plant in the Xingu River, Pará State.

As a result, the Specific Purpose Company Norte Energia S. A. was created on July 21, 2010, which was granted the Belo Monte concession and which is responsible for the implantation and exploration of the power plant. The Norte Energia S.A. company has the following ownership structure: Chesf (15%); Eletrobras (15%); Eletronorte (19.98%); Construtora Queiroz Galvão S.A. (2.51%); Contern Construções e Comércio Ltda. (1.25%); Fundação Petrobras de Seguridade Social – Petros (10%); Cetenco Engenharia S.A. (1.25%); Galvão Engenharia S.A. (1.25%); J. Malucelli Construtora de Obras S.A. (1%); Mendes Júnior Trading Engenharia S.A. (1.25%); Serveng-Civilsan S.A. (1.25%); J. Malucelli Energia S.A. (0.25%); Gaia Energia e Participações S.A. (9%); Caixa FI Cevix (5%); Sinobras - Siderúrgica Norte Brasil S.A. (1%); Fundação dos Economistas Federais – Funcef (2.5%); Bolzano Participações S.A. (10%); and Construtora OAS Ltda. (2.51%).

Belo Monte will have a total installed capacity of 11,233 MW, with 18 generation units with unitary capacity of 611.1 MW, with Francis turbines in the main powerhouse, called Belo Monte, and six generation units with unitary capacity of 38.85 MW, with Bulbo turbines, in the complementary powerhouse, called Pimental. Start-up of the first machine of Pimental is expected for February 2015.

- **Pedra Branca S.A.**

In August 2010, the Pedra Branca Consortium, made up by Chesf, Brennand Energia S.A. and Brennand Energia Eólica S.A., was the winner of Auction No. 07/2010-ANEEL, offering the power from the Pedra Branca Eolic Electric Power Plant (UEE), to be installed in the municipality of Sento Sé, Bahia State (BA), with 28.8 MW capacity, formed by 16 aerogenerators. This plant will be interconnected to a 34.5/230 kV – 93 MVA booster substation and 57 km long 230 kV transmission line, which will be connected to Chesf's Sobradinho substation in Bahia. The electric power generated will be the subject of Energy Trading Contracts in Regulated Environment (CCEAR) of the electric power availability power, supply beginning on January 1<sup>st</sup>, 2013 and duration term of twenty (20) years.

In October 2010, the Specific Purpose Company (SPE) Pedra Branca S.A. was established, made up by Chesf with 49%, Brennand Energia S.A. with 50.9% and Brennand Energia Eólica S.A. with 0.1%, which will be the holder of the Authorization granted and responsible for the implantation, exploration and sale, in the capacity of independent producer of electric power.

- **São Pedro do Lago S.A.**

In August 2010, the São Pedro do Lago Consortium, made up by Chesf, Brennand Energia S.A. and Brennand Energia Eólica S.A., won Auction No. 07/2010-ANEEL, offering the power from the São Pedro do Lago Eolic Electric Power Plant (EPP), to be installed in the municipality of Sento Sé, Bahia State, with 28.8 MW capacity, formed by 16 aerogenerators. This plant will be interconnected to a 34.5/230 kV – 93 MVA booster substation and 57 km long 230 kV transmission line, which will be connected to Chesf's Sobradinho substation in Bahia. The electric power generated will be the subject of Energy Trading Contracts in Regulated Environment (CCEAR) of the electric power availability power, supply beginning on January 1<sup>st</sup>, 2013 and duration term of twenty (20) years.

In October 2010, the Specific Purpose Company (SPE) São Pedro do Lago S.A. was established, made up by Chesf with 49%, Brennand Energia S.A. with 50.9% and Brennand Energia Eólica S.A. with 0.1%, which will be the holder of the Authorization granted and responsible for the implantation, exploration and sale, in the capacity of independent producer of electric power.

- **Sete Gameleiras S.A.**

In August 2010, the Sete Gameleiras Consortium, made up by Chesf, Brennand Energia S.A. and Brennand Energia Eólica S.A., won Auction No. 07/2010-ANEEL, offering the power from the Sete Gameleiras Eolic Electric Power Plant (EPP), to be installed in the municipality of Sento Sé, Bahia State, with 28.8 MW capacity, formed by 16 aerogenerators. This plant will be interconnected to a 34.5/230 kV – 93 MVA booster substation and 57 km long 230 kV transmission line, which will be connected to Chesf's Sobradinho substation in Bahia. The electric power generated will be the subject of Energy Trading Contracts in Regulated Environment (CCEAR) of the electric power availability power, supply beginning on January 1<sup>st</sup>, 2013 and duration term of twenty (20) years.

In October 2010, the Specific Purpose Company (SPE) Sete Gameleiras S.A., made up by Chesf with 49%, Brennand Energia S.A. with 50.9% and Brennand Energia Eólica S.A. with 0.1%, which will be the holder of the Authorization granted and responsible for the implantation, exploration and sale, in the capacity of independent producer of electric power.

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

19.5% interest in the share capital of the company Manaus Transmissora de Energia S.A., established on April 22, 2008, whose purpose is the construction, implantation, operation and maintenance of the 500 kV transmission line Oriximiná/Itacoatiara/Cariri, of the Itacoatiara 500/138 kV (150 MVA) substation and the Cariri 500/230 kV (1.800 MVA) substation. Start-up is expected for October 2011 and the concession term is thirty (30) years.

- **Manaus Construtora Ltda.**

19.5% interest in the capital of the company Manaus Construtora Ltda., established on April 6, 2009, whose purpose is the construction, assembly and supply of material labor and equipment to the 500 kV Oriximiná/Cariri CD transmission line, the 500/138 kV Itacoatiara substation and the 500/230 kV, Cariri substation, line entries and related facilities, as well as other facilities required for the measurement supervision, protection, command, control and telecommunication functions, to be integrated into the Basic Network of the National Interconnected System.

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

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

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

49% of the share capital of the company TDG – Transmissora Delmiro Gouveia S.A., established on January 12, 2010, whose purpose is the construction, implantation, operation and maintenance of the electric power transmission installations of the Basic Network of the National Interconnected System, specifically of the São Luiz II – São Luiz III 230 kV transmission line, located in Maranhão State, Pecém II 500 kV, and Aquiraz II 230 kV substations, located in Ceará State (CE). The undertaking, whose homologation and award occurred on January 19, 2010, has a concession period of thirty (30) years.

## **RELATIONSHIP WITH THE INDEPENDENT AUDITORS**

Chesf's policy in relation to its independent auditors is based on principles that safeguard the independence of these professional. In compliance with Instruction No. 381 of the Brazilian Securities Commission (CVM), of 01/14/2003, the Company's management informs that, during 2010, its independent auditors PricewaterhouseCoopers Auditores Independentes did not provide any services other than the audit of the financial statements. These independent auditors were engaged under a single contract to serve all the companies of the Eletrobras System for a five (5)-year period, starting in 2009.

In compliance with Corporate Law, Chesf's financial statements are audited by independent auditors, contracted by means of bidding and approved by the Board of Directors, who are restricted from providing other services. The independent auditors are replaced every five years.

## **RESEARCH, DEVELOPMENT AND INNOVATION PROGRAM**

Chesf's Research, Development and Innovation Programs aim at its technological qualification and at promoting innovation to generate new processes or products, or the evident improvement of its characteristics by carrying out research projects contracted from research and development institutions.

The Company has two project portfolios. The first one, which meets the requirements of Laws Nos. 9991/2000 and 10848/2004, focuses on the specific needs of the electric power production and transmission system, with the participation of a number of well-known teaching and research institutions as executors of the projects. The second project portfolio focuses on matters that are of common interest to the companies of the Eletrobras System and whose executor is the Centro de Pesquisas de Energia Elétrica - Cepel (Electric Power Research Center).

In 2010, Chesf improved its innovation management process by focusing its activities on five large groups: (i) internal identification of demand for research; (ii) external identification of project proposals;

(iii) project contracting; (iv) monitoring the development of the projects; and (v) the effective implementation and exploration of the various types of products resulting from the projects.

The annual average resources invested in the above-mentioned portfolios is approximately R\$ 26 million. Chesf also makes contributions to the National Fund for Scientific and Technological Development (Fundo Nacional de Desenvolvimento Científico e Tecnológico - FNDCT) and to the Electric Power Research Company (Empresa de Pesquisa Energética - EPE), totaling approximately R\$ 25 million. Therefore, each year, Chesf invests directly or indirectly in R&D+I the substantial amount of about R\$ 51 million.

In 2010, 19 research projects of the 2006/2007 cycle were approved by Aneel and 33 projects were included in Chesf's R&D+I 2009 Program. These 52 projects should be contracted early in 2011 at the estimated amount of R\$ 50 million.

## **PEOPLE MANAGEMENT**

At the end of 2010, the Company had 5,638 employees, 1,154 of which were women and 4,484 men. The turnover rate for the year was 2.47%.

The Career and Salary Plan for the companies of the Eletrobras System was implemented, with a focus on Competences and Results, and the Performance Management System (SGD) was approved.

### **Compensation and Benefits**

In 2010, the Company distributed R\$ 91.2 million to its employees as Profit Sharing (PLR), arising from the fulfillment of targets previously established by Eletrobras and Chesf.

Chesf's employees are entitled to the following benefits: Mother-child assistance for children aged up to six months; Educational assistance; Higher education allowance; Group life insurance; Disability Assistance (PAPD); Medical and nursing care at the Company's outpatient clinics during work hours; Allowance for purchase of glasses and contact lenses; Sick pay supplement; Employer's Assistance Plan (PAP), including medical and hospital assistance, dental care, among other healthcare services; Lump-sum benefit upon death or disability caused by occupational accidents; Transportation – prepayment of transportation tickets to employees for residence-workplace-residence commuting; Meal tickets; Food tickets; Private pension plan through Fundação Chesf de Assistência e Seguridade Social (Fachesf).

### **Training and Development**

The Human and Organizational Development Plan (PDHO) was reviewed and transformed into the Corporate Education Plan (PEC). It is based on the guidelines of the Eletrobras System University (Universidade do Sistema Eletrobras - Unise), and the configuration of its schools includes educational programs and considers the Career and Compensation Plan (PCR) as well.

To make its actions effective, during the whole course of year 2010, the Company adjusted its educational processes aiming at the unification of Unise's corporate education policies and guidelines. Accordingly, Chesf adopts a corporate education system that binds training to the needs of the organization and to the development of employee competences.

The Corporate Education Plan is Chesf's formal plan aimed at offering scheduled educational opportunities that contribute to the development of professional competences aligned with corporate guidelines.

The investment in the professional development of employees is permanent. In 2010, the average number of training hours per employee was 75.92, which corresponds to 3.95% of the work hours.

Total investments in educational actions went up from R\$ 6,527 thousand in 2009 to R\$ 7,695 thousand in 2010, and the average investment per employee went up from R\$ 1,198.40 to R\$ 1,399.00, an increase of 16.74%.

## **Occupational Health and Safety**

Chesf continued with the implementation of the Corporate Plan for Health and Quality of Life - *Viver Bem* – Chesf, which takes a systemic approach to the prevention of health problems and recovery and promotion of the health and quality of life of its employees. Among the actions taken is the absenteeism-for-illness management, through the establishment of a work and benchmarking research group and the 'Semana Viver Bem' (Live Well Week), concomitantly with the dissemination campaign including the whole Company, whose objective is to offer intellectual, social, cultural and physical activities aimed at improving health and the quality of life, in addition to contributing to strengthen the integration between Chesf and its employees.

Chesf will implement an Occupational Health and Safety Management System based on the international standard Occupational Health and Safety Assessment Series - OHSAS 18.001:2007. In 2010, a specialized consulting firm was contracted to make the diagnosis of four pilot areas of the following installations: Xingó Plant, Boa Esperança Plant, Camaçari Thermal Plant and Recife II substation. In addition to the report on non-compliances, an action plan with related costs was prepared. This system will be initially implemented in the Xingó Plant starting 2011.

In 2010, the Accumulated Frequency Rate of Typical Occupational Accidents with Leave of Absence was 3.64, as compared to the 4.31 in the previous year. The Accumulated Severity Rate of Typical Occupational Accidents with Leave of Absence was 92, whereas the rate recorded in 2009 was 129.

## **Respect for Diversity and Gender Equality**

For Chesf, respect and promotion of diversity goes beyond guaranteeing no discrimination of people on the basis of their color/race, ethnicity, gender, age, regional origin, economic/social status, physical or mental condition, political/religious/sexual orientation, or on any other grounds, present for several years in its Code of Ethics and people management standards. In order for diversity to be respected, Chesf understands that this issue has to involve the whole Company so that the need to value diversity is considered in all of the organizational processes that have an impact on people. The valuation of diversity must be an important information on the choices made, constructively interfering with decisions. For this reason, a clause addressing this issue was included in the Corporate Planning.

During the year, the Company continued to implement gender equality actions agreed upon at the beginning of 2009 with the Federal Government's Secretariat of Policies for Women (SPM). Among the actions developed, publication of the 'Chesfianas: rompendo barreiras, realizando sonhos' (Chesf's women: breaking barriers, accomplishing dreams) book is highlighted.

Chesf proceeded with the actions to increase the accessibility of disabled employees. For this purpose, various actions were implemented both at the Head Office and at the Regional Units. In order to meet the needs of visually-impaired employees, there is information in Braille on the turnstiles that grant access to the Company's facilities and internal doors, and there are voice synthesizers in the elevators. The Code of Ethics is also available in Braille. Visually-impaired employees rely on specific equipment and software to perform their activities, and the internal circulation ways of the Head Office building have tactile flooring. Employees enjoy full religious liberty and respect for their political and sexual orientation. Since 2006, employees who live with a companion of the same gender are entitled to include him/her as dependent in the Company's health plan, in accordance with the procedures established in the pertinent regulation. The other benefits are also available to employees with homoaffectional orientation, with no discrimination.

## **SUPPLIERS**

The Company periodically updates its suppliers on the procedures used for the management of contracts. It also takes actions to strengthen its partnership with the suppliers and improve the quality of the services and products. To do so, meetings were held in Recife, Paulo Afonso, Teresina, Sobradinho and Salvador. The requirements related to social and environmental responsibility, ethics and the matters of diversity and gender are emphasized as a specific presentation included in the event program.



Chesf continues to widely spread its business principles and standards in its relations with suppliers, emphasizing its condemnation of child labor and exposure of workers to degrading work conditions. Goods and service suppliers are only contracted if they comply with such principles.

## RELATIONSHIP WITH THE COMMUNITIES

Historically, Chesf has been developing long-term structuring projects, thus strengthening its Social Responsibility actions. The projects aim to provide for, as their principal return, the integration of the Company and its employees with the communities neighboring Chesf's enterprises, the improvement of these communities' quality of life, inclusion into citizenship and Chesf's participation in the economic and social development of the Northeast Region.

Most programs and projects supported by the Company, and which benefit thousands of children, young people and adults of needy communities, are focused on education, health and infrastructure, sports and leisure activities, food supplementation and the creation of jobs and income.

In 2010, Chesf continued three big structuring projects focused on services to the needy populations of the microregions where it has implanted hydroelectric power generation in the São Francisco and Parnaíba rivers, as shown below.

**Lagos do São Francisco Program** – carried out in partnership with the Instituto de Desenvolvimento Científico e Tecnológico de Xingó (Xingó Scientific and Technological Development Institute), with actions developed in 34 municipalities in the States of Alagoas, Bahia, Pernambuco and Sergipe, comprising 78 projects, the objective of this program is to provide support to the development of sustainable exploration of the 'pitu' sweet water shrimp, development of fishing and pisciculture, utilization of river and underground waters, the biodiversity of the 'caatinga' region and the popular culture of the Low São Francisco, implementation of family units for agro-forest-shepherd production, tourism as a work and income strategy, fostering the autonomy of the apiculture production, goat and sheep farming, basic professional qualification, development and incubation of solidary economic enterprises and basis of services and assistance to production groups. In 2010, investments totaled R\$ 2,050.1 thousand.

**Sobradinho Program** – developed in partnership with Embrapa Semi-Árido, its objective is to promote sustainable development of rural communities located in the neighborhood of the Sobradinho Dam in the São Francisco River, Bahia State. The project establishes the implementation and direction of the Technological Learning Fields (CAT) with technological alternatives to the main production systems of the income generating activities of the communities. The program's proposal, carried out in a participative manner, establishes agroecological production systems and promotes events for the dissemination and transfer of technology to technicians, family farmers and fishermen, related to environmental education, production techniques, and vegetable and animal handling, as well as alternatives for living in their environment, promoting the empowerment of family farmers and fishermen through training on the activities developed in the CAT and the training of technicians, rural development agents and community leaders. In 2010, the amount of R\$ 1,040.0 thousand was invested.

**Boa Esperança Program** – developed in partnership with Embrapa Meio-Norte, its objective is to promote sustainable development of rural communities located in the neighborhood of the Boa Esperança Dam, in the Parnaíba River, Maranhão (MA) and Piauí (PI) States. The project is implementing action plans with technological alternatives for the main production systems of the principal income generating activities of the communities, proposing, in a participative manner, agroecological production systems. As in the project detailed above, it has been promoting events for the dissemination and transfer of technology to local technicians, family farmers and fishermen, through training on the activities developed in the CAT. In 2010, the amount of R\$ 362.4 thousand was invested.

In addition to these structuring projects, Chesf has also developed 40 specific actions in partnership with entities that develop activities among needy communities, investing R\$ 3 million. Examples of these partnerships are: Cristo Redentor Asylum – Recife, Pernambuco State (PE); Intercultural Village - Arricirco – Recife/PE; Women's Christian Association of Recife – ACF/PE; Educational Cooperative of Sobradinho/BA; Dom Bosco School of Arts and Workmanship – Recife/PE; Vicentina Children's Home –

Paulo Afonso/BA; Steve Biko Charitable Cultural Institute – Salvador/BA; Community Telecenters – Hidrolândia and Ipueiras/CE; Maria de Carvalho Santos Foundation – Guadalupe/PI.

Chesf coordinates regional development projects aligned with the Federal Government's social programs. In 2010, the 'Luz para Todos' (Light for All) Program made 150,931 power connections, benefiting people in the Northeast.

In Paulo Afonso/BA, the Company provides support for the operations of the Women's Police Station. Chesf's employees sit on the Municipal Board for Women's Rights, the Statement Management Committee of the Light for All Program, the Municipal Environmental Council, the Municipal Tourism Council and the Commission for Regional Crisis Management.

The Company sponsors the Nair Alves de Souza Hospital in Paulo Afonso, in partnership with the Brazilian Unified Health System (SUS). In 2010, this hospital served 85,437 persons from 22 cities of four states in the Northeast region (Alagoas, Bahia, Pernambuco and Sergipe).

The In-house Accident Prevention Commissions (Cipas) hold three blood and bone marrow donation campaigns per year in partnership with state blood centers. The Company continued to actively participate in the campaign '16 Dias de Ativismo pelo Fim da Violência Contra as Mulheres' (Sixteen Days of Activism for the Elimination of Violence Against Women) by holding lectures for the community and distributing information on the campaign to community radio stations.

## **ENVIRONMENTAL SUSTAINABILITY**

Chesf takes a systematic approach to the management of environmental impacts and issues arising from its generation and transmission assets, as well as from the storage and transportation processes of hazardous products. In 2010, the Company allocated R\$ 19 million to programs for the preservation of the environment.

As far as generation is concerned, all the plants have an operating permit. The Pedra, Funil, Sobradinho Plants and the Paulo Afonso Complex, in Bahia, the Boa Esperança Plant, in Piauí, the Xingó Plant, in Alagoas and the Itaparica Plan, in Pernambuco are currently renewing their permits.

There are over 20 social and environmental programs in progress, aimed at the recovery of degraded areas, survey and monitoring of the fauna and flora, environmental health and education and archaeological research.

In 2010, the conclusion of the Inventory of the Aquatic Ecosystems of the Lower São Francisco is evidenced with the recording of approximately 153 species of ictiofauna and 48 of aquatic fauna. Another highlighted action is the Program for the Qualification of Fishermen and Fishermen's Children in the region of the Lower São Francisco River, which served more than 670 fishermen and their families, focusing on the care and maintenance of motors, hygiene, preservation, fish handling and processing, and information technology.

The Social-Environmental Action Plan (PAS) in the Paulo Afonso Complex – a pilot project aimed at promoting the social organization of communities and select subjects for the construction of its first social-environmental projects – performed forums that resulted in the participation of 383 people and the creation of 24 Community Environmental Commissions.

In the transmission area, environmental management is performed through the execution of Survey and Monitoring of Fauna and Flora programs, Erosive Process Control and Recovery of Degraded Areas and Health, Environmental Education and Social and Environmental Communication, for the communities located in the neighborhood of the easement areas. In 2010, a R&D project was initiated to create farming corridors. Prospection and/or archaeological rescue projects and design optimization studies were developed for new enterprises.

The Restoration of Riparian Forest Program, which is part of the Program for Revitalization of the São Francisco River, was concluded. 802,686 seedlings were planted in the stretch from Petrolina, in Pernambuco and Paulo Afonso, in Bahia.

A significant education and communication action was carried out in over 500 km of transmission lines in the neighboring areas of Paulo Afonso, focused on vandalism of insulators, including schools (11,212 children) and communities (4,400 families). This action achieved a reduction of over 98% of acts of vandalism.

Chesf initiated a Campaign to Combat Burnings in sugarcane plantations, in Pernambuco State, in partnership with Celpe, CPRH and Ibama/PrevFogo, including six sugar mills. In 2010, there was only one case of disconnection of a Chesf transmission line due to burning, which represents a significant reduction as compared to previous years.

Regarding new uses, Chesf obtained during this year the previous license for the hydroelectric use of Cachoeira and Estreito, in Piauí, and for the eolic generation center of Casa Nova, in Bahia.

Chesf settled in 2010 the environmental compensation of three units: Teresina II / Teresina I transmission line, Presidente Dutra / Teresina transmission line, and Luiz Gonzaga hydroelectric plant, totaling R\$ 8 million, deposited in the specific account of the environmental compensation fund of the Chico Mendes Institute for Biodiversity Preservation [Instituto Chico Mendes de Conservação da Biodiversidade (ICMBIO)]. However, the Company continued to comply with the compensation measures under its direct responsibility, referring to the preparation of the management plans for the Reserva Biológica de Santa Isabel (Santa Isabel Biological Reserve), in Sergipe State, and the Serra Negra Biological Reserve, in Pernambuco State.

With respect to hazardous products, Chesf has six operating permits for storage installations and handling of these products. At the Camaçari Thermoelectric Plant (BA) a participative management program is adopted, with periodic monitoring through an action plan to meet the conditions of these permits. The Solid Waste Management Program (PGRS), focused on recycling, reutilization and reduction at the source is highlighted.

With respect to environmentally adequate handling of hazardous waste, a project was implemented in 2010 for the collection and final disposal of unusable portable cells, with the distribution, in strategic Company areas, of special collecting bins and the promotion of a permanent awareness campaign.

#### **Itaparica Resettlement Program**

Chesf invested R\$ 142.3 million in the Resettlement of Itaparica, referring to construction works, services, purchase of equipment, assistance to resettled persons, support to agricultural production and environmental programs, in addition to land acquisition for the Jusante Project (Glória/BA) and regularization of the land acquired.

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

The implementation of the Irrigated Project Barreiras Bloco 2, located in Tacaratu, Pernambuco State, has been concluded with the execution of the partial distribution network of the irrigation system. Start-up of the system took place in May 2010, and most of the lots are producing. The temporary crops currently being explored are watermelon, corn, beans and coriander seed, as well as annual cycle crops, such as coconut, guaiava and banana, which are not producing fruits yet. The roads system and the project's macrodrainage system have been completed, which will permit the uninterrupted access to the lots and the transportation of the agricultural products to the markets without damaging their quality.

Implementation of the Jusante Project (Glória/BA) continues and 70% of the gravity pipeline system works have already been performed. The bid for the final stage of the perimeter, consisting of the distribution networks, the microaspersion system, and the road and macrodrainage systems of the project has initiated. The processes for the acquisition of materials and equipment required for the implementation of the perimeter, whose executive project has already been concluded, are also in progress.

As regards the Itacoatiara Project, located in Rodelas, Bahia State, the actions established in the agreement signed in 2008 continued, the recovery of the drinking water supply system was concluded, roads of access to the lots were implemented, and the hydraulic materials were delivered so the farmers

can exploit their riverside plots of land through traditional irrigation methods installed by the beneficiaries themselves.

Concomitantly with the actions developed directly in the perimeter, the Company's legal area acted in the land regularization processes, with the execution of agreements in the case records of the Jusante Project's land expropriation actions and the payment of 20 financial compensation amounts for the settlement of possible resettlement outstanding issues. The litigations arising from this people resettlement program continue.

The management of irrigated perimeters continues under the responsibility Company for the Development of the São Francisco and Parnaíba Valleys (Codevasf), in accordance with the Statement of Cooperation entered into between Chesf and Codevasf in March 2007, proceeding with the actions related to the operation and maintenance of the perimeters, as well as the provision of technical assistance and rural extension services to irrigation workers. In addition to the maintenance of the perimeters, agricultural drainage is being implemented aimed at increasing the useful lives of the irrigated perimeters and improving their viability parameters.

In the administrative field, the Management Transfer Plan (PTG), which will direct the actions required to transfer the management of the perimeters to the resettled people, was concluded. The perimeter exploration Monitoring Plan was also concluded and its implementation initiated. Procedures were developed to define the conditions for transferring the infrastructures used by all of the projects, whose assets are being regularized and the improvements registered to support the transfers which are the subject of the Cooperation Agreement signed and which limit term is March 2012.

## CULTURE

Chesf is one of the principal companies that promote culture and sports, particularly in the Northeast Region, in addition to encouraging the technical production of the electric power segment, through sponsorship. These actions go beyond the disbursement of cash and involve the Company's commitment to the preservation of the history, the roots and the habits of the region.

In 2010, the Company sponsored 197 projects, contributing to value the Brazilian culture, the sports, and to produce and disseminate cultural assets. These sponsoring actions aim at strengthening the Company's image before the society and its stakeholders with respect to the actions directed to human development, promotion of citizenship, social inclusion, innovation, technological, cultural and sports production and dissemination, democratizing the access to its sponsorship funds, reaffirming its commitment to social responsibility and preservation of the environment.

## AWARDS AND RECOGNITIONS

In 2010, Chesf received the following awards and recognitions:

- Gender Pro-Equity Seal – 3<sup>rd</sup> Edition, awarded by the Secretariat of Policies for Women (SPM), by the International Labour Organization (ILO) and by the United Nations Development Fund for Women;
- Promotion of Ethnical and Racial Diversity Seal of the City of Salvador.
- 2010 Best Internship Program Prize awarded by the Company-School Integration Center (CIEE/PE).
- Participation in the *"The CIO Edge: Seven leadership Skills You Need to Drive Results"*, IT specialized technical publication as a case of success in IT management. Chesf was the only Brazilian company in the publication.
- Paulo Freire 2010 Human Being Award, awarded to the Allocation, Integration and Monitoring of the New Employee Project, awarded by the Brazilian Association of Human Resources (ABRH/PE).
- Cogef Foundation Award – 2010 Edition, awarded to the Allocation, Integration and Monitoring of the

New Employee Project. People Empowerment and Development Category.

- Projects selected to compete for the Coge Foundation 2010 Award:
  - a) Management Preparation Plan – Competencies Axis. People Empowerment and Development Category.
  - b) Living and Learning - Social Responsibility Actions Category.

## **SOCIAL AND ENVIRONMENTAL INFORMATION**

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

## SOCIAL AND ENVIRONMENTAL INFORMATION

(In thousands of reais)

1 - Generation and Distribution of Wealth		In 2010:		In 2009:			
Distribution of value added		4,391,642		3,446,848			
The Statement of Value Added - SVA is fully presented in the financial statements		34.0% government 49.6% stockholders		35.8% government 25.1% stockholders 26.2% employees 12.9% financiers			
2 - HUMAN RESOURCES		In 2010:		In 2009:			
2.1 - Compensation							
Gross payroll (GP)		405.491		470.400			
- Employees		402.858		468.276			
- Management		2.633		2.124			
Ratio between the highest and lowest compensation:							
- Employees		29,7		20,7			
- Management		10		10			
2.2 - Benefits Granted	Amount (000)	% on GP	% on NI	Amount (000)	% on GP	% on NI	
Social charges	173.158	42,7%	3,4%	133.275	28,3%	3,0%	
Food	41.673	10,3%	0,8%	37.196	7,9%	0,8%	
Transportation	586	0,1%	0,0%	665	0,1%	0,0%	
Private pension	5.191	12,8%	1,0%	43.269	9,2%	1,0%	
Health	52.192	12,9%	1,0%	45.594	9,7%	1,0%	
Occupational safety and medicine	2.765	0,7%	0,1%	2.585	0,5%	0,1%	
Education and day care center	9.357	2,3%	0,2%	10.030	2,1%	0,2%	
Culture	-	0,0%	0,0%	-	0,0%	0,0%	
Training and professional development	7.696	1,9%	0,1%	6.527	1,4%	0,1%	
Profit sharing	91.241	22,5%	1,8%	72.145	15,3%	1,6%	
Total	430.579	106,2%	8,4%	351.286	74,7%	7,8%	
2.3 - Composition of the staff							
No. of employees at the end of the year		5.638		5.635			
No. of admissions		140		229			
No. of dismissals		137		129			
No. of probationers at the end of the year		173		206			
No. of employees with special needs at the end of the year		76		48			
No. of service providers at the end of the year		-		-			
No. of employees by gender:							
- Male		4.484		4.485			
- Female		1.154		1.150			
No. of employees by age:							
- Less than 18		-		-			
- From 18 to 35		944		954			
- From 36 to 60		4.173		4.281			
- 60 and above		521		400			
No. of employees by educational level:							
- Illiterate		-		-			
- With basic schooling		968		994			
- With intermediate schooling		1.001		441			
- With technical education		1.575		2.162			
- With higher education		1.914		1.866			
- With postgraduate degree		180		172			
Percentage of holders of management positions by gender:							
- Male		82,9%		84,0%			
- Female		17,1%		16,0%			
2.4 - Contingencies and Labor Liabilities:							
No. of labor lawsuits filed against the entity		1.094		643			
No. of labor lawsuits deemed valid		283		374			
No. of labor lawsuits deemed unfounded		155		423			
Total of indemnities and fines paid under court orders		1.008		-			
3 - Company's Interaction with the External Environment		Amount (000)	% on OI	% on NI	Amount (000)	% on OI	% on NI
3.1 - Relationship with the community							
Total investments in:							
Education		3.706	0,1%	0,1%	2.253	0,2%	0,1%
Culture		12.479	0,5%	0,2%	8.664	0,8%	0,2%
Health and infrastructure		19.154	0,7%	0,4%	17.300	1,5%	0,4%
Sport and leisure		2.021	0,1%	0,0%	1.084	0,1%	0,0%
Food		32	0,0%	0,0%	15	0,0%	0,0%
Generation of work and income		5.515	0,2%	0,1%	4.724	0,4%	0,1%
Resettling of families		142.299	5,3%	2,8%	145.764	13,1%	3,2%
Total investments		185.206	6,9%	3,6%	179.804	16,1%	4,0%
Taxes (excluding social charges)		866.970	32,1%	16,8%	598.940	53,5%	13,3%
Financial compensation for use of water resources		192.768	7,1%	3,7%	210.061	18,8%	4,7%
Total - Relationship with the community		1.244.944	46,1%	24,2%	988.805	88,4%	22,0%
3.2 - Interaction with Suppliers		Controls are required for:					
Social responsibility criteria used in the choice of suppliers		Environmental risks, work environment, environmental health hazards, night shift or hazardous conditions for those under 18.					



4 - Interaction with the Environment	Amount (000)	% on OI	% on NI	Amount (000)	% on OI	% on NI
Investment and expenses for maintenance of operating processes for the improvement of the environment	7.339	0,3%	0,1%	10.914	1,0%	0,2%
Investment and expenses for the preservation and/or recovery of degraded environments	1.273	0,0%	0,0%	1.905	0,2%	0,1%
Investment and expenses in environmental education for outsourced employees, self-employed workers and administrators of the entity	43	0,0%	0,0%	-	0,0%	0,0%
Investments and expenses in environmental education for the community	965	0,0%	0,0%	933	0,1%	0,0%
Investments and expenses in other environmental projects	9.393	0,3%	0,2%	1.916	0,2%	0,1%
Number of environmental, administrative and judicial lawsuits filed against the entity	2	0,0%	0,0%	-	0,0%	0,0%
Amount of fines and indemnities related to environmental matters established administratively or by court decision	17	0,0%	0,0%	-	0,0%	0,0%
Environmental obligations and contingencies	-	0,0%	0,0%	-	0,0%	0,0%
<b>Total of interaction with the environment</b>	<b>19.030</b>	<b>0,7%</b>	<b>0,4%</b>	<b>15.668</b>	<b>1,4%</b>	<b>0,4%</b>
<b>5 - Other Information</b>	<b>2010</b>			<b>2009</b>		
Net Income (NI)	5.150.548			4.503.207		
Operating Income (OI)	2.699.608			1.118.506		

Recife, April 18, 2011

**The Board of Executive Officers**

**BALANCE SHEET AT DECEMBER 31, 2010 AND 2009, AND AT JANUARY 1, 2009**

(amounts in thousands of reais)

		Parent (BRGAAP)			Consolidated (IFRS and BRGAAP)		
	Note	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	6	1,261,703	796,158	896,290	1,460,299	980,202	951,240
Consumers, concessionaires and permittees	8	942,314	711,125	771,174	949,481	718,793	775,631
(-) Provision for impairment of trade receivables	8	(85,339)	(66,599)	-	(85,339)	(66,599)	-
Taxes and contributions recoverable	9	191,311	10,882	72,103	194,633	11,855	72,654
Marketable securities	7	2,818	36	37	2,818	36	37
Inventories	10	91,563	77,775	74,392	91,563	77,775	74,392
Services in progress		80,642	145,048	104,937	80,915	145,226	104,937
Financial asset – Authorized Annual Revenue		189,187	150,511	128,657	255,222	214,565	189,299
Other	14	96,697	76,572	90,935	145,629	91,683	81,239
		2,770,896	1,901,508	2,138,525	3,095,221	2,173,536	2,249,429
NON-CURRENT ASSETS							
Long-term receivables							
Consumers, concessionaires and permittees	8	-	31,479	63,159	-	31,479	63,159
Taxes and contributions recoverable	9	11,280	10,672	8,934	11,280	10,672	8,934
Marketable securities	7	5,585	812	778	5,585	812	778
Assets and rights for sale		11,107	11,559	11,559	11,113	11,565	11,571
Judicial deposits	11	213,430	188,253	116,369	216,898	188,253	116,369
Pledges and restricted deposits		41,129	31,547	-	45,556	42,766	1,539
Tax credits	12	308,542	339,582	232,474	329,080	352,563	232,474
Indemnifiable financial asset	13	3,970,371	3,759,110	3,560,404	3,982,522	3,759,110	3,560,404
Financial asset – Authorized Annual Revenue	13	1,516,534	1,496,531	1,458,974	2,105,996	1,859,444	1,764,529
Other	14	10,409	10,910	5,652	66,655	37,964	90,729
		6,088,387	5,880,455	5,458,303	6,774,685	6,294,628	5,850,486
Investments	15	788,446	481,560	285,812	65,175	65,472	64,669
Property, plant and equipment	16	11,008,860	10,971,103	11,066,972	12,082,538	11,395,845	11,098,200
Intangible assets	17	32,100	31,554	31,959	51,796	49,009	47,449
		17,917,793	17,364,672	16,843,046	18,974,194	17,804,954	17,060,804
TOTAL ASSETS		20,688,689	19,266,180	18,981,571	22,069,415	19,978,490	19,310,233

The accompanying notes are an integral part of these financial statements

**BALANCE SHEET AT DECEMBER 31, 2010 AND 2009, AND AT JANUARY 1, 2009**

(amounts in thousands of reais)

	Note	Parent (BRGAAP)			Consolidated (IFRS and BRGAAP)		
		12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
LIABILITIES AND EQUITY							
CURRENT LIABILITIES							
Trade payables	18	268,592	256,520	195,208	359,158	284,720	196,094
Payroll		13,713	28,144	8,363	14,286	28,461	8,408
Taxes and social contributions	19	301,749	249,022	107,178	310,962	257,386	118,676
Borrowings	21	39,499	114,417	468,487	269,807	201,196	477,020
Charges on debts	21	7,213	5,860	9,516	9,021	15,510	9,683
Profit sharing	33	91,241	72,145	61,143	91,372	72,145	61,143
Stockholders’ compensation	34	431,282	183,303	265,090	431,282	183,303	265,090
Estimated obligations		121,454	95,893	78,949	121,604	96,013	79,130
Post-employment benefits	23	38,809	101,328	273,720	38,809	101,328	273,720
Scheduled Voluntary Termination Program – PDVP	24	53,355	14,898	-	53,355	14,898	-
Research & Development		55,113	54,285	69,765	56,438	55,279	70,765
Consumer charges payable		46,586	57,802	19,049	46,821	58,167	19,310
Financial compensation for use of water resources		34,438	37,571	33,112	34,438	37,570	33,112
Other	22	25,045	25,225	50,581	34,617	31,164	53,554
		1,528,089	1,296,413	1,640,161	1,871,970	1,437,140	1,665,705
NON-CURRENT LIABILITIES							
Taxes and social contributions	19	10,282	21,053	45,592	33,028	32,390	47,948
Tax debts	20	44,677	8,948	-	57,090	18,586	8,160
Borrowings	21	646,514	543,169	3,307,765	1,622,699	1,061,257	3,552,150
Post-employment benefits	23	323,882	352,395	670,463	323,882	352,395	670,463
Scheduled Voluntary Termination Program - PDVP	24	-	259,220	-	-	259,220	-
Research & Development		134,555	120,470	106,187	134,555	120,470	106,187
Consumer charges payable		31,144	15,109	54,539	31,144	15,109	54,539
Provision for contingencies	25	748,165	599,366	531,803	749,124	599,366	531,803
Concessions payable	26	-	-	-	17,808	15,786	13,994
Funds for capital increase		-	3,018,051	294,396	-	3,018,051	294,396
Other	22	5,220	7,701	7,582	11,954	24,435	41,805
		1,944,439	4,945,482	5,018,327	2,981,284	5,517,065	5,321,445
EQUITY							
Share capital	27	7,720,760	4,539,557	4,196,306	7,720,760	4,539,557	4,196,306
Capital reserves	27	4,916,199	4,916,199	4,916,199	4,916,199	4,916,199	4,916,199
Revenue reserves	27	4,778,516	3,195,703	3,366,248	4,778,516	3,195,703	3,366,248
Additional dividends	27	168,195	576,588	306,525	168,195	576,588	306,525
Other comprehensive income	27	(367,509)	(203,762)	(462,195)	(367,509)	(203,762)	(462,195)
		17,216,161	13,024,285	12,323,083	17,216,161	13,024,285	12,323,083
TOTAL LIABILITIES AND EQUITY		20,688,689	19,266,180	18,981,571	22,069,415	19,978,490	19,310,233

The accompanying notes are an integral part of these financial statements

**STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(amounts in thousands of reais)

	Note	Parent (BRGAAP)		Consolidated (IFRS and BRGAAP)	
		12/31/2010	12/31/2009	12/31/2010	12/31/2009
<b>NET OPERATING REVENUE</b>	28	<b>5,150,548</b>	<b>4,503,207</b>	<b>5,433,058</b>	<b>4,620,178</b>
<b>COST OF ELECTRIC POWER SERVICE</b>	30				
<b>Electric power costs</b>					
Electric power purchased for resale		(24,061)	-	(24,061)	-
Charges for electricity network usage		(765,661)	(751,680)	(765,661)	(751,680)
<b>Operating costs</b>					
Personnel		(326,896)	(234,330)	(328,849)	(235,970)
Material		(11,474)	(8,847)	(55,894)	(8,929)
Fuel for electric power production		(2,296)	(7,242)	(2,296)	(7,242)
Third-party services		(61,368)	(44,632)	(135,795)	(65,383)
Financial compensation for use of water resources	29	(192,768)	(210,061)	(192,768)	(210,061)
Depreciation and amortization		(345,896)	(348,231)	(345,896)	(348,231)
Other		18,267	3,894	17,155	2,782
		<b>(1,712,153)</b>	<b>(1,601,129)</b>	<b>(1,834,065)</b>	<b>(1,624,714)</b>
<b>COST OF SERVICES PROVIDED TO THIRD-PARTIES</b>	30	<b>(3,394)</b>	<b>(11)</b>	<b>(3,394)</b>	<b>(11)</b>
<b>CONSTRUCTION COSTS</b>	30	<b>(420,451)</b>	<b>(386,774)</b>	<b>(503,066)</b>	<b>(416,871)</b>
<b>GROSS OPERATING PROFIT</b>		<b>3,014,550</b>	<b>2,515,293</b>	<b>3,092,533</b>	<b>2,578,582</b>
<b>OPERATING EXPENSES</b>	30	<b>(604,815)</b>	<b>(1,223,937)</b>	<b>(619,685)</b>	<b>(1,232,646)</b>
<b>RESULT FROM SERVICE</b>		<b>2,409,735</b>	<b>1,291,356</b>	<b>2,472,848</b>	<b>1,345,936</b>
<b>FINANCE INCOME (COSTS)</b>					
Income from financial investments		78,043	77,778	80,488	81,680
Monet. var. & late pay charges – electric power sold		154,275	31,731	154,277	31,731
Other monetary variation gains		1,454	2,639	1,454	2,639
Other financial income		68,152	104,456	35,328	108,454
PIS/Pasep and Cofins		99,686	(606)	99,686	(606)
Charges on debts		(60,897)	(396,938)	(74,235)	(410,841)
Monetary variation on borrowings		(493)	53,017	(493)	53,017
Other monetary variation on liabilities		(141)	(49)	(141)	(49)
Other finance costs		(49,126)	(49,566)	(67,840)	(97,624)
		<b>290,953</b>	<b>(177,538)</b>	<b>228,524</b>	<b>(231,599)</b>
<b>OTHER INCOME (EXPENSES)</b>					
Income		355	10,481	363	10,505
Expenses		(1,435)	(5,793)	(1,435)	(5,793)
		<b>(1,080)</b>	<b>4,688</b>	<b>(1,072)</b>	<b>4,712</b>
<b>OPERATING PROFIT</b>		<b>2,699,608</b>	<b>1,118,506</b>	<b>2,700,300</b>	<b>1,119,049</b>
Social contribution	31	(233,351)	(84,579)	(234,962)	(85,342)
Income tax	31	(578,141)	(219,074)	(582,674)	(221,423)
Tax incentives	32	380,357	163,153	385,809	165,722
<b>Profit before profit sharing</b>		<b>2,268,473</b>	<b>978,006</b>	<b>2,268,473</b>	<b>978,006</b>
Profit sharing	33	(91,241)	(72,145)	(91,241)	(72,145)
<b>PROFIT FOR THE YEAR</b>		<b>2,177,232</b>	<b>905,861</b>	<b>2,177,232</b>	<b>905,861</b>
Basic earnings per share (R\$)		42.22	21.72	42.22	21.72
Diluted earnings per share (R\$)		42.22	17.57	42.22	17.57

The accompanying notes are an integral part of these financial statements

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(amounts in thousands of reais)

	Note	Parent and Consolidated (BRGAAP)	
		12/31/2010	12/31/2009
<b>Profit for the year</b>		<b>2,177,232</b>	<b>905,861</b>
<b>Other comprehensive income</b>			
Share of other comprehensive income (expense) of investees	36	(1,702)	(1,320)
Actuarial result on post-employment benefit obligations		(191,205)	306,493
Deferred income tax and social contribution		29,160	(46,740)
<b>Other comprehensive income (expense) for the year</b>		<b>(163,747)</b>	<b>258,433</b>
<b>Total comprehensive income for the year</b>		<b>2,013,485</b>	<b>1,164,294</b>

The accompanying notes are an integral part of these financial statements

## STATEMENT OF CHANGES IN EQUITY

(amounts in thousands of reais)

	SUBSCRIBED/ PAID-UP CAPITAL	CAPITAL RESERVES	REVENUE RESERVES				ADDITIONAL DIVIDENDS PROPOSED	OTHER COMPREHENSIVE RESULTS	RETAINED EARNINGS	FUNDS FOR CAPITAL INCREASE	TOTAL
			UNREALIZED PROFITS	LEGAL	STATUTORY	PROFIT RETENTION	TAX INCENTIVES				
<b>BALANCE AT 01/01/2009 BEFORE ADOPTION OF THE NEW PRACTICES</b>	<b>4,196,306</b>	<b>4,916,199</b>	<b>485,069</b>	<b>319,916</b>	<b>8,179</b>	<b>2,209,834</b>	<b>343,251</b>	-	-	<b>294,396</b>	<b>12,773,150</b>
Adjustments from the adoption of the new practices	-	-	-	-	-	-	-	(462,195)	26,721	(294,396)	(729,870)
Additional dividends	-	-	-	-	-	-	306,524	-	(26,721)	-	279,803
<b>BALANCE AT 01/01/2009 AFTER ADOPTION OF THE NEW PRACTICES</b>	<b>4,196,306</b>	<b>4,916,199</b>	<b>485,069</b>	<b>319,916</b>	<b>8,179</b>	<b>2,209,834</b>	<b>343,251</b>	<b>306,524</b>	<b>(462,195)</b>	-	<b>12,323,083</b>
Capital increase	343,251	-	-	-	-	-	(343,251)	-	-	-	-
Realization of revenue reserves	-	-	(20,510)	-	-	-	-	-	20,510	-	-
Carrying value adjustments – Associates	-	-	-	-	-	-	-	(1,320)	-	-	(1,320)
Actuarial result on post-employment benefit obligations	-	-	-	-	-	-	-	259,753	-	-	259,753
Profit for the year	-	-	-	-	-	-	-	-	905,861	-	905,861
Allocation:											
Legal reserve	-	-	-	30,062	-	-	-	-	(30,062)	-	-
Minimum dividends - Note 34	-	-	-	-	-	-	-	-	(183,289)	-	(183,289)
Additional dividends proposed - Note 34	-	-	-	-	-	-	549,867	-	(549,867)	-	-
Approv. of add'l dividends by Annual Stockholders Mtg.	-	-	-	-	-	-	(279,803)	-	-	-	(279,803)
Tax incentive reserve (*)	-	-	-	-	-	-	163,153	-	(163,153)	-	-
<b>BALANCE AT 12/31/2009</b>	<b>4,539,557</b>	<b>4,916,199</b>	<b>464,559</b>	<b>349,978</b>	<b>8,179</b>	<b>2,209,834</b>	<b>163,153</b>	<b>576,588</b>	<b>(203,762)</b>	-	<b>13,024,285</b>
Capital increase	3,181,203	-	-	-	-	-	(163,153)	-	-	-	3,018,050
Realization of revenue reserves	-	-	(18,027)	-	-	-	-	-	18,027	-	-
Share of other comprehensive income of investees	-	-	-	-	-	-	-	(1,702)	-	-	(1,702)
Actuarial result on post-employment benefit obligations	-	-	-	-	-	-	-	(162,045)	-	-	(162,045)
Profit for the year	-	-	-	-	-	-	-	-	2,177,232	-	2,177,232
Allocation:											
Legal reserve	-	-	-	89,844	-	-	-	-	(89,844)	-	-
Minimum dividends - Note 34	-	-	-	-	-	-	-	-	(431,266)	-	(431,266)
Approv. of add'l dividends by Annual Stockholders Mtg.	-	-	-	-	-	-	(408,393)	-	-	-	(408,393)
Profit retention reserve (**)	-	-	-	-	-	1,293,792	-	-	(1,293,792)	-	-
Tax incentive reserve (*)	-	-	-	-	-	-	380,357	-	(380,357)	-	-
<b>BALANCE AT 12/31/2010</b>	<b>7,720,760</b>	<b>4,916,199</b>	<b>446,532</b>	<b>439,822</b>	<b>8,179</b>	<b>3,503,626</b>	<b>380,357</b>	<b>168,195</b>	<b>(367,509)</b>	-	<b>17,216,161</b>

(\*) In accordance with the provisions of article 195-A of Law 6404/1976, and Law 11638/2007, the portion of profit for the year arising from tax incentives was allocated to the tax incentives reserve.

(\*\*) The amount of R\$ 1,293,792 thousand, allocated to profit retention reserve, corresponding to the undistributed portion of profit for the year, will be included in the funds that compose the Company's investment budget.

The accompanying notes are an integral part of these financial statements

**STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(amounts in thousands of reais)

Note	Parent (BRGAAP)		Consolidated (IFRS and BRGAAP)	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
<b>Operating activities</b>				
Profit before income tax and social contribution	2,699,608	1,118,506	2,700,300	1,119,047
Expenses (income) not affecting cash:				
Depreciation and amortization	416,097	414,530	416,117	414,535
Monetary and exchange variations (net)	(56,982)	(55,809)	(56,982)	(55,809)
Equity in the results of investees	(31,253)	(22,703)	329	369
Provision for contingencies	82,357	51,522	82,357	51,522
Provision for impairment of trade receivables	18,740	66,599	18,740	66,599
Adjustment of judicial deposits	(12,118)	(35,503)	(12,118)	(35,503)
Adjustment of agrarian debt bonds (TDA)	(1,849)	-	(1,849)	-
Finance charges	118,626	386,098	160,898	455,058
Scheduled Voluntary Termination Program – PDVP	(220,763)	274,118	(220,763)	274,118
Construction income	(420,451)	(386,774)	(636,818)	(440,915)
Finance income – Financial assets	(690,179)	(718,769)	(759,343)	(780,464)
Private pension entity– actuarial adjustment	(71,188)	96,877	(71,188)	96,877
Other	(13,809)	252	(11,617)	2,337
	<b>1,816,836</b>	<b>1,188,944</b>	<b>1,608,063</b>	<b>1,167,771</b>
Finance charges paid to stockholders and related parties	(17,664)	(363,845)	(17,664)	(363,845)
Payments to the private pension entity	(211,048)	(280,846)	(211,048)	(280,846)
Finance charges paid to financial institutions and others	(42,712)	(39,515)	(46,326)	(43,137)
Income tax and social contribution payments	(272,059)	(146,300)	(272,546)	(146,606)
Profit sharing payments	(72,145)	(61,143)	(72,145)	(61,143)
Judicial deposits	(13,059)	(36,381)	(13,059)	(36,381)
Changes in assets and liabilities				
Consumers, concessionaires and permittees	(199,710)	91,729	(199,218)	89,356
Inventories	(13,788)	(3,383)	(13,788)	(3,383)
Taxes and social contributions	(201,620)	39,425	(196,528)	31,696
Advances to employees	(111)	9,340	(126)	9,335
Pledges and restricted deposits	(21,582)	(23,547)	(40,209)	(54,004)
Services in progress	64,406	(40,111)	64,311	(40,289)
Disposal of assets –Biomass Project	-	(7,218)	-	(7,218)
Suppliers	12,072	61,312	74,447	87,788
Estimated obligations	25,561	16,944	25,591	16,883
Consumer charges payable	4,819	(677)	3,096	(2,088)
Research & Development	14,913	(1,197)	14,644	(1,772)
Financial compensation for use of water resources	(3,133)	4,459	(3,133)	4,459
TAC Tuxá Community – Itaparica	-	(25,724)	-	(25,724)
Provision for contingencies	66,442	16,041	67,401	16,041
Other operating assets and liabilities	(22,370)	9,954	(58,700)	78,004
	<b>(902,788)</b>	<b>(780,683)</b>	<b>(895,000)</b>	<b>(732,874)</b>
<b>Total operating activities</b>	<b>914,048</b>	<b>408,261</b>	<b>713,063</b>	<b>434,897</b>
<b>Investing activities</b>				
Investments in PP&E and Intangible assets	(434,464)	(304,519)	(984,036)	(596,970)
Realization of financial asset - RAP	840,690	847,426	885,541	902,492
Permanent investments	(288,449)	(181,023)	-	-
Dividends	11,145	19,864	-	-
Assets and rights for future use	-	(600)	-	(600)
Disposals of property, plant and equipment	2,161	16,355	7,343	16,363
Other	(116)	(870)	(108,158)	(118,072)
	<b>130,967</b>	<b>396,633</b>	<b>(199,310)</b>	<b>203,213</b>
<b>Financing activities</b>				
Long-term borrowings	147,210	112,467	674,566	431,332
Stockholders' compensation	(607,867)	(565,178)	(607,867)	(565,178)
Payments of short-term installments of long-term borrowings	(118,813)	(452,315)	(138,954)	(472,476)
Other	-	-	38,599	(2,826)
	<b>(579,470)</b>	<b>(905,026)</b>	<b>(33,656)</b>	<b>(609,148)</b>
<b>TOTAL EFFECTS ON CASH</b>	<b>465,545</b>	<b>(100,132)</b>	<b>480,097</b>	<b>28,962</b>
Cash and cash equivalents at the beginning of the year	796,158	896,290	980,202	951,240
Cash and cash equivalents at the end of the year	1,261,703	796,158	1,460,299	980,202
<b>CASH VARIATION</b>	<b>465,545</b>	<b>(100,132)</b>	<b>480,097</b>	<b>28,962</b>

The accompanying notes are an integral part of these financial statements



**STATEMENT OF VALUE ADDED FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(amounts in thousands of reais)

Note	Parent		Consolidated	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
<b>GENERATION OF VALUE ADDED</b>				
<b>Revenues</b>				
Electric power sales, transmission and other	6,022,222	5,275,795	6,304,514	5,389,289
Decrease (increase) in provision for impairment of trade receivables	(18,740)	(66,599)	(18,740)	(66,599)
Losses – consumers, concessionaires and free power	(21,752)	(95,380)	(21,752)	(95,380)
	<b>5,981,730</b>	<b>5,113,816</b>	<b>6,264,022</b>	<b>5,227,310</b>
<b>(-) Inputs acquired from third-parties</b>				
Material	24,138	24,267	68,657	24,417
Fuel for electric power production	2,296	7,242	2,296	7,242
Third-party services	177,999	136,831	256,818	159,620
Electric power purchased for resale	24,061	-	24,061	-
Charges on electricity network usage	765,661	751,680	747,206	741,455
Construction costs	420,451	386,774	503,066	416,871
Other	61,285	226,166	65,246	230,409
	<b>1,475,891</b>	<b>1,532,960</b>	<b>1,667,350</b>	<b>1,580,014</b>
<b>(=) Gross value added</b>	<b>4,505,839</b>	<b>3,580,856</b>	<b>4,596,672</b>	<b>3,647,296</b>
<b>(-) Retentions</b>				
Depreciation and amortization	<b>416,097</b>		<b>416,117</b>	<b>414,535</b>
<b>(=) Net value added</b>	<b>4,089,742</b>	<b>3,166,326</b>	<b>4,180,555</b>	<b>3,232,761</b>
<b>(+) Transferred value added</b>				
Equity in the results of investees	31,253	22,703	(329)	(369)
Dividends and interest on capital	3,947	7,124	605	714
Rentals	(24)	142	(24)	142
Finance income	266,724	186,777	283,808	231,187
	<b>301,900</b>	<b>216,746</b>	<b>284,060</b>	<b>231,674</b>
<b>(=) Value added to distribute</b>	<b>4,391,642</b>	<b>3,383,072</b>	<b>4,464,615</b>	<b>3,464,435</b>
<b>DISTRIBUTION OF VALUE ADDED</b>				
<b>Personnel</b>				
Salaries/benefits/FGTS	641,184	483,543	648,945	487,464
Scheduled Voluntary Termination Program – PDVP	(220,763)	274,166	(220,763)	274,166
Profit sharing	91,241	72,145	91,241	72,145
Officers' fees	2,150	1,836	2,197	1,913
Provisions for labor contingencies/ indemnities	68,569	26,349	68,569	26,349
Private pension entity – regular contributions	8,721	7,574	8,721	7,574
	<b>591,102</b>	<b>865,613</b>	<b>598,910</b>	<b>869,611</b>
<b>Governments:</b>				
Payroll charges	143,136	107,847	143,698	108,197
Taxes net of tax incentives	787,433	562,066	804,193	567,267
Regulatory charges	560,740	526,857	563,202	529,239
	<b>1,491,309</b>	<b>1,196,770</b>	<b>1,511,093</b>	<b>1,204,703</b>
<b>Financing agents:</b>				
Financial expenses, monetary variation and other				
Eletrobras	15,187	307,220	15,187	307,220
Other financing agents	95,470	86,316	140,056	155,306
Rentals	21,342	21,292	22,137	21,734
	<b>131,999</b>	<b>414,828</b>	<b>177,380</b>	<b>484,260</b>
<b>Stockholders:</b>				
Minimum dividends proposed	34 431,266	183,289	431,266	183,289
Additional dividends proposed	34 -	408,393	-	408,393
Earnings reinvested	1,745,966	314,179	1,745,966	314,179
	<b>2,177,232</b>	<b>905,861</b>	<b>2,177,232</b>	<b>905,861</b>
	<b>4,391,642</b>	<b>3,383,072</b>	<b>4,464,615</b>	<b>3,464,435</b>

The accompanying notes are an integral part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS  
AT DECEMBER 31, 2010 AND 2009**

*(All amounts in thousands of reais unless otherwise stated)*

**1 - GENERAL INFORMATION**

Companhia Hidro Elétrica do São Francisco – Chesf, headquartered at Rua Delmiro Gouveia, 333, Bairro de San Martin, Zip Code 50761-901, in the city of Recife, capital of the State of Pernambuco, is a mixed private/state, publicly-held company controlled by Centrais Elétricas Brasileiras S.A.- Eletrobras. The Company was created by Decree-Law 8031/1945 and started its operations on March 15, 1948. Its main business purposes are the generation and transmission of electric power. As from 2002, with the gradual release of its supply contracts (initial contracts), at the rate of 25% per year, pursuant to Law 9648, of May 27, 1998, the Company, which up to then only operated in the Northeast region, began to serve other Brazilian regions, and currently its main markets are the Southeast and Northeast regions.

The Company's electric power is generated by 14 hydroelectric power plants and 1 thermoelectric power plant, with a total installed capacity of 10,615 MW. Power is transmitted through a system made up of 99 substations and 18,723 kilometers of high tension lines.

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

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

The Company has been through its 2<sup>nd</sup> Cycle of Periodic Tariff Review, authorized by Aneel Resolution No. 995, of June 8, 2010, which resulted in a reduction of its RAP in the amount of R\$ 83,613, which is being amortized since July 2010 by means of the monthly billing of electric power transmission services.

As from March 1, 1999, the National Electric System Operator (ONS), a private, nonprofit entity, whose operations were authorized by Resolution No. 351/1998 of Aneel, took over the control and operation of the National Interconnected System (SIN). Accordingly, the Company's power plants and basic transmission network are under the coordination, supervision and control of that entity.

In addition to its own generation park and transmission systems previously mentioned, the Company participates, in partnership with other companies, in the construction and operation of hydraulic generation and eolic generation plants that will have an installed capacity of 14,794.1 MW and 86.4 MW, respectively, and in transmission enterprises comprising 1,241 Km of transmission lines in service and 3,058 Km of transmission lines under construction, mentioned in Note 2.

## 2 - CONCESSIONS

The Company holds the following concessions and permissions:

CONCESSIONS/ PERMISSIONS	River	Installed Capacity (MW)	Capacity Used in 2010 (average MW/ year)	Date of the Concession/ Permission	Expiry Date
<b>POWER PLANTS</b>					
<b>Hydroelectric</b>					
Paulo Afonso I	São Francisco	180,001	102,047	10/03/1945	10/02/2015
Paulo Afonso II	São Francisco	443,000	185,753	10/03/1945	10/02/2015
Paulo Afonso III	São Francisco	794,200	216,150	10/03/1945	10/02/2015
Paulo Afonso IV	São Francisco	2.462,400	1,322,434	10/03/1945	10/02/2015
Apolônio Sales (Moxotó)	São Francisco	400,000	126,837	10/03/1945	10/02/2015
Luiz Gonzaga (Itaparica)	São Francisco	1,479,600	904,778	10/03/1945	10/03/2015
Xingó	São Francisco	3,162,000	2,180,841	10/03/1945	10/02/2015
Piloto	São Francisco	2,000	-	02/16/1949	07/07/2015
Araras	Acaraú	4,000	-	08/29/1958	07/07/2015
Funil	de Contas	30,000	11,664	08/25/1961	07/07/2015
Pedra	de Contas	20,007	5,785	08/25/1961	07/07/2015
Boa Esperança (Castelo Branco)	Parnaíba	237,300	157,458	10/11/1965	10/10/2015
Sobradinho	São Francisco	1,050,300	485,800	02/10/1972	02/09/2022
Curemas	Piancó	3,520	1,271	11/26/1974	11/25/2024
<b>Thermoelectric</b>					
Camaçari	-	346,803	1,922	08/11/1977	08/10/2027

### Eolic

The Company was the winner of Aneel's auction for alternative sources No. 007/2010, for the Casa Nova Eolic Park, which will be installed in the municipality of Casa Nova, in the State of Bahia, with 180 MW capacity, which is currently awaiting authorization.

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

## CONCESSIONS/PERMISSIONS

### TRANSMISSION SYSTEM

#### Concession Contract No. 061/2001 – ANEEL:

##### In service:

- 83 transmission substations, 15 step-up substations and 18,260 km of high tension lines.

06/29/2001

07/07/2015

#### Contracts obtained through Aneel auctions:

##### In service:

- Milagres/Tauá (CE) transmission line, in 230 kV, with a length of 208 km and Tauá substation (CE), in 230 kV.

03/04/2005

03/03/2035

- Milagres/Coremas (CE/PB) transmission line, in 230 kV, with a length of 120 km.

03/04/2005

03/03/2035

- Paraíso/Açu II (RN) transmission line, in 230 kV, with a length of 135 km.

06/14/2007

06/14/2037

##### Under construction:

- Funil/Itapebi (BA) transmission line, in 230 kV, with a length of approximately 198 km.

04/20/2007

04/20/2037

- Ibicoara/Brumado (BA) transmission line, in 230 kV, with a length of approximately 95 km and Ibicoara substation in 500/230 kV(PE)

06/14/2007

06/14/2037

- Picos/Tauá (PI/CE) transmission line, in 230 kV, with a length of approximately 183,2 km.

06/14/2007

06/14/2037

- Jardim/Penedo (SE/AL) transmission line, in 230 kV, with a length of approximately 110 km.

03/17/2008

03/17/2038

- Eunápolis/Teixeira de Freitas II transmission line, circuit 1 (BA), in 230 kV, with a length of approximately 152 km and Teixeira de Freitas II substation in 230/138 kV (BA).

10/16/2008

10/16/2038

- Suape II, in 500/230 kV and Suape III, in 230/69 kV substations (PE), Messias/Recife transmission line with a length of approximately 24km.

01/28/2009

01/28/2039

- Pau Ferro/Santa Rita II (PE/PB) transmission line, in 230kV, with a length of approximately 96,7 km and Paulo Afonso III/Zebu (AL) transmission line, in 230kV, with a length of approximately 6 km transmission lines; and Santa Rita II, in 230/69kV (PB); Zebu, in 230/69kV (AL); and Natal III, in 230/69kV (RN) substations.

08/03/2009

08/03/2039

- Eunápolis/Teixeira de Freitas II transmission line, circuit 2 (BA), in 230 kV, with a length of approximately 152 km.

08/03/2009

08/03/2039

- Camaçari IV substation, in 500/230kV (BA); 07/12/2010 –07/12/2040

07/12/2010

07/12/2040

- Arapiraca III substation, in 230/69 kV (AL), and Rio Largo II/Penedo, transmission line in double circuit in 230 kV, with a length of approximately 45 km.

10/06/2010

10/06/2040

- Pólo substation, in 230/69 kV (BA)

10/06/2010

10/06/2040

- Paraíso/Açu II (RN), in 230 kV, circuit 3, with a length of approximately 123 km, Açu/Mossoró II (RN), in 230 kV, circuit 2, with a length of approximately 69 km and João Câmara/Extremoz II (RN), in 230 kV, C1, with a length of approximately 82 km transmission lines, João Câmara substation, in 230 kV (RN) and Extremoz II substation, in 230 kV (RN).

11/23/2010

11/23/2040

- Igaporã/Bom Jesus da Lapa II (BA) transmission lines, in 230 kV, C1, with a length of approximately 115 km, and Igaporã substation, in 230 kV (BA).

11/23/2010

11/23/2040

- Sobral III/Acaraú II (CE) transmission lines, in 230 kV, C2, with a length of approximately 97 km, and Acaraú II substation, in 230 kV (CE).

11/23/2010

11/23/2040

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

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

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

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

#### Hydraulic Generation

Plants under construction	Company	Company's Interest	River	Capacity in MW	Year of the Concession	Expiry Year
Dardanelos HEPP	Energética Águas da Pedra S.A.	24.5%	Aripuanã	261.000	2007	2042
Jirau HEPP	ESBR Participações S.A.	20.0%	Madeira	3,300.000	2008	2043
Belo Monte HEPP	Norte Energia S.A.	15.0%	Xingu	11,233.100	2010	2045

#### Eolic Generation

Plants under construction	Company	Company's Interest	Location	Capacity in MW	Year of the Authorization	Expiry Year
São Pedro do Lago EPP	São Pedro do Lago S.A.	49.0%	São Pedro do Lago (BA)	28.8	2011	2046
Pedra Branca EPP	Pedra Branca S.A.	49.0%	Pedra Branca (BA)	28.8	2011	2046
Sete Gameleiras EPP	Sete Gameleiras S.A.	49.0%	Sete Gameleiras (BA)	28.8	2011	2046

#### Transmission

TRANSMISSION SYSTEM	Company	Company's Interest	Year of the Concession	Expiry Year
<b>In service:</b>				
- Teresina(PI)/Sobral/Fortaleza(CE) transmission line, in 500 kV, with a length of 546 km.	STN – Sistema de Transmissão Nordeste S.A.	49.0%	2004	2034
- Colinas/Miracema/ Urupi/ Peixe 2/Serra da Mesa (TO/GO) transmission line, in 500 kV, with 695 km.	Integração Transmissora de Energia S.A.	12.0%	2006	2036
<b>Under construction:</b>				
- Oriximiná/Itacoatiara CD transmission line, in 500 kV, with a length of approximately 375 km and Itacoatiara/Cariri, in 500 kV, with a length of approximately 212 km (PA/AM); Itacoatiara 500/138 kV and Cariri 500/230 kV substations.	Manaus Transmissora de Energia S.A.	19.5%	2008	2038
- Coletora Porto Velho (RO)/ Araraquara 2 (SP) transmission line, No. 01, in CC, +/- 600 kV, with a length of approximately 2,375 km; Rectifier Station No. 02 CA/CC, 500 kV/+/- 600kV – 3,150 MW; and Inverter Station No. 02 CC/CA, +/- 600 kV/500kV – 2,950 MW.	Interligação Elétrica do Madeira S.A.	24.5%	2009	2039
- São Luiz II/ São Luiz III (MA) transmission line, in 230 kV, with a length of approximately 96 km; Pecém II (CE), 500 kV and Aquiraz II (CE) substations, in 230 kV, substations.	TDG - Transmissora Delmiro Gouveia S.A.	49.0%	2010	2040

### 3 – PRESENTATION OF THE FINANCIAL STATEMENTS

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

Authorization to conclude these financial statements was granted by the Company's Board of Executive Officers on April 11, 2011, and forwarded to the Board of Directors.

The Individual Financial Statements are presented in accordance with the accounting practices adopted in Brazil, and the Pronouncements, the guidance and the interpretations of the Accounting Pronouncements Committee (CPC) and the standards issued by the Brazilian Securities Commission (CVM) in effect at 12/31/2010.

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

There is no difference between consolidated equity and profit, stated in the consolidated financial statements prepared in accordance with the IFRS and the accounting practices adopted in Brazil, and the parent company's equity and profit, stated in the individual financial statements, prepared in accordance with the accounting practices adopted in Brazil. Accordingly, the Company presents these individual and consolidated financial statements in a single assemblage, side by side.

In 2009 and 2010, CPC issued various accounting pronouncements, interpretations and guidelines, which were approved by CVM, in line with the international reporting standards (IFRS) issued by the International Accounting Standards Board (IASB), which change various accounting practices.

The financial statements for the year ended December 31, 2010 are the first financial statements presented by the Company in accordance with these new accounting pronouncements. To do so, the Company prepared an opening balance sheet as of the transition date, January 1, 2009, as well as the financial statements for the year ended December 31, 2009, based on these pronouncements, for comparison with the periods disclosed.

In preparing the consolidated financial statements for the year ended December 31, 2010, the Company applied CPC 37 and 43 and IFRS 1, which address the first-time adoption of the new pronouncements. CPC 37 and 43 were applied in the individual financial statements.

In preparing these financial statements, the Company applied the compulsory exceptions applicable to its operations and certain voluntary exemptions to the full retrospective application, as follows:

a) Voluntary exemptions to full retrospective application of the accounting pronouncements, adopted by the Company:

- Exemption to retrospective application of ICPC 01 - the Company considered impracticable to individually remeasure the assets that make up the infrastructure used in the concession of the utility service on their acquisition dates, and opted for the residual amount method for measuring them: (i) the financial asset corresponding to the estimated portion of the investments made that will be amortized by the end of the concession; and (ii) the financial asset corresponding to the amount receivable from the Concession Authority at the end of the concession.



- Exemption for employee benefits - the Company elected to recognize all actuarial gains and losses arising from post-employment benefits on the date of first-adoption of the new CPCs as a contra entry to *other comprehensive income*. As from this first-adoption date, the Company recognizes actuarial gains and losses under *other comprehensive income*, in equity.

The remaining voluntary exemptions do not apply to the Company.

b) The Company applied the following compulsory exceptions to retrospective application:

- Exemption for estimates – the estimates used in the preparation of these financial statements as at January 1, 2009 and December 31, 2009 are consistent with the estimates as at the same dates made in conformity with the accounting practices previously adopted.

The other compulsory excepts do not apply to the Company.

### **3.1. Description of the main adjustments and reclassifications arising from the adoption of the new accounting pronouncements**

The main adjustments arising from the new accounting pronouncements, whose application has affected the Company's financial statements at the date of their adoption, 01/01/2009, and at 12/31/2009, are presented as follows. The effects from the application of these pronouncements are also shown.

#### **CPC 25 – Provisions, Contingent Liabilities and Contingent Assets**

This Pronouncement's objective is to establish the application of recognition criteria and measurement basis that are adequate for provisions and contingent liabilities and assets, and that sufficient information be disclosed in the explanatory notes to allow users to understand its nature, timeliness and amount.

The judicial deposit amounts related to provision for tax, civil and labor claims, previously presented in the balance sheet in a reducing account of the respective provision in liabilities, as established in CVM Resolution No. 489/2005, which was revoked upon the adoption of this Pronouncement, are now presented in an asset account of the Company.

#### **CPC 26 – Presentation of Financial Statements**

This Pronouncement's objective is to define the basis for the presentation of the financial statements and ensure their comparability, both with those of prior years of the same entity and with the financial statements of other entities. In this scenario, this Pronouncement establishes general requirements for the presentation of the financial statements, guidelines for their structure and the minimum content requirements.

Deferred income tax and social contribution, expected to be realized in the twelve months following the presentation of the financial statements, were recorded under current as established in CVM Instruction No. 371/2002. In compliance with this Pronouncement, these deferred taxes are now recognized fully in non-current.

#### **CPC 27 - Property, plant and equipment; ICPC 01 and OCPC 05 – Financial Asset – Authorized Annual Revenue and Indemnifiable Financial Asset**

This Pronouncement's objective is to establish the accounting treatment of property, plant and equipment so that financial statement users can distinguish the information on the entity's investments in property, plant and equipment, as well as their changes. The main aspects to be considered in



property, plant and equipment accounting are the determination of accounting amounts and the depreciation and impairment losses to be recognized in relation to these assets.

In compliance with the guidelines of the CPC Pronouncements on this subject, the Company recalculated the balance of its property, plant and equipment, considering the cost elements established in CPC 27. This recalculation, which also considered the monetary restatement for years 1996 and 1997, generated an immaterial difference in relation to the book balance presented. Considering the terms of the concession contracts, which establish the reversal of the residual net assets at the end of the concession, based on the historic carrying value presented for indemnity purposes and the forecasting of revenue arising from the other sale of electric power contracts, the Company understands that the carrying value of its property, plant and equipment, with the limitations allowed by the Regulatory Agency, represents adequately its financial position and meets the requirements of Pronouncement CPC 27.

The concession contracts that govern the exploration of electric power transmission public services by the Company, establish that:

- the price is regulated (tariff) and called Authorized Annual Revenue (RAP). The transmission concessionaire is not allowed to negotiate prices with the users. The contracts have their RAP monetarily restated based on a price index once a year and adjusted every four years. Usually the transmission company's RAP is subject to annual adjustment due to increase in assets and the expenses arising from alterations, reinforcements and enlargement of the installations;
- the assets are returnable at the end of the concession, and the Company will be entitled to receive indemnity (cash) from the Concession Authority for the investments not amortized yet.

Based on the characteristics established in the Company's electric power transmission concession contract, Management understands that it has complied with the conditions for the application of Technical Interpretation ICPC 01 – Concession Contracts, which provides guidance on how to account for the concession of public utility services to private operators, so as to reflect the electric power transmission business, including an estimated portion of investments made and not amortized or depreciated by the end of the concession, classified as a financial asset as it is an unconditional right to receive cash and another financial asset directly from the Concession Authority.

The infrastructure received or built is recovered by applying two cash flows, i.e.: (a) a portion through the Authorized Annual Revenue, during the concession period; and (b) a portion as indemnity for the reversible assets at the end of the concession period, to be received directly from the Concession Authority or from whom it should delegate this obligation.

This indemnity shall be made based on the installments of the investments tied to reversible assets, not yet amortized or depreciated, which were made to ensure the continuity and present status of the service provided.

The Company has financial asset receivables related to the electric power transmission concessions, arising from the application of the financial model established in ICPC 01 and OCPC 05, in the amount of R\$ 5,676,092 (R\$ 1,705,721, Authorized Annual Revenue, and R\$ 3,970.371, indemnity).

The reconciliations and movements of balances adjusted to the new accounting practices are presented in Note 13.

### **CPC 30 – Revenues**

This Pronouncement's objective is to establish the accounting treatment of revenues arising from certain transactions and events and determine when to recognize them.

The revenue is recognized when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

Pursuant to the previously adopted accounting practices, presentation of the Company's revenue in the statement of income segregated the gross operating revenue, the gross operating revenue deductions and the net operating revenue. This CPC defines that, for purposes of disclosure in the statement of

income, the revenue must include only the gross inflows of economic benefits receivable by the entity when arising from its own activities. The amounts collected on behalf of third parties, such as taxes on sales and the amounts intended from research and development established by Aneel, are not economic benefits that flow to the entity and do not result in equity increase; consequently they should not be presented as revenue. Also in accordance with the CPC, the Company should disclose in a Note to the financial statements, a reconciliation between the gross revenue and the net revenue presented in the statement of income (Note 28).

### **CPC 33 – Post-Employment Benefits**

This Pronouncement's objective is to establish the accounting methodology and disclosure of the benefits granted to employees. This requires that the entity recognize: (a) a liability when the employee has provided the services in return for benefits payable in the future; and (b) an expense when the entity uses this economic benefit arising from the service received from the employee in return for benefits to that employee.

In compliance with these accounting practices, the Company elected not to apply the exemption for employee benefits of IFRS 1 and to change the accounting policy for recognizing actuarial gains and losses, which used to be recognized by the "corridor" method, and recognize them in the period when they occur in *other comprehensive income*, in accordance with guidance provided in CPC 33 and IAS 19.

### **ICPC 08 – Accounting for Proposed Dividends**

This interpretation establishes that the amount of dividends above the mandatory minimum established by law, not approved by an Annual Stockholders' Meeting, must be presented and identified in equity. Pursuant to the previous accounting practice these supplementary dividends were deducted from equity and recognized in the Company's liabilities.

### **CPC Conceptual structure for the preparation and presentation of the financial statements.**

Companies must prepare their financial statements in accordance with this Pronouncement, which, among other concepts, establishes the base for recognition of assets, liabilities, revenues and expenses. The amounts recognized before the application of the new CPC as regulatory assets and liabilities are not, in accordance with this Pronouncement, recognized in the balance sheet, as they do not satisfy the definition of assets and/or liabilities.

As a result, the regulatory asset and liability amounts recorded before the date of the first-time adoption of the new CPCs were recognized against retained earnings and profit for the year when incurred.

### 3.2. Statement of the adjustments and reclassifications arising from the adoption of the new accounting practices

#### a) Opening balance sheet at 01/01/2009:

	Parent					
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Reclassifications	Post-employment benefits	
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	896,290	-	-	-	-	896,290
Consumers, concessionaires and permittees	781,126	-	(9,952)	-	-	771,174
(-) Provision for impairment of trade receivables	(499)	-	499	-	-	-
Indemnifiable financial asset	-	128,657	-	-	-	128,657
Taxes and contributions recoverable	72,103	-	-	-	-	72,103
Securities	37	-	-	-	-	37
Tax credits	31,000	-	-	(31,000)	-	-
Inventories	74,392	-	-	-	-	74,392
Services in progress	104,937	-	-	-	-	104,937
Other	90,936	-	-	-	-	90,935
	<b>2,050,322</b>	<b>128,657</b>	<b>(9,453)</b>	<b>(31,000)</b>	<b>-</b>	<b>2,138,525</b>
<b>NON-CURRENT ASSETS</b>						
<b>Long-term Receivables</b>						
Consumers, concessionaires and permittees	68,914	-	(5,756)	-	-	63,159
Taxes and contributions recoverable	8,934	-	-	-	-	8,934
Marketable securities	778	-	-	-	-	778
Assets and rights for sale	11,559	-	-	-	-	11,559
Judicial deposits	-	-	-	116,369	-	116,369
Pledges and restricted deposits	-	-	-	-	-	-
Tax credits	116,732	-	1,574	31,000	83,168	232,474
Indemnifiable financial asset	-	3,560,404	-	-	-	3,560,404
Financial asset – Authorized Annual Revenue	-	1,458,974	-	-	-	1,458,974
Other	5,653	-	-	-	-	5,652
	<b>212,570</b>	<b>5,019,378</b>	<b>(4,182)</b>	<b>147,369</b>	<b>83,168</b>	<b>5,458,303</b>
<b>Investments</b>	250,344	35,468	-	-	-	285,812
<b>Property, plant and equipment</b>	16,214,918	(5,147,946)	-	-	-	11,066,972
<b>Intangible assets</b>	32,048	(89)	-	-	-	31,959
	<b>16,709,880</b>	<b>(93,189)</b>	<b>(4,182)</b>	<b>147,369</b>	<b>83,168</b>	<b>16,843,046</b>
<b>TOTAL ASSETS</b>	<b>18,760,202</b>	<b>35,468</b>	<b>(13,635)</b>	<b>116,369</b>	<b>83,168</b>	<b>18,981,571</b>

LIABILITIES AND EQUITY	Parent						
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Reclassifications	Dividends	Post-Employment Benefits	Current accounting practices
CURRENT LIABILITIES							
Trade payables	198,246	-	(3,038)	-	-	-	195,208
Payroll	8,363	-	-	-	-	-	8,363
Taxes and social contributions	107,178	-	-	-	-	-	107,178
Borrowings	468,487	-	-	-	-	-	468,487
Charges on debts	9,516	-	-	-	-	-	9,516
Profit sharing	61,143	-	-	-	-	-	61,143
Stockholders' compensation	544,893	-	-	-	(279,803)	-	265,090
Estimated obligations	78,949	-	-	-	-	-	78,949
Post-employment benefits	273,720	-	-	-	-	-	273,720
Research & development	69,765	-	-	-	-	-	69,765
Consumer charges payable	19,049	-	-	-	-	-	19,049
Financial compensation for use of water resources	33,112	-	-	-	-	-	33,112
Other	52,130	-	(1,549)	-	-	-	50,581
	1,924,551	-	(4,587)	-	(279,803)	-	1,640,161
NON-CURRENT LIABILITIES							
Taxes and social contributions	45,592	-	-	-	-	-	45,592
Borrowings	3,307,765	-	-	-	-	-	3,307,765
Post-employment benefits	125,100	-	-	-	-	545,363	670,463
Research & development	106,187	-	-	-	-	-	106,187
Consumer charges payable	54,539	-	-	-	-	-	54,539
Provision for contingencies	415,434	-	-	116,369	-	-	531,803
Funds for capital increase	-	-	-	294,396	-	-	294,396
Other	7,884	-	(302)	-	-	-	7,582
	4,062,501	-	(302)	410,765	-	545,363	5,018,327
EQUITY							
Share capital	4,196,306	-	-	-	-	-	4,196,306
Capital reserves	4,916,199	-	-	-	-	-	4,916,199
Revenue reserve	3,366,249	-	-	-	-	-	3,366,249
Additional dividends	-	35,468	(8,746)	-	279,803	-	306,525
Other comprehensive inc. (expenses)	-	-	-	-	-	(462,195)	(462,195)
Funds for capital increase	294,396	-	-	(294,396)	-	-	-
	12,773,150	35,468	(8,746)	(294,396)	279,803	(462,195)	12,323,083
TOTAL LIABILITIES AND EQUITY	18,760,202	35,468	(13,635)	116,369	-	83,168	18,981,571

	Consolidated					
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Reclassifications	Post-employment benefits	Current accounting practices
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	951,240	-	-	-	-	951,240
Consumers, concessionaires and permittees	785,583	-	(9,952)	-	-	775,631
(-) Provision for impairment of trade receivables	(499)	-	499	-	-	-
Indemnifiable financial asset	-	189,299	-	-	-	189,299
Taxes and contributions recoverable	72,654	-	-	-	-	72,654
Marketable securities	37	-	-	-	-	37
Tax credits	31,000	-	-	(31,000)	-	-
Inventories	74,392	-	-	-	-	74,392
Services in progress	104,937	-	-	-	-	104,937
Other	82,253	(1,014)	-	-	-	81,239
	<b>2,101,597</b>	<b>188,285</b>	<b>(9,453)</b>	<b>(31,000)</b>	<b>-</b>	<b>2,249,429</b>
<b>NON-CURRENT ASSETS</b>						
<b>Long-term Receivables</b>						
Consumers, concessionaires and permittees	68,915	-	(5,756)	-	-	63,159
Taxes and contributions recoverable	8,934	-	-	-	-	8,934
Marketable securities	778	-	-	-	-	778
Assets and rights for sale	11,571	-	-	-	-	11,571
Judicial deposits	-	-	-	116,369	-	116,369
Pledges and restricted deposits	1,539	-	-	-	-	1,539
Tax credits	116,732	-	1,574	31,000	83,168	232,474
Indemnifiable financial asset	-	3,560,404	-	-	-	3,560,404
Financial asset – Authorized Annual Revenue	-	1,764,529	-	-	-	1,764,529
Other	89,901	828	-	-	-	90,729
	<b>298,370</b>	<b>5,325,761</b>	<b>(4,182)</b>	<b>147,369</b>	<b>83,168</b>	<b>5,850,486</b>
<b>Investments</b>	64,669	-	-	-	-	64,669
<b>Property, plant and equipment</b>	16,552,529	(5,454,329)	-	-	-	11,098,200
<b>Intangible assets</b>	33,682	13,767	-	-	-	47,449
	<b>16,949,250</b>	<b>(114,801)</b>	<b>(4,182)</b>	<b>147,369</b>	<b>83,168</b>	<b>17,060,804</b>
<b>TOTAL ASSETS</b>	<b>19,050,847</b>	<b>73,484</b>	<b>(13,635)</b>	<b>116,369</b>	<b>83,168</b>	<b>19,310,233</b>

LIABILITIES AND EQUITY	Consolidated						
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Reclassifications	Dividends	Post-Employment Benefits	Current accounting practices
<b>CURRENT LIABILITIES</b>							
Trade payables	199,132	-	(3,038)	-	-	-	196,094
Payroll	8,408	-	-	-	-	-	8,408
Taxes and social contributions	118,676	-	-	-	-	-	118,676
Borrowings	477,020	-	-	-	-	-	477,020
Charges on debts	9,683	-	-	-	-	-	9,683
Profit sharing	61,143	-	-	-	-	-	61,143
Stockholders' compensation	544,893	-	-	-	(279,803)	-	265,090
Estimated obligations	79,130	-	-	-	-	-	79,130
Post-employment Benefits	273,720	-	-	-	-	-	273,720
Research & development	70,765	-	-	-	-	-	70,765
Consumer charges payable	19,310	-	-	-	-	-	19,310
Financial compensation for use of water resources	33,112	-	-	-	-	-	33,112
Other	55,102	-	(1,548)	-	-	-	53,554
	<b>1,950,094</b>	<b>-</b>	<b>(4,586)</b>	<b>-</b>	<b>(279,803)</b>	<b>-</b>	<b>1,665,705</b>
<b>NON-CURRENT LIABILITIES</b>							
Taxes and social contributions	46,400	1,548	-	-	-	-	47,948
Tax debts	-	8,160	-	-	-	-	8,160
Borrowings	3,552,150	-	-	-	-	-	3,552,150
Post-employment benefits	125,100	-	-	-	-	545,363	670,463
Research & development	106,187	-	-	-	-	-	106,187
Consumer charges payable	54,539	-	-	-	-	-	54,539
Provision for contingencies	415,434	-	-	116,369	-	-	531,803
Concessions payable	-	13,994	-	-	-	-	13,994
Funds for capital increase	-	-	-	294,396	-	-	294,396
Other	27,794	14,313	(302)	-	-	-	41,805
	<b>4,327,604</b>	<b>38,015</b>	<b>(302)</b>	<b>410,765</b>	<b>-</b>	<b>545,363</b>	<b>5,321,445</b>
<b>EQUITY</b>							
Share capital	4,196,306	-	-	-	-	-	4,196,306
Capital reserves	4,916,199	-	-	-	-	-	4,916,199
Revenue reserve	3,366,248	-	-	-	-	-	3,366,248
Additional dividends	-	35,469	(8,747)	-	279,803	-	306,525
Other comprehensive inc. (expense)	-	-	-	-	-	(462,195)	(462,195)
Funds for capital increase	294,396	-	-	(294,396)	-	-	-
	<b>12,773,149</b>	<b>35,469</b>	<b>(8,747)</b>	<b>(294,396)</b>	<b>279,803</b>	<b>(462,195)</b>	<b>12,323,083</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>19,050,847</b>	<b>73,484</b>	<b>(13,635)</b>	<b>116,369</b>	<b>-</b>	<b>83,168</b>	<b>19,310,233</b>

**b) Balance sheet and income for the year ended 12/31/2009:**

	Parent					
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Reclassifications	Post-employment benefits	Current accounting practices
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	796,158	-	-	-	-	796,158
Consumers, concessionaires and permittees	725,005	-	(13,880)	-	-	711,125
(-) Provision for impairment of trade receivables	(77,875)	-	11,276	-	-	(66,599)
Indemnifiable financial asset	-	150,511	-	-	-	150,511
Taxes and contributions recoverable	10,882	-	-	-	-	10,882
Marketable securities	36	-	-	-	-	36
Tax credits	58,184	-	-	(58,184)	-	-
Inventories	75,325	2,450	-	-	-	77,775
Services in progress	145,048	-	-	-	-	145,048
Other	73,416	3,156	-	-	-	76,572
	<b>1,806,179</b>	<b>156,117</b>	<b>(2,604)</b>	<b>(58,184)</b>	<b>-</b>	<b>1,901,508</b>
<b>NON-CURRENT ASSETS</b>						
<b>Long-term Receivables</b>						
Consumers, concessionaires and permittees	31,479	-	-	-	-	31,479
Taxes and contributions recoverable	10,672	-	-	-	-	10,672
Marketable securities	812	-	-	-	-	812
Assets and rights for sale	11,559	-	-	-	-	11,559
Judicial deposits	-	-	-	188,253	-	188,253
Pledges and restricted deposits	31,547	-	-	-	-	31,547
Tax credits	242,234	-	-	58,184	39,164	339,582
Indemnifiable financial asset	-	3,759,110	-	-	-	3,759,110
Financial asset – Authorized Annual Revenue	-	1,496,531	-	-	-	1,496,531
Other	10,910	-	-	-	-	10,910
	<b>339,213</b>	<b>5,255,641</b>		<b>246,437</b>	<b>39,164</b>	<b>5,880,455</b>
<b>Investments</b>	429,809	51,751	-	-	-	481,560
<b>Property, plant and equipment</b>	16,325,441	(5,354,338)	-	-	-	10,971,103
<b>Intangible assets</b>	31,710	(156)	-	-	-	31,554
	<b>17,126,173</b>	<b>(47,102)</b>	<b>-</b>	<b>246,437</b>	<b>39,164</b>	<b>17,364,672</b>
<b>TOTAL ASSETS</b>	<b>18,932,352</b>	<b>109,015</b>	<b>(2,604)</b>	<b>188,253</b>	<b>39,164</b>	<b>19,266,180</b>



LIABILITIES AND EQUITY	Parent						
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Reclassifications	Dividends	Post-employment Benefits	Current accounting practices
<b>CURRENT LIABILITIES</b>							
Trade payables	259,558	-	(3,038)	-	-	-	256,520
Payroll	28,144	-	-	-	-	-	28,144
Taxes and social contributions	249,022	-	-	-	-	-	249,022
Borrowings	114,417	-	-	-	-	-	114,417
Charges on debts	5,860	-	-	-	-	-	5,860
Profit sharing	72,145	-	-	-	-	-	72,145
Stockholders' compensation	591,696	-	-	-	(408,393)	-	183,303
Estimated obligations	95,893	-	-	-	-	-	95,893
Post-employment benefits	101,328	-	-	-	-	-	101,328
Scheduled Voluntary Termination Program – PDVP	14,898	-	-	-	-	-	14,898
Research & development	54,285	-	-	-	-	-	54,285
Consumer charges payable	57,802	-	-	-	-	-	57,802
Financial compensation for use of water resources	37,571	-	-	-	-	-	37,571
Other	26,200	-	(975)	-	-	-	25,225
	<b>1,708,819</b>	<b>-</b>	<b>(4,013)</b>	<b>-</b>	<b>(408,393)</b>	<b>-</b>	<b>1,296,413</b>
<b>NON-CURRENT LIABILITIES</b>							
Taxes and social contributions	21,053	-	-	-	-	-	21,053
Tax debts	-	8,733	215	-	-	-	8,948
Borrowings	543,169	-	-	-	-	-	543,169
Post-employment benefits	177,507	-	-	-	-	174,888	352,395
Scheduled Voluntary Termination Program – PDVP	259,220	-	-	-	-	-	259,220
Research & development	120,470	-	-	-	-	-	120,470
Consumer charges payable	15,109	-	-	-	-	-	15,109
Provision for contingencies	411,113	-	-	188,253	-	-	599,366
Funds for capital increase	-	-	-	3,018,051	-	-	3,018,051
Other	7,703	(2)	-	-	-	-	7,701
	<b>1,555,344</b>	<b>8,731</b>	<b>215</b>	<b>3,206,304</b>	<b>-</b>	<b>174,888</b>	<b>4,945,482</b>
<b>EQUITY</b>							
Share capital	4,539,557	-	-	-	-	-	4,539,557
Capital reserves	4,916,199	-	-	-	-	-	4,916,199
Revenue reserve	3,195,703	-	-	-	-	-	3,195,703
Additional dividends	-	100,283	1,194	-	408,393	66,718	576,588
Other comprehensive inc. (expense)	(1,320)	-	-	-	-	(202,442)	(203,762)
Funds for capital increase	3,018,050	1	-	(3,018,051)	-	-	-
	<b>15,668,189</b>	<b>100,284</b>	<b>1,194</b>	<b>(3,018,051)</b>	<b>408,393</b>	<b>(135,724)</b>	<b>13,024,285</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>18,932,352</b>	<b>109,015</b>	<b>(2,604)</b>	<b>188,253</b>	<b>-</b>	<b>39,164</b>	<b>19,266,180</b>

	Parent				
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Post-employment benefits	Adjusted balance
<b>NET OPERATING REVENUE</b>	<b>4,242,613</b>	<b>258,118</b>	<b>2,476</b>	<b>-</b>	<b>4,503,207</b>
<b>COST OF ELECTRIC POWER SERVICE</b>					
<b>Electric power costs</b>					
Charges for electricity network usage	(751,680)	-	-	-	(751,680)
<b>Operating costs</b>					
Personnel	(234,330)	-	-	-	(234,330)
Material	(8,847)	-	-	-	(8,847)
Fuel for electric power production	(7,242)	-	-	-	(7,242)
Third-party services	(44,632)	-	-	-	(44,632)
Financial compensation for use of water resources	(210,061)	-	-	-	(210,061)
Depreciation and amortization	(554,141)	205,910	-	-	(348,231)
Other	14,449	(10,555)	-	-	3,894
	<b>(1,796,484)</b>	<b>195,355</b>	<b>-</b>	<b>-</b>	<b>(1,601,129)</b>
<b>COST OF SERVICES PROVIDED TO THIRD-PARTIES</b>	<b>(11)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11)</b>
<b>CONSTRUCTION COST</b>	<b>-</b>	<b>(386,774)</b>	<b>-</b>	<b>-</b>	<b>(386,774)</b>
<b>GROSS OPERATING PROFIT</b>	<b>2,446,118</b>	<b>66,699</b>	<b>2,476</b>	<b>-</b>	<b>2,515,293</b>
<b>OPERATING EXPENSES</b>	<b>(1,267,655)</b>	<b>-</b>	<b>9,445</b>	<b>34,273</b>	<b>(1,223,937)</b>
<b>RESULT FROM SERVICE</b>	<b>1,178,463</b>	<b>66,699</b>	<b>11,921</b>	<b>34,273</b>	<b>1,291,356</b>
<b>FINANCIAL INCOME (EXPENSES)</b>					
Income from financial investments	77,778	-	-	-	77,778
Monetary variation and late payment charges – electric power sold	31,731	-	-	-	31,731
Other monetary variation gains	2,639	-	-	-	2,639
Other financial income	79,238	-	-	<b>25,218</b>	104,456
PIS/Pasep and Cofins	(606)	-	-	-	(606)
Charges on debts	(430,091)	(9,433)	-	<b>42,586</b>	(396,938)
Monetary variation on borrowings	53,017	-	-	-	53,017
Other monetary variations on liabilities	12,828	-	-	<b>(12,877)</b>	(49)
Other financial expenses	(40,438)	16,283	<b>(192)</b>	<b>(25,219)</b>	(49,566)
	<b>(213,904)</b>	<b>6,850</b>	<b>(192)</b>	<b>29,708</b>	<b>(177,538)</b>
<b>OTHER INCOME (EXPENSES)</b>					
Income	10,481	-	-	-	10,481
Expenses	(5,793)	-	-	-	(5,793)
	<b>4,688</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,688</b>
<b>OPERATING PROFIT</b>	<b>969,247</b>	<b>73,549</b>	<b>11,729</b>	<b>63,981</b>	<b>1,118,506</b>
Social contribution	(79,984)	(5,154)	<b>(1,056)</b>	<b>1,615</b>	(84,579)
Income tax	(215,884)	(3,579)	<b>(733)</b>	<b>1,122</b>	(219,074)
Tax incentives	163,153	-	-	-	<b>163,153</b>
<b>Profit before profit sharing</b>	<b>836,532</b>	<b>64,816</b>	<b>9,940</b>	<b>66,718</b>	<b>978,006</b>
Profit sharing	(72,145)	-	-	-	<b>(72,145)</b>
<b>PROFIT FOR THE YEAR</b>	<b>764,387</b>	<b>64,816</b>	<b>9,940</b>	<b>66,718</b>	<b>905,861</b>

	Consolidated					
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Reclassifications	Post-employment benefits	Current accounting practices
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	980,202	-	-	-	-	980,202
Consumers, concessionaires and permittees	732,673	-	(13,880)	-	-	718,793
(-) Provision for impairment of trade receivables	(77,875)	-	11,276	-	-	(66,599)
Indemnifiable financial asset	-	214,565	-	-	-	214,565
Taxes and contributions recoverable	11,855	-	-	-	-	11,855
Marketable securities	36	-	-	-	-	36
Tax credits	58,184	-	-	(58,184)	-	-
Inventories	75,325	2,450	-	-	-	77,775
Services in progress	145,226	-	-	-	-	145,226
Other	88,220	3,463	-	-	-	91,683
	2,013,846	220,478	(2,604)	(58,184)	-	2,173,536
NON-CURRENT ASSETS						
Long-term receivables						
Consumers, concessionaires and permittees	31,479	-	-	-	-	31,479
Taxes and contributions recoverable	10,672	-	-	-	-	10,672
Marketable securities	812	-	-	-	-	812
Assets and rights for sale	11,565	-	-	-	-	11,565
Judicial deposits	-	-	-	188,253	-	188,253
Pledges and restricted deposits	42,766	-	-	-	-	42,766
Tax credits	251,661	3,554	-	58,184	39,164	352,563
Indemnifiable financial asset	-	3,759,110	-	-	-	3,759,110
Financial asset – Authorized Annual Revenue	-	1,859,444	-	-	-	1,859,444
Other	39,977	(2,013)	-	-	-	37,964
	388,932	5,620,095	-	246,437	39,164	6,294,628
Investments	65,292	180	-	-	-	65,472
Property, plant and equipment	17,110,580	(5,714,735)	-	-	-	11,395,845
Intangible assets	33,652	15,357	-	-	-	49,009
	17,598,456	(79,103)	-	246,437	39,164	17,804,954
TOTAL ASSETS	19,612,302	141,375	(2,604)	188,253	39,164	19,978,490

	Consolidated						
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Reclassifications	Dividends	Post- employment Benefits	Current accounting practices
<b>LIABILITIES AND EQUITY</b>							
<b>CURRENT LIABILITIES</b>							
Trade payables	287,758	-	(3,038)	-	-	-	284,720
Payroll	28,461	-	-	-	-	-	28,461
Taxes and social contributions	257,386	-	-	-	-	-	257,386
Borrowings	201,196	-	-	-	-	-	201,196
Charges on debts	15,510	-	-	-	-	-	15,510
Profit sharing	72,145	-	-	-	-	-	72,145
Stockholders' compensation	591,696	-	-	-	(408,393)	-	183,303
Estimated obligations	96,013	-	-	-	-	-	96,013
Post-employment benefits	101,328	-	-	-	-	-	101,328
Scheduled Voluntary							
Termination Program – PDVP	14,898	-	-	-	-	-	14,898
Research & development	55,279	-	-	-	-	-	55,279
Consumer charges payable	58,167	-	-	-	-	-	58,167
Financial compensation for use of water resources	37,570	-	-	-	-	-	37,570
Other	31,302	837	(975)	-	-	-	31,164
	<b>1,848,709</b>	<b>837</b>	<b>(4,013)</b>	<b>-</b>	<b>(408,393)</b>	<b>-</b>	<b>1,437,140</b>
<b>NON-CURRENT LIABILITIES</b>							
Taxes and social contributions	32,390	-	-	-	-	-	32,390
Tax debts	-	18,371	215	-	-	-	18,586
Borrowings	1,061,257	-	-	-	-	-	1,061,257
Post-employment benefits	177,507	-	-	-	-	174,888	352,395
Scheduled Voluntary							
Termination Program – PDVP	259,220	-	-	-	-	-	259,220
Research & development	120,470	-	-	-	-	-	120,470
Consumer charges payable	15,109	-	-	-	-	-	15,109
Provision for contingencies	411,113	-	-	188,253	-	-	599,366
Concessions payable	-	15,786	-	-	-	-	15,786
Funds for capital increase	-	-	-	3,018,051	-	-	3,018,051
Other	18,337	6,098	-	-	-	-	24,435
	<b>2,095,403</b>	<b>40,255</b>	<b>215</b>	<b>3,206,304</b>	<b>-</b>	<b>174,888</b>	<b>5,517,065</b>
<b>EQUITY</b>							
Share capital	4,539,557	-	-	-	-	-	4,539,557
Capital reserves	4,916,199	-	-	-	-	-	4,916,199
Revenue reserve	3,195,703	-	-	-	-	-	3,195,703
Additional dividends	-	100,283	1,194	-	408,393	66,718	576,588
Other comprehensive income (expense)	(1,320)	-	-	-	-	(202,442)	(203,762)
Funds for capital increase	3,018,051	-	-	(3,018,051)	-	-	-
	<b>15,668,190</b>	<b>100,283</b>	<b>1,194</b>	<b>(3,018,051)</b>	<b>408,393</b>	<b>(135,724)</b>	<b>13,024,285</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>19,612,302</b>	<b>141,375</b>	<b>(2,604)</b>	<b>188,253</b>	<b>-</b>	<b>39,164</b>	<b>19,978,490</b>

	Consolidated				Adjusted balance
	Previous accounting practices	ICPC 01 Transmission	Derecognition of regulatory assets and liabilities	Post-employment benefits	
<b>NET OPERATING REVENUE</b>	<b>4,290,891</b>	<b>326,811</b>	<b>2,476</b>	<b>-</b>	<b>4,620,178</b>
<b>COST OF ELECTRIC POWER SERVICE</b>					
<b>Electric power costs</b>					
Charges for electricity network usage	(741,455)	(10,225)	-	-	(751,680)
<b>Operating costs</b>					
Personnel	(235,566)	(404)	-	-	(235,970)
Material	(8,929)	-	-	-	(8,929)
Fuel for electric power production	(7,242)	-	-	-	(7,242)
Third-party services	(45,105)	(20,278)	-	-	(65,383)
Financial compensation for use of water resources	(210,061)	-	-	-	(210,061)
Depreciation and amortization	(562,688)	214,457	-	-	(348,231)
Other	14,037	(11,255)	-	-	2,782
	<b>(1,797,009)</b>	<b>172,295</b>	<b>-</b>	<b>-</b>	<b>(1,624,714)</b>
<b>COST OF SERVICES PROVIDED TO THIRD-PARTIES</b>	<b>(11)</b>		<b>-</b>		<b>(11)</b>
<b>CONSTRUCTION COST</b>	<b>-</b>	<b>(416,871)</b>	<b>-</b>	<b>-</b>	<b>(416,871)</b>
<b>GROSS OPERATING PROFIT</b>	<b>2,493,871</b>	<b>82,235</b>	<b>2,476</b>	<b>-</b>	<b>2,578,582</b>
<b>OPERATING EXPENSES</b>	<b>(1,275,600)</b>	<b>(764)</b>	<b>9,445</b>	<b>34,273</b>	<b>(1,232,646)</b>
<b>RESULT FROM SERVICE</b>	<b>1,218,271</b>	<b>81,471</b>	<b>11,921</b>	<b>34,273</b>	<b>1,345,936</b>
<b>FINANCIAL INCOME (EXPENSE)</b>					
Income from financial investments	82,054	(374)	-	-	81,680
Monetary variation and late payment charges – electric power sold	34,888	(3,157)	-	-	31,731
Other monetary variation gains	2,639	-	-	-	2,639
Other financial income	89,367	(6,131)	-	25,218	108,454
PIS/Pasep and Cofins	(606)	-	-	-	(606)
Charges on debts	(443,851)	(9,576)	-	42,586	(410,841)
Monetary variation on borrowings	27,632	25,385	-	-	53,017
Other monetary variation on liabilities	12,828	-	-	(12,877)	(49)
Other financial expenses	(56,677)	(15,536)	(192)	(25,219)	(97,624)
	<b>(251,726)</b>	<b>(9,389)</b>	<b>(192)</b>	<b>29,708</b>	<b>(231,599)</b>
<b>OTHER INCOME (EXPENSES)</b>					
Income	10,484	21	-	-	10,505
Expenses	(5,795)	2	-	-	(5,793)
	<b>4,689</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>4,712</b>
<b>OPERATING PROFIT</b>	<b>971,234</b>	<b>72,105</b>	<b>11,729</b>	<b>63,981</b>	<b>1,119,049</b>
Social contribution	(81,549)	(4,352)	(1,056)	1,615	(85,342)
Income tax	(220,302)	(1,510)	(733)	1,122	(221,423)
Tax incentives	167,148	(1,426)	-	-	165,722
<b>Profit before profit sharing</b>	<b>836,531</b>	<b>64,817</b>	<b>9,940</b>	<b>66,718</b>	<b>978,006</b>
Profit sharing	(72,145)	-	-	-	(72,145)
<b>PROFIT FOR THE YEAR</b>	<b>764,386</b>	<b>64,817</b>	<b>9,940</b>	<b>66,718</b>	<b>905,861</b>

## **4 - SIGNIFICANT ACCOUNTING POLICIES**

### **4.1. Statement of compliance**

The financial statements of the Company comprise:

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

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

The individual financial statements present the evaluation of investments in jointly held enterprises using the equity method of accounting, in accordance with the Brazilian legislation in force. As such, these individual financial statements are not considered in compliance with IFRS, which require that these investments be accounted for in the parent company's separate financial statement at their fair value or cost.

### **4.2. Basis of preparation**

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

These consolidated financial statements are the first ones prepared in accordance with the International Financial Reporting Standards (IFRS). In preparing the individual financial statements, the Company adopted the changes to the accounting practices adopted in Brazil introduced by Technical Pronouncements CPC 15 to 40. The effects of the adoption of IFRS and of the new Pronouncements issued by CPC are presented in Note 3.

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

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

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

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

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

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

#### **4.4. Investments in associates**

An associate is an entity over which the Company has significant influence but is not a subsidiary or a jointly-controlled enterprise (joint venture). Significant influence is the power to participate in decisions about the financial and operating policies of the investee but not having individual or joint control over such policies.

The assets and liabilities of associates are included in the financial statements using the equity method of accounting, and are initially recognized at cost and subsequently adjusted for recognition of the Company's share in the associate's profit or loss and other comprehensive results. When the Company's portion in the loss of an associate exceeds its share, it does not recognize its share in the additional losses. These additional losses are only recognized if the Company has incurred legal or recognized obligations or if it has made payments on behalf of the associate.

#### **4.5. Participation in joint ventures**

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

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

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

The parent company's shares in jointly-owned subsidiaries are recognized in its individual financial statements using the equity method of accounting.

#### **4.6. Non-current assets held for sale**

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

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

#### **4.7. Revenue recognition**

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

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

The following is also comprised:

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



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

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

#### **4.8. Costs of Borrowing**

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

All other borrowing costs are recognized in income for the year when incurred.

#### **4.9. Government grants**

Government grants arising from tax incentives are recorded in income for the period as a reduction of the tax computed, in compliance with Technical Pronouncement CPC 07. The portion of the profit arising from these tax incentives is allocated to the Revenue Reserve called Tax Incentive Reserve, in compliance with article 195-A of Law 6404/1976, which is only used to increase share capital or possible absorption of losses.

#### **4.10 Taxes**

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

##### **4.10.1. Current taxes**

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

##### **4.10.2. Deferred taxes**

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

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

Deferred tax asset and liability are measured at the rates applicable in the period when it is expected that the deferred tax liability will be settled or the deferred tax asset will be realized, based on the rates established in the tax legislation in effect at the end of each year or when a new legislation is approved. The measurement of deferred tax asset and deferred tax liability reflects the tax consequences that

would result from the manner in which the Company expects, at the end of each year, to recover or settle the carrying value of these assets and liabilities.

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

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

#### **4.11. Property, plant and equipment**

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

Environmental expenditures related to actions and programs carried out up to the release of the first operating permit are recorded in Property, plant and equipment and the expenses incurred after that period are recorded in the statement of income.

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

#### **4.12. Intangible assets**

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

The corporate softwares are capitalized on the basis of the costs incurred to acquire and bring to use. These costs are amortized over their estimated useful lives.

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

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

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

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

#### **4.13. Impairment of non-financial assets**

At the end of each year, the Company reviews the carrying value of its assets to check whether there are any indications that the carrying amount may not be recoverable. If there are such indications, the asset's recoverable amount is estimated to measure the amount of the loss, if any. If it is not possible

to estimate the recoverable amount of an individual asset, the Company calculates the recoverable amount of the cash generating unit of the asset.

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

If the recoverable amount of an asset, or cash generating unit, is lower than its carrying value, the carrying value of the asset, or cash generating unit, is reduced to its recoverable value, and the difference is recognized in the statement of income.

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

#### **4.14. Inventories**

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

#### **4.15. Provisions**

Provisions are recognized when the Company has a future obligation as a result of past events, it is probable that assets will be surrendered to settle the obligation and a reliable estimate of the amount can be made. Accordingly, the amount of the provision recorded is the best estimate of the settlement value of a probable obligation at the date of the financial statements, taking into consideration the related risks and uncertainties.

The provisions are reviewed and adjusted to consider changes in the circumstances, such as the applicable statute of limitation or additional exposures identified based on new subjects or court decisions. Actual results may differ from the estimates.

#### **4.16. Financial instruments**

##### **4.16.1. Financial assets**

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

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

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

##### **4.16.1.1. Subsequent measurement of financial assets**

Subsequent measurement of the financial assets depends on their classification, which may be as follows:

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

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

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

- **Receivables**

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

- **Investments held to maturity**

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

#### **4.16.1.2. Derecognition (write-off) of financial assets**

A financial asset is derecognized when:

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

#### **4.16.2 Financial liabilities**

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

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

The Company’s financial liabilities include payables to suppliers, borrowings, and derivative financial instruments – through the jointly-owned subsidiaries, classified as hedge instruments and other payables.

##### **4.16.2.1. Subsequent measurement of financial liabilities**

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

- **Borrowings**

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

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

Financial liabilities *at fair value through profit or loss* include financial liabilities for trading and financial liabilities classified at initial recognition at fair value through profit or loss.

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

- **Held for trading**

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

- **Borrowings**

After initial recognition, borrowings are carried at amortized cost plus charges, interest and monetary and/or exchange variation provided for in the related contracts, incurred up to the balance sheet date.

#### **4.16.2.2. Derecognition (write-off) of financial liabilities**

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

#### **4.16.3. Fair value of financial instruments**

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

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

#### **4.16.4. Derivative financial instruments and hedge accounting**

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

The Company has not entered into derivative contracts for commercial or speculation purposes (Note 36).

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

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

For hedge accounting purposes, the Company classifies the hedges as fair value hedge when providing protection against exposure to changes of the fair value of a recognized asset or liability or of unrecognized firm commitment, or of identified part of such asset, liability or firm commitment, attributable to a particular risk and which may affect income.

Gains or losses resulting from changes in the fair value of these derivatives and of the covered item during the year are recorded directly in income – financial result.

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

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

#### **4.17. Statement of Value Added (SVA)**

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

#### **4.18. New and revised standards and interpretations already issued and not yet adopted**

Following are the IFRS standards, amendments to standards, issued by IASB, not yet in effect for the year ended 12/31/2010:

- *IFRS 9* – Financial Instruments;
- *IAS 24* – Related Party Disclosures;
- *IAS 32* – Classification of Rights Issues;
- *IFRIC 19* – Extinguishing Financial Liabilities with Equity Instruments;
- *IFRIC 14* – Prepayments of a Minimum Funding Requirement;
- *IFRS 1* – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters;
- Improvements to the IFRS issued in 2010.

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

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

#### 4.19. Post-employment Benefits

##### a) Pension obligations

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

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

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

##### b) Other post-employment obligations

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

#### 4.20. Earnings per share

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

#### 4.21. Distribution of dividends

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

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

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

Dividends not claimed within three years revert to the Company.



## 4.22. Other accounting practices

### a) Critical accounting estimates and assumptions

The preparation of financial statements requires the use of estimates to record certain assets, liabilities and other transactions. Such estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Therefore, the Company's financial statements include estimates related to the selection of the useful lives of property, plant and equipment, provisions for impairment of trade receivables, provision for contingent liabilities, impairment test, basis for determining the concession's financial assets, actuarial calculation of post-employment benefits and other similar charges. Actual results may differ from the estimates.

### b) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and short-term highly liquid investments. Open market investments are classified as *financial assets at fair value through profit or loss* – available for trading, and are recorded at the original amount plus earnings accrued through the closing date of the financial statements, calculated on a *pro-rata* basis, and are equivalent to their market values.

### c) Trade receivables from consumers, concessionaires and permittees

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

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

### d) Marketable securities

Marketable securities *held to maturity* are recorded at cost, plus earnings accrued through the balance sheet date and, if required, a provision is recorded for adjustment to the probable realizable value.

### e) Pledges and restricted deposits

Pledges and restricted deposits related to collaterals granted to suppliers are stated at cost plus the respective earnings accrued through the balance sheet date.

### f) Indexed assets

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

### g) Financial asset – Authorized Annual Revenue and Indemnifiable financial asset

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

The Indemnifiable financial asset refers to the estimated portion of investments made and not amortized by the end of the concession period, classified as a financial asset as it is an unconditional right to receive cash or another financial asset directly from the Concession Authority arising from the

application of Technical Interpretation ICPC 01 – Concession Contracts and Technical Guidance OCPC 05 – Concession contracts. These financial assets are remunerated at an internal rate of return calculated based on the projected cash flow of these investments.

#### **4.22.1. Equity**

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

#### **4.22.2. Statement of Income**

Profit is calculated on the accrual basis and considers the recognition and realization of tax credits in the year and the income tax reduction arising from the Sudene/Sudam tax incentives, determined based on the operating profit (Note 32).

#### **4.22.3. Finance income and expenses**

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

### **4.22. CONSIDERATIONS WHICH ARE SPECIFIC TO THE ELECTRIC POWER SECTOR**

#### **4.23.1 - Authorized Annual Revenue – RAP**

The Authorized Annual Revenue - RAP defined in the Electric Power Transmission Public Utility Service Contract refers to the revenue authorized by Aneel, by means of a resolution, to be earned by the Company for the availability of the facilities of its Transmission System. It is comprised by the RPB (portion referring to the facilities of the Basic Network) and the RPC (portion related to the other transmission facilities and connections). The RPB is also subdivided into RBSE (the portion referring to the transmission assets addressed by ANEEL Resolution No. 167/2000, for the transmission facilities existing at the time), and RBNI (revenue referring to the new assets to be added to the Company's transmission system), both of which are annually adjusted by the IGP-M. For new concessions, obtained at Public Transmission Auctions, the revenue, which will be fixed, will comprise the amount indicated in the bids plus an annual adjustment by the IPCA throughout the concession period, being also subject to tariff adjustments every four years, during the 30 years of the concession period.

#### **4.23.2. Obligations Linked to the Electric Power Utility Service**

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

#### **4.23.3. Global Reversion Reserve (RGR)**

Charge introduced by Decree No. 41019, of February 26, 1957, whose effectiveness was extended to 2035 through Provisional Measure No. 517, of December 30, 2010. Refers to an annual amount established by Aneel, payable monthly at the rate of one-twelfth by the concessionaires, for the purpose of providing resources for the reversion and/or takeover of the Electric Power Utility Service, as well as to fund the expansion and improvement of this service. Its annual amount is equivalent to 2.5% of the investments made by the concessionaire in assets linked to the provision of the electric power utility service and is limited to 3.0% of annual revenue. The RGR is administered by Eletrobras.

#### **4.23.4. Alternative Energy Source Incentive Program (Proinfa)**

Introduced by article 3 of Law No. 10438/2002, amended by art. 9 of Law No. 10762/2003, and by article 2 of Law No. 10889/2004, this program aims at increasing the share of alternative renewable sources in electric power production, benefiting entrepreneurs with companies independent of electric power generation, transmission, or distribution concessionaires. The program also aims at increasing the participation of companies in the Electric Power Sector.

#### **4.23.5. Financial Compensation for Use of Water Resources (CFURH)**

Established by Law No. 7990/1989, its purpose is to provide compensation for the municipalities affected by the loss of farmland in areas flooded for the construction of hydroelectric power plant reservoirs. Of the amount collected monthly as financial compensation, 45% is allocated to the States, 45% to the Municipalities, 3% to the Ministry of the Environment, 3% to the Ministry of Mines and Energy, and 4% to the Ministry of Science and Technology. The calculation of the CFURH is based on the actual generation of the hydroelectric power plants, in accordance with the following formula:  $CFURH = TAR \times GH \times 6.75\%$ , where TAR stands for Adjusted Reference Tariff, established annually by Aneel (in R\$/MWh) and GH is the amount (in MWh) of the monthly generation of the hydroelectric power plant. It is managed by Aneel.

#### **4.23.6. Fossil Fuel Consumption Account (CCC)**

Established by Decree No. 73102/1973 and payable monthly by all the companies that sell electric power to the end consumer. Its purpose is the apportionment of the costs related to the consumption of fuel for thermoelectric power generation in the Isolated Systems, mainly in Northern Brazil. The CCC amounts are set annually by Aneel, for each concessionaire, based on their market, and can vary according to the need to use the thermoelectric power plants. Since 2008, the CCC has been restricted to the coverage of the thermoelectric power generation costs of the isolated systems. The CCC is administered by Eletrobras.

#### **4.23.7. Energy Development Account (CDE)**

Established by Law No. 10438/2002, its purpose is to provide resources for: i) the development of the energy of the States; ii) to increase the competitiveness of the power generated from wind power sources, small hydroelectric power plants, biomass, natural gas and coal, in the areas served by the interconnected electric systems; iii) to promote the availability of the electric power utility service throughout Brazil. The resources come from: (i) the annual payments made for the Use of Public Assets (UBP), established by the generation concessions; (ii) fines imposed by Aneel; and (iii) payments of the annual fees by all companies that sell electric power to the end consumer of the National Interconnected System (SIN), based on the CCC amounts of the interconnected systems referring to 2001, adjusted annually by the growth of the market and the Extended Consumer Price Index (IPCA). It is managed by the Ministry of Mines and Energy and Eletrobras.

#### **4.23.8. Research & Development (R&D)**

Created by Law No. 9991/2000, the R&D Program establishes that the concessionaires and permittees of the electric power generation and transmission utility service are obliged to annually invest at least one percent (1%) of net operating revenue in research and development of the Electric Power Sector. The funds are allocated to the Ministry of Science and Technology, National Fund for Scientific and Technological Development (FNDCT), the Ministry of Mines and Energy and to companies, for investments in projects approved by Aneel. Its management is the responsibility of the Ministries of Science and Technology and Mines and Energy, Aneel and the companies themselves.

#### 4.23.9. Electric Power Utility Service Inspection Fee (TFSEE)

Introduced by Law No. 9427/1996, this fee is equivalent to 0.5% of the annual economic benefit accrued by the concessionaire, permittee or authorized company of the Electric Power Utility Service. Its annual amount is established by Aneel for the purpose of obtaining revenues to defray the costs of its activities. For the generation and transmission sectors (independent producers, self-producers, concessionaires, permittees) the amount is determined at the beginning of each calendar year, whereas the fee payable by the distributors is calculated on the anniversary of the concession. The amounts established are payable monthly at the rate of one-twelfth and their management is the responsibility of Aneel.

#### 4.23.10. Reserve Electric Power Charge (EER)

Charge collected from all users of the National Interconnected System (SIN), arising from the sale of Reserve Electric Power, since the issue of Decree No. 6353, of January 16, 2008, for the purpose of increasing the security of SIN's supply of electric power. As from January 2009, the Electric Power Trading Chamber (CCEE) has been representing the consumers of this electric power and to centralize the contractual relationship between the parties (Reserve Electric Power Contracts - CER), being responsible for collecting the charge and for managing the Reserve Electric Power Account (CONER). The charge is determined in accordance with the Rules for the Sale of Electric Power, approved by means of Aneel's Normative Resolution No. 385/2009.

#### 4.23.11. Use of Public Assets

Corresponds to amounts established in the concession contract for the exploit of the hydraulic electric power, which are recorded at the amount of the retributions to the Concession Authority for the use of the hydroelectric capacity, discounted to present value at the project's implicit rate.

### 5 - CONSOLIDATION PROCEDURES

These financial statements were prepared in accordance with the standards established in CPC 18, approved by CVM Deliberation No. 605/2009.

I) The Consolidated Financial Statements state the balances of assets and liabilities at December 31, 2010 and 2009, at January 1, 2009, and the operations for those years of the parent company and of the jointly-owned subsidiaries for equity accounting and consolidation of the financial statements purposes. The consolidated financial statements include, in addition to Chesf, the following companies:

<u>Companies</u>	Chesf direct interest		
	12/31/2010	12/31/2009	01/01/2009
STN - Sistema de Transmissão Nordeste S.A.	49.0%	49.0%	49.0%
Integração Transmissora de Energia S.A.	12.0%	12.0%	12.0%
ESBR Participações S.A.	20.0%	20.0%	20.0%
Manaus Transmissora de Energia S.A.	19.5%	19.5%	19.5%
Interligação Elétrica do Madeira S.A.	24.5%	24.5%	-
Manaus Construtora Ltda.	19.5%	19.5%	-
TDG - Transmissora Delmiro Gouveia S.A.	49.0%	-	-
Norte Energia S.A.	15.0%	-	-
Pedra Branca S.A.	49.0%	-	-
São Pedro do Lago S.A.	49.0%	-	-
Sete Gameleiras S.A.	49.0%	-	-

II) The Balance Sheets and the Statements of Income of the consolidated companies for the years ended December 31, 2010 and 2009, are summarized in Note 15.

III) Main consolidation practices:

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

## 6 – CASH AND CASH EQUIVALENTS

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Cash and bank deposits	9,541	4,946	9,292	10,693	49,187	13,649
Financial investments	1,252,162	791,212	886,998	1,449,606	931,015	937,591
Exclusive extramarket fund	1,251,415	790,232	883,572	1,251,415	790,232	883,572
Other financial investments	747	980	3,426	198,191	140,783	54,019
	<b>1,261,703</b>	<b>796,158</b>	<b>896,290</b>	<b>1,460,299</b>	<b>980,202</b>	<b>951,240</b>

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments and comprise cash in hand, on demand bank deposits, and highly liquid financial investments. They are classified as financial instruments held for trading and are recorded at cost plus earnings accrued through the balance sheet date, which corresponds to the fair value of the financial instrument.

The Company holds its short-term financial investments with immediate liquidity in an exclusive extramarket fund, in a portfolio composed mostly of securities issued by the Federal Treasury, with Banco do Brasil Distribuidora de Títulos e Valores Mobiliários S.A. – BB-DTVM, in accordance with specific legislation applicable to state-owned companies through Decree-Law No. 1290, of 12/03/1973, and Resolution No. 3284, of 05/25/2005, of the Brazilian Central Bank, which set forth new mechanisms for the investments of state-owned companies and mixed private/state economy companies that comprise the Indirect Federal Administration. This year, it received the average remuneration of 97.95% of the CDI.

## 7 – MARKETABLE SECURITIES

Source	Type of investment	Maturity	Remuneration	Parent and Consolidated		
				12/31/2010	12/31/2009	01/01/2009
Minority interests	Shares	-	Interest on Capital/ Dividends	42	42	45
	Provision for losses			(8)	(6)	(8)
				<b>34</b>	<b>36</b>	<b>37</b>
TDA	-	Up to 2019	TR + 3% p.a.	<b>7,523</b>	-	-
Federal Treasury	NTN-Series P	07/09/2012	TR + 6% p.a.	358	344	330
	NTN-Series P	07/09/2014	TR + 6% p.a.	170	164	157
	NTN-Series P	12/28/2015	TR + 6% p.a.	318	304	291
				<b>846</b>	<b>812</b>	<b>778</b>
<b>TOTAL</b>				<b>8,403</b>	<b>848</b>	<b>815</b>
<b>Current</b>				<b>2,818</b>	<b>36</b>	<b>37</b>
<b>Non-current</b>				<b>5,585</b>	<b>812</b>	<b>778</b>

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

The Agrarian Debt Bonds (TDA) result from expropriations by the Federal Government, for social interest reasons, for agrarian reform purposes, of rural properties belonging to the Company, pursuant to the Land Statute - Law No. 4504, of 11/30/1964, and are classified as bonds held to maturity. The bonds recorded in Non-current Assets/Long-term Receivables, have maturities up to 2019.

The Series P National Treasury Notes (NTNs) result from the sale of shares representing minority interests, deposited with the National Privatization Fund (FND), under Decree No. 1068/1994, recorded in Non-current assets/Long-term receivables and classified as *held to maturity*.

## 8 – CONSUMERS, CONCESSIONAIRES AND PERMITTEES

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

Parent					
12/31/2010				12/31/2009	01/01/2009
Not yet due	Overdue		Total	Total	Total
	Up to 90 days	More than 90 days			
Industrial consumers:					
Electric power sales – Contracts	70,143	4,369	64,911	139,423	119,217
Concessionaires and permittees:					
Electric power sales – Contracts	402,041	76,272	113,548	591,861	458,353
Sales at CCEE	64,463	-	-	64,463	19,742
Connection to the transmission System	6,105	1,047	10,349	17,501	14,662
Transmission system	114,596	1,446	13,024	129,066	130,630
	<b>657,348</b>	<b>83,134</b>	<b>201,832</b>	<b>942,314</b>	<b>742,604</b>
<b>Current</b>				<b>942,314</b>	<b>711,125</b>
<b>Non-current</b>				<b>-</b>	<b>31,479</b>

Consolidated					
12/31/2010				12/31/2009	01/01/2009
Not yet due	Overdue		Total	Total	Total
	Up to 90 days	More than 90 days			
Industrial consumers:					
Electric power sales – Contracts	70,143	4,369	64,911	139,423	119,217
Concessionaires and permittees:					
Electric power sales – Contracts	402,041	76,272	113,548	591,861	458,353
Sales at CCEE	64,463	-	-	64,463	19,742
Connection to the transmission system	6,105	1,047	10,349	17,501	14,662
Transmission system	121,763	1,446	13,024	136,233	138,298
	<b>664,515</b>	<b>83,134</b>	<b>201,832</b>	<b>949,481</b>	<b>750,272</b>
<b>Current</b>				<b>949,481</b>	<b>718,793</b>
<b>Non-current</b>				<b>-</b>	<b>31,479</b>

- PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES**

	Parent and Consolidated		
	12/31/2009	Provision	12/31/2010
Industrial consumers	(65,876)	(15,208)	(81,084)
Concessionaires and permittees	(723)	(139)	(862)
Other	-	(3,393)	(3,393)
	<b>(66,599)</b>	<b>(18,740)</b>	<b>(85,339)</b>
<b>Current</b>	<b>(66,599)</b>	<b>(18,740)</b>	<b>(85,339)</b>

- RENEGOTIATED RECEIVABLES**

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

	Parent and Consolidated		
	12/31/2010	12/31/2009	01/01/2009
<b>Current</b>			
Companhia Energética do Piauí S.A.	58,026	65,405	71,972
Ligas do Brasil S.A.	11,199	8,982	7,190
Vale Manganês S.A.	104,468	88,531	84,980
	<b>173,693</b>	<b>162,918</b>	<b>164,142</b>
(-) Provision for impairment of trade receivables	(11,199)	(8,982)	-
(-) Provisional reduction of receivable	(104,468)	(88,531)	-
	<b>(115,667)</b>	<b>(97,513)</b>	-
<b>Non-current</b>			
Companhia Energética do Piauí S.A.	-	31,479	63,159
	<b>58,026</b>	<b>96,884</b>	<b>227,301</b>

The renegotiated electric power receivables have the following characteristics:

- Companhia Energética do Piauí S.A. - Cepisa**, Eletrobras subsidiary – Agreement of Acknowledgment and Payment of Debt No. 001/2007, dated 07/01/2007, in the amount of R\$ 121,569, payable in 52 monthly installments, beginning on 09/03/2007, monetarily restated based on the IGP-M plus interest of 1% p.m..
- Ligas do Brasil S.A. – Libra** – Debt Acknowledgement Agreement, dated 09/01/2004, in the amount of R\$ 3,423, payable in 36 monthly installments, falling due as from 09/25/2004, adjusted by the Selic rate, plus interest of 1% p.m.. The installments overdue since November 2005 were under court-ordered collection through Lawsuit No. 0126653-84.2009.8.17.0001, filed at the State Courts of Pernambuco, 24<sup>th</sup> Lower Civil Court. In view of the Agreement signed between Chesf and Libra, this lawsuit was cancelled on 05/05/2010. This transaction, however, referred only to the invoices for electric power consumption maturing starting from May 2010. Chesf filed a new Ordinary Collection Proceeding, with the 17th Lower Civil Court of this Capital City, Lawsuit No. 00282992-95.2010.8.17.0001, aimed at recovering the overdue receivables.

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



- **Vale Manganês S.A.** – Private Agreement of Acknowledgement and Settlement of Obligation entered into between Chesf and the company Sibra, currently Vale Manganês S.A., dated 06/30/1995, in the amount of R\$ 21,915, payable in 120 monthly installments falling due as from 03/31/1997, adjusted by the IGP-M plus interest of 6% p.a.. The installments have been overdue since August 1998, and are under court-ordered collection through Lawsuits Nos. 9945/1999 and 14051/2002, filed at the State Courts of Bahia, in the Judicial District of Simões Filho. The Company recorded a provisional reduction related to such receivables.

## 9 – TAXES AND CONTRIBUTIONS RECOVERABLE

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
<b>Current</b>						
IRPJ/CSLL	1,726	883	63,361	1,780	909	63,361
Withholding Inc.Tax	82	82	390	4,003	1,404	1,027
Finsocial	1,611	1,525	1,276	1,611	1,525	1,276
PIS/Pasep	2,018	1,280	1,028	2,020	1,280	1,028
Cofins	174,431	5,898	4,735	174,436	5,898	4,735
Other	11,443	1,214	1,313	10,783	839	1,227
	<b>191,311</b>	<b>10,882</b>	<b>72,103</b>	<b>194,633</b>	<b>11,855</b>	<b>72,654</b>
<b>Non-current</b>						
Finsocial	11,280	10,672	8,934	11,280	10,672	8,934
	<b>202,591</b>	<b>21,554</b>	<b>81,037</b>	<b>205,913</b>	<b>22,527</b>	<b>81,588</b>

IRPJ: Corporate Income Tax

CSLL: Social Contribution on Net Income

Finsocial: Social Security Fund

PIS: Social Integration Program

PASEP: Civil Servants' Asset Formation Program

COFINS: Social Contribution on Revenues

### PIS/Pasep and Cofins – Unconstitutionality of the enlargement of the calculation basis

The Federal Supreme Court (STF) declared the unconstitutionality of paragraph 1 of article 3 of Law No. 9718/1998, that increased the PIS/Pasep and Cofins calculation basis and changed the concept of billing, which started to include all revenues of a legal entity, regardless of the type of activity carried out and the accounting classification adopted. Such paragraph was not supported by the constitution and was subsequently amended.

This decision only benefits the companies that filed the extraordinary appeals which were judged.

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

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

Based on the opinion of its legal advisors on the lawsuit concerning Cofins, whose judgment was made final and unappealable, on Ibracon's Technical Notice No. 05/2009 and on CVM Deliberation No. 594/2009, the Company recognized this year, in the taxes and contributions recoverable group, the estimated amount of the credit claimed at the adjusted original amount, corresponding to R\$ 165,136, which will be offset in the future against federal taxes payable by the Company.

The Company also has filed a similar lawsuit, still in progress, for a possible PIS/Pasep tax credit referring to the period from February 1999 to November 2002, which has not been recorded in assets and which, adjusted through the end of 2010, amounts to R\$ 23,933.

## 10 – INVENTORIES

	Parent and Consolidated		
	12/31/2010	12/31/2009	01/01/2009
<b>Raw materials for electric power production</b>	<b>7,235</b>	<b>1,990</b>	<b>5,767</b>
<b>Material</b>			
Warehouse	55,869	52,706	54,039
For sale	24,806	13,576	8,956
Other	1,375	6,415	2,063
	<b>82,050</b>	<b>72,697</b>	<b>65,058</b>
<b>Purchases in progress</b>	<b>1,980</b>	<b>1,985</b>	<b>2,051</b>
<b>Advances to suppliers</b>	<b>298</b>	<b>1,103</b>	<b>1,516</b>
	<b>91,563</b>	<b>77,775</b>	<b>74,392</b>

## 11 – JUDICIAL DEPOSITS

### Breakdown

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
<b>Labor</b>	108,044	95,769	56,950	108,044	95,769	56,950
<b>Civil</b>	60,233	47,430	16,320	60,233	47,430	16,320
<b>Tax</b>	45,153	45,054	43,099	48,621	45,054	43,099
	<b>213,430</b>	<b>188,253</b>	<b>116,369</b>	<b>216,898</b>	<b>188,253</b>	<b>116,369</b>

These amounts refer to lawsuits in the legal and administrative spheres. Of the amount recorded at 12/31/2010 in the parent company, R\$ 138,794 are directly related to the provisions for labor and civil lawsuits which will probably be lost, as shown in Note 25.

## 12 - TAX CREDITS

- Corporate income tax and social contribution

The Company recognizes tax credits in its Non-Current Assets, pursuant to Technical Pronouncements CPC 26 and 32, approved by CVM Deliberations Nos. 595 and 599, both of 09/15/2009, in the amount of R\$ 308,542, resulting from temporary differences, as follows:

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
<b>Temporary differences</b>						
DNAEE Agrmt 250/1985 – restatement credit generated in 1994	82,544	88,010	93,477	82,544	88,010	93,477
Provision for contingencies	274,386	251,879	215,150	274,386	251,879	215,150
Provision for impairment of trade receivables	94,714	81,330	5,729	94,714	81,330	5,729
Provision for losses – studies and projects	42,039	42,039	44,684	42,039	42,039	44,684
Scheduled Voluntary Termination Program	53,355	274,118	-	53,355	274,118	-
Profit sharing	91,241	72,145	-	91,241	72,145	-
Life insurance provision	81,921	81,921	-	81,921	81,921	-
Adoption of new practices – BRGAAP	430,075	256,810	555,683	430,075	256,810	555,683
Other provisions	16,225	15,439	15,268	24,127	15,439	25,588
	<b>1,166,500</b>	<b>1,163,691</b>	<b>929,991</b>	<b>1,174,402</b>	<b>1,163,691</b>	<b>940,311</b>
<b>Tax Loss</b>	-	-	-	<b>51,765</b>	<b>38,183</b>	-
<b>Social contribution losses</b>	-	-	<b>320,890</b>	<b>51,765</b>	<b>38,183</b>	<b>320,890</b>
<b>Tax credits</b>						
Income tax on temporary differences	210,986	242,771	128,308	213,021	242,771	127,379
Social contribution on temporary differences	97,556	96,811	75,286	98,288	96,811	76,215
Income tax on tax loss	-	-	-	13,067	9,545	-
Social contribution on loss carryforwards	-	-	28,880	4,704	3,436	28,880
<b>Non-current</b>	<b>308,542</b>	<b>339,582</b>	<b>232,474</b>	<b>329,080</b>	<b>352,563</b>	<b>232,474</b>

Such tax effects include the application of the following rates: 9% for social contribution and for income tax, 6.25% for the adjustments and reclassifications upon the adoption of the new accounting pronouncements – since they will affect the calculation of the tax incentive -, and for the other temporary differences the rate of 15% of the calculation basis, plus a 10% surtax, pursuant to Law No. 9430, of 12/30/1996.

The tax credits relating to Income Tax (IRPJ) and Social Contribution on Net Income (CSLL), arising from temporary differences – inflation effects recorded in Property, plant and equipment, DNAEE Agreement No. 250/1985, provision for contingencies, provision for impairment of trade receivables, provision for losses – studies and projects, scheduled voluntary termination program, profit sharing, life insurance provision and adoption of new accounting practices (BRGAAP), will be used upon the realization of Property, plant and equipment, the final outcome of the lawsuits, the reimbursement and collection from consumers and concessionaires, completion or allocation of the studies and projects, terminations and withdrawals, payments to employees and the changes in Post-Employment Benefits arising from the adoption of CPC 33, approved by CVM Deliberation No. 600, of 10/07/2009, respectively.

- **TRANSITION TAX REGIME (RTT)**

The RTT, introduced by Provisional Measure No. 449/2008, converted into Law No. 11941/2009, through which the calculation of IRPJ, CSLL, PIS/Pasep and Cofins, continues to be made using the accounting methods and criteria defined by Law No. 6404/1976, in effect until December 31, 2007. Accordingly, deferred income tax and social contribution, calculated on the adjustments arising from the adoption of the new practices established in Law No. 11638/2007 and the standards mentioned before, were recorded in these financial statements, when applicable, in compliance with CVM Instruction No. 371/2002.

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

### **13 – ADOPTION OF ICPC 01 AND OCPC 05 – CONCESSION CONTRACTS**

ICPC 01 and OCPC 05 instruct concessionaires on how to record the public utility service concessions and define the general principles for the recognition and measurement of the rights and obligations related to the concession contracts of these services.

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

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

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

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

In order to provide the accounting classification for the activity developed by infrastructure operators of public-private concessions, underlying the provision the public utility services, ICPC 01 was adopted by the Accounting Pronouncements Committee (CPC), in December 2009, and is applicable as from that date. The Company applies this Interpretation since January 1, 2010, and presents comparative data for year 2009.

ICPC 01 applies to public-private concession contracts in which the Concession Authority:

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

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

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

- The operator provides a series of services during the concession;
- The operator receives remuneration during the entire concession contract period, either directly from the concession grantor or from the users of the infrastructures, or from both;
- The infrastructures are transferred to the concession grantor at the end of the concession, either for free or for a charge.

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

For the electric power transmission business, the ICPC 01 is applicable through the use of the Financial Model.

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

The Company had at December 31, 2010, the amount of R\$ 3,970,371 receivable from the Concession Authority, related to the expected amount receivable at the end of the concessions (R\$ 3,759,110 at December 31, 2009, and R\$ 3,560,404 at January 1, 2009). The amounts of the financial assets receivable during the concession were recognized at the difference between the fair value of the assets built or acquired for the purpose of providing the concession services and the carrying value of the financial assets expected to be received at the end of the concession period.

The Company adopted the exemption related to the retroactive application of ICPC 01, considering the amounts determined on the transition date.

The impacts caused by the adoption of the ICPC 01 on the Company's financial statements, individually, are as follows:

Book balances not considering the adoption of the CPC			
	12/31/2010	12/31/2009	01/01/2009
<b>Transmission</b>			
Asset in service	8,201,171	7,540,350	7,479,622
(-) Accumulated depreciation	(3,722,044)	(3,521,452)	(3,321,150)
Net assets	4,479,127	4,018,898	4,158,472
Obligations linked to the Concession	(38,003)	(25,848)	(25,848)
Asset in progress	1,143,192	1,361,445	1,015,411
<b>Total</b>	<b>5,584,316</b>	<b>5,354,495</b>	<b>5,148,035</b>

Book balances considering the adoption of the CPC					
Transmission	Balance 12/31/2009	Changes			Balance 12/31/2010
		New	Updating	Amortization	
Indemnifiable financial asset	3,759,110	211,261	-	-	3,970,371
Financial asset – RAP	1,647,042	209,190	690,179	(840,690)	1,705,721
<b>Total</b>	<b>5,406,152</b>	<b>420,451</b>	<b>690,179</b>	<b>(840,690)</b>	<b>5,676,092</b>

Book balances considering the adoption of the CPC					
Transmission	Balance 01/01/2009	Changes			Balance 12/31/2009
		New	Updating	Amortization	
Indemnifiable financial asset	3,560,404	198,706	-	-	3,759,110
Financial asset – RAP	1,587,631	188,068	718,769	(847,426)	1,647,042
<b>Total</b>	<b>5,148,035</b>	<b>386,774</b>	<b>718,769</b>	<b>(847,426)</b>	<b>5,406,152</b>

## 14 - OTHER ASSETS

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
<b>Current</b>						
Advances to employees	16,849	16,738	26,078	16,849	16,738	26,078
Pledges and restricted deposits	12,003	3	8,003	12,003	3	8,003
Global Reversion Reserve	474	523	650	474	523	650
Loans to third parties	227	61	367	227	61	367
Sales in progress	7,898	5,793	5,261	7,898	5,793	5,261
Shutdowns in progress	29,353	12,982	11,383	29,489	13,118	11,383
Insurance premiums	3,084	3,122	2,277	7,261	6,414	2,277
Reimbursable expenses	3,263	2,561	1,437	3,263	2,561	1,437
Sales of assets and rights	1,486	2,603	4,007	1,488	2,605	4,007
Advances to suppliers	5,771	5,709	5,681	5,809	5,712	5,681
Advances to Eletropar	5,279	5,279	5,279	5,279	5,279	5,279
Dividends receivable	676	10,046	9,942	-	57	54
Services provided to third parties	4,144	3,021	3,408	4,144	3,021	3,408
Other	6,190	8,131	7,162	51,445	29,798	7,354
	<b>96,697</b>	<b>76,572</b>	<b>90,935</b>	<b>145,629</b>	<b>91,683</b>	<b>81,239</b>
<b>Non-current</b>						
Advances to Eletropar	1,456	1,456	1,456	1,456	1,456	1,456
FGTS/Conta-Empresa	3,765	3,633	3,513	3,765	3,633	3,513
Sale of assets – Biomass Project	-	4,676	-	-	4,676	-
Other	5,188	1,145	683	61,434	28,199	85,760
	<b>10,409</b>	<b>10,910</b>	<b>5,652</b>	<b>66,655</b>	<b>37,964</b>	<b>90,729</b>
<b>Total</b>	<b>107,106</b>	<b>87,482</b>	<b>96,587</b>	<b>212,284</b>	<b>129,647</b>	<b>171,968</b>

## 15 - INVESTMENTS

### Breakdown:

	12/31/2010	12/31/2009	01/01/2009
1. Ownership interests			
<u>Associates – Equity in the results</u>			
• Energética Águas da Pedra S.A.	61,286	61,616	61,985
<u>Jointly controlled companies – Equity in the results</u>			
• STN - Sistema de Transmissão Nordeste S.A.	193,244	168,830	143,920
• Integração Transmissora de Energia S.A.	28,530	26,046	22,610
• Interligação Elétrica do Madeira S.A.	61,574	25,624	-
• Energia Sustentável do Brasil S.A.	-	-	50,002
• ESBR Participações S.A.	412,001	202,388	-
• Manaus Transmissora de Energia S.A.	(18,187)	(8,740)	4,611
• Manaus Construtora Ltda.	5,949	1,938	-
• TDG - Transmissora Delmiro Gouveia S.A.	13,018	-	-
• Norte Energia S.A.	26,669	-	-
• Pedra Branca S.A.	158	-	-
• São Pedro do Lago S.A.	157	-	-
• Sete Gameleiras S.A.	158	-	-
	<b>784,557</b>	<b>477,702</b>	<b>283,128</b>
<u>Other ownership interests</u>	550	633	613
	<b>785,107</b>	<b>478,335</b>	<b>283,741</b>
2. Other investments			
• Assets and rights for future use – Studies and projects	2,250	2,250	-
• Other	1,089	975	2,071
	<b>3,339</b>	<b>3,225</b>	<b>2,071</b>
<b>Total</b>	<b>788,446</b>	<b>481,560</b>	<b>285,812</b>

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

In accordance with the Federal Government's policy of attracting private capital to increase investments in the Electric Power Sector, and as established by Law No. 10438/2002, the Consortium AC Transmissão, made up of Chesf and Companhia Técnica de Engenharia Elétrica - Alusa, currently Alupar Investimentos S.A., took part in auction No. 001/2003-ANEEL for concessions of transmission lines, and was the winning bidder of Batch C, corresponding to a transmission line of 546 kilometers, in 500 kV, from Teresina-PI/Sobral to Fortaleza-CE, with a proposed annual revenue of R\$ 77.9 million.

Accordingly, the company STN - Sistema de Transmissão Nordeste S.A. was established on 10/27/2003, for the purpose of constructing and operating this transmission line. Alupar holds a 51% interest in STN, whereas Chesf is the holder of the remaining 49%. The construction was concluded in December 2005 and commercial operations started in January 2006.

Also in relation to the partnership, Chesf has contracts with STN for the operation and maintenance of this transmission line, and the revenue obtained from the provision of these services in 2010 totaled R\$ 1,854. The Company also recorded equity in the results of this investee in the amount of R\$ 33,262 in 2010.

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

The Company has a partnership in the electric power transmission activity with the company Integração Transmissora de Energia S.A., established on 12/20/2005, and holds 12% of its capital. It's business purpose is the construction, implantation, operation and maintenance of the Electric Power Transmission Utility Service of the Basic Network of the Interconnected Electric System, comprised of the 500 kV Colinas/Serra da Mesa 2 transmission line, 3<sup>rd</sup> circuit, line entries and associated facilities, pursuant to the provisions of Concession Contract No. 002/2006 - ANEEL, entered into with the Concession Authority on 04/27/2006, through the National Electric Power Agency (ANEEL), with a concession period of 30 years. Such company has an authorized capital of R\$ 150 million, represented by registered common shares with no par value. The other stockholders of this company are: Fundo de Investimentos em Participações Brasil Energia – FIP, 51% and Eletronorte, 37%. It's commercial operations started on 05/30/2008. In 2010, the Company's equity in the results of this investee was R\$ 2,844.

**Energética Águas da Pedra S.A.**

Energética Águas da Pedra S.A., established on 04/03/2007, is an associate of the Company in the electric power generation activity. Chesf holds a 24.5% ownership interest in this company, and the other stockholders are Eletronorte (24.5%) and Neoenergia S.A. (51.0%). This company originated from Consortium Aripuanã, the winning bidder of Auction No. 004/2006-ANEEL, held on 10/10/2006, relating to the contracting of electric power arising from new ventures, whose concession was subsequently granted within the Regulated Contracting Environment (ACR), for installation of the Dardanelos Hydroelectric Power Plant, with an estimated investment of R\$ 760.8 million. The Dardanelos Hydroelectric Power Plant will be installed on Aripuanã River, located in the north of Mato Grosso State, with a capacity of 261 MW and total assured power of 154.9 average MW, to serve the district of Aripuanã and subsequently the National Interconnected System (SIN). The first machines are expected to become operational in 2011, and 147 average MW has been sold for the period from 2011 to 2041. The concession period of the venture is 35 years, beginning on 07/03/2007, which is the date on which Concession Contract No. 002/2007-MME-UHE DARDANELOS was executed. In 2010 the Company recorded equity accounting losses of R\$ 330.



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

In the transmission activity, the Company also holds an ownership interest in the associate Interligação Elétrica do Madeira S.A., which was established as a result of Auction 007/2008 ANEEL. The Company holds a 24.5% interest in this company, and the other stockholders are the companies Furnas Centrais Elétricas S.A., 24.5%, and CTEEP - Companhia de Transmissão de Energia Elétrica Paulista, 51%. Established on 12/18/2008, the purpose of this company is the construction, implantation, operation and maintenance of electric power transmission facilities of the basic network of the National Interconnected System (SIN), more specifically of the transmission line Coletora Porto Velho (Rondônia State) - Araraquara 2 (São Paulo State) number 01, in direct current (DC), +/- 600 kV, Rectifier Station number 2 AC/DC, 500 kV/ +/- 600 kV - 3150 MW, Inverter Station number 02 DC/AC +/- 600 kV/500 kV - 2950 MW and other supplementary works, pursuant to Concession Contracts No. 13/2009-ANEEL and 15/2009-ANEEL. In 2010, the Company made a contribution of R\$ 33,884 to this associate and positive equity in the results of R\$ 2,066.

**ESBR Participações S.A.**

The Company holds a 20% ownership interest in the company ESBR Participações S.A., established on 02/12/2009, an associate in the generation activity. The other stockholders of this company are Suez Energy South America Participações Ltda., 50.1%, Eletrosul Centrais Elétricas S.A., 20%, and Camargo Corrêa Investimentos em Infra-Estrutura S.A., 9.9%. In May 2009, ESBR Participações S.A. became the holder of all the shares of the company Energia Sustentável do Brasil S.A. The Company made a partnership with the aforementioned companies to take part in Auction 005/2008-ANEEL, which has generated the Energia Sustentável do Brasil S.A. company, in order to obtain the concession and trading of the electric power generated by the Jirau Hydroelectric Power Plant on the Madeira River, in the municipality of Porto Velho, capital of the State of Rondônia, with a minimum installed capacity of 3300 MW, and start-up of operations expected in 2013, at which the Consortium made the winning bid. However, it is important to highlight that, according to the current schedule, operations are expected to start in the first half of 2012. The concession period of this venture is 35 years, beginning on 08/13/2008, the date on which Concession Contract No. 002/2008 - MME-UHE JIRAU was executed. In 2010, the Company made a contribution to this associate of R\$ 213,801 and recorded equity accounting losses added to other comprehensive income (expense) in the amount of R\$ 4,188.

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

This company was established on 04/22/2008 as a result of the Consortium Amazonas, for the implantation of the 500 kV Oriximiná (Pará State) - Itacoatiara (Amazonas State) transmission line, with a length of approximately 374 km, and Itacoatiara (Amazonas State) - Cariri (Amazonas State) transmission line, with a length of approximately 212 km, the construction of the Itacoatiara substation in 500/138 kV (150 MVA) and the Cariri substation in 500/230 kV (1800 MVA), pursuant to Concession Contract No. 010/2008 - ANEEL, with a concession period of 30 years, beginning on 10/16/2008, the date of execution of the contract. The Company holds 19.5% of this company's capital, and the other stockholders are the companies Abengoa Holding, from Spain, 50.5%, and Eletronorte, 30%. The total budgeted investment is R\$ 1,289.5 million, with start-up of operations expected in October 2011. In 2010, the Company recorded equity accounting losses added to other comprehensive income (expense) in the amount of R\$ 9,447.

**Manaus Construtora Ltda.**

Manaus Construtora Ltda. was established on January 30, 2009. The Company is a partner in this company of which it holds 19.5%. The other quotaholders are Abengoa Holding (50.5%) and Eletronorte (30%). The purpose of this company is to construct, assemble and supply material, labor and equipment for the 500 kV Oriximiná/Cariri CD transmission line, the 500/138 kV Itacoatiara substation and the 500/230 kV Cariri substation, line entries and related facilities, as well as the other facilities required for the measurement, supervisory, protection, command, control and telecommunication functions to be integrated into the Basic Network of the National Interconnected System. In 2010, the Company recorded positive equity in the results of R\$ 5,948.

### **TDG – Transmissora Delmiro Gouveia S.A.**

The Company participated in the Consortium Nordeste de Transmissão de Energia, the winning bidder of Batch C of Auction No. 005/2009 ANEEL, of November 27, 2009, for the construction, implantation, operation and maintenance of electric power transmission facilities of the basic network of the National Interconnected System, particularly the São Luiz II - São Luiz III transmission line, in 230 kV, located in the State of Maranhão, substations Pecém II, in 500 kV and Aquiraz II, in 230 kV, located in Ceará State. As a result of this consortium, on January 12, 2010, the company TDG - Transmissora Delmiro Gouveia S.A. was established in the city of Recife, capital of Pernambuco State, in which Chesf holds a 49% ownership interest, and the remaining 51% is held by ATP Engenharia Ltda. The concession period of the venture is 30 years and it was approved and awarded on 01/19/2010, with an expected investment of R\$ 244.8 million. In 2010, the Company made a capital contribution to TDG of R\$ 13,279 and recorded negative equity in the results of the investee of R\$ 261.

### **Norte Energia S.A.**

The Company holds a 15% ownership interest in Norte Energia S.A. a company created on 07/21/2010 as a result of the winner consortium of Auction No. 006/2009-ANEEL, whose objective is the concession and sale of the electric power from the Belo Monte Hydroelectric Power Plant. The other stockholders are Eletrobras (15%); Eletronorte (19.98%); Construtora Queiroz Galvão S.A. (2.51%); Contern Construções e Comércio Ltda. (1.25%); Fundação Petrobras de Seguridade Social – Petros (10%); Cetenco Engenharia S.A. (1.25%); Galvão Engenharia S.A. (1.25%); J. Malucelli Construtora de Obras S.A. (1%); Mendes Junior Trading Engenharia S.A. (1.25%); Serveng-Civilsan S.A. (1.25%); J. Malucelli Energia S.A. (0.25%); and Gaia Energia e Participações S.A. (9%); Caixa FI Cevix (5%); Sinobras - Siderúrgica Norte Brasil S.A. (1%); Fundação dos Economistas Federais – Funcef (2.5%), Bolzano Participações S.A. (10%); and Construtora OAS Ltda. (2.51%). The Belo Monte Hydroelectric Power Plant will be built on the Xingu River, in the municipality of Vitória do Xingu, Pará State. The minimum capacity to be installed is 11,233.1 MW, physical guarantee of 4,571 average MW and reservoir with 516 square kilometers. The concession period is thirty-five (35) years. In 2010, the Company made capital contributions to this venture of R\$ 27,002 and recorded negative equity in the results of the investee of R\$ 333.

### **Pedra Branca, São Pedro do Lago and Sete Gameleiras**

The Company participated in the Pedra Branca, São Pedro do Lago and Sete Gameleiras consortiums - from which the companies Pedra Branca S.A., São Pedro do Lago S.A. and Sete Gameleiras S.A., created on October 7, 2010, originated -, which were the winners of Auction No. 007/2010-ANEEL, whose purpose was the contracting, in the Regulated Environment, of alternative power sources, of the electric power availability type. Supply is expected to begin on January 1, 2013, with duration of twenty (20) years, from the Pedra Branca, São Pedro do Lago and Sete Gameleiras eolic parks to be installed in the municipality of Sento Sé, Bahia State, each one with capacity to generate 28.8 MW. Chesf holds an ownership interest of 49% in these companies and the other stockholders are Brennand Energia S.A. (50.9%), and Brennand Energia Eólica S.A. (0.1%). In 2010, the Company made capital contributions to these companies amounting to R\$ 483 and recorded negative equity in the results of R\$ 10.

## Equity in the results of investees

Associates and Jointly-owned subsidiaries	Ownership (%)	Investment	Equity of the Investees	Income (Loss) of the Investees at 12/31/2010	Equity in the Results of Investees in 2010	Other comprehensive income (expense)
Energética Águas da Pedra S.A.	24.5	61,286	250,147	(1,348)	(330)	-
STN – Sistema de Transmissão Nordeste S.A.	49.0	193,244	394,375	67,879	33,262	-
Integração Transmissora de Energia S.A.	12.0	28,530	237,754	23,704	2,844	-
Interligação Elétrica do Madeira S.A.	24.5	61,574	251,321	8,430	2,066	-
ESBR Participações S.A.	20.0	412,001	2,060,006	(14,758)	(2,952)	(1,235)
Manaus Transmissora de Energia S.A.	19.5	(18,187)	(93,266)	(46,057)	(8,981)	(466)
Manaus Construtora Ltda.	19.5	5,949	30,507	30,506	5,948	-
TDG - Transmissora Delmiro Gouveia S.A.	49.0	13,018	26,569	(532)	(261)	-
Norte Energia S.A	15.0	26,669	165,187	(2,223)	(333)	-
Pedra Branca S.A.	49.0	158	323	(8)	(3)	-
São Pedro do Lago S.A.	49.0	157	322	(9)	(4)	-
Sete Gameleiras S.A.	49.0	158	324	(7)	(3)	-
		<b>784,557</b>	<b>3,323,569</b>	<b>65,577</b>	<b>31,253</b>	<b>(1,701)</b>

## Changes in Investments

	01/01/2009	Capital increase	Equity in the results	Other comprehensive income	Dividends declared	12/31/2009
<b>Associates and Jointly-owned subsidiaries</b>						
Energética Águas da Pedra S.A.	61,985	-	(369)	-	-	61,616
STN – Sistema de Transmissão Nordeste S.A.	143,920	-	28,950	15,565	(19,605)	168,830
Integração Transmissora de Energia S.A.	22,610	-	2,832	863	(259)	26,046
Interligação Elétrica do Madeira S.A.	-	25,283	341	-	-	25,624
Energia Sustentável do Brasil S.A.	50,002	(50,002)	-	-	-	-
ESBR Participações S.A.	-	205,742	(2,033)	(1,321)	-	202,388
Manaus Transmissora de Energia S.A.	4,611	-	(8,956)	(4,395)	-	(8,740)
Manaus Construtora Ltda.	-	-	1,938	-	-	1,938
<b>TOTAL</b>	<b>283,128</b>	<b>181,023</b>	<b>22,703</b>	<b>10,712</b>	<b>(19,864)</b>	<b>477,702</b>

	12/31/2009	Capital increase	Equity in the results	Other comprehensive income	Dividends declared	12/31/2010
<b>Associates and Jointly-owned subsidiaries</b>						
Energética Águas da Pedra S.A.	61,616	-	(330)	-	-	61,286
STN – Sistema de Transmissão Nordeste S.A.	168,830	-	33,262	-	(8,848)	193,244
Integração Transmissora de Energia S.A.	26,046	-	2,844	-	(360)	28,530
Interligação Elétrica do Madeira S.A.	25,624	33,884	2,066	-	-	61,574
ESBR Participações S.A.	202,388	213,801	(2,952)	(1,236)	-	412,001
Manaus Transmissora de Energia S.A.	(8,740)	-	(8,981)	(466)	-	(18,187)
Manaus Construtora Ltda.	1,938	-	5,948	-	(1,937)	5,949
TDG - Transmissora Delmiro Gouveia	-	13,279	(261)	-	-	13,018
Norte Energia S.A	-	27,002	(333)	-	-	26,669
Pedra Branca S.A.	-	161	(3)	-	-	158
São Pedro do Lago S.A.	-	161	(4)	-	-	157
Sete Gameleiras S.A.	-	161	(3)	-	-	158
<b>TOTAL</b>	<b>477,702</b>	<b>288,449</b>	<b>31,253</b>	<b>(1,702)</b>	<b>(11,145)</b>	<b>784,557</b>

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

### BALANCE SHEET

Companies	2010								2009							
	Assets				Liabilities				Assets				Liabilities			
	Non-current			Total	Current	Non-current	Equity	Total	Non-current			Total	Current	Non-current	Equity	Total
	Current	Other	PP&E, intang. assets and investments						Current	Other	PP&E, intang. assets and investments					
Energética Águas da Pedra	24,156	1,397	756,325	<b>781,878</b>	39,148	492,583	250,147	<b>781,878</b>	76,376	737	643,455	<b>720,568</b>	9,711	459,362	251,495	<b>720,568</b>
ESBR Participações	1,020,957	299,345	5,304,069	<b>6,624,371</b>	320,032	4,244,333	2,060,006	<b>6,624,371</b>	621,447	180,174	2,202,363	<b>3,003,984</b>	70,908	1,921,133	1,011,943	<b>3,003,984</b>
STN	36,962	635,751	3,847	<b>676,560</b>	24,820	257,365	394,375	<b>676,560</b>	35,448	614,904	3,383	<b>653,735</b>	44,328	264,854	344,553	<b>653,735</b>
Integração Transm. de Energia	5,810	613,888	-	<b>619,698</b>	46,195	335,749	237,754	<b>619,698</b>	10,556	612,822	-	<b>623,378</b>	48,078	358,254	217,046	<b>623,378</b>
Interligação Elétrica do Madeira	19,641	662,013	284	<b>681,938</b>	364,455	66,162	251,321	<b>681,938</b>	14,980	100,738	268	<b>115,986</b>	1,382	10,013	104,591	<b>115,986</b>
Manaus																
Transmissora	53,796	660,271	-	<b>714,067</b>	779,801	27,532	(93,266)	<b>714,067</b>	356,400	218,414	-	<b>574,814</b>	558,053	61,579	(44,818)	<b>574,814</b>
Manaus Construtora	33,221	-	-	<b>33,221</b>	2,714	-	30,507	<b>33,221</b>	15,443	421	-	<b>15,864</b>	5,267	659	9,938	<b>15,864</b>
TDG	1,730	24,797	104	<b>26,631</b>	62	-	26,569	<b>26,631</b>	-	-	-	-	-	-	-	-
Norte Energia	81,512	27,880	202,871	<b>312,263</b>	147,076	-	165,187	<b>312,263</b>	-	-	-	-	-	-	-	-
Pedra Branca	264	-	74	<b>338</b>	15	-	323	<b>338</b>	-	-	-	-	-	-	-	-
São Pedro do Lago	245	-	93	<b>338</b>	16	-	322	<b>338</b>	-	-	-	-	-	-	-	-
Sete Gameleiras	254	-	86	<b>340</b>	16	-	324	<b>340</b>	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,278,548</b>	<b>2,925,342</b>	<b>6,267,753</b>	<b>10,471,643</b>	<b>1,724,350</b>	<b>5,423,724</b>	<b>3,323,569</b>	<b>10,471,643</b>	<b>1,130,650</b>	<b>1,728,210</b>	<b>2,849,469</b>	<b>5,708,329</b>	<b>737,727</b>	<b>3,075,854</b>	<b>1,894,748</b>	<b>5,708,329</b>

STATEMENT OF OPERATIONS

Companies	2010									2009								
	Net operating revenue	Operating expenses	Service result	Finance income (expense)	Other income (expenses)	Operating income (expenses)	Income tax and Social Contribution	Tax incentives	Profit (loss) for the year	Net operating revenue	Operating expenses	Service result	Finance income (expense)	Other income (expenses)	Operating income (expenses)	Income tax and Social Contribution	Tax incentives	Profit (loss) for the year
Energética																		
Águas da Pedra	-	(1,920)	(1,920)	(88)	-	(2,008)	660	-	(1,348)	-	(1,985)	(1,985)	(257)	-	(2,242)	737	-	(1,505)
ESBR																		
Participações	-	(31,588)	(31,588)	3,238	-	(28,350)	13,592	-	(14,758)	-	(22,217)	(22,217)	12,848	-	(9,369)	(800)	-	(10,169)
STN	124,521	(21,586)	102,935	(24,098)	16	78,853	(20,743)	9,769	67,879	114,024	(13,933)	100,091	(31,938)	48	68,201	(14,361)	5,243	59,083
Integração																		
Transmissora																		
de Energia	73,600	(13,953)	59,647	(30,061)	-	29,586	(11,422)	5,540	23,704	73,348	(9,941)	63,407	(31,232)	-	32,175	(8,578)	-	23,597
Interligação																		
Elétrica do																		
Madeira	508,244	(491,789)	16,455	(3,681)	-	12,774	(4,344)	-	8,430	91,193	(90,292)	901	1,209	-	2,110	(718)	-	1,392
Manaus																		
Transmissora	416,562	(403,951)	12,611	(82,351)	-	(69,740)	23,683	-	(46,057)	147,240	(147,835)	(595)	(74,133)	-	(74,728)	28,800	-	(45,928)
Manaus																		
Construtora	44,955	(10,194)	34,761	1,149	-	35,910	(5,404)	-	30,506	14,907	(3,293)	11,614	(10)	-	11,604	(1,666)	-	9,938
TDG	-	(688)	(688)	156	-	(532)	-	-	(532)	-	-	-	-	-	-	-	-	-
Norte Energia	-	(7,245)	(7,245)	3,878	-	(3,367)	1,144	-	(2,223)	-	-	-	-	-	-	-	-	-
Pedra Branca	-	(7)	(7)	(1)	-	(8)	-	-	(8)	-	-	-	-	-	-	-	-	-
São Pedro do																		
Lago	-	(9)	(9)	-	-	(9)	-	-	(9)	-	-	-	-	-	-	-	-	-
Sete																		
Gameleiras	-	(7)	(7)	-	-	(7)	-	-	(7)	-	-	-	-	-	-	-	-	-
Total	1,167,882	(982,937)	184,945	(131,859)	16	53,102	(2,834)	15,309	65,577	440,712	(289,496)	151,216	(123,513)	48	27,751	3,414	5,243	36,408

## 16 – PROPERTY, PLANT AND EQUIPMENT

### a) Property, plant and equipment is segregated by nature and activity as follows:

		Parent					
		12/31/2010				12/31/2009	01/01/2009
	Average annual depreciation rates (%)	Cost	Accumulated depreciation	(-) Obligations linked to the concession	Net amount	Net amount	Net amount
<b>In service</b>							
Generation	2.37	17,710,199	(7,631,716)	(92,159)	9,986,324	10,060,352	10,284,911
Administration	7.45	1,153,620	(596,767)	(35,400)	521,453	471,938	507,550
		<b>18,863,819</b>	<b>(8,228,483)</b>	<b>(127,559)</b>	<b>10,507,777</b>	<b>10,532,290</b>	<b>10,792,461</b>
<b>Under construction</b>							
Generation		409,324	-	-	409,324	282,073	195,185
Administration		91,759	-	-	91,759	156,740	79,326
		<b>501,083</b>	<b>-</b>	<b>-</b>	<b>501,083</b>	<b>438,813</b>	<b>274,511</b>
		<b>19,364,902</b>	<b>(8,228,483)</b>	<b>(127,559)</b>	<b>11,008,860</b>	<b>10,971,103</b>	<b>11,066,972</b>

		Consolidated					
		12/31/2010				12/31/2009	01/01/2009
	Average annual depreciation rates (%)	Cost	Accumulated depreciation	(-) Obligations linked to the Concession	Net amount	Net amount	Net amount
<b>In service</b>							
Generation	2.37	17,710,199	(7,631,716)	(92,159)	9,986,324	10,060,352	10,284,911
Administration	7.45	1,153,959	(596,783)	(35,400)	521,776	472,070	507,605
		<b>18,864,158</b>	<b>(8,228,499)</b>	<b>(127,559)</b>	<b>10,508,100</b>	<b>10,532,422</b>	<b>10,792,517</b>
<b>Under construction</b>							
Generation		1,482,628	-	-	1,482,628	706,683	226,358
Administration		91,810	-	-	91,810	156,740	79,325
		<b>1,574,438</b>	<b>-</b>	<b>-</b>	<b>1,574,438</b>	<b>863,423</b>	<b>305,683</b>
		<b>20,438,596</b>	<b>(8,228,499)</b>	<b>(127,559)</b>	<b>12,082,538</b>	<b>11,395,844</b>	<b>11,098,200</b>

At December 31, 2010, the Company's management evaluated the recoverability of long-lived assets, mainly property, plant and equipment to be held and used in the Company's operations, and will continue to do so on an annual basis, or whenever events or changes in circumstances indicate that any of these assets or group of assets is impaired and the respective book values will not be fully recovered, in compliance with Technical Pronouncement CPC 01 – Impairment of assets.

In the evaluation process, the circumstances that may require the application of impairment tests on assets are identified, so as to determine the amount of potential losses.

The cash-generating unit is understood as the total of assets per segment (generation and transmission), in view of the characteristics of the Company's management and operations.

The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. To evaluate the value in use, the estimated future cash flows are discounted to present value at the

discount rate that reflects a current market evaluation of the currency value at the time and the specific risks of the asset for which the estimated future cash flows had not been adjusted.

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

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

Although the Company does not have any indication of impairment, it performed the recoverability test on the assets in service at 12/31/2010, through discounted cash flows, and did not identify any impairment of these assets.

The costs of borrowings related to acquisition, construction or production are included in the costs of property, plant and equipment under construction until the date when they will be ready for their intended use, as established in CVM Deliberation No. 577, of 06/05/2009, which approved CPC 20 – Borrowing Costs.

#### b) Changes in property, plant and equipment

Description	Parent					12/31/2010
	12/31/2009	Additions	Disposals	Transfers	Service transfers	
In service	18,491,197	383,782	(11,285)	125	-	18,863,819
Depreciation	(7,828,889)	(408,497)	9,132	(229)	-	(8,228,483)
<b>Subtotal</b>	<b>10,662,308</b>	<b>(24,715)</b>	<b>(2,153)</b>	<b>(104)</b>	<b>-</b>	<b>10,635,336</b>
Under construction	438,813	446,052	-	-	(383,782)	501,083
<b>Total</b>	<b>11,101,121</b>	<b>421,337</b>	<b>(2,153)</b>	<b>(104)</b>	<b>(383,782)</b>	<b>11,136,419</b>
Obligations linked to the concession	(130,018)	2,459	-	-	-	(127,559)
<b>Total property, plant and equipment</b>	<b>10,971,103</b>	<b>423,796</b>	<b>(2,153)</b>	<b>(104)</b>	<b>(383,782)</b>	<b>11,008,860</b>

Description	Consolidated					12/31/2010
	12/31/2009	Additions	Disposals	Transfers	Service transfers	
In service	18,491,333	383,984	(11,285)	126	-	18,864,158
Depreciation	(7,828,894)	(408,507)	9,132	(230)	-	(8,228,499)
<b>Subtotal</b>	<b>10,662,439</b>	<b>(24,523)</b>	<b>(2,153)</b>	<b>(104)</b>	<b>-</b>	<b>10,635,659</b>
Under construction	863,424	1,094,797	-	-	(383,783)	1,574,438
<b>Total</b>	<b>11,525,863</b>	<b>1,070,274</b>	<b>(2,153)</b>	<b>(104)</b>	<b>(383,783)</b>	<b>12,210,097</b>
Obligations linked to the concession	(130,018)	2,459	-	-	-	(127,559)
<b>Total property, plant and equipment</b>	<b>11,395,845</b>	<b>1,072,733</b>	<b>(2,153)</b>	<b>(104)</b>	<b>(383,783)</b>	<b>12,082,538</b>

Description	Parent					
	01/01/2009	Additions	Disposals	Transfers	Service transfers	12/31/2009
In service	18,349,986	143,704	(8,504)	6,011	-	18,491,197
Depreciation	(7,427,506)	(406,391)	5,354	(346)	-	(7,828,889)
<b>Subtotal</b>	<b>10,922,480</b>	<b>(262,687)</b>	<b>(3,150)</b>	<b>5,665</b>	<b>-</b>	<b>10,662,308</b>
Under construction	274,512	308,005	-	-	(143,704)	438,813
<b>Total</b>	<b>11,196,992</b>	<b>45,318</b>	<b>(3,150)</b>	<b>5,665</b>	<b>(143,704)</b>	<b>11,101,121</b>
Obligations linked to the concession	(130,018)	-	-	-	-	(130,018)
<b>Total property, plant and equipment</b>	<b>11,066,974</b>	<b>45,318</b>	<b>(3,150)</b>	<b>5,665</b>	<b>(143,704)</b>	<b>10,971,103</b>

Description	Consolidated					
	01/01/2009	Additions	Disposals	Transfers	Service transfers	12/31/2009
In service	18,350,041	143,785	(8,504)	6,011	-	18,491,333
Depreciation	(7,427,506)	(406,396)	5,354	(346)	-	(7,828,894)
<b>Subtotal</b>	<b>10,922,535</b>	<b>(262,611)</b>	<b>(3,150)</b>	<b>5,665</b>	<b>-</b>	<b>10,662,439</b>
Under construction	305,683	701,444	-	-	(143,703)	863,424
<b>Total</b>	<b>11,228,218</b>	<b>438,833</b>	<b>(3,150)</b>	<b>5,665</b>	<b>(143,703)</b>	<b>11,525,863</b>
Obligations linked to the concession	(130,018)	-	-	-	-	(130,018)
<b>Total property, plant and equipment</b>	<b>11,098,200</b>	<b>438,833</b>	<b>(3,150)</b>	<b>5,665</b>	<b>(143,703)</b>	<b>11,395,845</b>



### c) Annual depreciation rates

The Company calculates and accounts for depreciation by applying the rates established by ANEEL Resolution No. 367, of 06/02/2009, for the Units of Registration defined by ANEEL Ordinance No. 815, of 11/30/1994, in effect through 12/31/2011, in accordance with ANEEL Regulatory Instruction No. 422, of 12/07/2010.

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

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

### d) Obligations linked to the concession

Since January 1, 1996, these obligations have no longer been adjusted for inflation, in compliance with legal provisions.

Breakdown:

	Parent and Consolidated		
	12/31/2010	12/31/2009	01/01/2009
Reversals and Amortizations	(2,459)	-	-
Federal government funds	92,557	92,557	92,557
Donations and government investment grants	37,235	36,855	36,855
Research & Development	226	606	606
	<b>127,559</b>	<b>130,018</b>	<b>130,018</b>

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

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

In accordance with articles 63 and 64 of Decree No. 41019/1957, the assets and facilities used in the production, transmission, distribution and sale of electric power are restricted to these services and cannot be removed, sold, assigned or pledged as mortgage guarantee without the previous and express authorization of the Regulatory Agency. ANEEL Resolution No. 20/1999 regulates the release of electric power utility concession assets, granting prior authorization for the release of assets no longer serviceable to the concession, when intended for sale, and determining that the proceeds from the sale be deposited in a restricted bank account and invested in the Concession. The Company did not identify any material assets regarded as unserviceable in its operations.

## 17 – INTANGIBLE ASSETS

- Intangible assets segregated by nature and activity

		Parent				
		12/31/2010			12/31/2009	01/01/2009
	Average annual amortization rates (%)	Cost	Accumulated amortization	Net amount	Net amount	Net amount
<b>In service</b>						
Generation	20.00	500	(301)	199	208	291
Administration	19.73	48,580	(25,285)	23,295	21,960	29,636
		<b>49,080</b>	<b>(25,586)</b>	<b>23,494</b>	<b>22,168</b>	<b>29,927</b>
<b>In progress</b>						
Generation		21	-	21	39	32
Administration		8,585	-	8,585	9,347	2,000
		<b>8,606</b>	<b>-</b>	<b>8,606</b>	<b>9,386</b>	<b>2,032</b>
		<b>57,686</b>	<b>(25,586)</b>	<b>32,100</b>	<b>31,554</b>	<b>31,959</b>

		Consolidated				
		12/31/2010			12/31/2009	01/01/2009
	Average annual amortization rates (%)	Cost	Accumulated amortization	Net amount	Net amount	Net amount
<b>In service</b>						
Generation	20.00	500	(301)	199	208	291
Administration	20.00	49,246	(25,302)	23,944	22,579	30,254
		<b>49,746</b>	<b>(25,603)</b>	<b>24,143</b>	<b>22,787</b>	<b>30,545</b>
<b>In progress</b>						
Generation		17,953	-	17,953	15,825	14,026
Administration		9,699	-	9,699	10,397	2,878
		<b>27,652</b>	<b>-</b>	<b>27,652</b>	<b>26,222</b>	<b>16,904</b>
		<b>77,398</b>	<b>(25,603)</b>	<b>51,795</b>	<b>49,009</b>	<b>47,449</b>

- Changes in intangible assets

Description	Parent			
	12/31/2009	Additions	Service transfers	12/31/2010
In service	38,795	10,285	-	49,080
Amortization	(16,627)	(8,959)	-	(25,586)
<b>Subtotal</b>	<b>22,168</b>	<b>1,326</b>	<b>-</b>	<b>23,494</b>
In progress	9,386	9,505	(10,285)	8,606
<b>Total intangible assets</b>	<b>31,554</b>	<b>10,831</b>	<b>(10,285)</b>	<b>32,100</b>

Description	Consolidated			
	12/31/2009	Additions	Service transfers	12/31/2010
In service	39,421	10,325	-	49,746
Amortization	(16,634)	(8,969)	-	(25,603)
<b>Subtotal</b>	<b>22,787</b>	<b>1,356</b>	<b>-</b>	<b>24,143</b>
In progress	26,222	11,716	(10,285)	27,653
<b>Total intangible assets</b>	<b>49,009</b>	<b>13,072</b>	<b>(10,285)</b>	<b>51,796</b>

Description	Parent			
	01/01/2009	Additions	Service transfers	12/31/2009
In service	38,795	-	-	38,795
Amortization	(8,868)	(7,759)	-	(16,627)
<b>Subtotal</b>	<b>29,927</b>	<b>(7,759)</b>	<b>-</b>	<b>22,168</b>
In progress	2,032	7,354	-	9,386
<b>Total intangible assets</b>	<b>31,959</b>	<b>(405)</b>	<b>-</b>	<b>31,554</b>

Description	Consolidated			
	01/01/2009	Additions	Service transfers	12/31/2009
In service	39,413	8	-	39,421
Amortization	(8,868)	(7,766)	-	(16,634)
<b>Subtotal</b>	<b>30,545</b>	<b>(7,758)</b>	<b>-</b>	<b>22,787</b>
In progress	16,904	9,318	-	26,222
<b>Total intangible assets</b>	<b>47,449</b>	<b>1,560</b>	<b>-</b>	<b>49,009</b>

## 18 – TRADE PAYABLES

The Trade payables account is broken down as follows:

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
<b>Current</b>						
Material and services	187,091	171,011	116,709	277,657	199,211	117,595
Electric power - CCEE	-	-	2,737	-	-	2,737
Charges f/electricity network usage:						
Eletronorte	8,489	7,332	6,804	8,489	7,332	6,804
Eletrosul	6,614	7,107	6,196	6,614	7,107	6,196
Furnas	13,346	15,249	14,327	13,346	15,249	14,327
CTEEP	10,793	11,202	10,123	10,793	11,202	10,123
Cemig	3,411	4,789	3,416	3,411	4,789	3,416
TSN	-	3,108	3,291	-	3,108	3,291
Other	38,848	36,722	31,605	38,848	36,722	31,605
<b>Total</b>	<b>268,592</b>	<b>256,520</b>	<b>195,208</b>	<b>359,158</b>	<b>284,720</b>	<b>196,094</b>

## 19 – TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

The Company records the taxes and contributions payable in Current and Non-current liabilities, distributed as follows:

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
<b>Current</b>						
IRPJ	78,724	114,486	-	81,432	117,328	882
CSLL	121,908	33,563	28,074	124,235	35,592	29,302
Cofins	31,975	28,429	27,027	32,151	28,603	27,199
ICMS	10,537	10,190	8,985	12,066	10,987	9,648
INSS	18,531	18,190	10,647	19,195	18,702	10,668
PIS/PASEP	6,941	6,171	5,867	6,979	6,202	5,889
IRRF	20,123	24,190	16,861	20,421	25,384	17,834
FGTS	5,006	5,643	3,838	5,044	5,666	3,840
Other	8,004	8,160	5,879	9,439	8,922	13,414
	<b>301,749</b>	<b>249,022</b>	<b>107,178</b>	<b>310,962</b>	<b>257,386</b>	<b>118,676</b>
<b>Non-current</b>						
IRPJ	-	-	-	5,464	6,421	-
CSLL	-	-	-	1,967	2,312	-
Cofins	-	-	-	14,970	2,277	-
Deferred ICMS	10,282	21,053	45,592	10,282	21,053	45,592
Other	-	-	-	345	327	2,356
	<b>10,282</b>	<b>21,053</b>	<b>45,592</b>	<b>33,028</b>	<b>32,390</b>	<b>47,948</b>
	<b>312,031</b>	<b>270,075</b>	<b>152,770</b>	<b>343,990</b>	<b>289,776</b>	<b>166,624</b>

INSS: National Institute of Social Security

IRRF: Withholding Income Tax

FGTS: Severance Pay Fund

## 20 - TAX DEBTS

- Corporate income tax and Social contribution on net income**

Pursuant to Technical Pronouncements CPC 26 and 32, approved by CVM Deliberations Nos. 595 and 599, both of 09/15/2009, the Company recognizes in full in Non-current Liabilities tax debts in the amount of R\$ 44,677, resulting from temporary differences, distributed as follows:

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
<b>Temporary differences</b>						
Derecognition of regulatory assets and liabilities	6,241	1,408	-	6,241	1,408	-
Initial adjustments arising from CPC 33	174,836	-	-	174,836	-	-
Initial adjustments arising from ICPC 01	111,890	57,265	-	148,399	85,611	24,001
	<b>292,967</b>	<b>58,673</b>	<b>-</b>	<b>329,476</b>	<b>87,019</b>	<b>24,001</b>
<b>Tax Debts</b>						
Income tax on temporary differences	18,310	3,667	-	27,438	10,754	6,000
Social contribution on temporary differences	26,367	5,281	-	29,652	7,832	2,160
<b>Non-current</b>	<b>44,677</b>	<b>8,948</b>	<b>-</b>	<b>57,090</b>	<b>18,586</b>	<b>8,160</b>

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

The tax debts related to Corporate income tax and Social contribution on net income, arising from temporary differences – Derecognition of regulatory assets and liabilities, initial adjustments arising from CPC 33 and ICPC 01 – recorded in full in Non-current Liabilities in compliance with Technical Pronouncement CPC 26, will be realized in accordance with the settlement of regulatory assets and liabilities, by the changes in the post-employment benefits resulting from the adoption of CPC 33 and the changes in the financial assets resulting from the adoption of ICPC 01, respectively.

## 21 - BORROWINGS

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

a) Breakdown:

	12/31/2010			12/31/2009	01/01/2009
	Current		Non-current	Total	Total
	Principal	Charges	Principal		
Eletrobras	24,375	-	129,566	254,359	3,401,005
Banco do Brasil	-	7,167	249,966	255,791	259,159
Banco do Nordeste	15,124	46	266,982	153,296	69,446
Other institutions	-	-	-	-	56,158
<b>Total</b>	<b>39,499</b>	<b>7,213</b>	<b>646,514</b>	<b>663,446</b>	<b>3,785,768</b>

- b) The borrowing from Banco do Brasil S.A. is collateralized through offset and assignment of receivables, should it be demanded by the creditor. For the amount of R\$ 5,682 of the borrowings obtained from our Parent Company, Eletrobras, no guarantees were requested. However, at the discretion of the creditor, guarantees may be required, and the Company is obliged to provide them under penalty of accelerated maturity of the debt.

The main source of the borrowings from Eletrobras is the Global Reversion Reserve (RGR), and such funds are mainly allocated to the works of the Itaparica and Xingó Hydroelectric Power Plants and their related transmission systems.

- c) The IPCA, which is the indexing unit used to adjust the borrowings, has a variation of 5.91% in 2010 against 4.32% in 2009.

- d) Breakdown of borrowings according to the type of currency and index:

Currency (equivalent in R\$)/Index	12/31/2010		12/31/2009		01/01/2009	
	R\$	%	R\$	%	R\$	%
<b>Foreign currency</b>						
US\$	-	-	-	-	207,868	5.49
Eur	-	-	-	-	56,158	1.48
	-	-	-	-	<b>264,026</b>	<b>6.97</b>
<b>Local currency</b>						
Fixed rate (1)	257,133	37.10	246,600	37.20	3,174,904	83.86
Fixed rate (2)	153,366	22.10	153,296	23.10	69,446	1.84
Fixed rate (3)	282,152	40.70	255,791	38.50	259,159	6.85
IPCA (4)	575	0.10	7,759	1.20	18,233	0.48
	<b>693,226</b>	<b>100.00</b>	<b>663,446</b>	<b>100.00</b>	<b>3,521,742</b>	<b>93.03</b>
<b>Total</b>	<b>693,226</b>	<b>100.00</b>	<b>663,446</b>	<b>100.00</b>	<b>3,785,768</b>	<b>100.00</b>

(1) Of the total amount obtained from Eletrobras, R\$ 153,366 arise from the Global Reversion Reserve (RGR), collected from the Electric Power System to be reinvested in the sector itself. Of this total, R\$ 5,682 (3.70%) bear interest of 10% p.a. and administration fees of 2% p.a., R\$ 142,778 (93.10%) and R\$ 4,906 (3.20%), bear interest of 5% p.a. and administration fees of 2% and 1.5% p.a., respectively. These borrowings have no monetary restatement as they are linked to the same restatement system as Permanente assets, suspended by law.

(2) Agreements with Banco do Nordeste do Brasil S.A., subject to interest of 10% p.a., and a 2.5% bonus for timely repayment.

(3) Agreements with Banco do Brasil S.A., subject to interest of 105.7% p.a. of the average CDI (Interbank Deposit Certificate) rate.

(4) Agreement with Eletrobras, bearing interest of 7.2% p.a.

- e) The principal amount of long-term borrowings, in the amount R\$ 646,514 (R\$ 543,169, in 2009), matures as follows:

	2010	2009
2011	-	39,631
2012	300,389	283,915
2013	50,976	33,949
2014	50,976	33,949
2015	50,888	33,886
2016	50,778	33,844
2017	50,222	33,844
After 2017	92,285	50,151
<b>Total</b>	<b>646,514</b>	<b>543,169</b>

f) Borrowings are subject to the following interest rates:

	<b>Domestic Market</b>
	<b>(% p.a.)</b>
<u>Fixed rates</u>	
2010	5.00 a 7.50
2009	5.00 a 10.00
<u>Floating rates</u>	
2010	11.25
2009	9.04

g) Changes in borrowings:

	<b>Local currency</b>		<b>Foreign currency</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
<b>At January 1, 2009</b>	<b>367,974</b>	<b>3,153,768</b>	<b>110,029</b>	<b>153,997</b>
New borrowings	-	112,467	-	-
Charges	390,874	-	9,220	-
Monetary and exchange variation	68	683	(22,993)	(33,312)
Transfers to current liabilities	2,723,749	(2,723,749)	120,685	(120,685)
Transfer to AFAC (*)	(2,609,245)	-	(114,409)	-
Payments of principal and charges	(753,143)	-	(102,532)	-
<b>At December 31, 2009</b>	<b>120,277</b>	<b>543,169</b>	<b>-</b>	<b>-</b>
New borrowing	-	147,210	-	-
Charges	61,729	-	-	-
Monetary and exchange variation	16	14	-	-
Transfers to current liabilities	43,879	(43,879)	-	-
Payments of principal and charges	(179,189)	-	-	-
<b>At December 31, 2010</b>	<b>46,712</b>	<b>646,514</b>	<b>-</b>	<b>-</b>

(\*) Transfer to convert various borrowings from our Parent Company, Eletrobras, into Advance for Future Capital Increase (AFAC), subject of capital increase in 2010 (Note 27).

h) Breakdown of consolidated borrowings:

	<b>12/31/2010</b>			<b>12/31/2009</b>	<b>01/01/2009</b>
	<b>Current</b>	<b>Non-current</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>
Chesf	46,712	646,514	693,226	663,446	3,785,768
STN – Sistema de Transmissão Nordeste S.A.	5,227	113,734	118,961	123,960	130,475
Integração Transmissora de Energia S.A.	4,029	35,735	39,764	41,725	43,558
ESBR Participações S.A.	-	826,716	826,716	361,130	-
Manaus Transmissora de Energia S.A.	114,231	-	114,231	87,570	79,052
Manaus Construtora S.A.	-	-	-	129	-
Interligação Elétrica do Madeira S.A.	88,937	-	88,937	3	-
Norte Energia S.A.	19,692	-	19,692	-	-
<b>Total</b>	<b>278,828</b>	<b>1,622,699</b>	<b>1,901,527</b>	<b>1,277,963</b>	<b>4,038,853</b>



Among the borrowings, which are components of the consolidated financial statements, are those obtained by the company Energia Sustentável do Brasil S.A., a subsidiary of jointly-controlled company ESBR Participações S.A., in the total amount of R\$ 4,133,582, in which the Company's share of 20% corresponds to R\$ 826,716. Following are the details of these borrowings:

Subject	Currency	Charges	Maturity	12/31/2010	12/31/2009
BNDES	R\$	TJLP+2.08%	Jan/2033	2,080,453	926,309
Banco do Brasil	R\$	TJLP+2.65%	Jan/2033	581,899	257,851
Caixa Econômica Federal	R\$	TJLP+2.65%	Jan/2033	581,899	257,851
Bradesco BBI	R\$	TJLP+2.65%	Jan/2033	418,968	185,655
Itaú BBA	R\$	TJLP+2.65%	Jan/2033	392,782	174,045
Banco do Nordeste do Brasil	R\$	TJLP+2.65%	Jan/2033	110,562	48,999
				<b>4,166,563</b>	<b>1,850,710</b>
Borrowing costs				(32,981)	(45,059)
<b>Non-current</b>				<b>4,133,582</b>	<b>1,805,651</b>

## 22 – OTHER LIABILITIES

	Parent			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
<b>Current</b>						
Aneel inspection fee	959	2,536	1,819	959	2,536	1,819
Private pension entity – regular contribution	11,179	10,617	6,784	11,179	10,617	6,784
Other creditors – CEEE	-	974	974	-	974	974
Acquisition of properties	1,493	1,506	4,605	1,493	1,506	4,605
Other	11,414	9,592	36,399	20,986	15,531	39,372
	<b>25,045</b>	<b>25,225</b>	<b>50,581</b>	<b>34,617</b>	<b>31,164</b>	<b>53,554</b>
<b>Non-current</b>						
FGTS/Company Account	3,764	3,633	3,513	3,764	3,633	3,513
Eletropar	1,456	1,456	1,456	1,456	1,456	1,456
Other	-	2,612	2,613	6,734	19,346	36,836
	<b>5,220</b>	<b>7,701</b>	<b>7,582</b>	<b>11,954</b>	<b>24,435</b>	<b>41,805</b>
	<b>30,265</b>	<b>32,926</b>	<b>58,163</b>	<b>46,571</b>	<b>55,599</b>	<b>95,359</b>

## 23 – POST-EMPLOYMENT BENEFITS

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

The actuarial system of Fachesf is the capitalization system and the Plan originally established is of the Defined Benefit type (BD Plan). On 06/29/2001, the Company implemented the Defined Contribution Plan (CD Plan) and the Settled Benefit Plan (BS Plan), and the migration of the participants of the BD Plan to the new Plans ended on 11/19/2001, reaching 97.1%.

The Company adopts the procedures recommended by Technical Pronouncement CPC 33, approved by CVM Deliberation No. 600/2009, and performs an actuarial valuation of the liabilities arising from post-employment benefits. The criteria and assumptions adopted in this valuation may differ from those adopted by the administrator of the program, which follows specific legislation, thus hindering simple comparisons of results.

Considering the effect accumulated in the consolidated income, the Plans sponsored by the Company with Fachesf accumulated gains at 12/31/2010 in the amount of R\$ 245,008. The situation of the Plans, which presents a decrease as compared to the consolidated accumulated gains of R\$ 446,830, at 12/31/2009, was mainly a result of the financial loss arising from the profitability obtained by the Plans this year in relation to the actuarial target recorded in the same period.

In compliance with the accounting practices provided in CVM Deliberation No. 600/2009, the Company opted for applying the exemption for employee benefits of IFRS 1 and to change the accounting policy for recognizing actuarial gains and losses, which used to be recognized by the “corridor” method, and recognize them in the period when they occur in other comprehensive income (expense), in accordance with guidance provided in CPC 33 and IAS 19.

The commitments referring to the Retirement Plans, pursuant to CVM Deliberation No. 600/2009, at 12/31/2010, are detailed below.

### PENSION PLAN

- **Basic Characteristics**

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

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

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

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

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

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

## • Statistics on the participants

AGE CHARACTERISTICS	12/31/2010			12/31/2009		
	BD Plan	BS Plan	CD Plan	BD Plan	BS Plan	CD Plan
1. Active participants						
1.1. Number of participants	58	2,262	5,705	62	2,326	5,639
1.2. Average age	57.8	55.6	48.9	57.0	54.7	48.3
1.3. Credited service (total)	32.6	30.5	21.9	31.4	29.5	21.7
1.4. Time to retirement	2.7	4.6	12.3	3.4	4.7	10.3
1.5. Average salary in R\$	9,304.07	9,100.72	7,403.99	7,050.24	7,189.82	5,964.31
2. Retirees						
2.1. Number of retirees	5,017	297	350	5,173	298	365
2.2. Average age	67.9	61.3	61.0	67.0	60.1	59.7
2.3. Average benefit in R\$	2,715.32	2,521.07	668.06	2,654.52	2,267.73	1,970.25
3. Pensioners						
3.1. Number of pensioners	1,529	91	146	1,331	55	80
3.2. Average age	72.9	50.4	48.8	66.2	50.0	48.4
3.3. Average benefit in R\$	958.00	680.99	575.00	1,052.52	854.97	741.63
Total population	6,604	2,650	6,201	6,566	2,679	6,084

## • Actuarial and Financial Assumptions

General mortality table  
Disability table  
Disability mortality table  
Turnover table/rate  
Actuarial interest rate  
Projected inflation rate  
Short-term return rate  
Actual salary increase rate  
Capacity factor of benefits  
Salary capacity factor  
Actual benefit evolution rate  
% of married employees on the retirement date  
Age difference between men and women

AT 83  
Light F  
AT 83  
Zero  
6.0%  
4.5%  
11.98%  
2.00% p.a.  
1.00  
1.00  
0%  
95%  
4 years

## LIFE INSURANCE

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

## • Characteristics of the policyholders

	12/31/2010	12/31/2009
<b>Active participants</b>		
Number of participants	3,717	3,852
Average age	52.9	48.4
<b>Inactive participants</b>		
Number of participants	4,174	4,301
Average age	67.96	66.60
<b>Eligible post-employment population</b>	<b>5,367</b>	<b>5,245</b>
<b>Actual population</b>	<b>4,174</b>	<b>4,301</b>
<b>Adhesion rate (%)</b>	<b>77.77%</b>	<b>82.00%</b>
<b>Pure premium calculated/1,000</b>	<b>0.0014248</b>	<b>0.0016670</b>
<b>Premium paid/1,000</b>	<b>0.0010780</b>	<b>0.0009585</b>

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

In view of the new accounting practices, the Company decided to make the adjustments required to recognize the actuarial gains and losses related to the life insurance benefit in the period in which they occurred in other comprehensive income (expense) in accordance with the guidance provided in CPC 33 and IAS 19.

## BENEFIT PLANS AT 12/31/2010

	2010				
	BD Plan	BS Plan	CD Plan	Insurance	Consolidated
<b>CHANGES IN THE OBLIGATIONS</b>					
<b>Benefit Obligations Projected at the Beginning of the Year (a)</b>	<b>2,073,473</b>	<b>642,135</b>	<b>622,207</b>	<b>81,922</b>	<b>3,419,737</b>
Cost of service (b)	1,490	14,839	15,226	128	31,683
Cost of interest (c)	197,886	66,118	67,606	7,935	339,545
Benefits paid/advanced (d)	(202,591)	(12,135)	(9,124)	-	(223,850)
Acquisition of quotas – CD Plan (e)	-	-	329,786	-	329,786
Actuarial (gains) or losses (f)	123,948	46,244	-	(3,615)	166,577
<b>Benefit Obligations Projected at the End of the Year (g) = (a) + (b) + (c) + (d) + (e) + (f)</b>	<b>2,194,206</b>	<b>757,201</b>	<b>1,025,701</b>	<b>86,370</b>	<b>4,063,478</b>
<b>CHANGES IN THE FINANCIAL ASSETS</b>					
Fair value of assets at the beginning of the year (h)	2,323,390	642,135	622,207	-	3,587,732
Expected return on the investments (i)	286,465	59,517	79,372	-	425,354
Employer's contributions (j)	4,855	1,901	48,195	-	54,951
Participants' contributions (k)	6,557	282	46,896	-	53,735
Benefits paid/advanced (l)	(202,591)	(12,135)	(9,124)	-	(223,850)
Actuarial gains (or losses) (m)	(286,728)	265,315	-	-	(21,413)
Offset of quotas (n)	-	-	311,033	-	311,033
Fair value of the assets at the end of the year (o) = (h) + (i) + (j) + (k) + (l) + (m) + (n)	2,131,948	957,015	1,098,579	-	4,187,542
<b>STATE OF COVERAGE AT THE END OF THE YEAR (q) = (o) – (g) + (p)</b>	<b>(62,258)</b>	<b>199,814</b>	<b>72,878</b>	<b>(86,370)</b>	<b>124,065</b>
Quotas for offset – CD Plan (p)	-	-	(72,878)	-	(72,878)
Restriction to the recognition of assets - Rule 58 - IAS 19	-	(199,814)	-	-	(199,814)
<b>OBLIGATIONS AT THE END OF THE YEAR</b>	<b>(62,258)</b>	<b>-</b>	<b>-</b>	<b>(86,370)</b>	<b>(148,627)</b>
<b>OBLIGATIONS AT THE END OF THE YEAR AND AGREEMENTS</b>	<b>(261,606)</b>	<b>-</b>	<b>(14,714)</b>	<b>(86,370)</b>	<b>(362,690)</b>

## BENEFIT PLANS AT 12/31/2009

	2009				
	BD Plan	BS Plan	CD Plan	Insurance	Consolidated
<b>CHANGES IN THE OBLIGATIONS</b>					
<b>Benefit Obligations Projected at the Beginning of the Year (a)</b>	<b>2,189,039</b>	<b>665,021</b>	<b>585,908</b>	<b>117,363</b>	<b>3,557,331</b>
Cost of service (b)	1,489	30,081	37,213	7,633	76,416
Cost of interest (c)	228,622	61,576	69,274	4,206	363,678
Benefits paid/advanced (d)	(194,056)	(8,974)	(9,664)	(2,941)	(215,635)
Actuarial (gains) or losses (e)	(151,621)	(105,569)	(60,524)	(44,339)	(362,053)
<b>Benefit Obligations Projected at the End of the Year (f)</b> <b>= (a) + (b) + (c) + (d) + (e) + (f)</b>	<b>2,073,473</b>	<b>642,135</b>	<b>622,207</b>	<b>81,922</b>	<b>3,419,737</b>
<b>CHANGES IN THE FINANCIAL ASSETS</b>					
Fair value of assets at the beginning of the year (g)	<b>1,540,947</b>	<b>659,779</b>	<b>620,197</b>	-	<b>2,820,923</b>
Expected return on the investments (h)	120,147	69,792	72,925	-	<b>262,864</b>
Employer's contributions (i)	279,087	-	43,554	-	<b>322,641</b>
Participants' contributions (j)	5,683	-	38,973	-	<b>44,656</b>
Benefits paid/advanced (k)	(194,056)	(8,974)	(9,664)	-	<b>(212,694)</b>
Actuarial gains (or losses) (l)	571,582	(78,462)	(143,778)	-	<b>349,342</b>
<b>Fair value of assets at the end of the year</b> <b>(n) = (g) + (h) + (i) + (j) + (k) + (l)</b>	<b>2,323,390</b>	<b>642,135</b>	<b>622,207</b>	-	<b>3,587,732</b>
<b>STATE OF COVERAGE AT THE END OF THE YEAR</b> <b>(o) = (n) - (f)</b>	<b>249,917</b>	-	-	<b>(81,922)</b>	<b>167,995</b>
Restriction to the recognition of assets-Rule 58 - IAS 19	(249,917)	-	-	-	(249,917)
<b>OBLIGATIONS AT THE END OF THE YEAR</b>	-	-	-	<b>(81,922)</b>	<b>(81,922)</b>
<b>OBLIGATIONS AT THE END OF THE YEAR AND AGREEMENTS</b>	<b>(353,270)</b>	-	<b>(18,530)</b>	<b>(81,922)</b>	<b>(453,722)</b>

## PROJECTED COST OF THE BENEFITS

	2011				
	BD Plan	BS Plan	CD Plan	Insurance	Consolidated
<b>PERIODIC COST COMPONENTS</b>					
Cost of service	1,560	17,392	28,027	1,007	47,986
Cost of interest	210,893	78,659	114,285	5,132	408,969
Contribution of participants	(12,036)	(322)	(15,083)	-	(27,441)
Expected return on financial assets	(220,359)	(101,420)	(118,509)	-	(440,288)
<b>COST OF BENEFITS IN THE PERIOD</b>	<b>(19,942)</b>	<b>(5,691)</b>	<b>8,720</b>	<b>6,139</b>	<b>(10,774)</b>

## PROJECTED FLOW OF BENEFIT PAYMENTS

	BD Plan	BS Plan	CD Plan	Insurance	Consolidated
<b>PROJECTED CASH FLOW</b>					
Regular employer's contributions- 2011	4,549	-	14,383	-	<b>18,932</b>
Benefit payments					
2011	192,898	31,778	25,813	29,644	280,133
2012	193,346	36,717	33,696	29,739	293,498
2013	193,770	42,155	43,678	29,844	309,447
2014	193,755	46,209	52,816	29,959	322,739
2015	193,436	48,929	59,645	30,086	332,096
2016-2020	947,101	271,588	419,174	152,852	1,790,715

## ACTUARIAL LIABILITIES OF THE PENSION PLANS CONTRACTED

At 12/31/2010 the Company has an actuarial liability recorded pursuant to CVM Deliberation No. 600/2009, corresponding to contracts signed with Fachesf in the amount of R\$ 276,320 (R\$ 371,800, in 2009).

TYPE	12/31/2010	12/31/2009
Contract No. CF 00.1.246-043	-	99,493
Contract No. CF 01.1.266-01-A/6	261,606	253,777
Contract No. CF 03.1.337-013	14,714	18,530
<b>TOTAL</b>	<b>276,320</b>	<b>371,800</b>

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

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

## OTHER EMPLOYEE BENEFITS

In addition to the benefits paid under the supplementary pension plans, the Company offers other benefits to its employees, such as: healthcare plan, life insurance, meal vouchers, transportation tickets and education allowance, which are periodically renegotiated at the time of collective labor agreements. In 2010, the cost of these benefits to the Company was R\$ 118,054 (R\$ 89,021 in 2009).

## 24 – SCHEDULED VOLUNTARY TERMINATION PROGRAM – PDVP

The Company approved in 2009 a termination program for employees who were eligible for retirement and opt to adhere to the program on a voluntary basis. The program is called Scheduled Voluntary Termination Program (PDVP) and the deadline for the resignations is February 28, 2011. The Company recorded 1,806 adhesions and 78 employees were terminated in 2010 (84 accumulated) and 1,300 desisted.

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

In 2010, in view of the desistances occurred, the Company reversed a portion of the provision established and maintained recorded in its liabilities the amount of R\$ 53,355 (R\$ 274,118, in 2009) to support these expenses.

## 25 – TAX, CIVIL, LABOR AND ENVIRONMENTAL RISKS

	Provision at 01/01/2009	Additions (reversals)	Reductions	Provision at 12/31/2009	Additions (reversals)	Reductions	Provision at 12/31/2010
Labor	69,639	23,474	(9,116)	83,997	64,347	(45,533)	102,811
Civil	453,394	57,239	(5,542)	505,091	143,948	(14,316)	634,723
Tax	8,770	1,643	(135)	10,278	353	-	10,631
<b>Total</b>	<b>531,803</b>	<b>82,356</b>	<b>(14,793)</b>	<b>599,366</b>	<b>208,648</b>	<b>(59,849)</b>	<b>748,165</b>

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

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

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

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

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

All these contingencies are being defended by the Company, and the related judicial deposits have been made, whenever required.

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

**1.1) Parent Company**

**1.1.1) Chesf filed a lawsuit requesting the partial annulment of the amendment (K Factor of Analytical Price Adjustment) to the civil works agreement of the Xingó Hydroelectric Power Plant, entered into with the Consortium made up of Companhia Brasileira de Projetos e Obras – CBPO, CONSTRAN S.A. – Construções e Comércio and Mendes Júnior Engenharia S.A., and the return, in double, of amounts paid as K factor, totaling approximately R\$ 350 million.**

The lawsuit was filed at Federal Courts, but the decision of the Federal Regional Court of the 5<sup>th</sup> Region determined it should be heard by the State Courts of Pernambuco. The Company's claim was deemed groundless. The counterclaim filed by the defendant was considered valid by the 12<sup>th</sup> Lower Civil Court of the Judicial District of Recife, and the decision was upheld by the 2<sup>nd</sup> Civil Section of the Pernambuco Court of Justice.

Chesf and the Federal Government, its assistant in this claim, filed special and extraordinary appeals discussing the first decision, which may result in the annulment of the proceeding. In August 2010, the High Court of Justice (STJ) accepted one of these special appeals filed by Chesf, and reduced the amount of the case, implying substantial reduction of the fees possibly payable in the principal proceeding. The STJ denied the other special appeals filed by Chesf and the Federal Government, therefore maintaining the decision of the State Courts of Pernambuco, which deemed groundless the declaratory action filed by Chesf and considered valid the counterclaim filed by the defendants. In this judgment, the STJ reduced substantially the amount of fees. The parties were not yet notified of these decisions, against which it is still possible to file appeals.

In November 1998, the defendants filed a request for injunction aiming at the provisional execution of the decision, in the amount of R\$ 245 million, at which time the case was suspended by determination of the President of the Federal Supreme Court (PET 1621). The Consortium filed a Special Appeal according to Specific Court Regulations against such injunction, and the decision was rendered on 06/24/2002, unanimously maintaining the injunction previously



granted by the STJ President, thus making it impossible for the Consortium to obtain the advance relief.

Subsequently, the defendants requested award calculation to the 12<sup>th</sup> Civil Court of Recife in order to appraise the current amount of the adverse judgment, in the event all appeals filed by Chesf and the Federal Government were rejected.

The judge of the 12<sup>th</sup> Civil Court recognized the jurisdiction of the Federal Courts as competent to evaluate the case, considering the presence of the Federal Government as an interested party in the lawsuit. Xingó Consortium filed a motion for clarification of judgment against this decision, and the Courts of Justice of Pernambuco changed this decision determining that competence to judge the award calculation proceeding lies with the State Courts. Chesf and the Federal Government lodged appeals against this decision of the TJPE, whose judgment has not yet been rendered.

Subsequently, the Deputy Judge of the 12<sup>th</sup> Civil Court of the Judicial District of Recife rendered judgment establishing the amount of the adverse judgment at R\$ 842,469, and Chesf lodged the respective motion for clarification of judgment against this decision, considering that the sentence failed to address various refutations submitted by Chesf in relation to the expert report presented to the court.

On judging these motions for clarification, the Judge of the 12<sup>th</sup> Civil Court extinguished the award calculation proceeding, as he considered that the subject matter was still *sub judice* at the STJ; against this decision, Consórcio Xingó filed a bill of review at the Court of Justice of Pernambuco, where judgment is awaited.

Based on the opinion of its legal advisors and on calculations that took into consideration the suspension of payment of the installments referring to the K Factor, and its respective monetary adjustments, management decided to record a provision in Non-current Liabilities in the amount of R\$ 427,193 at 12/31/2010, to cover potential losses resulting from this issue. Such provision corresponds to the partial disallowance of the K Factor between July 1990 and December 1993, in compliance with Law No. 8030/1990, and the full suspension of payment of the K Factor from January 1994 to January 1996, based on the Company's understanding.

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

- 1.1.2)** A lawsuit filed by the Bahia Electricity Sector Workers Union is in progress at the Regional Labor Court of the State of Bahia, requesting the payment of wage differences due to employees from the Regional Management - GRP, Paulo Afonso - BA, as consequence of the application of the Amendment to Decree Law No. 1971 - ADL and the Annual Risk Premium, in the estimated amount of R\$ 7,500. The Company filed a bill of review in a motion to review in progress through the Superior Labor Court (TST), which was deemed groundless. The judgment was made final and unappealable and Chesf was the losing party. The execution phase began and R\$ 3,700 were paid to a significant number of the employees. The payment of a further R\$ 3,800 is still expected. The execution took place on 03/31/2009, and the credit was partially stayed. On 09/30/2009, the records were with the Court accountant for later judgment of the motion to stay collection aiming at an adjustment of the debt. On 12/31/2009, the Motion to Stay Collection was considered groundless, and Chesf filed a Bill of Review at the Regional Labor Court of the 5<sup>th</sup> Region. In October 2010, the Court dismissed Chesf's Bill of Review and delivered the authorization to the claimant in December 2010. The Company recognized in its Non-current liabilities a provision to support the payments linked to this case in the amount of R\$ 13,347.
- 1.1.3)** A lawsuit was filed at the 8th Labor Court of the Judicial District of Fortaleza by the Electricity Sector Workers Union (SINDELETRO - Ceará) claiming the reimbursement of losses incurred by the employees of the Northern Regional Management - GRN (Ceará and Rio Grande do Norte States) arising from interruption of the collective transportation services, involving an estimated amount of R\$ 6,000. The request for resumption of the transportation services was partially

accepted, and the Company has been complying with this court order. The plaintiff claimed the supplementation of transportation and requested the Company to be sentenced to pay a daily fine, and Chesf refuted the allegation. After the hearing that took place on August 23, 2005, at which the parties and Chesf submitted their final summation, the previous decision was altered, ordering the resumption of transportation services as they were previously rendered. Also in the same decision, the parameters for settlement of the sentence were defined, so that the labor credit was reduced to R\$ 1,300. The execution is in progress through the Lower Labor Court of Fortaleza, Ceará State, and the execution was made final and unappealable. After the deposit of the principal amount, on 12/31/2009, the amounts and payment of legal charges were being released to the Claimants. At 12/31/2010 the full release of the permits had not yet occurred. The Company has recognized in its Non-current liabilities a provision to support the payments linked to this Action in the amount of R\$ 540.

- 1.1.4)** Lawsuit filed at the 4<sup>th</sup> Labor Court of Recife, Pernambuco State, by the Union of Urban Industry Workers of Pernambuco State on behalf of 460 employees in Recife, claiming risk premium on all wages and salaries, in the amount of R\$ 4,000. The lower court judge excluded about 300 of said employees, due to pending lawsuits or res judicata, and deemed the claim groundless. The Union filed a regular appeal at the 6<sup>th</sup> Regional Labor Court, which was accepted. The lawsuit is in the phase of award through expert calculations. On 06/30/2008, the expert examination was concluded and the court determined the amount of R\$ 3,300. According to the calculations of the Company's legal advisors, the correct amount is R\$ 2,900, and the difference was challenged in a motion to stay collection by Chesf, aimed at adjusting the debt, which was partially accepted. The Motions for Clarification lodged by the Claimant were rejected. On 12/31/2010, the Bill of Review lodged by the Claimants was awaiting judgment by the Court. The Company has recognized a provision in its Non-current liabilities to support the payments linked to this Action in the amount of R\$ 4,582.
- 1.1.5)** Suit for indemnity relating to 14,400 hectares of land on Aldeia Farm, filed in the Judicial District of Santo Sé, Bahia State, by the Estate of Aderson Moura de Souza and his wife (Proc. 0085/1993). The lower court sentence upheld the claim sentencing Chesf to pay the amount of R\$ 50,000, which corresponds to the principal plus interest and monetary restatement. At 12/31/2008, Chesf had lodged an appeal at the Court of Justice of Bahia. On 03/31/2009, the lawsuit was transferred to the Federal Justice on account of the Judge's absolute lack of jurisdiction. This means to say that all decisions are null and void, and a new process must commence, but this time at the Federal Court. On 09/30/2009, Chesf had not been notified in relation to the redistribution of the court records. An appeal was partially accepted in a session at the 1st Panel of the Federal Regional Court, which was suspended due to request of the records for analysis. The Company recognizes in Non-current liabilities a provision to support possible losses on this Action in the amount of R\$ 50,000.
- 1.1.6)** Public Civil Action filed by the Public Prosecution Office of Pernambuco (MPPE) in Petrolândia (Proc. 81643-3), resulting from resettlement rights of rural workers affected by the construction of the Itaparica Hydroelectric Power Plant. The Claimant affirms that the agreement signed with the Rural Workers' Union on 12/06/1986 is null for lack of legitimacy and claims the difference of the temporary maintenance amounts paid during the period, establishing the adjusted amount of approximately R\$ 87,000. Chesf's appeal, alleging MPPE's illegitimacy to file the action was accepted by the Pernambuco Court of Justice (TJPE), however the STJ, upon a special appeal filed by the Claimant, recognized the legitimacy of the MPPE and determined that the case records be sent to the TJPE. On 04/19/2010, on judging the merit of Chesf's appeal, the TJPE, dismissed it unanimously. Chesf filed jointly a Special Appeal and a Regular Appeal and the corresponding bills of review, which are pending judgment. The Company recognized in its Non-current assets a provision to support the possible loss of this Action in the amount of R\$ 87,000.

**1.1.7)** Collection Lawsuit filed by Mineração Caraíbas S.A. (Lawsuit 001,2004,003420-9), aimed at satisfying supposed credits arising from remuneration for services related to electric power reduction from 230 to 13.8 kV, in the period from 02/19/1984 to 05/31/1999. In 2005 the action was judged partially valid and only Chesf was condemned, as Coelba and Aneel were excluded from the action, changing the success probability system and the estimated amount of the action to R\$ 3,000. An Appeal and Special Appeal were lodged but were not accepted. In June 2010, the Claimant pleaded the execution of the decision, however Chesf filed a pre-execution exception since it understands that the security amount is not net, therefore the execution of R\$ 8,527 claimed by the Claimant is not applicable. The judge accepted Chesf's allegation and determined an expert examination. The Company recognizes in its Non-current liabilities a provision to support the possible loss in this Action, in the amount of R\$ 3,000.

## **1.2) Jointly-owned subsidiary**

### **1.2.1) STN Sistema de Transmissão Nordeste S.A.**

The provision for contingencies refers exclusively to civil actions related to the definition of the indemnity amounts for the easements for the company's transmission lines.

The STN's management, based on the opinion of its legal advisors as to the possibility of success of the various lawsuits, understands that the provisions set up and recorded in the balance sheet are sufficient to cover probable losses.

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

#### **2.1) Parent**

<b>Contingencies</b>	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>01/01/2009</b>
Labor	108,552	106,148	87,965
Civil and tax	532,953	506,735	250,292
<b>Total</b>	<b>641,505</b>	<b>612,883</b>	<b>338,257</b>

The main lawsuits are as follows:

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

The Company filed its defense and requested that the Federal Government be admitted to the proceedings, which were sent to one of the courts of the Federal Justice in Pernambuco. The Consortium presented a petition about the admission of the Federal Government to the process.

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

Subsequently, the suit was granted and Chesf sentenced to pay to the plaintiffs the amount of R\$ 23,766, September 2004 prices (R\$ 51,568 at 03/31/2010, according to Chesf's calculations). Chesf filed an appeal against this decision, which will be judged by the Pernambuco Court of Justice.

The Reporting Justice of the TJPE declared the annulment of the sentence since it was pronounced by a judge with no jurisdiction, in view of the intervention of the Federal Government in the lawsuit, and ordered that the case records be sent to the Federal Courts.

The suit was sent to the 5<sup>th</sup> Federal Court, where the Judge rendered a decision refusing the Federal Government's request to intervene in the suit and, consequently, ordered that the case records be sent to the Regular State Courts. The Federal Government is currently in the process of filing an appeal.

- 2.1.2)** Public civil action filed against the Company by the Community Association of Cabeço and Surrounding Areas, in the State of Sergipe, in the amount of R\$ 100 million, at the 2<sup>nd</sup> Federal Court of Sergipe (case record No. 20028500002809-6), aiming at financial compensation for alleged environmental damage caused to the fishermen of Cabeço, downstream of the Xingó Hydroelectric Power Plant, caused by the construction of this power plant.

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

On 09/30/2005, the service of process was being expected and on 09/30/2006 the records were remitted to the Judge for analysis, after attachment of the power-of-attorney of Chesf's new attorneys. On 12/31/2006, the lawsuit was suspended by the decision of the Judge and awaits judgment of the bill of review filed by the plaintiff at the 5<sup>th</sup> Federal Regional Court, whose decision has not yet been rendered. Chesf's codefendants (the Federal Government, Ibama, IMA-AL, CRA-BA and Adema-SE) had already been summoned. On 09/12/2007, the judge passed the following routine order: "Await the information on the *res judicata* of the bill of review, which shall be communicated by Chesf". Considering that the bill of review filed by Chesf was denied, this Company filed motions for clarification of judgment against this decision, which were pending judgment on 03/31/2008.

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

On 06/13/2008, the decision of the judge was rendered, ordering summons to be served on the Federal Government and Ibama, and subpoena be served on the plaintiff so that it could file its reply in relation to the terms of the defense. On 09/30/2008, the records were given for Ibama's acknowledgment. On 12/31/2008, the conciliation hearing scheduled for 02/19/2009 was being awaited. No reconciliation occurred during the hearing that took place on 02/19/2009 and the judge ordered new measures for the existing case. At this hearing, the judge acknowledged the existence of a legal action with a similar purpose, which was in progress at the Lower Civil Court of the Judicial District of Brejo Grande/SE and which was remitted, on account of jurisdiction, to the Federal Courts, being assigned to such jurisdiction. Bearing this in mind, the judge decided to recognize the procedural connection between the two cases, and both cases have been dealt

with jointly since that date. Later, the date of 05/14/2009 was established for a new hearing aiming at deciding on the nature of the procedural evidence to be accepted, including the performance of an expert examination. At this hearing, the judge granted the term of 03 (three) months for the parties to submit the questions to be addressed in the expert's report. The hearing related to the delimitation of the object to be included in the expert's report was scheduled for 09/15/2009, and Chesf should submit, for this purpose, a draft of the Reference Term. On 09/30/2009, the presiding judge postponed the hearing scheduled for 09/15/2009 to 10/22/2009. At this hearing, the judge scheduled a new hearing for 03/02/2010, aiming at appointing a court expert and setting a deadline for the performance of the expert examination. In this hearing the action was cleared of encumbrances and the date of 06/08/2010 was set up for the pre-trial hearing. In this hearing the specifics of the expert examination were discussed and the Judge decided to set up a new hearing to appoint the official expert, the technical assistants of the parties and the establishment of the expert examination. No date was established for this new hearing. In July 2010, a decision was published inverting the burden of proof and the financial burden ordering that the cost of the expert examination be supported by Chesf. A bill of review was lodged against the decision that inverted the burden of proof and the financial burden. In August 2010, an order of Reporting Justice Francisco Barros Dias was published, converting the bill of review into a bill of exception and ordering that the case records be sent to the court of origin where, on 08/03/2010 a decision of the judge of the 2<sup>nd</sup> Federal Court of Sergipe maintaining the appealed decision on its own grounds and ordering that a possible suspensive effect by the Federal Regional Court of the 5<sup>th</sup> Region be awaited for ninety (90) days. On 08/09/2010, the Company filed Motions for Clarification against the decision that converted the Bill of Review into a Bill of Exception. In September 2010, a decision was published dismissing the Motions for Clarification filed by Chesf. An Appeal was lodged against the decision that converted the Bill of Review. On 10/18/2010 the decision of the Federal Reporting Justice which received the Appeal lodged as a petition for reconsideration was published dismissing it. At December 31, 2010 the mentioned appeal was pending judgment by the TRF.

Supported by the opinion of the Company's lawyers, Management's expectation about the possibility of loss of these actions is possible with respect to the failure of the defense and remote with respect to the amounts of the claims.

- 2.1.3)** Lawsuit filed by AES Sul Distribuidora Gaúcha de Energia (proc. 2002.34.00.026509-0 – 15<sup>th</sup> Federal Court-DF) aimed at the accounting and settlement by Aneel of the market transactions related to the positive exposure (profit) verified by reason of not opting for the relief (insurance) made in December 2000. Interlocutory decision rendered in AES SUL's Bill of Review (Lawsuit No. 2002.01.00.040870-5) lodged against Aneel, resulted in a debt of approximately R\$ 110 million, whose payment was established to be made on 11/07/2008.

In order to suspend the debt, the following legal steps were adopted at that time (November 03 to 07, 2008): 1) filing of Petition for Suspension of Injunction with the STJ; 2) filing of Writ of Mandamus with the Courts of Justice of the Federal District - TJDF; 3) registration of petition requesting the inclusion of Chesf in the lawsuit as a necessary codefendant. Procedures 2 and 3 were accepted with the consequent reversal of the injunction and suspension of the debt. Chesf was included in the lawsuit as a necessary codefendant and contested the action. The specification of evidences is expected.

## **2.2) Jointly-owned subsidiary**

### **2.2.1) ESBR Participações S.A.**

Article 6 of Decree No. 8321/1998 of Rondônia State establishes that the operations listed in its Attachment I are exempt from ICMS. Article 74 of that Attachment states that the imports and interstate entries of new assets, with no similar in the internal market of the Rondônia State, intended for property, plant and equipment of industrial facilities are exempt.



Applying the rule of article 74 of Attachment I, the company has been requesting exemption of the ICMS rate difference in purchases of equipment from other states. The request for exemption is made by means of petitions for exemption that must be registered with the State Secretariat of Finance of Rondônia (Sefin-RO), for approval.

Since the beginning of its operations, the company registered 290 proceedings with Sefin-RO, involving a total amount of exemptions of R\$ 21,219. By the end of the first six-month period of 2010, three (03) exemptions, amounting to R\$ 101, had been granted by that Secretariat. During the third quarter of 2010, 150 exemptions, in the total amount of R\$ 1,187, were denied under the allegation that the company does not fit into the industrial establishment concept according to the provisions of Law No. 2331/2010.

When the requests made are denied by Sefin-RO, the company files administrative appeals which have not been judged so far. If the denials of the administrative/tax claims are maintained by the appellate court, a lawsuit will be filed aimed at guaranteeing the benefit, in which case collaterals may be requested as part of this possible legal proceeding.

Based on the opinion of its internal and external lawyers, the company understands that the exemption rule of article 74 of Attachment I to Decree No. 8321/1998 is applicable to its operations and that the *risk of loss* of the case is *possible*. Thus, it has recognized a provision for payment of the success fees of the external lawyers in the amount of R\$ 247.

3) The main lawsuits for which a negative outcome is regarded as **remote**, are as follows:

**3.1) Parent Company**

Despite the remote risk of loss according to the opinion of the Company's legal counsel, there is an ongoing collection action filed by Mendes Junior S.A., a company contracted by the Company to build the Itaparica Hydroelectric Power Plant, for alleged financial losses caused by late payment of invoices by the Company.

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

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

After a decision rendered by the Superior Court of Justice, which did not accept the special appeal lodged by Mendes Junior S.A., and upholding the decision of the 2<sup>nd</sup> Civil Chamber of the Justice Court of Pernambuco, which annulled the award and determined the redistribution of the process to a Federal Jurisdiction in Pernambuco, the case was remitted to the 12<sup>th</sup> Federal Jurisdiction, under number 2000.83.00.014864-7, so that a new expert examination could be performed and a new sentence rendered.

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

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

The lawsuit was partially maintained through a sentence issued on 03/08/2008. Against this sentence, Chesf filed a motion for clarification, accepted by the Judge through a decision that clarified some points of the sentence related to the determination of a possible debt of Chesf to Mendes Júnior.

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

In a session held on 10/25/2010, the Federal Regional Court of the 5th Region accepted the appeals lodged by Chesf, the Federal Government and the Public Attorney's Office, and judged the referred to action to be entirely groundless. It has been informed that special and extraordinary appeals have been lodged by Construtora Mendes Júnior and by the Federal Government, although Chesf has not been notified to present briefs of respondent to these appeals. At 12/31/2010 the filing of possible appeals by Mendes Júnior were expected.

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

### **3.2) Jointly-owned subsidiary**

#### **3.2.1) ESBR Participações S.A.**

Payment of Service Tax (ISSQN) related to the contract for the civil works of the Jirau Hydroelectric Power Plant, signed with supplier Construções e Comércio Camargo Corrêa S.A., is made by reducing the tax calculation basis by 60%. This procedure is supported by Decrees of the municipality of Porto Velho (Rondônia State) Nos. 10244/2005 and 10363/2006. The Municipal Finance Secretariat of the Municipality of Porto Velho has questioned the application of the mentioned Decrees to the contract. The subject of the controversy is limited to amounts incurred through 12/31/2009, considering the publication of Complementary Law of the Municipality of Porto Velho No. 369/2009, ratifying the applicability of the ISSQN calculation basis reduction by 60% as from 2010.

The company Energia Sustentável do Brasil S.A., a wholly-owned subsidiary of ESBR Participações S.A., made, on 05/13/2010, a judicial deposit of the principal of the amounts involved in the issue (R\$ 17,339), supported by injunction obtained in the records of innominate writ of prevention filed as joint plaintiff with Construções e Comércio Camargo Corrêa S.A. On 06/11/2010, a declaratory action was registered related to this issue also as joint plaintiff with the supplier.

On 07/28/2010, the Municipal Finance Secretariat of the Municipality of Porto Velho, Rondônia State, issued Regulatory Circular Letter 001/2010 and Opinion 001/2010, which change the previous tax opinion, considering valid the deduction from the ISSQN calculation basis. The company is requesting the abatement of the action to the Municipal Finance Secretariat, with a favorable judgment of the merit so that the deposited amounts may be withdrawn.

Based on the above facts and on the opinion of its internal and external lawyers, the company understands that the risk of losing this case is remote. Accordingly, it has only recognized a provision for the success fees of the external lawyers, in the amount of R\$ 865.

### **3.3) Environmental risks**

As a result of its activities, Chesf is a party to lawsuits of an environmental nature for which no provisions have been recognized as they involve risk of loss which management and its legal advisors have classified as *possible* or *remote*. Based on the opinion of these legal advisors,



management believes that the resolution of these lawsuits will not cause adverse material effect on its financial position and, based on experience, believes that no provision or insurance for losses, related to environmental issues is necessary.

## 26 – CONCESSIONS PAYABLE

The Company, through its jointly-owned subsidiaries ESBR Participações S.A. and Norte Energia S.A., has service concession arrangement contracts with the Federal Government concerning the use of public assets for the generation of electric power at the Jirau and Belo Monte hydroelectric power plants, respectively.

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

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

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

## 27 - EQUITY

### • Share capital

The Company's share capital, in the amount of R\$ 7,720,760 (R\$ 4,539,557, in 2009), is represented by shares with no par value, held as follows:

Stockholders	Number of shares – in thousands					
	Common		Preferred		Total	%
	Number	%	Number	%		
Eletrobras	50,095	100.000	1,240	84.371	51,335	99.554
Ministry of Finance	-	-	194	13.184	194	0.376
Light	-	-	9	0.586	9	0.017
Other	-	-	27	1.859	27	0.053
	<b>50,095</b>	<b>100.000</b>	<b>1,470</b>	<b>100.000</b>	<b>51,565</b>	<b>100.000</b>

Common shares are nominative and have voting rights. Preferred shares, also nominative, have no specific class, nor voting rights, and are not convertible into common shares; however, these shares have priority in the payment of dividends, of at least 10% per year, calculated on the preferred capital.

On 10/05/2010, the 158<sup>th</sup> Annual Stockholders' Meeting approved the Company's capital increase in the amount of R\$ 3,018,050, corresponding to the capitalization of the Advance for Future Capital Increase (AFAC) amounts by Eletrobras, recorded in the Company's books on 12/31/2009, upon the issue of 9,617,042 common shares and 238,139 preferred shares, totaling 9,855,181 new shares, all without par value.

At the 159<sup>th</sup> Extraordinary Stockholders' Meeting (AGE), held on 12/20/2010, a new capital increase was approved, in the amount of R\$ 163,153, corresponding to the Tax Incentives Reserve.

• **Capital Reserves**

	<b>12/31/2010</b>	<b>12/31/2009</b>
Donations and government investment grants	4,759,353	4,759,353
Remuneration of assets and rights established with own capital	156,846	156,846
	<b>4,916,199</b>	<b>4,916,199</b>

• **Revenue reserves**

	<b>12/31/2010</b>	<b>12/31/2009</b>
Legal	439,822	349,978
Statutory	8,179	8,179
Unrealized profit	446,532	464,559
Tax incentives	380,357	163,153
Profit retention	3,503,626	2,209,834
	<b>4,778,516</b>	<b>3,195,703</b>

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

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

The Tax Incentive Reserve was established by Law No. 11638/2007. Item 'd' of paragraph 1 of article 182 of Law No. 6404/1976 - which permitted the recognition of Donations and government investment grants as a capital reserve - was revoked and article 195-A was included, authorizing the Annual Stockholders' Meeting, based on a proposal of management, to allocate the portion of net income arising from donations and government investment grants to the tax incentive reserve, as well as to exclude it from the calculation of the mandatory dividend.

It is being proposed that the amount of R\$ 1,293,792 be retained in the year in the Revenue Retention account, provided in article 196 of Law No. 6,404/1976, to complete the sources of funds to be applied in the Company's investment projects, based on the capital budget approved by the Annual Budget Law - LOA No. 12381, of 02/09/2011, with extraordinary credit approved by Federal Decree of 01/28/2011, totaling investments of R\$ 1,554,893 for 2011, with the following investments:

<b>Description</b>	<b>Budget Allocation</b>
Maintenance of the Generation System	299,231
Combined cycle of the Camaçari Thermoelectric Power Plant	704
Implantation of the Casa Nova Eolic Park	53,000
<b>Total Generation</b>	<b>352,935</b>
Itaparica Hydroelectric Power Plant Resettlement	118,430
<b>Total Itaparica</b>	<b>118,430</b>
Expansion of the Northeast Transmission System	309,692
Reinforcement and Improvement of the Transmission System	398,096
Maintenance of the Transmission System (Improvements)	173,012
Suape II and Suape III Substations	69,173
<b>Total Transmission</b>	<b>949,973</b>
Infrastructure – Real Property	30,532
Infrastructure - Equipment/Vehicles/Furniture	37,840
Infrastructure – IT/Teleprocessing/Information	65,183
<b>Total Infrastructure</b>	<b>133,555</b>
<b>Grand Total</b>	<b>1,554,893</b>

### • Other comprehensive income

In 2010, the Company recognized in equity, under the equity method of accounting, the effects of adjustments in other comprehensive income arising from the result of the effective cash flow hedge operations recorded in equity of its jointly-owned subsidiaries ESBR Participações S.A. and Manaus Transmissora de Energia S.A., proportionally to its interest in those companies, in the amount of R\$ 1,702, totaling R\$ 3,022, in 2010 (R\$ 1,320, in 2009).

In compliance with the new accounting practices, the Company recognized this year actuarial losses on Post-Employment Benefits, net of deferred income tax and social contribution, in *Other comprehensive income (expense)*, in the amount of R\$ 162,045 (gain of R\$ 259,753, in 2009).

### • Additional dividends

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

The calculation of stockholders' compensation, as well as the additional dividends are stated in Note 34.

## 28 – RECONCILIATION OF NET OPERATING REVENUE

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

	Parent		Consolidated	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
<b>GROSS OPERATING REVENUE</b>				
Electric power sale	752,037	775,272	752,037	775,272
Electric power supply	3,356,039	2,683,438	3,356,039	2,683,438
Transmission system	485,561	436,461	486,523	437,285
Short-term electric power (CCEE)	305,885	255,783	305,885	255,783
Construction revenue	420,451	386,774	636,818	440,915
Finance income	690,179	718,769	759,343	780,464
Other operating revenue	11,691	8,959	25,937	15,994
	<b>6,021,843</b>	<b>5,265,456</b>	<b>6,322,582</b>	<b>5,389,151</b>
<b>DEDUCTIONS FROM OPERATING REVENUE</b>				
Global Reversion Reserve – RGR	(131,007)	(116,780)	(132,599)	(118,296)
ICMS on electric power	(84,212)	(88,905)	(84,212)	(88,905)
Tax on Services (ISS)	(568)	(431)	(815)	(521)
Research & Development	(48,944)	(42,595)	(49,544)	(43,163)
Fossil Fuel Consumption Account (CCC)	(105,837)	(68,749)	(105,837)	(68,749)
Energy Development Account (CDE)	(19,598)	(17,029)	(19,598)	(17,029)
Proinfa	(51,077)	(41,213)	(51,077)	(41,213)
PIS/Pasep	(78,698)	(68,941)	(81,458)	(69,747)
Cofins	(351,354)	(317,606)	(364,384)	(321,350)
	<b>(871,295)</b>	<b>(762,249)</b>	<b>(889,524)</b>	<b>(768,973)</b>
<b>NET OPERATING REVENUE</b>	<b>5,150,548</b>	<b>4,503,207</b>	<b>5,433,058</b>	<b>4,620,178</b>

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

## 29 – REGULATORY CHARGES

In 2010, the Company incurred regulatory charges totaling R\$ 568,442 (R\$ 529,239, in 2009), broken down as follows:

	Parent		Consolidated	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Global Reversion Reserve – RGR	131,007	116,780	132,599	118,296
Research & Development – R&D	48,944	42,595	49,544	43,163
Fossil Fuel Consumption Account - CCC	105,837	68,749	105,837	68,749
Energy Development Account – CDE	19,598	17,029	19,598	17,029
Alternative Energy Source Incentive Program – Proinfa	51,077	41,213	51,077	41,213
Electric Power Utility Service Inspection Fee – TFSEE	11,509	30,430	11,778	30,728
Financial Compensation for Use of Water Resources – CFURH	192,768	210,061	192,768	210,061
Reserve Electric Power Charge – EER	5,241	-	5,241	-
<b>Total</b>	<b>565,981</b>	<b>526,857</b>	<b>568,442</b>	<b>529,239</b>

### 30 - OPERATING COSTS AND EXPENSES

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

	Parent			
	12/31/2010			12/31/2009
	Operating costs	Operating expenses	Total	Total
Electric power purchased for resale	24,061	-	24,061	-
Charges for electricity network usage	765,661	-	765,661	751,680
Construction cost	420,451	-	420,451	386,774
Personnel	326,896	251,753	578,649	877,841
Material	11,474	12,664	24,138	24,267
Fuels for electric power production	2,296	-	2,296	7,242
Third-party services	61,368	116,631	177,999	136,821
Depreciation and amortization	345,896	70,201	416,097	414,530
Fin. compensation for use of water resources	192,768	-	192,768	210,061
Post-employment benefits	-	(27,998)	(27,998)	131,151
Leases and rentals	5,919	15,423	21,342	21,292
Taxes	193	3,401	3,594	3,937
Provision for contingencies	-	82,357	82,357	51,522
Provision (reversal of provision) for impairment of trade receivables	-	15,346	15,346	66,599
Losses on cons./concessionaires and free power	-	21,752	21,752	95,380
Other	(20,985)	43,285	22,300	32,754
<b>Total</b>	<b>2,135,998</b>	<b>604,815</b>	<b>2,740,813</b>	<b>3,211,851</b>

	Consolidated			
	12/31/2010			12/31/2009
	Operating costs	Operating expenses	Total	Total
Electric power purchased for resale	24,061	-	24,061	-
Charges for electricity network usage	765,661	-	765,661	751,680
Construction cost	503,066	-	503,066	416,871
Personnel	328,849	258,170	587,019	882,189
Material	55,894	12,763	68,657	24,417
Fuels for electric power production	2,296	-	2,296	7,242
Third-party services	135,795	121,023	256,818	159,619
Depreciation and amortization	345,896	70,221	416,117	414,535
Fin. compensation for use of water resources	192,768	-	192,768	210,061
Post-employment benefits	-	(27,998)	(27,998)	132,573
Leases and rentals	6,063	16,074	22,137	21,734
Taxes	208	3,416	3,624	3,956
Provision for contingencies	-	82,357	82,357	51,522
Provision (reversal of provision) for impairment of trade receivables	3,394	15,346	18,740	66,599
Losses on cons./concessionaires and free power	-	21,752	21,752	95,380
Other	(23,426)	46,561	23,135	35,864
<b>Total</b>	<b>2,340,525</b>	<b>619,685</b>	<b>2,960,210</b>	<b>3,274,242</b>

### 31 – RECONCILIATION OF THE EFFECTIVE AND STATUTORY RATES OF SOCIAL CONTRIBUTION AND INCOME TAX

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

	Parent			
	12/31/2010		12/31/2009	
	Social contribution	Income tax	Social contribution	Income tax
Profit before social contribution and income tax	2,699,608	2,699,608	1,118,506	1,118,506
Total social contribution income tax charge calculated at the 9% and 15% rates, plus surtax, respectively	242,965	674,878	100,666	279,603
Tax effects of permanent additions or exclusions	(9,614)	(96,737)	(16,087)	(60,529)
Social contribution and income tax for the year	<b>233,351</b>	<b>578,141</b>	<b>84,579</b>	<b>219,074</b>

	Consolidated			
	12/31/2010		12/31/2009	
	Social contribution	Income tax	Social contribution	Income tax
Profit before social contribution and income tax	2,700,300	2,700,300	1,119,049	1,119,049
Total social contribution income tax charge calculated at the 9% and 15% rates, plus surtax, respectively	243,027	675,051	100,714	279,738
Tax effects of permanent additions or exclusions	(8,066)	(92,377)	(15,372)	(58,315)
Social contribution and income tax for the year	<b>234,962</b>	<b>582,674</b>	<b>85,342</b>	<b>221,423</b>

### 32 – TAX INCENTIVES – SUDENE/SUDAM

Provisional Measure No. 2199-14, of 08/24/2001, amended by Law No. 11196, of 11/21/2005, allows companies based in the regions covered by the Superintendence for the Development of the Northeast Region (Sudene) and the Superintendence for the Development of the Amazon (Sudam), which have developments in the infrastructure sector, regarded by the Executive Branch as one of the priority sectors for regional development, to reduce the income tax amount due in order to make investments in facilities, expansion, modernization or diversification projects.

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

In 2010 this tax incentive totaled R\$ 380,357 (R\$ 163,153, in 2009), and was recorded in the statement of income for the year as a reduction of the income tax computed, in compliance with Technical Pronouncement CPC 07. The gain arising from this tax incentive will be allocated to the Tax Incentive Revenue Reserve, in compliance with article 195-A of Law No. 6,404/1976, and can only be used to increase share capital social or offset losses.

In the consolidated with its jointly-owned subsidiaries STN – Sistema de Transmissão Nordeste S.A. and Integração Transmissora de Energia S.A, the Company' tax incentive gains for the year amounted to R\$ 385,809 (R\$ 165,722, in 2009).

### 33 – PROFIT SHARING

As a result of the Collective Labor Agreement and in compliance with legal provisions, the Company classified the amount of R\$ 91,241 (R\$ 72,145, in 2009) as employee profit sharing for the year, to be submitted for approval at the Annual Stockholders' Meeting (AGO).

### 34 – STOCKHOLDERS' REMUNERATION

	12/31/2010	12/31/2009
Profit for the year	2,177,232	905,861
Transfer to the Tax Incentive Reserve	(380,357)	(163,153)
Transfer to the Legal Reserve	(89,844)	(30,062)
Transfer from the Unrealized Profit Reserve	18,027	20,510
<b>Adjusted profit – calculation basis</b>	<b>1,725,058</b>	<b>733,156</b>
Mandatory minimum dividends (25%)	431,266	183,289
<b>Proposed remuneration:</b>		
Mandatory minimum dividends	431,266	183,289
Additional dividends	168,195	408,393
<b>Total remuneration</b>	<b>599,461</b>	<b>591,682</b>
Percentage of profit for distribution	34.75%	80.70%
<b>Gross dividends per common share (R\$)</b>	<b>11.53</b>	<b>14.19</b>
<b>Gross dividends per preferred share (R\$)</b>	<b>14.97</b>	<b>14.19</b>

The Company's Bylaws establish as minimum mandatory dividends the distribution of 25% of profit for each year adjusted as required by law.

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

Dividends will be paid on a date to be defined at the Annual Stockholders' Meeting (AGO), or in accordance with Brazilian Corporate Law, in the event the AGO does not address this matter, and will be adjusted for inflation from 12/31/2010 through the payment date, based on the variation of the Selic rate.

### 35 – RELATED PARTIES

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

Companies	Nature of the transaction	12/31/2010			12/31/2009		
		Assets	Liabilities	Result	Assets	Liabilities	Result
Eletrobras	Receivables	1,106	-	-	1,739	-	-
	Borrowings	-	153,941	-	-	254,359	-
	Accounts payable	-	407	-	-	31	-
	Financial expenses	-	-	(15,442)	-	-	(307,231)
	Interest on capital/dividends	-	384,123	(16,099)	-	588,124	(20,299)
		<b>1,106</b>	<b>538,471</b>	<b>(31,541)</b>	<b>1,739</b>	<b>842,514</b>	<b>(327,530)</b>
Furnas	Consumers, concessionaires and permittees	4,288	-	-	4,874	-	-
	Receivables	10	-	-	8	-	-
	Trade payables	-	13,346	-	-	15,249	-
	Charge for network usage	-	-	(129,251)	-	-	(129,956)
	Interest on capital/dividends	-	2	-	-	13	-
		<b>4,298</b>	<b>13,348</b>	<b>(129,251)</b>	<b>4,882</b>	<b>15,262</b>	<b>(129,956)</b>
Eletrorol	Receivables	27	-	-	21	-	-
	Trade payables	-	6,614	-	-	7,107	-
	Charge for network usage	-	-	(63,666)	-	-	(62,318)
		<b>27</b>	<b>6,614</b>	<b>(63,666)</b>	<b>21</b>	<b>7,107</b>	<b>(62,318)</b>
Eletronorte	Consumers, concessionaires and permittees	6,587	-	-	7,260	-	-
	Trade payables	-	8,489	-	-	7,332	-
	Receivables	8	-	-	6	-	-
	Charge for network usage	-	-	(72,637)	-	-	(65,139)
		<b>6,595</b>	<b>8,489</b>	<b>(72,637)</b>	<b>7,266</b>	<b>7,332</b>	<b>(65,139)</b>
Eletronuclear	Consumers, conc. and permittees	534	-	-	613	-	-
	Interest on Capital/Dividends	-	1	-	-	8	-
		<b>534</b>	<b>1</b>	<b>-</b>	<b>613</b>	<b>8</b>	<b>-</b>
CGTEE	Consumers, concessionaires and permittees	37,720	-	-	2,328	-	-
	Payables	-	3	-	-	-	-
	Revenue from the supply of power	-	-	255,273	-	-	28,659
		<b>37,720</b>	<b>3</b>	<b>255,273</b>	<b>2,328</b>	<b>-</b>	<b>28,659</b>
Eletrorpar	Receivables	14,693	-	-	14,693	-	-
	( - ) Provision for losses	(13,237)	-	-	(13,237)	-	-
	Advances to suppliers	5,279	-	-	5,279	-	-
	Payables	-	1,456	-	-	1,456	-
		<b>6,735</b>	<b>1,456</b>	<b>-</b>	<b>6,735</b>	<b>1,456</b>	<b>-</b>
Ceal	Consumers, concessionaires and permittees	23,553	-	-	20,084	-	-
	Receivables	23	-	-	20	-	-
	Revenue from the supply of power	-	-	54,394	-	-	49,244
		<b>23,576</b>	<b>-</b>	<b>54,394</b>	<b>20,104</b>	<b>-</b>	<b>49,244</b>
Cepisa	Consumers, concessionaires and permittees	65,846	-	-	104,891	-	-
	Revenue from the supply of power	-	-	46,767	-	-	46,277
		<b>65,846</b>	<b>-</b>	<b>46,767</b>	<b>104,891</b>	<b>-</b>	<b>46,277</b>
STN	Investment	193,244	-	-	168,830	-	-
	Interest on capital/dividends	-	-	-	9,672	-	-
	Trade payables	-	1,151	-	-	1,142	-
	Revenue from services provided	-	-	1,854	-	-	1,663
	Equity earnings	-	-	33,262	-	-	28,951
	Charge for network usage	-	-	(10,410)	-	-	(10,225)
		<b>193,244</b>	<b>1,151</b>	<b>24,706</b>	<b>178,502</b>	<b>1,142</b>	<b>20,389</b>



Companies	Nature of the transaction	12/31/2010			12/31/2009		
		Assets	Liabilities	Result	Assets	Liabilities	Result
Integração Trans. de Energia S.A.	Investment	28,530	-	-	26,046	-	-
	Interest on capital/dividends	676	-	-	-	-	-
	Trade payables	-	903	-	-	838	-
	Equity in earnings	-	-	2,844	-	-	2,832
	Charge for network usage	-	-	(8,045)	-	-	-
		<b>29,206</b>	<b>903</b>	<b>(5,201)</b>	<b>26,046</b>	<b>838</b>	<b>2,832</b>
Energética Águas da Pedra	Investment	61,286	-	-	61,616	-	-
	Equity in losses	-	-	(330)	-	-	(369)
		<b>61,286</b>	-	<b>(330)</b>	<b>61,616</b>	-	<b>(369)</b>
ESBR Participações	Investment	412,001	-	-	202,388	-	-
	Equity in losses	-	-	(2,952)	-	-	(2,034)
	Other comprehensive income (expense)	-	(2,170)	(1,235)	-	-	-
		<b>412,001</b>	<b>(2,170)</b>	<b>(4,187)</b>	<b>202,388</b>	-	<b>(2,034)</b>
Interligação Elétrica do Madeira	Investment	61,574	-	-	25,624	-	-
	Equity in earnings	-	-	2,066	-	-	341
		<b>61,574</b>	-	<b>2,066</b>	<b>25,624</b>	-	<b>341</b>
Manaus Transmissora	Investment	(18,187)	-	-	(8,740)	-	-
	Other comprehensive income (expense)	-	(466)	-	-	-	-
	Equity in losses	-	-	(8,981)	-	-	(8,956)
		<b>(18,187)</b>	<b>(466)</b>	<b>(8,981)</b>	<b>(8,740)</b>	-	<b>(8,956)</b>
Manaus Construtora	Investment	5,949	-	-	1,938	-	-
	Equity in earnings	-	-	5,948	-	-	1,938
		<b>5,949</b>	-	<b>5,948</b>	<b>1,938</b>	-	<b>1,938</b>
Norte Energia	Investment	26,669	-	-	-	-	-
	Equity in losses	-	-	(333)	-	-	-
		<b>26,669</b>	-	<b>(333)</b>	-	-	-
TDG	Investment	13,018	-	-	-	-	-
	Equity in losses	-	-	(261)	-	-	-
		<b>13,018</b>	-	<b>(261)</b>	-	-	-
Pedra Branca	Investment	158	-	-	-	-	-
	Equity in losses	-	-	(3)	-	-	-
		<b>158</b>	-	<b>(3)</b>	-	-	-
São Pedro do Lago	Investment	157	-	-	-	-	-
	Equity in losses	-	-	(4)	-	-	-
		<b>157</b>	-	<b>(4)</b>	-	-	-
Sete Gameleiras	Investment	158	-	-	-	-	-
	Equity in losses	-	-	(3)	-	-	-
		<b>158</b>	-	<b>(3)</b>	-	-	-
Fachesf	Trade payables	-	1,695	-	-	3,306	-
	Regular contributions	-	8,721	-	-	7,574	-
	Actuarial contracts	-	362,691	-	-	453,723	-
	Actuarial expenses	-	-	27,998	-	-	(131,151)
	Finance expenses	-	-	-	-	-	5,961
		-	<b>373,107</b>	<b>27,998</b>	-	<b>464,603</b>	<b>(125,190)</b>
Cepel	Operating expenses	-	-	(9,863)	-	-	(9,438)
		-	-	<b>(9,863)</b>	-	-	<b>(9,438)</b>

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

**Eletrobras**

- Loan agreements entered into between the parties, pursuant to the terms and conditions mentioned in Note 21.
- Dividends.

**Furnas**

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

**Eletrosul**

- Agreements entered into for transmission system network usage.

**Eletronorte**

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

**Eletronuclear**

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

**CGTEE**

- Agreements entered into for the sale of electric power;
- Agreements entered into for the availability of the transmission system;
- Agreements entered into for transmission system network usage

**Eletropar**

- Agreements entered into for the provision of services
- Agreements entered into for transmission system network usage.

**Ceal**

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

**Cepisa**

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

**STN**

- Amount invested by the Company;
- Agreements for the provision of services related to the operation and maintenance of transmission lines;
- Dividends on investment.

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

- Amount invested by the Company;
- Dividends on investment.

**Energética Águas da Pedra S.A.**

- Amount invested by the Company.

#### **ESBR Participações S.A.**

- Amount invested by the Company.

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

- Amount invested by the Company.

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

- Amount invested by the Company;
- Dividends on investment.

#### **Manaus Construtora Ltda.**

- Amount invested by the Company;
- Dividends on investment.

#### **Norte Energia S.A.**

- Amount invested by the Company;

#### **TDG – Transmissora Delmiro Gouveia S.A.**

- Amount invested by the Company;

#### **Fachesf**

- Actuarial obligations related to supplementary pension plan
- Agreement for lease of the Company's headquarters and attached buildings
- Special agreement for the provision of healthcare services, life insurance, and other benefits for the Company's employees.

#### **Cepel**

- Agreement for the payment of a monthly contribution as a member

In addition to the companies presented before, Chesf also carries out transactions with the following related parties:

- Centrais Elétricas de Rondônia S.A. - Ceron
- Companhia de Eletricidade do Acre – Eletroacre
- Amazonas Distribuidora de Energia S.A.
- Pedra Branca S.A.
- São Pedro do Lago S.A.
- Sete Gameleiras S.A.

#### **Remuneration of key personnel**

Key management personnel include the members of the Board of Directors, the members of the Statutory Audit Board and the Company's executive officers. The total expenses in 2010 are as follows:

	<b>12/31/2010</b>	<b>12/31/2009</b>
Remuneration of directors and officers	2,709	2,015
Social charges	740	591
Benefits	207	108
Profit sharing	282	210
	<b>3,938</b>	<b>2,924</b>

Management does not receive payment based in Chesf's shares.

## 36 – FINANCIAL INSTRUMENTS

In compliance with CVM Deliberation No. 604, of November 19, 2009, which approved Technical Pronouncements CPC 38, 39 and 40 and CVM Instruction No. 475, of December 17, 2008, the Company evaluated its financial instruments, including derivatives.

### a) General considerations:

The main financial instruments are described as follows as at 12/31/2010:

#### ASSETS

- Cash and cash equivalents  
Classified as held for trading and stated at market value in the balance sheet;
- Marketable securities  
These are classified as held through maturity and recorded at their amortized cost. Their book amounts on the balance sheet date are the same as their market value.
- Trade and other receivables  
These result directly from the Company's operations, are classified as receivables and are recorded at their original values, subject to provision for losses and adjustment to present value, when applicable.
- Open market investments  
The book amount of such instruments is the same as their market value due to their daily liquidity.
- Financial Asset – Authorized Annual Revenue and Indemnifiable Financial Asset  
The amounts of the financial assets to be received during the concession are recognized at the difference between the fair value of the assets built or acquired for the purpose of providing the concession services and the carrying value of the financial assets expected to be received at the end of the concession.

#### LIABILITIES

- Trade payables  
Trade payables result directly from the Company's operations and are classified as financial liabilities not measured at fair value.
- Borrowings  
These operations are adjusted through the balance sheet date; the related charges are accrued based on fixed or floating rates effective at 12/31/2010. Of the intercompany borrowing agreements with our parent company, Eletrobras, which represent approximately 22% of the Company's total indebtedness, 3.7% bear interest of 10% per year. Eletrobras defines its market rate by taking into consideration the risk premium compatible with the activities of the Electric Power Sector. In view of the special circumstances involved in the funding of Chesf's expansion projects, the market value of these loans corresponds to the carrying amounts.

The amounts of the financial instruments recognized in the financial statements at December 31, 2010 are the same as their market values, considering the measurement criteria of each one.

## **b) Risk management**

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

### **Market risk**

This is the risk of market changes, such as the change in interest rates and prices, which can affect the Company's revenues or the amount of its financial instruments.

### **Debt charge risks**

This risk arises from the possibility that the Company will incur losses due to fluctuations of the interest rates or other debt indexes that could increase the financial expenses related to borrowings or that reduce the gains obtained by the Company's financial investments.

The Company's management has not identified significant differences arising from operations with financial instruments between the market values and those presented in the financial statements at December 31, 2010, that require specific disclosure.

### **Capital structure risk (or financial risk)**

This risk arises from the choice that the Company makes between using its own capital (capital contributions and profit retention) or third-party capital to finance its operations. The Company follows the capital structure determined by technical studies prepared to define the business, as well as the limits established by financial agents.

### **Early maturity risk**

The Company has entered into borrowing agreements, through its jointly-owned subsidiaries, that have restrictive clauses which, normally, require the maintenance of economic and financial indices at certain levels (financial covenants). Failure to comply with these restrictions may result in the early maturity of the debt.

### **Risk of electric power shortage**

The Brazilian Electric Power System is supplied predominantly by hydroelectric power generation. A prolonged period of low rainfall during the wet season reduces the volume of water in the reservoirs of these power plants. As a consequence, the cost of electric power will rise in the short-term market as well as the System's charges as a result of the dispatch of thermoelectric power plants. In an extreme situation, it may be necessary to adopt a power rationing program which would imply reduction of revenue. However, considering the current levels of the reservoirs and the latest simulations carried out, the National Electric System Operator (ONS) does not foresee, for the next few years, a new power rationing program.

The Company did not have, by itself, hedge operations or other derivatives in the year ended December 31, 2010, nor does it consider this type of operation; however, its jointly-owned subsidiaries carry out transactions with such financial instruments, as follows:

- **ESBR Participações S.A.**

In 2009, in order to reduce the exchange rate exposure of certain amounts of the contract with the Chinese company Dong Fang, this jointly-owned subsidiary signed forward contracts of currency without physical delivery (NDF) with financial institutions. The amounts of these contracts, US\$ 41,000 and US\$ 16,400, mature on September 17, and 2009 and December 18, 2009, at rates of

R\$ 2.29 and R\$ 2.18, respectively. These operations were classified as cash flow hedges. As established by Brazilian accounting standards, the exchange variations of the NDFs were recorded in the other comprehensive income (expense) account and transferred to property, plant and equipment upon the actual settlement of the liability to the supplier.

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

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

As from the end of 2009, the subsidiary changed its hedge strategy and has been making financial investments in United States dollars to support the letter of credit guarantees issued by Banco do Brasil and Banco Itaú in favor of the Chinese suppliers Dong Fang and Hyosung. These investments are also classified as cash flow hedge.

The complete movements in the equity variation adjustments account in the years ended December 31, 2010 and 2009, are as follows:

	12/31/2010	12/31/2009
Balance at the beginning of the year	(6,599)	-
Exchange variation of NDF	-	(26,959)
Exchange variation of the main restricted deposits	(11,845)	-
Effect of trade payments – prior year balances	6,599	-
Effect of trade payments – current year balances	(933)	20,360
Balance at the end of the year	<b>(12,778)</b>	<b>(6,599)</b>

These operations generated in 2010 a comprehensive result, which is reflected in the consolidated Statement of Changes in Equity in the amount of R\$ 1,236.

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

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

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

The company's hedges were valued as cash in the year ended 12/31/2008.

- On 08/18/2008, the jointly-owned subsidiary signed a commitment contract for future purchase of aluminum with the Société Générale Bank of Paris, to protect itself against variations in the quotation of this raw material's price in the international market, in view of the need to purchase cables for the construction of transmission lines. The amount in Brazilian currency in foreign currency corresponds to US\$ 73,486 thousand and this operation matures

substantially in 2011. At 12/31/2008, the fair value of the operation generated a loss of R\$ 70,349, charged to equity under the "Other comprehensive income (expense)" caption, due to the fact that the hedged item and the derivative financial instrument met, at the time, the requirements necessary for hedge accounting. At 12/31/2009, the fair value of this operation generated a gain of R\$ 42,530, recorded in "Financial income".

- On 07/01/2008, the jointly-owned subsidiary signed a forward transaction to purchase US\$ 221,000 thousand with the BNP Paribas and Citibank banks aimed at reducing its exposure to the exchange rate fluctuation risk in view of the investment plan presented at the concession auction, since most of the equipment would be purchased from foreign suppliers. This operation matured and was settled on November 28, 2008 for the fair value of R\$ 500,720 generating a financial gain of R\$ 131,212, recorded in the "Other comprehensive income" caption in equity, net of the taxes levied on operations with derivatives because the hedged item and the derivative financial instrument met, at the time, the requirements needed for hedge accounting.

The variations in the fair value of hedge instruments would be included in property, plant and equipment at the moment when the asset would be recognized, and would be subsequently recognized against income as the asset would be depreciated. However, in 2009, due to changes in the Company's strategy, highly probable transactions, subject of hedging, which were estimated in 2008 to occur up to the maturity of the derivatives, will no longer occur, in view of the company's option to acquire the equipment in Brazil. Consequently, the gain or loss which in 2008 had been accounted for directly under "Other comprehensive income (expense)" were transferred to income for the year 2009, under the "Financial income" caption.

The jointly-owned subsidiary has no other operations involving derivative financial instruments and does not make investments of a speculative nature, whether in derivatives or other risk assets, and its operations have no margin guarantee.

The fair value of derivatives outstanding at 12/31/2010, corresponding to the contract for future purchase of aluminum, was valued at the present value of the difference between the estimated amount of the asset at the maturity date, obtained through the interpolation of market data informed by that marked on the base date, and the reference value of the contract on the maturity date.

These operations generated in 2010 a comprehensive amount, which is reflected in the consolidated statement of changes in equity, in the amount of R\$ 466.

### 37 – STATEMENT OF INCOME BY ACTIVITY

	Parent					
	12/31/2010			12/31/2009		
	Generation	Transmission	Total	Generation	Transmission	Total
<b>NET OPERATING REVENUE</b>	<b>3,814,609</b>	<b>1,335,939</b>	<b>5,150,548</b>	<b>3,179,213</b>	<b>1,323,994</b>	<b>4,503,207</b>
<b>COST OF ELECTRIC POWER SERVICE</b>						
<b>Electric power costs</b>						
Electric power purchased for resale	(24,061)	-	(24,061)	-	-	-
Charges for electricity network usage	(765,661)	-	(765,661)	(751,680)	-	(751,680)
<b>Operating costs</b>						
Personnel	(85,363)	(241,533)	(326,896)	(68,635)	(165,695)	(234,330)
Material	(3,327)	(8,147)	(11,474)	(3,161)	(5,686)	(8,847)
Fuels for electric power production	(2,296)	-	(2,296)	(7,242)	-	(7,242)
Third-party services	(17,575)	(43,793)	(61,368)	(13,476)	(31,156)	(44,632)
Financial compensation for use of water resources	(192,768)	-	(192,768)	(210,061)	-	(210,061)
Depreciation and amortization	(345,896)	-	(345,896)	(348,231)	-	(348,231)
Aneel inspection fee	(2,943)	(8,566)	(11,509)	(21,677)	(8,753)	(30,430)
Other	32,161	(2,385)	29,776	47,621	(13,297)	34,324
	(1,407,729)	(304,424)	(1,712,153)	(1,376,542)	(224,587)	(1,601,129)
<b>COST OF SERVICES PROVIDED TO THIRD PARTIES</b>	(3,394)	-	(3,394)	-	(11)	(11)
<b>CONSTRUCTION COST</b>	-	(420,451)	(420,451)	-	(386,774)	(386,774)
<b>GROSS OPERATING PROFIT</b>	<b>2,403,486</b>	<b>611,064</b>	<b>3,014,550</b>	<b>1,802,671</b>	<b>712,622</b>	<b>2,515,293</b>
<b>OPERATING EXPENSES</b>	(227,569)	(377,246)	(604,815)	(494,202)	(729,735)	(1,223,937)
<b>RESULT FROM SERVICE</b>	<b>2,175,917</b>	<b>233,818</b>	<b>2,409,735</b>	<b>1,308,469</b>	<b>(17,113)</b>	<b>1,291,356</b>
<b>FINANCIAL REVENUE (EXPENSE)</b>						
Income from financial investments	57,722	20,321	78,043	58,419	19,359	77,778
Monetary variation and late payment charges – electric power sold	137,028	17,247	154,275	29,484	2,247	31,731
Other monetary variation gains	391	1,063	1,454	794	1,845	2,639
Other financial income	39,910	28,242	68,152	55,603	48,853	104,456
PIS/Pasep and Cofins	78,672	21,014	99,686	(444)	(162)	(606)
Charges on debts	(26,788)	(34,109)	(60,897)	(335,044)	(61,894)	(396,938)
Monetary variation on borrowings	(115)	(378)	(493)	51,312	1,705	53,017
Other monetary variation on liabilities	(1,516)	1,375	(141)	(14)	(35)	(49)
Other financial expense	(37,867)	(11,259)	(49,126)	(35,248)	(14,318)	(49,566)
	247,437	43,516	290,953	(175,138)	(2,400)	(177,538)
<b>OTHER PROFIT</b>						
Income	139	216	355	7,080	3,401	10,481
Expenses	(328)	(1,107)	(1,435)	(2,381)	(3,412)	(5,793)
	(189)	(891)	(1,080)	4,699	(11)	4,688
<b>OPERATING PROFIT</b>	<b>2,423,165</b>	<b>276,443</b>	<b>2,699,608</b>	<b>1,138,030</b>	<b>(19,524)</b>	<b>1,118,506</b>
Social contribution	(220,690)	(12,661)	(233,351)	(93,143)	8,564	(84,579)
Income tax	(587,214)	9,073	(578,141)	(256,996)	37,922	(219,074)
Tax incentives	384,590	(4,233)	380,357	180,881	(17,728)	163,153
<b>Profit before profit sharing</b>	<b>1,999,851</b>	<b>268,622</b>	<b>2,268,473</b>	<b>968,772</b>	<b>9,234</b>	<b>978,006</b>
Profit sharing	(25,377)	(65,864)	(91,241)	(21,048)	(51,097)	(72,145)
<b>PROFIT FOR THE YEAR</b>	<b>1,974,474</b>	<b>202,758</b>	<b>2,177,232</b>	<b>947,724</b>	<b>(41,863)</b>	<b>905,861</b>
Basic earnings per share (R\$)	-	-	42.22	-	-	21.72
Diluted earnings per share (R\$)	-	-	42.22	-	-	17.57



	Consolidated					
	12/31/2010			12/31/2009		
	Generation	Transmission	Total	Generation	Transmission	Total
<b>NET OPERATING REVENUE</b>	<b>3,814,609</b>	<b>1,618,449</b>	<b>5,433,058</b>	<b>3,179,213</b>	<b>1,440,965</b>	<b>4,620,178</b>
<b>COST OF ELECTRIC POWER SERVICE</b>						
<b>Electric power costs</b>						
Electric power purchased for resale	(24,061)	-	(24,061)	-	-	-
Charges for electricity network usage	(765,661)	-	(765,661)	(751,680)	-	(751,680)
<b>Operating costs</b>						
Personnel	(85,363)	(243,486)	(328,849)	(68,635)	(167,335)	(235,970)
Material	(3,327)	(52,567)	(55,894)	(3,161)	(5,768)	(8,929)
Fuels for electric power production	(2,296)	-	(2,296)	(7,242)	-	(7,242)
Third-party services	(17,575)	(118,220)	(135,795)	(13,476)	(51,907)	(65,383)
Financial compensation for use of water resources	(192,768)	-	(192,768)	(210,061)	-	(210,061)
Depreciation and amortization	(345,896)	-	(345,896)	(348,231)	-	(348,231)
Aneel inspection fee	(2,943)	(8,835)	(11,778)	(21,677)	(9,051)	(30,728)
Other	32,161	(3,228)	28,933	47,621	(14,111)	33,510
	(1,407,729)	(426,336)	(1,834,065)	(1,376,542)	(248,172)	(1,624,714)
<b>COST OF SERVICES PROVIDED TO THIRD PARTIES</b>	<b>(3,394)</b>	<b>-</b>	<b>(3,394)</b>	<b>-</b>	<b>(11)</b>	<b>(11)</b>
<b>CONSTRUCTION COST</b>	<b>-</b>	<b>(503,066)</b>	<b>(503,066)</b>	<b>-</b>	<b>(416,871)</b>	<b>(416,871)</b>
<b>GROSS OPERATING PROFIT</b>	<b>2,403,486</b>	<b>689,047</b>	<b>3,092,533</b>	<b>1,802,671</b>	<b>775,911</b>	<b>2,578,582</b>
<b>OPERATING EXPENSES</b>	<b>(234,984)</b>	<b>(384,701)</b>	<b>(619,685)</b>	<b>(498,645)</b>	<b>(734,001)</b>	<b>(1,232,646)</b>
<b>RESULT FROM SERVICE</b>	<b>2,168,502</b>	<b>304,346</b>	<b>2,472,848</b>	<b>1,304,026</b>	<b>41,910</b>	<b>1,345,936</b>
<b>FINANCIAL INCOME (EXPENSE)</b>						
Income from financial investments	58,691	21,797	80,488	61,405	20,275	81,680
Monetary variation and late payment charges - electric power sold	137,028	17,249	154,277	29,484	2,247	31,731
Other monetary variation gains	391	1,063	1,454	794	1,845	2,639
Other financial income	40,493	(5,165)	35,328	55,603	52,851	108,454
PIS/Pasep and Cofins	78,672	21,014	99,686	(444)	(162)	(606)
Charges on debts	(26,788)	(47,447)	(74,235)	(335,044)	(75,797)	(410,841)
Monetary variation on borrowings	(115)	(378)	(493)	51,312	1,705	53,017
Other monetary variation on liabilities	(1,516)	1,375	(141)	(14)	(35)	(49)
Other financial expenses	(34,895)	(32,945)	(67,840)	(33,631)	(63,993)	(97,624)
	<b>251,961</b>	<b>(23,437)</b>	<b>228,524</b>	<b>(170,535)</b>	<b>(61,064)</b>	<b>(231,599)</b>
<b>OTHER PROFIT</b>						
Income	139	224	363	7,080	3,425	10,505
Expenses	(328)	(1,107)	(1,435)	(2,381)	(3,412)	(5,793)
	(189)	(883)	(1,072)	4,699	13	4,712
<b>OPERATING PROFIT</b>	<b>2,420,274</b>	<b>280,026</b>	<b>2,700,300</b>	<b>1,138,190</b>	<b>(19,141)</b>	<b>1,119,049</b>
Social contribution	(219,925)	(15,037)	(234,962)	(93,185)	7,843	(85,342)
Income tax	(585,089)	2,415	(582,674)	(257,115)	35,692	(221,423)
Tax incentives	384,590	1,219	385,809	180,881	(15,159)	165,722
<b>Profit before profit sharing</b>	<b>1,999,850</b>	<b>268,623</b>	<b>2,268,473</b>	<b>968,771</b>	<b>9,235</b>	<b>978,006</b>
Profit sharing	(25,377)	(65,864)	(91,241)	(21,048)	(51,097)	(72,145)
<b>PROFIT FOR THE YEAR</b>	<b>1,974,473</b>	<b>202,759</b>	<b>2,177,232</b>	<b>947,723</b>	<b>(41,862)</b>	<b>905,861</b>
Basic earnings per share (R\$)	-	-	42.22	-	-	21.72
Diluted earnings per share (R\$)	-	-	42.22	-	-	17.57

### 38 – INSURANCE COVERAGE

Chesf has currently three insurance agreements, each one effective for one year and all of them starting from 04/30/2010, whose objective is to provide coverage for its main assets, such as property, plant and equipment in service and warehouse. These assets are covered by annual insurance policies, specified by type of risk, as shown in the table below:

<b><u>Policies</u></b>	<b><u>Insured amounts</u></b>	<b><u>Annual premiums</u></b>
- <b>Specified risks:</b> Fire, lightning, explosion, electrical damage, electronic equipment	4,231,735	9,500
- <b>Aeronautical risks</b>	33,170	434
- <b>Transportation</b>	127,014	168
	<b>4,391,919</b>	<b>10,102</b>

The policy contracted for Specified Risks, states separately the electric power plants and substations, identifying the main equipment and respective insurance amounts and indemnity limits. It provides basic insurance coverage, such as fire, lightning and explosions of any nature, and additional coverage for possible electrical damages, risks for electronic and IT equipment.

The amount referring to aeronautical insurance, in addition to the \$ 10,336 related to damages to aircraft, includes R\$ 2,336 for civil liability and R\$ 20,498 for civil liability related to second risk, established in the Brazilian Aeronautical Code, which are coverage for damages caused to third parties.

The Company has insurance policies covering the transportation of material through insurance of road transportation and of national and international maritime and air transportation, endorsed monthly, with insured registered amounts up to 12/31/2010.

In the determination of its insurance and risk management policy, the Company takes into consideration the physical locations, the risks to which its assets are exposed and the cost-benefit ratio.

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

The General Agreement of the Electric Sector - AGSE, entered into by the Federal Government, by the electric energy generation and distribution agents, on December 18, 2001, in the initial version of the Term of Adhesion, and, subsequently, on July 4, 2002, with specific documents, among which the Agreement for Reimbursement of Free Power, formalized the understanding about issues related to the electricity rationing which was in force from June 2001 to February 2002. The AGSE was consummated by means of several legal instruments, among which Law No. 10438, of April 26, 2002, whose article 4 authorized the National Electric Energy Agency – Aneel to make the Special Tariff Recovery - RTE.

The purpose of RTE was to face the financial impacts to which the energy distribution companies were submitted, and which had their revenues reduced in the electricity rationing period established in the Emergency Energy Rationing Program – PERCEE, in addition to definitively recovering the amounts related to "Portion A", article 6 of the aforementioned law. The recovery of amounts related to Free Power, set forth in article 2 of the Law, and established during the rationing, was also included in RTE.

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

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

On August 29, 2002, through Resolutions No. 480 and 481, Aneel approved the amounts related to losses due to rationing in the periods from June to December 2001, and January and February 2002, respectively. The amounts related to “Portion A” and “Free Power” were approved, respectively, by Aneel Resolutions No. 482 and No. 483, of the same date. The maximum period of RTE for each distribution company was regulated by Aneel Resolution No. 484, also of August 29, 2002, in compliance with the legal provision that sets forth that the maximum limit of the weighted average of terms should be 72 months.

On January 12, 2004, through Regulatory Resolution No. 1, Aneel confirmed the amounts approved by Resolution No. 483/2002, related to Free Power, and changed the maximum periods of RTE in the electric energy supply tariffs, excluding from this period the recovery of items from Portion A, and through Resolution No. 45, of March 3, 2004, Aneel changed the percentages applicable to the collection of RTE, as repass of Free Power to Generators and Distributors, set forth by its Resolutions No. 036/2003 and No. 089/2003.

In compliance with the provisions of Official Letter No. 2.409/2007-SFF/ANEEL, the Company reversed, in its accounting records, the amounts related to taxes and regulatory charges, which financial burden was attributed to the concessionaires of generation, and which were not effectively borne by consumers, pursuant to Technical Note No. 392/2007-SFF/ANEEL. As the periods for transfer had expired and all amounts had been transferred, upon such record an overpayment of R\$ 2,859 was noted, and it should be returned by the distribution concessionaires.

The Company, also in compliance with the provisions of the Official Letter No. 2.409/2007-SFF/ANEEL, recorded the write-off of accounts receivable from Free Power not invoiced by the Distributors in the period established by Aneel, in the amount of R\$ 404,193, as well as the reversal of tax costs and regulatory charges borne by it, deducted by the distributors from the financial transfer of the Free Power, the amounts of which were not effectively borne by consumers, pursuant to Technical Note No. 392/2007-SFF/ANEEL, in the amount of R\$ 13,795.

On January 12, 2010, Aneel published Regulatory Resolution No. 387/2009, of December 15, 2009, determining that the concessionaires and permittees of electric energy distribution utilities made the calculations required for the recovery of the final amount of Free Power and Loss of Revenue, using the methodology of said Resolution, to permit the computation of the final balances to be passed on to the generators.

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

On May 19, 2010, Aneel published Decision No. 1.403, stipulating the reconciliation of the amounts of Free Power between the Generators and Distributors. The Company made such reconciliation, in accordance with Attachment II to said Decision and forwarded it to that Agency.

On August 26, 2010, Aneel published the Decision No. 2.517, establishing final transfer amounts of Free Power updated to July 2010, considering the reconciliation forwarded by the Distributors and Generators that were signatories of the General Agreement of the Electric Sector. In compliance with said Decision, payments should have been made by September 29, 2010.

In view of the Aneel Decision No. 2.517/2010, the amounts related to the overstated receipt of the Distributors, by virtue of the Official Circular No. 938/2010-SFF/ANEEL, of August 24, 2010, these

liabilities are suspended until the judgment of the administrative proceedings filed by the Company with Aneel.

In the table below we show, by debtor, the amounts of the Regulatory Assets receivable by the Company and related to Free Power, not included in the accounting records, in accordance with the international practices.

Amounts receivable	12/31/2010
Company	Amount (R\$)
Ampla (Cerj)	9,375
EBE	3,213
CEB	815
Celpe	4,152
Cemig	6,529
Cepisa	1,719
Cesp	4,654
Coelba	4,066
Coelce	389
CSPE	131
Eletronorte	29,796
Eletropaulo	7,680
Energisa Paraíba	108
Energisa Sergipe	809
Escelsa	4,446
Aes Tietê	1,075
CDSA	587
Celesc	551
Celtins	64
CGTEE	63
Copel	408
CPFL	96
Duke energy	1,327
EEB	2
EEEVP	11
Emae	513
Furnas	4,679
RGE	133
Tractebel	471
<b>Total gross amount receivable</b>	<b>87,862</b>
( - ) Provision for impairment of trade receivables	(9,375)
<b>Total net amount receivable</b>	<b>78,487</b>

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

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

#### 40 - ASSETS AND RIGHTS OF THE FEDERAL GOVERNMENT USED BY THE CONCESSIONAIRE

Pursuant to Accounting Instruction No. 6.3.13 of the Accounting Manual for the Electric Power Sector, the Company recognizes in subsidiary records the assets and rights of the Federal Government under a special use system, segregated by activity, in the amount of R\$ 68,465 (adjusted cost), as shown below:

	12/31/2010								12/31/2009	
	Generation				Transmission				Gen.	Transm.
	No. of items	Adjusted cost	Estimated depreciation	Net amount	No. of items	Adjusted cost	Estimated depreciation	Net amount	Net amount	Net amount
Castelo Branco Hydroelectric Power Plant Dam	1	56,858	(52,309)	4,549	-	-	-	-	5,686	-
Land	10	2,958	-	2,958	4	223	-	223	2,958	223
Buildings	223	1,688	(1,688)	-	2	13	(12)	1	-	2
Resettlement at the Itaparica Hydroelectric Power Plant	1	5,201	(2,503)	2,698	-	-	-	-	2,854	-
Guadalupe Airport - Piauí	1	926	(926)	-	-	-	-	-	-	-
Access road to the Castelo Branco Plant	1	508	(508)	-	-	-	-	-	-	-
Other	-	-	-	-	3	90	(83)	7	-	11
<b>Total</b>	<b>237</b>	<b>68,139</b>	<b>(57,934)</b>	<b>10,205</b>	<b>9</b>	<b>326</b>	<b>(95)</b>	<b>231</b>	<b>11,498</b>	<b>236</b>

#### 41 - EMPLOYEE AND MANAGEMENT COMPENSATION

Based on December 2010 and in accordance with the Company's salary policy, the highest and lowest monthly compensation paid to employees were R\$ 33,234.74 and R\$ 1,117.67, respectively. The highest fee payable to the Company's officers was R\$ 30,956.74. Such compensation comprises fixed salaries, bonuses and additional amounts.

#### 42 – ENVIRONMENT

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

Nature of the expenditures	12/31/2010			12/31/2009
	Use			Total
	Property, plant and equipment	Result	Total	
Maintenance of operating processes to improve the environment	2,628	4,712	7,340	10,914
Preservation and/or recovery of degraded environments	-	1,273	1,273	1,905
Environmental education for the community	96	913	1,009	933
Other environmental projects	8,397	1,012	9,409	1,916
<b>Total</b>	<b>11,121</b>	<b>7,910</b>	<b>19,031</b>	<b>15,668</b>

- *Maintenance of operating processes to improve the environment* comprises expenses for studies, diagnoses, surveys, usage plans, monitoring programs, among other expenses, and does not include actions to recover or mitigate the impact on the environment.
- *Preservation and/or recovery of degraded environments* comprises the expenses for the performance of actions aimed at the preservation and/or recovery of degraded environments for which impacts have already been detected, with a recovery action in progress, and these recovery/preservation actions can relate to water, land or air environments.

- *Environmental education for the community* comprises the expenses incurred with sustainability education and/or training actions aimed at the communities affected by the Company's projects.
- *Other environmental projects* comprises the expenses for other actions adopted by the Company aiming at the preservation of the environment.

The Company has environmental commitments in the amount of R\$ 6,632, and expects to disburse R\$ 4,257 in 2011 and R\$ 2,375 as from 2012.

#### 43 – PERSONNEL TRAINING AND DEVELOPMENT (unaudited)

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

Indicators	12/31/2010	12/31/2009
No. of employees who have undergone training	4,822	4,857
Men/hours of training (R\$ thousand)	417,636	437,067
Average/hour training (R\$)	75.92	80.24
Index of trained employees (%)	88	89
Workforce trained (%)	3.99	4.18
Total investment (R\$ thousand)	7,695	6,527
Average amount invested per employee (R\$ 1.00)	1,399	1,198

#### 44 – EFFECTS OF THE ADOPTION OF IFRS AND CPC IN INCOME AND EQUITY FOR QUARTERS ENDED IN 2010 AND 2009

The Brazilian Securities Commission (CVM) has permitted publicly-held companies to present their Quarterly Information (ITR) during 2010 in accordance with the accounting standards in effect in 2009. However, it has demanded that the companies adopting this option resubmit the 2010 ITR, comparatively with those of 2009, also adjusted to the new standards of 2010, at least when presenting the first ITR of 2011. It was also required that companies which used this option to present an explanatory note evidencing, for each quarter of 2010 and 2009, the effects on income and on equity arising from the full adoption of the 2010 accounting standards.

	Parent 03/31/2010		Parent 06/30/2010		Parent 09/30/2010	
	Equity	Profit	Equity	Profit	Equity	Profit
<b>Balance in accordance with previous practices</b>	<b>16,102,700</b>	<b>433,829</b>	<b>16,447,902</b>	<b>777,196</b>	<b>17,085,986</b>	<b>1,417,751</b>
ICPC 01 - Transmission	104,415	4,131	108,639	72,102	126,105	25,821
Derecognition of regulatory assets and liabilities	1,991	797	73,296	8,355	22,914	21,720
Post-employment benefits	(137,431)	21,896	(139,140)	47,318	(140,849)	69,125
Equity in the results	(495)	(495)	3,236	3,236	3,764	3,764
Reclassifications:						
Advance for future capital increase	(3,018,050)	-	(3,018,050)	-	(3,018,050)	-
Additional dividends	408,393	-	-	-	-	-
<b>Balance in accordance with the new practices</b>	<b>13,461,523</b>	<b>460,158</b>	<b>13,475,883</b>	<b>908,207</b>	<b>14,079,870</b>	<b>1,538,181</b>

Note: Amounts net of deferred income tax and social contribution

	Parent		Parent		Parent	
	03/31/2009		06/30/2009		09/30/2009	
	Equity	Profit	Equity	Profit	Equity	Profit
<b>Balance in accordance with previous practices</b>	<b>13,036,742</b>	<b>263,592</b>	<b>13,342,512</b>	<b>569,362</b>	<b>13,425,237</b>	<b>641,901</b>
ICPC 01 - Transmission	52,803	17,336	73,380	37,913	79,139	43,672
Derecognition of regulatory assets and liabilities	(5,897)	2,849	(5,503)	3,244	(4,133)	4,614
Post-employment benefits	(464,704)	(14,710)	(467,211)	(32,341)	(469,720)	(50,005)
Equity in the results	17,103	17,103	4,816	4,816	(14,603)	(14,603)
Reclassifications:						
Advance for future capital increase	(294,396)	-	(294,396)	-	(294,396)	-
Additional dividends	279,803	-	-	-	-	-
<b>Balance in accordance with the new practices</b>	<b>12,621,454</b>	<b>286,170</b>	<b>12,653,598</b>	<b>582,994</b>	<b>12,721,524</b>	<b>625,579</b>

Note: Amounts net of deferred income tax and social contribution

	Consolidated		Consolidated		Consolidated	
	03/31/2010		06/30/2010		09/30/2010	
	Equity	Profit	Equity	Profit	Equity	Profit
<b>Balance in accordance with previous practices</b>	<b>16,102,700</b>	<b>433,829</b>	<b>16,447,902</b>	<b>777,196</b>	<b>17,085,986</b>	<b>1,417,751</b>
ICPC 01 - Transmission	103,920	3,636	111,875	75,338	129,869	29,585
Derecognition of regulatory assets and liabilities	1,991	797	73,296	8,355	22,914	21,720
Post-employment benefits	(137,431)	21,896	(139,140)	47,318	(140,849)	69,125
Reclassifications:						
Advance for future capital increase	(3,018,050)	-	(3,018,050)	-	(3,018,050)	-
Additional dividends	408,393	-	-	-	-	-
<b>Balance in accordance with the new practices</b>	<b>13,461,523</b>	<b>460,158</b>	<b>13,475,883</b>	<b>908,207</b>	<b>14,079,870</b>	<b>1,538,181</b>

Note: Amounts net of deferred income tax and social contribution

	Consolidated		Consolidated		Consolidated	
	03/31/2009		06/30/2009		09/30/2009	
	Equity	Profit	Equity	Profit	Equity	Profit
<b>Balance in accordance with previous practices</b>	<b>13,036,742</b>	<b>263,592</b>	<b>13,342,512</b>	<b>569,362</b>	<b>13,425,237</b>	<b>641,901</b>
ICPC 01 - Transmission	69,906	34,439	78,196	42,729	56,486	29,069
Derecognition of regulatory assets and liabilities	(5,897)	2,849	(5,503)	3,244	(4,133)	4,614
Post-employment benefits	(464,704)	(14,710)	(467,211)	(32,341)	(469,720)	(50,005)
Reclassifications:						
Advance for future capital increase	(294,396)	-	(294,396)	-	(294,396)	-
Additional dividends	279,803	-	-	-	-	-
<b>Balance in accordance with the new practices</b>	<b>12,621,454</b>	<b>286,170</b>	<b>12,653,598</b>	<b>582,994</b>	<b>12,713,474</b>	<b>625,579</b>

Note: Amounts net of deferred income tax and social contribution



## COMPOSITION OF THE BOARD OF DIRECTORS, STATUTORY AUDIT BOARD AND BOARD OF EXECUTIVE OFFICERS

### BOARD OF DIRECTORS

---

**Ubirajara Rocha Meira**  
Chairman

**Dilton da Conti Oliveira**  
Director

**Swedenberger do Nascimento Barbosa**  
Director

**Altino Ventura Filho**  
Director

**Miriam Aparecida Belchior**  
Director

**Marcelo Viana Estevão de Moraes**  
Director

### STATUTORY AUDIT BOARD

---

**Pedro Gaudêncio de Castro**  
Chairman

**Fabiana Magalhães Almeida Rodopoulos**  
Member

**Marcelo Cruz**  
Member

### BOARD OF EXECUTIVE OFFICERS

---

**Dilton da Conti Oliveira**  
CEO

**Marcos José Mota de Cerqueira**  
Economic and Financial Officer

**José Ailton de Lima**  
Engineering and Construction Officer

**Mozart Bandeira Arnaud**  
Operations Officer

**José Pedro de Alcântara Júnior**  
Administrative Officer

### EXECUTION AND FINANCIAL/ECONOMIC CONTROL SUPERINTENDENCE

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**José Ivan Pereira Filho**  
Superintendent  
CRC-PE-007552/O-6 – Accountant

### ACCOUNTING DEPARTMENT

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**Denilson Veronese da Costa**  
Department Head  
CRC-PB-004638/O-7 "S" PE – Accountant

(A free translation of the original in Portuguese)

## **Report of Independent Auditors on the Financial Statements**

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

We have audited the accompanying individual financial statements of Companhia Hidro Elétrica do São Francisco ("Company" or "Parent Company"), which comprise the balance sheet at December 31, 2010 and the related statements of income, of comprehensive income, of changes in equity, and of cash flows for the year then ended, as well as the summary of the main accounting policies and other notes to the financial statements.

We have also audited the consolidated financial statements of Companhia Hidro Elétrica do São Francisco and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet at December 31, 2010 and the related consolidated statements of income, of comprehensive income, of changes in equity and of cash flows for the year then ended, as well as the summary of the main accounting policies and other notes to the financial statements.

### **Management's responsibility on the financial statements**

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

### **Independent auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation and adequate presentation of the Company's financial statements in order to plan the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion on the individual financial statements**

In our opinion, the individual financial statements audited by us present fairly, in all material respects, the financial position of Companhia Hidro Elétrica do São Francisco at December 31, 2010, the performance of its operations and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

**Opinion on the consolidated  
financial statements**

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Companhia Hidro Elétrica do São Francisco and its jointly-owned subsidiaries at December 31, 2010, the consolidated performance of its operations and of its consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

**Emphasis**

As described in Note 4.1, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Companhia Hidro Elétrica do São Francisco, these practices differ from IFRS, as far as the individual financial statements are concerned, only as regards the valuation of investments in subsidiaries, associates and jointly-owned subsidiaries under the equity method of accounting, as, for IFRS purposes, they would be valued at cost or fair value.

**Other matters****Statements of value added**

We have also audited the individual and consolidated statements of value added (DVA), for the year ended December 31, 2010, whose presentation is required by Brazilian Corporate Law for publicly-held companies, and as supplementary information under IFRS, as these do not require the presentation of DVA. These statements were submitted to the same audit procedures previously described and, in our opinion, are adequately presented, in all material respects, in relation to the financial statements taken as a whole.

**Audit of the amounts corresponding to the  
balance sheet at January 1, 2009**

The audit of the financial statements for the year ended December 31, 2008, whose balance sheet and the respective notes to the financial statements, presented for comparison purposes, was conducted by other independent auditors who issued an unqualified opinion thereon dated February 27, 2009. Our opinion is not qualified based on this subject.

As part of our audit of the financial statements for the year ended December 31, 2010, we have also audited the adjustments described in Note 3.1.1, which were made to change the balance sheet and the respective explanatory notes at January 1, 2009. In our opinion, such adjustments are adequate and were made correctly. We were not hired to audit, review or apply any other procedures to the Company's financial statements for 2008, consequently we do not express an opinion nor provide any other assurance on the financial statements for 2008 taken as a whole.

Recife, April 28, 2011

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

Gilberto Bagaiolo Contador  
Contador CRC 1RS069038/O-0 "S" PE

Sérgio Eduardo Zamora  
Contador CRC 1SP168728/O-4 "S" PE

(A free translation of the original in Portuguese)

## REPORT OF THE STATUTORY AUDIT BOARD

The Statutory Audit Board of Companhia Hidro Elétrica do São Francisco – Chesf, in compliance with its legal and corporate statutory duties, reviewed the **Management Report**, as well as the **Balance Sheet and other Financial Statements**, for the year ended December 31, 2010, based on the unqualified opinion of the independent auditors PricewaterhouseCoopers Auditores Independentes, issued on April 28, 2011, prepared in accordance with the auditing standards applicable in Brazil.

This Board was also informed of the following proposals to be submitted for approval at the Company's Annual Stockholders' Meeting:

1. Proposal for Capital Budget; and
2. Proposal for Allocation of Profit for the Year, and payment of R\$ 599,461 thousand as dividends and retention of R\$ 1,293,792 thousand for the 2011 capital budget.

The Statutory Audit Board is of the unanimous opinion that the **aforementioned corporate documents fairly present**, in all material respects, **the financial, equity and operating position of** Companhia Hidro Elétrica do São Francisco – Chesf.

Furthermore, the Statutory Audit Board unanimously endorses the **submittal of the proposal for the allocation of profit for the year and the capital budget** to the Annual Stockholders' Meeting, as presented by the Board of Directors.

Brasília, April 28, 2011.

*Pedro Gaudêncio de Castro*  
Chairman

*Alex Pereira Benício*

*Marcelo Cruz*

**Atenção**

\*\*\*\* Não destacar esta folha do trabalho \*\*\*\*

**Departamento de Traduções - 1º andar****Dados do Projeto**

**Cliente** Companhia Hidro Elétrica do São Francisco - CHESF  
**Departamento** ABAS/Assurance  
**Tipo de trabalho** DF  
**Idioma** P/I  
**Nome do arquivo** CHESFING10JF.DOCX  
**Código para débito** 01023668/0001  
**Sócio**  
**Gerente** Rodrigo Noronha  
**Sócio substituto**  
**Encaminhar para** Rodrigo Noronha

**Andamento - Traduções**

	Nome	Data	Observações
Entrada		14.06.11	<input type="checkbox"/> Track Changes <input type="checkbox"/> _____
Tradução	JF	14.06 a 11.07.11	<input type="checkbox"/> Free Translation
Correções	Roger	11-12.07.11	<input type="checkbox"/> Ponto por vírgula <input type="checkbox"/> _____
Cheque padrão	Yara	14.07.11	<input type="checkbox"/> Corretor ortográfico
Revisão da tradução			<input type="checkbox"/> Montagem ITR <input type="checkbox"/> _____
Correções			<input type="checkbox"/> Formatação
2ª. Revisão			<input type="checkbox"/> Correções <input type="checkbox"/> _____
Correções			<input type="checkbox"/> Rodapé
3ª. Revisão			<input type="checkbox"/> OK

	HISTÓRICO DE ALTERAÇÕES / PONTOS DE ATENÇÃO PARA O USUÁRIO		
Página da versão original	VERSÃO ORIGINAL	Página da versão traduzida	VERSÃO TRADUZIDA