



Companhia de Eletricidade do Estado da Bahia

(incorporated in the Federative Republic of Brazil)

R\$400,000,000

11.75% Senior Notes due 2016

Payable in U.S. Dollars

Companhia de Eletricidade do Estado da Bahia ("Coelba" or the "Issuer"), is offering R\$400,000,000 in aggregate principal amount of its senior notes due 2016 (the "notes"), payable in U.S. dollars. The Issuer is a corporation incorporated under the laws of the Federative Republic of Brazil. Interest on the notes will be payable semi-annually in arrears on April 27 and October 27 of each year, beginning on October 27, 2011. The notes will mature on April 27, 2016. The notes are denominated in *reais*, but payment of principal and interest will be made in U.S. dollars as described in this offering memorandum. Accordingly, your investment in the notes is subject to currency risk with respect to the Brazilian *real*/U.S. dollar exchange rate.

The notes may be redeemed, in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest, at any time upon the occurrence of specified events relating to the tax laws of Brazil, or other relevant jurisdictions, as set forth in this offering memorandum.

The notes will rank equally in right of payment with all other present and future senior unsecured obligations of the Issuer (except for any obligations that may be preferred by provisions of law that are both mandatory and of general application). The notes will be effectively junior to our secured indebtedness to the extent of the value of the assets securing such indebtedness.

There is currently no public market for the notes. This offering memorandum comprises "Listing Particulars" for the purpose of the application to the Irish Stock Exchange for the listing of the notes. Application has been made to the Irish Stock Exchange to seek approval of these Listing Particulars and to admit the notes to listing on the Official List, and to trading on the Global Exchange Market of the Irish Stock Exchange.

Investing in the notes involves risks. See "Risk Factors" beginning on page 14 for certain information that you should consider before investing in the notes.

Price: 100% plus accrued interest, if any, from April 27, 2011.

The notes have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or under the securities laws of any other jurisdiction. The notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act ("Rule 144A") and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For more information about restrictions on transfer of the notes, see "Transfer Restrictions."

Delivery of the notes is expected to be made to investors in book-entry form through The Depository Trust Company, or DTC, and its participants, including Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, société anonyme, Luxembourg, or Clearstream, on or about April 27, 2011.

BB SECURITIES

BNP PARIBAS

ITAÚ BBA

The date of this offering memorandum is April 29, 2011.

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NOTICE TO INVESTORS

You should only rely on the information contained in this offering memorandum. No person is authorized to provide you with information that is different or additional from that contained in this offering memorandum and the documents referred to herein. If anyone provides you with different or additional information, you should not rely on it. You should assume that the information in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum, regardless of time of delivery of this offering memorandum or any sale of the notes. The Issuer's business, financial condition, results of operations and prospects may change after the date on the front cover of this offering memorandum. Neither the Issuer nor any of initial purchasers, is making an offer to sell the notes in any jurisdiction where such offer or sale is not permitted.

This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any note offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.

In this offering memorandum, except as otherwise indicated, the words "Coelba," "Issuer," "we," "us," "our" and "ours" refer to Companhia de Eletricidade do Estado da Bahia.

BB Securities Ltd., BNP Paribas Securities Corp. and Banco Itaú BBA International, S.A. – London Branch, as the initial purchasers, may engage in transactions that stabilize, maintain or otherwise affect the price of the notes which, if commenced, may be discontinued. Specifically, the initial purchasers may over-allot in connection with this offering and may bid for and purchase notes in the open market. For a description of these activities, see "Plan of Distribution."

The Issuer has prepared this offering memorandum for use solely in connection with the proposed offering of the notes outside Brazil. This offering memorandum is personal to the offeree to whom it has been delivered by the initial purchasers and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the notes. Distribution of this offering memorandum to any person other than the offeree is unauthorized, and any disclosure of any of its contents without the Issuer's prior written consent is prohibited. Each offeree, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees not to make copies (electronic or otherwise) of this offering memorandum, in whole or in part. If you do not purchase any notes or this offering is terminated for any reason, you must return this offering memorandum and all documents referred to herein to: BNP Paribas Securities Corp., 787 Seventh Avenue, New York, New York 10019, Attention: Syndicate Desk.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions contained in the Indenture and other transaction documents described herein. This offering memorandum may only be used for the purpose for which it has been published. The information provided is not all-inclusive. The market information in this offering memorandum has been obtained by the Issuer from publicly available sources deemed by the Issuer to be reliable. The Issuer accepts responsibility for correctly extracting and reproducing such information. Notwithstanding any investigation that the initial purchasers may have conducted with respect to the information contained in this offering memorandum, the initial purchasers accept no liability in relation to the information contained in this offering memorandum or its distribution or with regard to any other information supplied by or on the Issuer's behalf.

The notes offered through this offering memorandum are subject to restrictions on transferability and resale, and may not be transferred or resold in the United States except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration or exemption from such laws. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. In making an investment decision, you must rely on your own examination of the Issuer's business and the terms of this offering, including the merits and risks involved.

You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither the Issuer nor any of the initial purchasers will have any responsibility therefor.

The Issuer confirms that, after having made all reasonable inquiries, this offering memorandum contains all information with regard to the Issuer and the notes which is material to the offering and sale of the notes, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading in any material respect and that there are no omissions of any other facts from this offering memorandum which, by their absence herefrom, make this offering memorandum misleading in any material respect. The Issuer accepts responsibility accordingly.

This offering memorandum contains summaries intended to be accurate with respect to certain terms of certain documents, but reference is made to the actual documents, all of which will be made available to prospective investors upon request to the Issuer or the trustee for complete information with respect thereto, and all such summaries are qualified in their entirety by such reference.

Prospective investors hereby acknowledge that: (i) they have been afforded an opportunity to request from the Issuer and to review, and have received, all additional information considered by them to be necessary to verify the accuracy of, or to supplement, the information contained herein, (ii) they have had the opportunity to review all of the documents described herein, (iii) they have not relied on any initial purchaser or any of its affiliates or subsidiaries in connection with any investigation of the accuracy of such information or their investment decision, and (iv) no person has been authorized to give any information or to make any representation concerning the Issuer or the notes (other than as contained herein and information given by the Issuer's duly authorized officers and employees, as applicable, in connection with prospective investors' examination of the Issuer and the terms of this offering) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Issuer or the initial purchasers.

In making an investment decision, prospective investors must rely on their examination of the Issuer and the terms of this offering, including the merits and risks involved. These notes have not been approved or recommended by any United States federal or state securities commission or any other United States, Brazilian or other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense in the United States.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1995, AS AMENDED, WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RESIDENTS OF BRAZIL

The notes have not been, and will not be, registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or the “CVM”). The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering nor an unauthorized distribution of notes in Brazil nor an undue solicitation of investors under Brazilian laws and regulations. Any documents or other materials relating to this offering, as well as the information contained herein, may not be supplied in Brazil as part of any public offering, unauthorized distribution or undue solicitation of investors, and may not be used in connection with any offer for subscription, sale, unauthorized distribution of the notes or undue solicitation of investors in Brazil. Persons wishing to offer or acquire the notes within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

This document is being distributed to, and is only directed at, persons who (i) are outside the United Kingdom, or (ii) are investment professionals under Article 19(5) of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005, or (iii) are high net worth entities and other persons to whom it may lawfully be communicated, falling under Article 49(2)(a) to (d) of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005, all such persons together being referred to as “relevant persons.” The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or acquire such notes will only be engaged in with relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

This offering memorandum has been prepared on the basis that any offer of notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (as defined below) (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of the notes. Accordingly, any person making or intending to make an offer of the notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any initial purchaser has authorized, nor do they authorize the making of any

offer of notes in circumstances in which an obligation arises for the Issuer or the initial purchasers to publish or supplement a prospectus for such offer. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU. This offering memorandum is not a “prospectus” for the purposes of the Prospectus Directive and has not been approved as such by a competent authority in any Relevant Member State.

You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither the Issuer nor the initial purchasers will have any responsibility therefor.

The notes will be initially issued in the form of one or more global securities registered in the name of Cede & Co., as nominee for DTC. See “Description of the Notes” for more information relating to such book-entry, settlement and clearance. The Issuer and the initial purchasers reserve the right to withdraw the offering of the notes at any time or to reject a commitment to subscribe for the notes, in whole or in part.

WHERE YOU CAN FIND MORE INFORMATION

So long as any notes remain outstanding, we will make available, upon request, to any holder and to any prospective purchaser of notes the information required pursuant to Rule 144A(d)(4)(i) under the Securities Act, during any period in which we are not subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). See also “General Information.”

You may obtain a copy of the indenture that governs the notes by requesting it in writing or by telephone at the address and phone number below.

Companhia de Eletricidade do Estado da Bahia
Attention: *Superintendente Financeiro*
Av. Edgard Santos, 300 – Narandiba, Bl. A2 1º andar
Salvador – BA
40.181-900
Telephone Number: (55-71) 3370-5500

Application has been made to the Irish Stock Exchange to admit the notes to listing on the Official List, and to trading on the Global Exchange Market, of the Irish Stock Exchange. The Irish Stock Exchange’s Global Exchange Market takes no responsibility for the contents of this offering memorandum, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum. This offering memorandum comprises “listing particulars” for the purpose of the application to the Irish Stock Exchange for the listing of the notes.

DEFINITIONS

In this offering memorandum, unless the context otherwise requires, references to:

“Coelba”, “Issuer,” “we,” “us,” “our” and “group” refer to Companhia de Eletricidade do Estado da Bahia – Coelba, a *sociedade por ações* incorporated under the laws of Brazil.

“ABRADEE” refers to the Brazilian Association of Electric Energy Distributors (*Associação Brasileira de Distribuidores de Energia Elétrica*).

“ANEEL” refers to the National Electric Energy Agency (*Agência Nacional de Energia Elétrica*).

“Annual Tariff Adjustments” refers to the annual adjustment in the tariff designed to offset some of the effects of inflation on tariffs and allow us to pass-through to customers certain changes in our cost structure that are beyond our control.

“Assured Energy” refers to the amount of energy that generators are allowed to sell in long-term contracts.

“Basic Network” refers to interconnected transmission lines, dams, energy transformers and equipment with voltage equal to or higher than 230 kV, or installation with lower voltage as determined by ANEEL.

“BNDES” refers to the Development Bank of Brazil (*Banco Nacional de Desenvolvimento Econômico e Social*).

“Brazil” refers to the Federative Republic of Brazil, and the phrase “Brazilian Government” refers to the federal government of Brazil.

“CCEAR” refers to the energy commercialization contracts in the regulated environment.

“CCC” refers to Fuel Usage Account.

“CCEE” refers to the Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica*).

“Central Bank” refers to the Central Bank of Brazil (*Banco Central do Brasil*).

“CHESF” refers to *Companhia Hidroelétrica do São Francisco*.

“CNPE” refers to the National Energy Policy Council (*Conselho Nacional de Política Energética*).

“CVM” refers to the Brazilian Securities Commission (*Comissão de Valores Mobiliários*).

“DEC” refers to duration of interruption, which is the average time of a power outage per customer.

“ERM” refers to the Energy Reallocation Mechanism.

“FAELBA” refers to a non-profit private welfare entity whose objective is the provision of welfare benefits to Coelba employees, and has Coelba as its single sponsor.

“FEC” refers to frequency of interruption, which is the average number of interruptions each customer suffers.

“final customer” refers to a party that uses electricity for its own needs.

“free customers” refers to customers that have opted out or are not part of the Regulated Market.

“gigawatt (GW)” refers to one billion watts.

“Gigawatt hour (GWh)” refers to one gigawatt of power supplied or demanded for one hour, or one billion watt hours.

“high voltage” refers to a class of nominal system voltages equal to or greater than 100,000 volts (100 kVs) and less than 230,000 volts (230 kVs).

“hydroelectric plant” and “hydroelectric facility” refer to a generating unit that uses water power to drive the electric generator.

“IBGE” refers to the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*).

“ICMS” refers to the Government of Brazil’s State Value-Added Tax (*Imposto sobre a Circulação de Mercadorias e Serviços*).

“IGPM” refers to the Brazilian General Index of Market Prices (*Índice Geral de Preços e Mercados*).

“Initial Supply Contracts” refers to initial energy supply agreements at prices and volumes approved by ANEEL, that certain distribution and generation companies are required to enter into under the 1998 Power Industry Law.

“installed capacity” refers to the level of electricity which can be delivered from a particular generating unit on a full-load continuous basis under specified conditions as designated by the manufacturer.

“Itaipu” refers to Itaipu Binacional, a hydroelectric facility owned equally by Brazil and Paraguay.

“Kilovolt (kV)” refers to one thousand volts.

“Kilowatt (kW)” refers to one thousand watts.

“Kilowatt hour (KWh)” refers to one kilowatt of power supplied or demanded for one hour, or one thousand watt hours.

“MCSD Adjustment” refers to the adjustment by the *Mecanismo de Compensação de Sobras e Déficits* (also known as MCSD, the Leftover and Deficit Offsetting Mechanism) that is designed to reallocate contracted electric power among distributors that have an excess supply of contracted electric power and distributors that have insufficient supply of contracted electric power for a particular period.

“Megawatt (MW)” refers to one million watts.

“Megawatt hour (MWh)” refers to one megawatt of power supplied or demanded for one hour, or one million watt hours.

“MME” refers to the Ministry of Mines and Energy (*Ministério de Minas e Energia*).

“MVA” refers to one thousand kilovolt-amperes.

“New Industry Model Law” refers to Law No. 10,848, dated March 15, 2004.

“nominal capacity” refers to the total amount of nominal capacity in any company or system.

“OLADE” refers to the Latin American Energy Organization (*Organización Latinoamericana de Energía*).

“ONS” refers to the National System Operation (*Operador Nacional do Sistema*), an entity responsible for operational planning, administration of generation and transmission and planning of transmission investments in the power industry.

“potentially free customers” refers to existing customers that are able to opt out of the Regulated Market and choose their electricity supplier.

“Previ” refers to Banco do Brasil’s Employees Pension Fund (*Caixa de Previdência dos Funcionários do Banco do Brasil*).

“PROINFA” refers to the Government of Brazil’s Incentive Program to create Alternative Sources of Electrical Energy (*Programa de Incentivo às Fontes Alternativas de Energia Elétrica*).

“Public Concessions Law” refers to the Brazilian Federal Concession Law N. 8.987, of February 13th, 1995.

“rationing program” refers to the Brazilian Government-mandated program to reduce electricity consumption from June 1, 2001 to February 28, 2002 as a result of poor hydrological conditions that threatened the country’s electricity supply.

“real,” “reais” and “R\$” refer to the legal currency of Brazil.

“Regulated Market” refers to a regulated market for the purchase and sale of electricity (*Ambiente de Contratação Regulado*).

“RTE” refers to Extraordinary Tariff Adjustment (*reajuste tarifário extraordinário*).

“SIN” refers to the National Interconnected Electric System (*Sistema Interligado Nacional*).

“Small Hydroelectric Power Plants” and “SHPs” refers to hydroelectric power projects with capacity from 1 MW to 30 MW.

“substation” refers to an assemblage of equipment that switches and/or changes or regulates the voltage of electricity in a transmission and distribution system.

“SUDENE” refers to the Superintendency for the Development of the Northeast Region of Brazil (*Superintendência de Desenvolvimento do Nordeste*).

“thermoelectric plant” refers to a generating unit which uses combustible fuel, such as coal, oil, diesel, natural gas or other hydrocarbon as a source of energy to drive the electricity generator.

“Transmission” refers to the bulk transfer of electricity from generating facilities to the distribution system at load center station in which the electricity is stabilized by means of the transmission grid (in lines with capacity between 69 kV and 525 kV).

“TUSD” refers to revenue derived from distribution system usage charges, which in turn refers to the sale of energy to free and captive customers including the fees charged for use of a distribution network.

“U.S. dollar” and “U.S.\$” refer to the legal currency of the United States.

“volt” refers to the basic unit of electric force analogous to water pressure in pounds per square inch.

“watt” refers to the basic unit of electrical power.

“Wholesale Energy Market” refers to the wholesale electricity market, established in 1998 through the 1998 Power Industry Law, which replaced the prior system of regulated generation prices and supply contracts.

PRESENTATION OF FINANCIAL AND OPERATING INFORMATION

Financial Information

The financial information presented in this offering memorandum as of and for the years ended December 31, 2010, 2009 and 2008 were extracted from our audited financial statements. The audited financial statements of the Issuer as of and for the years ended December 31, 2010 and 2009 included in this offering memorandum have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The audited financial statements of the Issuer as of and for the years ended December 31, 2009 and 2008 included in this offering memorandum have been prepared in accordance with accounting practices adopted in Brazil (“Brazilian GAAP”), which is based on Law No. 6,404/76, as amended, or Brazilian Corporate Law, the rules and regulations of the CVM and ANEEL, and the accounting standards issued by the Accounting Pronouncement Committee (*Comitê de Pronunciamentos Contábeis*) (the “CPC”) in effect as of December 31, 2009, and approved by the CVM, and which differs in certain significant respects from IFRS. See “Description of Certain Differences Between Brazilian GAAP and IFRS Applicable to our December 31, 2009 and 2008 Brazilian GAAP Financial Statements” for a description of certain differences between Brazilian GAAP and IFRS, as they relate to us.

Convergence to IFRS

Brazilian Corporate Law was amended by Law No. 11,638/07 on December 28, 2007 in order to facilitate the convergence from Brazilian GAAP to IFRS, and thereafter, the CPC issued several new accounting standards that progressively adapted Brazilian GAAP to IFRS. IFRS became mandatory for all Brazilian publicly held companies, including us, beginning in the year ended December 31, 2010.

The new Brazilian accounting rules issued by the CPC became effective for year-end financial statements prepared relating to any fiscal year beginning on or after January 1, 2008 and have been applied to our audited financial statements as of and for the years ended December 31, 2008 and 2009. In addition, during 2009, the CVM and the *Conselho Federal de Contabilidade* (Federal Accounting Counsel) approved several standards issued by CPC and which became effective beginning on January 1, 2010.

The financial statements as of and for the year ended December 31, 2010 are our first financial statements prepared in accordance with IFRS. CPC 37 and IFRS 1 – “First-time Adoption of International Financial Reporting Standards” have been applied in preparing these financial statements. Through December 31, 2009, our financial statements were prepared in accordance with Brazilian GAAP in effect at the time. We elected January 1, 2009 as a transition date to full adoption of the CPC standards and IFRS and amended certain accounting practices in the Brazilian GAAP financial statements to comply with IFRS. The comparative figures in respect of 2009 have been restated to reflect these adjustments. Reconciliations and descriptions of the effect of the transition from Brazilian GAAP to IFRS are provided in Note 3 to our financial statements included elsewhere in this offering memorandum.

Other Information

Operating Information

The operating information and data presented in this offering memorandum related but not limited to energy purchased for resale, electricity sales, installed capacity of transformers, concession area, municipalities covered, number of employees and number of captive customers are unaudited.

Percentages

Percentages and some amounts in this offering memorandum have been rounded for ease of presentation. Any discrepancies between totals and the sums of the amounts listed are due to rounding.

Currency Translation

Unless otherwise indicated, all financial information relating to us that is presented in U.S. dollars in this offering memorandum has been translated from *reais* using the U.S. dollar exchange rate of R\$1.6662 to U.S.\$1.00 as of December 31, 2010. As of March 31, 2010, the U.S. dollar exchange rate of *reais* to U.S.\$1.00 was R\$1.6287 as published by the Central Bank. The U.S. dollar equivalent information presented in this offering memorandum is provided solely for the convenience of the readers of this offering memorandum and should not be construed as implying that the *reais* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any rate. See “Exchange Controls and Foreign Exchange Rates” for more detailed information regarding the translation of *reais* into U.S. dollars.

Technical Terms

Unless otherwise indicated, statistics provided throughout this offering memorandum with respect to electricity facilities are expressed in MW, in the case of the nominal capacity of such facilities, and in GWh, in the case of the aggregate electricity production of such facilities. Statistics relating to aggregate annual electricity production and distribution are expressed in GWh and are based on a year of 8,760 hours.

Market Estimates

This offering memorandum is based in part on information provided by other sources that we believe are reliable, such as ANEEL, ABRADÉE, OLADE, IBGE and the Central Bank, among others. Such information has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Although we believe that such sources of information are reliable, we have not independently verified and do not guarantee the accuracy and completeness of such information.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains statements that constitute forward-looking statements within the meaning of Section 27A of the Exchange Act. These statements appear in a number of places in this offering memorandum, including in the sections entitled “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” that are based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, the effects of competition and the effects of future legislation or regulations. Many of these forward-looking statements can be identified by the use of forward-looking words such as “anticipate,” “believe,” “could,” “expect,” “should,” “plan,” “intend,” “estimate” and “potential,” among others.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. Our future results may differ materially from those expressed in or suggested by these forward looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. Investors are cautioned not to put undue reliance on any forward-looking statements. We do not undertake any obligation to release publicly any revisions to forward-looking statements contained in this offering memorandum to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

Investors should understand that the following important factors, in addition to those discussed in this offering memorandum, could affect our future results and could cause results to differ materially from those expressed in such forward-looking statements:

- the implementation of our principal operating strategies;
- general economic, political, demographic and business conditions in Brazil and particularly in our concession area;
- electricity shortages;
- changes in tariffs and taxes;
- the migration of “potentially free customers” to the unregulated electricity market;
- potential disruption or interruption of our services;
- inflation, depreciation and exchange rate fluctuations;
- changes in existing and future regulation of the electricity industry by the Brazilian Government;
- the growth of the Brazilian electricity industry as a whole;
- the introduction of competition to the Brazilian electricity industry in general and our concession area in particular;
- the revocation, amendment or renewal of our existing governmental concession;
- approvals and licenses;
- changes in customer demand;
- our ability to implement our capital expenditure plan, including our ability to arrange financing when required and on reasonable terms;
- our ability to control or limit electricity losses;
- our ability to collect account receivables;
- our ability to repay or refinance existing indebtedness;

- the cost and availability of financing;
- fluctuations in energy prices; and
- other factors discussed under “Risk Factors” beginning on page 14.

Forward-looking statements speak only as of the date they were made and we nor the initial purchasers undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

SUMMARY

This summary highlights information contained in this offering memorandum and provides an overview of our company. For a more complete understanding of our business, you should read the entire offering memorandum carefully, particularly the discussion set forth under “Risk Factors” beginning on page 14 of this offering memorandum, and our audited historical financial statements, and the respective notes to those statements appearing elsewhere in this offering memorandum.

For convenience, brief descriptions of certain technical terms discussed in this offering memorandum are included in the “Definitions” beginning on page vii.

Our Company

We are the largest electricity distribution company in the State of Bahia, which is located in the northeast of Brazil. We are essentially the sole distributor in our concession area, which covers approximately 563 thousand square kilometers. We service 415 out of the 417 municipalities in the State of Bahia and we have a customer base of approximately 4.9 million customers.

For the year ended December 31, 2010, we had annual sales of 15,329 GWh, generating gross revenues of R\$6.2 billion. The majority of our customers are residential customers, which accounted for 41.5% of our revenues from electricity supply for the year ended December 31, 2010. Commercial customers represented 24.7% of our revenues from electricity supply and industrial customers accounted for 18.8%, with rural, public power and other customers accounting for the remainder of our revenues from electricity supply, in each case for the year ended December 31, 2010. We are primarily concentrated on our residential and commercial customers, which are higher tariff paying customers.

Competitive Strengths

Our competitive strengths are as follows:

- *Investment grade rating:* We hold an investment grade rating from Standard & Poors, which is reflective of our resilient financial performance, the strong growth prospects for our concession area, regulatory framework stability and our prudent financial policy. Our investment grade rating allows us to achieve a lower cost of capital in our financing activities.
- *Solid credit fundamentals:* Due to our strong operational efficiency and effective management practices, we generate solid free operating cash flow which provides us with a strong and comfortable liquidity position. We generated EBITDA of R\$1,347.6 million for the year ended December 31, 2010 with a net debt position of R\$1,911.8 million as of December 31, 2010, resulting in a net debt to EBITDA ratio of 1.42x. Our solid cash flow position and low net debt to EBITDA ratio permit us to access financing on favorable terms which additionally allows us to achieve a lower cost of capital in our financing activities.
- *High operating quality:* In 2010, we had annual sales of 15,329 GWh, generating gross revenue of R\$6.2 billion. Our customers/employee ratio was 1,928 as of December 31, 2010, a significant increase from our customers/employee ratio of 567 as of December 31, 1997. Our energy losses were 13.2% in 2010, evidencing the success of our management team’s attempts to reduce energy losses, which had reached 17% when we were privatized in 1997. Furthermore, we present strong quality of service indicators as represented by an average duration of interruption in 2010 of 26.59 hours and a frequency of interruption on an annual basis of 11.17 hours. We continuously strive to maintain high-quality

performance of our electrical system through continuous investment in our distribution network and transmission lines which allows us to improve our DEC and FEC figures.

- *We are the largest electricity distributor in the State of Bahia and we operate in a state with a growing economy and increasing income per capita:* We are essentially the sole distributor in our concession area, in which we service 415 out of 417 municipalities in the State of Bahia. The State of Bahia, moreover, has exhibited one of the largest economic growth indexes in Brazil in recent years according to SEI – *Superintendência de Estudos Econômicos e Sociais da Bahia*. As a result of such vibrant growth in the State of Bahia and through government programs such as *Luz Para Todos* and *Bolsa Família*, our residential customers have benefitted from improved socio-economic indicators, which has increased income per capita and led to increased demand and consumption levels among our residential customers. Our commercial and industrial customers have also benefitted from recent strong growth in Bahia's economy, reflective of strong growth in the Brazilian economy as a whole, which has increased demand and consumption levels among these customers.
- *Our financial plan is focused on the extension of our debt maturities and diversification of our funding sources and financial instruments:* Our financial policy is focused on financing investment plans via development banks and multilateral organizations, diversifying our financial instruments and funding sources, extending the tenors of our financial instruments, and spreading out the amortization schedules of our financial instruments. We aim to be within the first quartile of companies from the electric sector in Brazil with the highest rating and leverage ratios of net debt to EBITDA of less than 2.0x, short term debt to total debt of less than 20% and EBITDA to net financial expenditures greater than 3.5x.
- *Strong shareholders and management team:* Our principal shareholder, Neoenergia S.A. ("Neoenergia"), is a consortium comprised of *Caixa de Previdência dos Funcionários do Banco do Brasil* ("Previ") (49%), the pension fund of Banco do Brasil's employees, Grupo Iberdrola S.A. ("Iberdrola") (39%), a leading global electricity company, and BB Banco de Investimento S.A. (12%), a state-owned bank and subsidiary of Banco do Brasil S.A. Neoenergia is one of the largest groups operating in the Brazilian electrical sector, with operations spanning the entire electric energy production chain, with businesses in the areas of generation, transmission, distribution and commercialization. Furthermore, we have a dedicated management team with extensive experience in the electricity generation, transmission and distribution businesses, which has contributed to our strong track record of improving our operational and financial efficiency.

Our Strategy

Our mission is to be a benchmark provider of electricity distribution in the State of Bahia and to be the "power and light" of the State of Bahia. We seek to contribute to the development of the State of Bahia and to universalize high quality electricity distribution in the State of Bahia. In 2010, we celebrated our 50th anniversary, a historic mark in our corporate history that reaffirmed our dedication to distribute electricity to the citizens of the State of Bahia in a sustainable and socially responsible manner that decisively contributes to the development of the State of Bahia. We are continuously focused on improving our quality of service indicators, as measured by DEC and FEC, and our energy loss ratios, improving our distribution networks and strengthening our financial profile by extending our debt maturities and diversifying our funding sources and financial instruments.

The following tables set forth our operating data and other financial information in IFRS for the years ended December 31, 2010 and 2009:

	As of and for the year ended December 31,	
	2010	2009
Operating Data		
Energy purchased for resale (in MWh)¹	17,732,761	16,928,515
Electricity sales (in MWh)		
Residential	5,200,269	4,836,676
Industrial	3,459,558	3,564,156
Commercial	2,767,009	2,643,569
Rural	1,090,159	1,009,854
Other	2,069,680	2,029,137
Sub Total	14,586,675	14,083,392
Unbilled sales (R\$ thousands)²	14,262	640
Total customers (in thousands)	4,900,783	4,675,769
Installed capacity of transformers (MVA)	4,444	4,235
Concession area (km²)	563,000	563,000

¹ Energy purchased for resale consists of energy purchased from unrelated parties, related parties, from the CCEE, from PROINFA, system service charges, PIS and COFINS credits and other.

² Unbilled sales represents the difference between revenue recorded from energy supplied to customers and the amount billed by Coelba.

	As of and for the year ended December 31,		
	2010 ¹ (in US\$)	2010 (in R\$)	2009 (in R\$)
Other Financial Information (IFRS)			
Net income (in thousands)	567,590	945,719	887,625
Net Revenue (in thousands)	2,637,333	4,394,324	3,996,126
Total assets (in thousands)	3,225,384	5,374,135	4,757,880
Total debt (in thousands)	1,249,597	2,082,078	1,468,738
Cash and cash equivalents (in thousands).	60,783	101,277	217,329
EBITDA ² (in millions)	808.8	1,347.6	1,266.8
EBITDA margin (%)		30.7%	31.7%
Total net debt ³ (in millions)		1,911.8	1,166.9
Total net debt/EBITDA ratio		1.42	0.92

¹ Translated for convenience using the dollar exchange rate as reported by the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

² Please see the definition of EBITDA included in the “Summary Financial and Operating Data” section in this Offering Memorandum.

³ Total net debt represents long term and short term debt less cash and cash equivalents and marketable securities.

THE OFFERING

The following summary is provided solely for your convenience. The summary is not intended to be complete. For a more detailed description of the notes, see “Description of Notes.”

Issuer	Companhia de Electricidade do Estado da Bahia.
Securities Offered	R\$400,000,000 aggregate principal amount of 11.75% Notes due 2016.
Issue Date	April 27, 2011
Issue Price	100% of the principal amount, plus accrued interest, if any, from April 27, 2011.
	Purchasers will make payment of the price of the notes in U.S. dollars based on the exchange rate of R\$1.5790 to U.S.\$1.00 for conversion of Brazilian reais to U.S. dollars.
Maturity	April 27, 2016. Payment of principal will be made in U.S. dollars.
Interest	Interest will be payable in cash on April 27 and October 27 of each year, beginning on October 27, 2011. Payment of interest will be made in U.S. dollars.
Conversion of the Payment	
Amounts	All amounts due in respect of principal or interest will be paid in U.S. dollars, calculated by the Issuer using the Settlement Rate and confirmed by the Calculation Agent on the applicable Rate Calculation Date.
Settlement Rate	The Settlement Rate will be, for any Rate Calculation Date, the rate determined by the Issuer and notified to the Calculation Agent in writing, to be confirmed by the Calculation Agent, that is equal to the Brazilian real/U.S. dollar commercial rate, expressed as the amount of Brazilian reais per one U.S. dollar as reported by Banco Central do Brasil (the “Central Bank”) on the SISBACEN Data System and on its website (which, at the date hereof, is located at http://bcb.gov.br) under transaction code PTAX800 (“Consultas de Câmbio” or “Exchange Rate Enquiry”), Option 5, “Venda” (“Cotações para Contabilidade” or “Rates for Accounting Purposes”) (or any successor screen established by the Central Bank), for such Rate Calculation Date (the “R\$ Ptax Rate”); provided, however, that if the R\$ Ptax Rate scheduled to be reported on any Rate Calculation Date is not reported by the Central Bank on such Rate Calculation Date, then the Settlement Rate will be BRL12 as notified by the Issuer to the Calculation Agent in writing, to be confirmed by the Calculation Agent; in the event BRL12 is unavailable, then the Settlement Rate will be BRL13 as notified by the Issuer to the Calculation Agent in writing, to be confirmed by the Calculation Agent. If the Settlement

Rate cannot be calculated as described above, the Issuer will determine the Settlement Rate by reference to the quotations received from three leading Brazilian banks as shall be selected by the Issuer in its sole discretion (collectively, the “Reference Banks”). The Issuer will notify the Calculation Agent in writing of each such quotation and the Settlement Rate, and the Settlement Rate shall be confirmed by the Calculation Agent using the quotations provided by the Issuer. The quotations will be determined in each case for such Rate Calculation Date as soon as practicable after (i) the Issuer determines that the Settlement Rate cannot be calculated as described above for such Rate Calculation Date and (ii) the identities of the Reference Banks are provided by the Issuer to the Calculation Agent by written notice. The Issuer will ask each of the Reference Banks for quotations for the offered Brazilian real/U.S. dollar exchange rate for the sale of U.S. dollars. The Settlement Rate will be the average of the Brazilian real/U.S. dollar exchange rates obtained from the Reference Banks. If only two quotations are obtained, the Settlement Rate will then be the average of the Brazilian real/U.S. dollar exchange rates obtained from the Reference Banks. If only one quotation is obtained, the Settlement Rate will be that quotation. Where no such quotations are obtained from the Reference Banks, if the Issuer determines in its sole discretion that there are one or two other suitable replacement banks active in the Brazilian real/U.S. dollar market, the Issuer shall ask such banks to provide such quotations to the Issuer, which such quotations the Issuer shall deliver to the Calculation Agent as soon as practicable after the identities of such replacement banks are provided by the Issuer to the Calculation Agent by written notice, and the Issuer shall use such quotations as it receives to determine the Settlement Rate (taking an average rate, as set forth above, if applicable), such Settlement Rate to be notified to the Calculation Agent in writing, to be confirmed by the Calculation Agent using the quotations provided by the Issuer; provided, however, that if the Reference Banks and any such replacement banks are not providing quotations in the manner described above, the Settlement Rate will be the Settlement Rate determined as of the preceding Rate Calculation Date.

BRL12 The BRL12 is the Trade Association for the Emerging Markets (“EMTA”) BRL Industry Survey Rate (BRL12), calculated if the R\$ Ptax Rate is not available, which is the final Brazilian *real*/U.S. dollar specified rate of U.S. dollars, expressed as the amount of Brazilian *reais* per one U.S. dollar, published on EMTA’s website (which, at the date hereof, is located at <http://www.emta.org>) for the Rate Calculation Date. BRL12 is calculated by EMTA (or a service provider EMTA may select in its sole discretion) using the EMTA BRL Industry Survey Methodology dated as of 1 March 2004, as amended from time to time, pursuant to which EMTA conducts a twice-daily survey of up to 15 Brazilian financial institutions that are active participants in the Brazilian *real*/U.S. dollar spot market, with a required minimum participation of at least 5 financial institutions.

BRL13	The BRL13 is the EMTA BRL Indicative Survey Rate (BRL13), calculated if the R\$ Ptax Rate is not available, which is the final Brazilian real/U.S. dollar specified rate of U.S. dollars, expressed as the amount of Brazilian reais per one U.S. dollar, published on EMTA's website (which, at the date hereof, is located at http://www.emta.org) for the Rate Calculation Date. BRL13 is calculated by EMTA (or a service provider EMTA may select in its sole discretion) using the EMTA BRL Industry Survey Methodology dated as of 1 March 2004, as amended from time to time, pursuant to which EMTA conducts a survey of up to 30 Brazilian and non-Brazilian financial institutions that are active participants in the Brazilian real/U.S. dollar spot market, with a required minimum participation of at least 8 financial institutions.
Business Day	A Business Day is a day, other than a Saturday, a Sunday, or a legal holiday or a day on which commercial banks and foreign exchange markets are authorized or obligated to close in the City of New York; provided, however, that solely for the purposes of determining the Settlement Rate, "Business Day" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open, or not authorized to close, in São Paulo, Brazil, and the City of New York.
Rate Calculation Date	A Rate Calculation Date is the third Business Day preceding each Interest Payment Date, redemption date, purchase date or the Maturity Date.
Use of Proceeds	Net proceeds (after deducting commissions and expenses) from this offering of notes will be approximately R\$396,725,050. The Issuer intends to use the net proceeds from this offering for debt repayment and general corporate purposes.
Additional Amounts	Any and all payments in respect of the notes shall be made free and clear of, and without withholding or deduction for, any taxes imposed, levied, collected, withheld or assessed by Brazil or any political subdivision or any authority thereof or therein or other relevant jurisdiction having power to tax, unless such withholding or deduction is required by law. In the event the Issuer is required to withhold or deduct amounts for any taxes or other governmental charges, the Issuer shall pay, subject to certain customary exceptions, such additional amounts as would have been received by the noteholders if no such withholding or deduction had been required. See "Description of the Notes – Payment of Additional Amounts."
Tax Redemption	The Issuer may, at its option, redeem the notes in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of specified events relating to applicable tax laws. See "Description of the Notes – Redemption and Repurchase – Tax Redemption."
Change of Control	Upon the occurrence of a Change of Control (as defined under "Description of the Notes – Certain Definitions"), the Issuer shall be

required under the indenture and the notes to offer to existing holders of the notes the right to require the Issuer to repurchase all or a portion of the notes on the terms set forth in the indenture. See “Description of the Notes – Redemption and Repurchase – Repurchase of the Notes upon a Change of Control.”

Ranking The notes will rank equally in right of payment with all other present and future senior unsecured obligations of the Issuer (except for any obligations that may be preferred by provisions of law that are both mandatory and of general application).

As of December 31, 2010, the Issuer had total debt of R\$2,082.1 million (U.S.\$1,249.6 million), of which R\$1,301.7 million (U.S.\$781.2 million) was unsecured debt of the Issuer and R\$780.4 million (U.S.\$468.4 million) was secured debt of the Issuer. For a description of the material terms of our indebtedness, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.”

Certain Covenants The terms of the notes restrict our ability (as described in “Description of the Notes”) to (i) incur additional indebtedness; (ii) effect a consolidation or merger; (iii) create liens; and (iv) enter into sale and lease-back transactions.

However, these limitations will be subject to a number of important qualifications and exceptions as described under “Description of the Notes – Certain Covenants.”

Events of Default The indenture will contain certain events of default, as described under “Description of the Notes – Events of Default.”

Transfer Restrictions The notes will not be registered under the Securities Act. The notes are being offered (a) in the United States only to qualified institutional buyers in reliance upon an exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act, and (b) outside the United States in compliance with Regulation S under the Securities Act to persons who are not U.S. persons in offshore transactions. See “Transfer Restrictions.”

Trading and Listing Application has been made to the Irish Stock Exchange to admit the notes to listing on the Official List, and to trading on the Global Exchange Market, of the Irish Stock Exchange.

Form and Denominations The notes will be issued in the form of one or more global notes in fully registered form without interest coupons, in minimum denominations of R\$250,000 and integral multiples of R\$1,000 in excess thereof. The notes will be delivered in book-entry form through the facilities of DTC for the accounts of its participants, including Euroclear and Clearstream. For a description of form and settlement, see “Description of the Notes.”

Further Issues	Subject to satisfaction of the conditions set forth in the indenture, the Issuer may, from time to time, without notice to or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes ranking equally with the notes in all respects, so that the additional notes will be consolidated and form a single series with the notes and will have the same terms as the notes, including as to status and redemption.
Risk Factors	Investing in the notes involves substantial risks and uncertainties. See “Risk Factors” and other information included in this offering memorandum for a discussion of factors you should carefully consider before deciding to purchase any notes.
Governing Law	The indenture and the notes will be governed by, and will be construed in accordance with, the laws of the State of New York.
Trustee, Registrar, Paying Agent and Transfer Agent	The Bank of New York Mellon
Irish Listing Agent	The Bank of New York Mellon (Ireland) Limited
Irish Paying Agent	The Bank of New York Mellon (Ireland) Limited
Calculation Agent	The Bank of New York Mellon

SUMMARY FINANCIAL AND OPERATING DATA

The following tables present our summary historical financial and operating data. The annual financial statements for the years ended December 31, 2010 and 2009, included in this offering memorandum, have been prepared in accordance with IFRS and our annual financial statements for the years ended December 31, 2009 and 2008, included in this offering memorandum have been prepared in accordance with Brazilian GAAP, which differs in certain significant respects from IFRS. “Description of Certain Differences Between Brazilian GAAP and IFRS Applicable to our December 31, 2009 and 2008 Brazilian GAAP Financial Statements” provides a description of the certain differences between Brazilian GAAP and IFRS, as they relate to us. We prepared our annual financial statements according to IFRS for the first time for the year ended December 31, 2010 and have restated our financial statements as of and for the year ended December 31, 2009 for comparative purposes. Because of the differences in accounting methodology between Brazilian GAAP and IFRS, our financial statements for 2010 and 2009 prepared in accordance with IFRS are not comparable with our financial statements for 2009 and 2008 prepared in accordance with Brazilian GAAP.

You should read this summary financial data together with “Capitalization,” “Selected Financial and Operating Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the audited financial statements and accompanying notes included in this offering memorandum. The historical results are not necessarily indicative of our future results of operations or financial condition.

Solely for the convenience of the reader, real amounts as of and for the year ended December 31, 2010 have been translated into U.S. dollars at the dollar exchange rate as reported by the Central Bank on December 31, 2010 of R\$1.6662 to U.S.\$1.00. The U.S. dollar equivalent information should not be construed to imply that the real amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

The financial and operating data in the tables below have been prepared in accordance with IFRS for the years indicated.

	Year Ended December 31, (in thousands) (IFRS)		
	2010 ¹	2010	2009
Income Statement			
Gross revenue	US\$ 3,744,734	R\$ 6,239,476	R\$ 5,577,484
Electricity supply	1,237,317	2,061,618	1,940,476
Electricity Trading Chamber (CCEE)	30,029	50,034	13,249
Availability of distribution system	2,016,542	3,359,963	2,929,285
Construction revenues	416,008	693,153	631,724
Other income	44,837	74,708	62,750
Deductions from gross revenue	(1,107,401)	(1,845,152)	(1,581,358)
Net operating revenue	2,637,333	4,394,324	3,996,126
Electric energy purchased for resale	(992,302)	(1,653,373)	(1,478,277)
Cost with transmission system use charges	(136,428)	(227,317)	(197,756)
Operating costs	(613,468)	(1,022,161)	(932,734)
Gross income	895,134	1,491,473	1,387,359
Sales expenses	(125,690)	(209,425)	(173,495)
General and administrative expenses	(89,111)	(148,477)	(119,577)
Income before financial results and income taxes	680,333	1,133,571	1,094,287
Financial income (expenses)	(11,204)	(18,668)	(27,207)
Income before income taxes	669,129	1,114,903	1,067,080
Income taxes and social contribution	(101,539)	(169,184)	(179,455)
Net income for the year	US\$ 567,590	R\$ 945,719	R\$ 887,625

¹ Translated for convenience using the U.S. dollar exchange rate from the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

		As of December 31, (in thousands) (IFRS)		
Balance Sheet: Assets		2010 ¹	2010	2009
Current Assets				
Cash and cash equivalents	US\$	60,783	R\$ 101,277	R\$ 217,329
Accounts receivables		530,180	883,386	794,525
Marketable securities		41,406	68,991	84,476
Other receivables		152,841	254,663	175,177
Total current assets		785,210	1,308,317	1,271,507
Non-current assets				
Accounts receivables		186,467	310,691	218,840
Other non current assets		339,995	566,500	560,245
Indemnification asset (concession)		266,454	443,965	308,170
Intangibles		1,647,258	2,744,662	2,399,118
Total non-current assets		2,440,174	4,065,818	3,486,373
Total assets		US\$ 3,225,384	R\$5,374,135	R\$4,757,880

¹ Translated for convenience using the U.S. dollar exchange rate from the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

		As of December 31, (in thousands) (IFRS)		
Balance Sheet: Liabilities and Shareholders' Equity		2010 ¹	2010	2009
Current Liabilities				
Suppliers	US\$	201,509	R\$ 335,755	R\$ 319,345
Loans and financing		123,054	205,032	233,592
Debentures		129,268	215,387	82,419
Other accounts payable		227,203	378,566	610,621
Total current liabilities		681,035	1,134,740	1,245,977
Non-Current Liabilities				
Loans and financing		779,367	1,298,582	683,289
Debentures		217,907	363,077	469,438
Other accounts payable		119,631	199,329	237,015
Total non-current liabilities		1,116,906	1,860,988	1,389,742
Total shareholders' equity and funds for capital increase		1,427,444	2,378,407	2,122,161
Total liabilities and shareholders' equity		US\$ 3,225,384	R\$5,374,135	R\$2,757,880

¹ Translated for convenience using the U.S. dollar exchange rate from the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

The following tables set forth our operating data and other financial information in IFRS as of and for the years ended December 31, 2010 and 2009.

	As of and for the Year ended December 31,	
	2010	2009
Operating Data		
Energy purchased for resale (in MWh)¹	17,732,761	16,928,515
Electricity sales (in MWh)		
Residential	5,200,269	4,836,676
Industrial	3,459,558	3,564,156
Commercial	2,767,009	2,643,569
Rural	1,090,159	1,009,854
Other	2,069,680	2,029,137
Sub Total	14,586,675	14,083,392
Unbilled sales (R\$ thousands)²	14,262	640
Total customers (in thousands)	4,900,783	4,675,769
Installed capacity of transformers (MVA)	4,444	4,235
Concession area (km²)	563,000	563,000

	As of and for the Year Ended December 31,		
	2010 ¹ (in US\$)	2010 (in R\$)	2009 (in R\$)
Other Financial Information (IFRS)			
Net income (in thousands)	567,590	945,719	887,625
Total assets (in thousands)	3,225,384	5,374,135	4,757,880
Total debt (in thousands)	1,249,597	2,082,078	1,468,738
Cash and cash equivalents (in thousands).	60,783	101,277	217,329
EBITDA ² (in millions)	808.8	1,347.6	1,266.8
EBITDA margin (%)		30.7%	31.7%
Total net debt ³ (in millions)		1,911.8	1,166.9
Total net debt/EBITDA ratio		1.42	0.92

¹ Translated for convenience using the U.S. dollar exchange rate from the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

² EBITDA is calculated as shown in the table below:

	Year ended December 31,	
	2010	2009
	(R\$ thousands) (IFRS)	
Net income	945.7	887.6
Income taxes and social contribution.	169.2	179.5
Financial income	(336.7)	(307.9)
Financial expenses	355.4	335.1
Amortization	214.0	172.5
EBITDA	1,347.6	1,266.8

³ Total net debt represents long term and short term debt less cash and cash equivalents and marketable securities.

The financial and operating data in the tables below have been prepared in accordance with Brazilian GAAP for the years indicated. Because of the differences in accounting methodology between Brazilian GAAP and IFRS, our financial statements presented below for 2009 and 2008 prepared in accordance with Brazilian GAAP are not comparable with our financial statements for 2010 and 2009 prepared in accordance with IFRS.

	Year ended December 31, (in thousands) (Brazilian GAAP)	
	2009	2008
Income Statement		
Gross revenue	R\$ 4,932,524	R\$ 4,655,857
Electricity supply	1,921,543	1,845,556
Electricity Trading Chamber (CCEE)	13,249	36,118
Availability of distribution system	2,934,983	2,697,550
Other income	62,749	76,633
Deductions from gross revenue	(1,581,760)	(1,540,753)
Net operating revenue	3,350,764	3,115,104
Electric energy purchased for resale	(1,516,697)	(1,325,550)
Cost with transmission system use charges	(222,305)	(180,653)
Operating costs	(312,289)	(311,148)
Gross income	1,299,473	1,297,753
Sales expenses	(173,495)	(165,135)
General and administrative expenses	(125,175)	(105,257)
Income before financial results and income taxes	1,000,803	1,027,361
Financial income (expenses)	(153,580)	(172,954)
Income before income taxes	847,223	854,407
Income taxes and social contribution	(137,840)	(133,463)
Income before reversal of interest on shareholders' equity	709,383	720,944
Reversal of interest on shareholders' equity	100,012	93,861
Net income for the year	R\$ 809,395	R\$ 814,805
	As of December 31, (in thousands) (Brazilian GAAP)	
	2009	2008
Balance Sheet: Assets		
Current Assets		
Cash and cash equivalents	R\$ 217,329	R\$ 334,809
Consumers, concessionaires and permissionaires	828,258	657,487
Marketable securities	84,476	72,619
Other receivables	223,000	199,345
Total current assets	1,353,063	1,264,260
Non-current assets		
Consumers, concessionaires and permissionaires	207,208	180,679
Other non current assets	482,968	528,111
Property, plant & equipment	2,498,842	2,147,225
Intangible assets	172,989	115,663
Total non-current assets	3,362,007	2,971,678
Total assets	R\$4,715,070	R\$4,235,938

		As of December 31, (in thousands) (Brazilian GAAP)	
		2009	2008
Balance Sheet: Liabilities and Shareholders' Equity			
Current Liabilities			
Suppliers	R\$ 303,847	R\$ 234,242	
Loans and financing	233,592	164,612	
Debentures	82,419	67,910	
Dividends and interest on shareholders' equity ..	644,836	318,212	
Other accounts payable	341,645	293,343	
Total current liabilities	1,606,339	1,078,319	
Non-Current Liabilities			
Loans and financing	683,289	819,859	
Debentures	469,438	550,940	
Other accounts payable	174,767	153,921	
Total non-current liabilities	1,327,494	1,524,720	
Total shareholders' equity and funds for capital increase	1,781,237	1,632,899	
Total liabilities and shareholders' equity	R\$4,715,070	R\$4,235,938	

RISK FACTORS

Before making an investment decision, you should consider all of the information set forth in this offering memorandum, as supplemented or amended. In particular, you should consider the special considerations applicable to an investment in us and in Brazil, including the risk factors set forth below. In general, investing in the securities of issuers in emerging market countries, such as Brazil, involves a higher degree of risk than investing in the securities of issuers in the United States.

Additional risks and uncertainties not currently known to us, or those that we currently deem to be immaterial, may also materially and adversely affect our business operations. Any of the following risks could materially affect our business, financial condition or results of operations. In such case, you may lose all or part of your original investment in the notes.

Risks Related to Our Operations and the Brazilian Power Industry

We are uncertain as to the renewal of our concession contract and its terms.

We carry out our distribution activities pursuant to our concession contract entered into with the Brazilian Government and authorizations granted by ANEEL. Our concession is set to expire on August 7, 2027.

The Brazilian constitution requires that all concessions relating to public services be awarded through a bidding process. Under laws and regulations specific to the electric sector, the Brazilian Government may renew existing concessions for additional identical periods without a bidding process, provided that the concessionaire has met minimum performance standards and that the proposal is otherwise acceptable to the Brazilian Government. Moreover, ANEEL has absolute discretion over whether or not to renew existing concessions, and there is no history of administrative renewal practice. As a result, we cannot assure you that our concession will be renewed at all, or that it will be renewed on the same terms. If our concession is not renewed or is renewed under less favorable terms, our business and results of operations will be negatively affected.

The tariffs we charge for electricity sales are determined pursuant to a concession agreement with the Brazilian Government. Our operating revenue may be adversely affected if ANEEL makes decisions relating to our tariffs that are unfavorable to us.

ANEEL has substantial discretion in the establishment of the tariff rates we charge our customers in connection with our distribution services. Our tariffs are determined pursuant to our concession agreement that we have entered into with ANEEL, in accordance with ANEEL's regulatory decision-making authority.

Our distribution concession agreement and Brazilian law establish a price cap mechanism, permitting three types of tariff adjustments and/or revision:

- The annual tariff adjustment (*reajuste anual*). During the term of our concession contract, each year, we are entitled to apply for the annual tariff adjustment, or Annual Tariff Adjustment, which is designed to offset some of the effects of inflation on tariffs and allows us to pass through to customers certain changes in our cost structure that are beyond our control, such as the cost of power that we purchase from our energy suppliers and other regulatory charges.
- The periodic tariff adjustment (*revisão periódica*). Every four or five years, depending on the terms of our concession agreement, ANEEL carries out a periodic adjustment, or Periodic Tariff Adjustment, to realign our tariffs with our costs and set a factor based on our operational efficiency that will be applied against the inflation index of our future Annual Tariff Adjustments. These tariff adjustments are meant to reestablish a tariff level that would cover (1) costs for the power purchased and other non-manageable costs, (2) operation and maintenance costs of a theoretical "reference company," and (3) capital remuneration on our asset base using a "replacement cost" methodology.

- The extraordinary tariff adjustment (*revisão extraordinária*). We are also entitled to file for an extraordinary tariff adjustment, or Extraordinary Tariff Adjustment, of our tariffs if significant and unpredictable changes in our cost structure occur, such as the establishment of new regulatory charges.

We cannot assure you that ANEEL will establish tariffs rates that are favorable to us and that will allow us to pass through to our customers all of our increased costs. In addition, and to the extent that any of these adjustments are not granted by ANEEL in a timely manner, our financial condition and results of operations may be adversely affected. For more information on ANEEL, see “The Brazilian Power Industry—Principal Authorities.”

In addition to the restrictions and requirements mentioned above, ANEEL has jurisdiction to regulate and oversee several other aspects of our business, including the reduction of our tariffs and required investment expenditures. In case we are obligated by ANEEL to make additional and unexpected investments and not allowed to adjust our tariffs accordingly, or if ANEEL issues resolutions that modify regulations related to such adjustment, our financial condition and results of operations may be adversely affected.

Our tariffs, although determined by ANEEL, may be challenged in court by our customers, and the outcome may adversely affect our revenues.

The revision and adjustments of tariffs must be approved by ANEEL and such revisions and adjustments must respect the limits imposed by the concession agreement and Brazilian legislation. However, ANEEL’s approval of tariff rates may be challenged in court by our customers who may litigate that such tariffs are against Brazilian law. Future lawsuits challenging revisions and adjustments to our tariffs, and any unfavorable judicial decision in this regard, may affect our business, financial condition and results of operations.

If we are forced to enter into short-term energy transactions to meet customer demand, we may not be able to pass on, through our tariffs, all or a significant portion of the costs of our electricity purchases.

Under the New Industry Model Law, an electricity distributor must contract in advance, through public auctions, approximately 100% of its forecasted electricity needs for the following five years. The New Industry Model Law establishes the conditions for passing through energy purchase prices. If our contracted energy, including energy we purchase in the public auctions, is less than 100% of our total energy requirements, we may be subject to fines and we may not be able to pass on the full costs of our additional energy purchases, which may be at higher prices on the spot market, to our customers. If our contracted energy, including energy we purchase in the public auctions, is more than 100% and less than 103% of our total energy requirements, we are allowed to pass through the total volume of purchased energy to our customers. However, if our contracted energy, including energy we purchase in the public auctions, is more than 103% of our total energy requirements, we assume the price risk of buying in the public auctions and selling in the spot market. Furthermore, the New Industry Model Law limits our ability to pass through the cost of electricity purchases to our customers if our costs exceed the Annual Reference Value (*Valor Anual de Referência*), established by ANEEL, which is based on the weighted average price paid by all distribution companies in the public auctions for electricity from new generation undertakings to be delivered three to five years from the date of any such auction and will only be applied during the first three years after the commencement of delivery of the acquired electricity.

Considering the numerous factors that affect our electricity demand forecasts, including, for example, economic and population growth, hydrological conditions, rationing and customers’ reaction to rationing, we cannot assure you that our forecasted electricity demand will be accurate. If there are significant variations between our electricity needs and the volume of our electricity purchases, our financial condition and results of operations may be adversely affected.

We are subject to extensive governmental legislation and regulation and to major regulatory changes that are being implemented by the Brazilian Government, and we cannot be certain of their effect on our business, financial condition and results of operations.

Electricity distribution operations are highly regulated in Brazil. The Brazilian Government has implemented policies that continue to have a far reaching impact on the Brazilian power industry and, in particular, the electricity industry. As part of the restructuring of the industry, the New Industry Model Law, enacted on March 15, 2004, introduced a new regulatory framework for the Brazilian electricity industry.

Under the New Industry Model Law, a significant portion of energy purchased by distribution companies is to be purchased in periodic public auctions at five year intervals. The Ministry of Mines and Energy, or the MME, sets the maximum prices and amounts of energy to be traded in the public auctions.

The New Industry Model Law governing the purchase and sale of electricity remains subject to the implementation of resolutions by ANEEL. Moreover, the constitutionality of the New Industry Model Law is currently being challenged before the Brazilian Supreme Court. The Brazilian Supreme Court has not yet reached a final decision and, therefore, the New Industry Model Law is currently in force. If all or a portion of the New Industry Model Law is considered to be unconstitutional by the Brazilian Supreme Court, all or a portion of the regulatory scheme introduced by the New Industry Model Law may not come into effect, generating uncertainty as to how and when the Brazilian Government will introduce changes to the electricity industry. Accordingly, we cannot now evaluate the impact of new regulations to be issued by ANEEL or the impact that a decision on the constitutionality of the New Industry Model Law would have on our future activities, results of operations and financial condition.

The effect of the reforms under the New Industry Model Law, the impact of new regulations to be issued by ANEEL, the impact of a decision on the constitutionality of the New Industry Model Law, the effects of future reforms in the power industry and future changes in the Brazilian electricity regulation are difficult to predict and may adversely impact our business, financial condition and results of operations.

Changes in the regulatory framework may adversely affect our business, financial condition and results of operations.

There is a proposed law being considered in the Brazilian Congress that if approved would change the structure and control of government agencies. The proposed law would require, among other things, the creation of management agreements between agencies and the ministries to which they are related, as well as the creation of an ombudsman office within each of the several agencies to ensure quality of service and monitor internal customer complaint procedures against both the agencies and the regulated parties. Each ombudsman would be appointed by the president of Brazil. If such a law comes into effect, ANEEL's duties may be reduced. In such a scenario, the MME would likely gain greater influence over the Brazilian electric industry. Such changes in the regulatory structure could adversely affect our business, financial condition and results of operations.

We could be penalized by MME, the granting authority for our concession, for failing to comply with the terms of our concession agreement or authorizations to conduct our business activities, as well as with the applicable regulations, which could result in fines, other penalties and, depending on the gravity of the non-compliance, the termination of our concession contract or authorizations.

We carry out our distribution activities under a concession agreement entered into with the Brazilian Government through ANEEL, which terminates on August 7, 2027. Depending on the significance of the non-compliance, these penalties could include the following:

- warning notices;
- fines per breach of up to 2.0% of the revenue of any concessionaire in default in the twelve months preceding the date of the assessment notice;

- injunctions related to the construction of new facilities and equipment;
- restrictions on the operation of existing facilities and equipment;
- temporary suspension from participating in bidding processes for new concessions;
- intervention by the granting authority in our concession agreement; and
- termination of our concession agreement.

In addition, the Brazilian Government has the power to terminate our concession prior to the end of the applicable concession term in the case of bankruptcy or dissolution, by means of expropriation in the public interest or in the event we breach material obligations under our concession contract or fail to comply with the applicable legislation.

Although we are currently in compliance with all material terms of our concession contract, we cannot assure you that we will not be penalized by ANEEL for breaching our concession contract in the future or that our concession will not be terminated in the future. If our concession contract were terminated, we would not be able to operate and distribute electricity to our customers in the area covered by the concession. In addition, the compensation to which we would be entitled upon termination of our concession may not be sufficient for us to realize the full value of our assets, and the payment of that compensation could be delayed for many years. If our concession contract were terminated for reasons attributable to us, the amount of compensation paid to us could be materially reduced through the imposition of fines or other penalties paid to ANEEL and/or the Brazilian Government. Accordingly, the imposition of fines or penalties on us or the termination of our concession could have an adverse effect on our financial condition and results of operations.

An expropriation of our assets may adversely affect our business, financial condition and results of operations.

The Brazilian Government, in cases of public interest, and under a specific law authorizing and establishing indemnity payments for such takings, may expropriate, temporarily or permanently, our electric energy distribution services. Public interest includes natural disasters, war, significant public tumults, threats against the internal peace, economic reasons and reasons related to national security. We cannot assure you that an indemnity payment for a temporary or a permanent expropriation will be adequate or that such payment will be made on a timely basis. The loss of any of our distribution concessions or authorizations may materially affect our business, financial condition and results of operations.

ANEEL may terminate our concession contract before its expiration date, and any compensation payable to us as a result of any such early termination may be insufficient to recover the full value of our investments.

Our concession contract may be terminated early by means of expropriation and/or forfeiture. The recovery of our assets by the regulator may be exercised at its sole discretion. Under certain circumstances, our concessions are subject to termination by ANEEL before they expire. ANEEL may extinguish our concessions for reasons related to the public interest that must be expressly declared by law. Moreover, forfeiture may be declared by the granting authority, if among others, we (i) fail to render adequate service or comply with applicable law or regulation, (ii) no longer maintain the technical, financial or economic capacity to provide adequate service, (iii) have not complied with the penalties assessed by ANEEL. If ANEEL revokes any of our concessions, we have the right to receive indemnification for the authorized unamortized portion of our investment, but this indemnification may be insufficient to recover the full value of our investments and/or to compensate us for the loss of future profits related to the concession assets that have not been fully amortized or depreciated. If ANEEL unilaterally decides to revoke our concession prior to its expiration, we may be unable to recover the value of our investment, which would have an adverse effect on our financial condition and results of operations. Any early termination or revocation by ANEEL of our concession contract, or any failure to receive sufficient indemnification for investments we have made may have an adverse effect on us.

Inaccurate estimates of the demand for energy in our distribution concession area may adversely affect our results of operations.

Under the New Industry Model Law, we may not be able to pass on the full costs of electricity purchases to our customers if we incorrectly estimate the demand for energy. Under the New Industry Model Law, an electricity distributor must contract in advance, through public auctions, not less than 100% of its forecasted electricity needs for the following five years. If our energy demand forecast is inaccurate and we purchase an insufficient amount of electricity or more electricity than we need to meet such demand, and the adjustments permitted by law are insufficient to offset such forecasting errors, we may be prevented from fully passing on the costs of our purchases to our customers. We cannot assure you that our forecasts for electricity demand will be accurate.

If we are unable to successfully control electricity losses, our results of operations and our financial condition could be adversely affected.

We experience two types of electricity losses: technical losses and commercial losses. Technical losses are losses that occur in the ordinary course of our distribution of electricity. Commercial losses are losses that result from illegal connections, fraud, faulty metering and billing errors.

We cannot assure you that the strategies we have implemented to combat electricity losses will be effective. A portion of our electricity losses may not be able to be passed on through tariff increases, and we cannot assure you that government measures in response to future shortages as well as an increase in electricity losses will not adversely affect our financial condition and results of operations.

Increasing competition in the free market may adversely affect our position in the market due to loss of free customers and, consequently, could adversely affect our financial condition and results of operations.

According to the New Industry Model Law, other Brazilian suppliers may offer electric energy to certain large customers that comply with the legal requirements to qualify as free customers. Free customers are those who demand an amount of electricity equal to or greater than 3 MW in voltage equal to or greater than 69 kV, or, in case of a new customer that entered the market on or after July 1995, those who demand an amount equal to or greater than 3 MW at any voltage level. Our competitors may offer prices to these potentially free customers that are lower than the prices currently offered by us.

In addition, we may lose potentially free customers within the energy demand range of 500 kW to 3000 kW. These potentially free customers may choose to obtain their electricity supply from alternative sources, such as, for example, wind power, PCH, and biomass.

The loss of customers to other suppliers that provide energy to free customers in our concession area may adversely affect our position in the market, and, consequently, our financial conditions and results of operations.

The construction, expansion and operation of our electricity distribution facilities and equipment involve significant risks that could lead to lost revenue or increased expenses.

The construction, expansion and operation of our facilities and equipment for the distribution of electricity involve many risks, including:

- the inability to obtain required governmental permits and approvals;
- unforeseen engineering and environmental problems;
- the unavailability of equipment;
- supply interruptions;
- work stoppages;

- labor unrest;
- social unrest;
- weather and hydrological interferences;
- increases in electricity losses, including technical and commercial losses;
- construction and operational delays or unanticipated cost overruns; and
- unavailability of adequate funding.

If we experience any of these or other problems, we may not be able to distribute electricity in amounts consistent with our business plan, which may have an adverse effect on our financial condition and results of operations.

Our equipment, facilities and operations are subject to numerous environmental and health regulations that may become more stringent and may result in increased liabilities and increased capital expenditures.

Our distribution activities are subject to comprehensive federal, state and municipal environmental legislation, as well as supervision by governmental agencies that are responsible for the implementation of environmental and health regulations and policies. These regulations require us to obtain environmental licenses for the installation, construction and operation of new facilities and also for the installation and operation of new equipment. The regulations are complex and may change over time, making our ability to comply with the applicable requirements more difficult and more expensive or even impossible, thereby precluding our continuing or future distribution operations. Compliance with environmental and health regulations may force us to make capital expenditures and consequently divert funds away from planned investments. Any such diversion of resources may adversely affect our financial condition and results of operations.

Any failure on our part to obtain and maintain a valid environmental license or to comply with environmental laws and regulations may result in civil and criminal penalties, even if no damage to the environment has taken place. These failures may also subject us to administrative penalties such as fines, suspension of public agency subsidies or injunctions requiring us to discontinue, temporarily or permanently, the offending activities. Such agencies and authorities may also significantly delay the issuance of such permits and necessary authorizations for the development of our business, which could adversely affect our business and results of operations.

The operations of Brazilian electricity companies may cause significant adverse environmental impact and damages. Brazilian federal laws provide for strict and joint liability to perform environmental remediation and to indemnify third parties for environmental damage. Moreover, private individuals, non-governmental organizations and governmental agencies have certain rights, including standing to commence legal proceedings to obtain injunctions, suspend or cancel the licensing process and redress environmental damages. In addition, environmental governmental agencies could also take enforcement action against us for any failure to comply with applicable laws. Such enforcement action may include, among other penalties, the imposition of fines, revocation of licenses and suspension of operations. Our officers and directors may be held personally liable for environmental recovery costs. Such failures may also result in criminal liability, in addition to the strict liability to perform environmental remediation and to indemnify third parties for environmental damages.

Exposure to claims from customers and our level of insurance might not be sufficient to fully cover all liabilities that may arise in the course of our business and insurance coverage might not be available in the future.

As a public service provider, we are strictly liable for direct and indirect damages resulting from the distribution of electrical energy, such as sudden interruptions and voltage variations. In general terms, this means that a plaintiff needs only to prove that the tort occurred, regardless of finding of fault. In addition, we may be liable for up to 60% of the damages caused to third parties as a result of interruptions or disturbances that are not

attributable to identified members of the ONS. Our business and results of operations may be adversely affected if we incur damages or liabilities that are not fully covered by our insurance policies.

We cannot assure you that our level of insurance is sufficient to fully cover all liabilities that may arise in the course of our business or that insurance will continue to be available in the future. In addition, we may not be able to obtain insurance on comparable terms in the future. Our business and results of operations may be adversely affected if we incur liabilities that are not fully covered by our insurance policies.

The impact of potential electricity shortages and the consequent implementation of electricity conservation programs may have an adverse effect on our business, financial condition and results of operations.

The Brazilian electricity industry, whose energy matrix is heavily concentrated in hydroelectric power generation (which accounted for approximately 76.9% of the Brazilian domestic energy supply for 2009, according to the *Balanco Energético Nacional* on its Brazilian Energy Balance 2010 report (for the year 2009)), faces natural limitations on its generation capacity. Hydroelectric power producers cannot generate electricity beyond the capacity enabled by the country's hydrological resources. The ONS controls reservoir levels seeking to optimize the level of water available for hydroelectric generation in each of the plants associated to the corresponding reservoirs, in addition to maintaining a certain reserve of water for emergency situations.

The Brazilian electricity industry is, therefore, vulnerable to natural events, such as floods and rainfall shortages, which affect electricity generation capacity, as well as to regulatory restrictions imposed on the National Interconnected Electric System which may limit total usage of the electricity generated in Brazil.

We cannot assure you that periods of low or extremely low average rainfall will not occur and have an adverse effect on our results of operations in the future. As a preventative measure, the ONS has adopted Energy Safety Procedures designed to determine whether the use of thermal plants and other kinds of reserves of energy will help prevent a certain reduction of the level of stored water in the reservoirs over a certain period of time, thus significantly reducing the risk of another electricity rationing.

In the event Brazil experiences a period of potential or actual electricity shortage, the Brazilian Government may implement policies and measures which may have an adverse effect on our financial condition and results of operations.

The Brazilian Government's "universalization" program requirements may not be advantageous to us.

In 2003, the Brazilian Government began implementing a "universalization" program designed to make electricity available to low-income customers who would not otherwise have access to electricity. Under the program, electricity distribution companies bear the initial costs of building the infrastructure to provide these customers with electricity.

Under the program, ANEEL established targets for each electricity distributor, and if we fail to comply with our targets, our tariffs may be reduced until we meet our established targets. The universalization program may require significant capital expenditures and operating costs. Subject to ANEEL's discretion in reviewing our tariffs, we must wait until our next periodic tariff review, which occurs every five years, to pass the costs of the program onto our customers. In addition, since the program primarily provides electricity to low-income individuals, the compulsory capital and operating expenditures may not generate benefits for us that are comparable to the benefits that would ordinarily be generated by investments made based on our business judgment. Therefore, we may earn a lower return on our investments under this program if ANEEL does not compensate us by adjusting our tariffs accordingly. Moreover, the Brazilian Government could impose additional obligations in the future under the universalization program or other similar programs, which may significantly increase our capital expenditures or our operating costs and could adversely affect our financial condition and results of operations.

Adverse decisions in one or more of our lawsuits and administrative proceedings could adversely affect our business and results of operations.

We are currently engaged in judicial and administrative proceedings involving various legal issues, including proceedings relating to civil liabilities, tax liabilities, labor obligations, environmental liabilities and other issues. The majority of these proceedings arise out of the ordinary course of our business.

In our financial statements for the year ended December 31, 2010, our provisions for legal proceedings, which includes reasonably estimated probable losses and litigation costs, were R\$109 million, of which R\$6.8 million related to tax disputes, R\$40.3 million related to civil proceedings, and R\$62.0 million related to labor proceedings. If we are ordered to make payments exceeding the amounts estimated in our provisions for legal proceedings, there may be a negative impact on our financial condition and results of operations.

We are directly and indirectly controlled by shareholders whose interests could conflict with yours.

We are indirectly controlled by Previ, IBERDROLA, and BB Banco de Investimento S.A. who own Neoenergia, our controlling shareholder. Neoenergia may take actions that could be contrary to your interests. In particular, Previ, IBERDROLA and BB Banco de Investimento S.A. control, through Neoenergia, the outcome of decisions at Neoenergia's and our shareholders' meetings. Our indirect controlling shareholders can direct our actions in areas such as business strategy, financing, distributions, acquisitions and dispositions of assets, and their decisions on these matters may be contrary to your expectations or preferences.

Risks Relating to Brazil

The Brazilian Government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, could adversely affect our business and the market value of the notes.

The Brazilian Government frequently intervenes in the Brazilian economy and occasionally makes significant changes in monetary, credit and other policies and regulations to influence Brazil's economy. The Brazilian Government's actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. We have no control over, and cannot predict, what measures or policies the Brazilian Government may take in the future. Our business, financial condition and results of operations may be adversely affected by changes in policy or regulations involving or affecting exchange controls, as well as factors such as:

- Brazilian economic growth;
- currency fluctuations;
- inflation;
- exchange control policies;
- interest rates;
- liquidity of domestic capital and lending markets;
- fiscal policy and change in tax laws; and
- other political, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian Government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets and in prices of securities issued abroad by Brazilian issuers.

In October 2010, presidential elections took place in Brazil, with President Luiz Inácio Lula da Silva's party member, Dilma Vana Rousseff, winning the election and becoming the president of Brazil. Uncertainties in relation to possible political crises may contribute to economic instability. This may increase market volatility of

the Brazilian securities. It is not possible to predict whether the government elected in 2010 or any succeeding governments will have an adverse effect on the Brazilian economy, and, consequently, on our business. Uncertainties with respect to the economic and policy frameworks to be adopted by the new President of Brazil may also increase market price volatility for securities issued by Brazilian issuers, which could adversely affect us and the market price of the notes.

Inflation and efforts by the Brazilian Government to combat inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market value of the notes.

Brazil has in the past experienced extremely high inflation rates. More recently, Brazil's annual rate of inflation was 3.85% in 2006, 7.75% in 2007, 3.87% in 2008 and (1.72%) in 2009, as measured by the General Market Price Index (*Índice Geral de Preços—Mercado*), or IGP-M. For the year ended December 31, 2010, the rate of inflation as measured by IGP-M was 11.3%. Inflation, and certain government actions taken to combat inflation, have had significant negative effects on the Brazilian economy. Measures to curb inflation, and speculation about possible future governmental measures, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets. Future measures taken by the Brazilian Government, including interest rate increases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation and consequently, particularly because most of our contracts are inflation adjusted according to the IGP-M, increase our costs, including our financing costs.

In addition, if Brazil experiences high inflation in the future, we may not be able to adjust the rates we charge our customers to offset the effects of inflation on our cost structure, which could adversely affect our operating margins. Inflationary pressures, and perceptions of inflationary pressures, may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm our business or adversely affect the market value of the notes.

Brazil's economy remains vulnerable to external factors, which could have a material adverse effect on Brazil's economic growth and on our business, financial condition and results of operations.

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging market countries such as us may be particularly susceptible to these events, which can affect the price and availability of their financing. Because international investors' reactions to the events occurring in one market sometimes affect other regions or disfavor certain investments, Brazil could be adversely affected by negative economic or financial developments in other countries.

In addition, the recent market volatility and disruption have been accompanied by worsening economic data in the world's major economies. Weakening economic conditions in Brazil may, in particular, impair the ability of some of our customers to perform their obligations to us and/or limit our ability to execute our strategy in the same way that we would in a period of economic growth and stability. Accordingly, our business, financial condition and results of operations could be adversely affected by conditions in the global financial markets as long as they remain volatile and subject to disruption and uncertainty.

The market for Brazilian securities is subject to a high degree of volatility due to developments and perceptions of risks in other countries.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil, as well as, to varying degrees, market conditions in other Latin American and emerging market countries, and the United States. Although economic conditions differ in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate.

Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to the Brazilian economy and resulted in considerable outflows of funds and decrease in the amount of foreign investments in Brazil. Crises in other emerging market countries may diminish investor interest in securities of Brazilian issuers, including ours, which could adversely affect the market price of our securities.

Political crises in Brazil may affect the Brazilian economy and the market for Brazilian securities.

Brazilian economic performance has historically been affected by the national political scenario. In the past, political crises affected the confidence of investors and the public in general, decelerating the economy and impairing the market price of securities issued by Brazilian companies. In the last few years, Brazilian politicians were accused of anti-ethical or illegal practices. These accusations, which are currently under investigation in the Brazilian Congress, include campaign financing violations, violations of electoral practices, graft by Brazilian Government authorities in exchange for political support and other corruption charges. Between 2007 and 2009, several members of the then federal administration and of the political party of the then Brazilian president, President Luiz Inácio Lula da Silva, including the then chairman of president da Silva's party, resigned. We cannot forecast the effects of these charges and investigations on the new Brazilian administration, political and economic conditions in Brazil generally, Brazilian capital markets or the market price of our securities.

Changes in Brazilian tax policy may have an adverse effect on our business, financial condition and results of operations.

The Brazilian Government has implemented and may again implement changes to its tax policies that may affect us. These changes include amendments to the tax rates, fees, and charges and, occasionally, the collection of temporary taxes related to specific governmental purposes. Some of such measures may lead to tax increases. If we are unable to adjust our tariffs accordingly, our business and results of operations may be adversely affected.

Additionally, as a public service provider, we must comply with the rules and regulations set forth by our regulator, ANEEL. As such, we depend on specific administrative rules for the transfer of any tax modification costs to customers. In this sense, if we are not able to transfer additional tax costs to customers, our business, financial condition and results of operations may be adversely affected.

Risks Related to the Notes

Interest and principal payments on your notes will depend on the exchange rate between the Brazilian real and the U.S. dollar at the time of the relevant payment.

You are assuming the foreign exchange risk in connection with payments on the notes. Since the notes are denominated in Brazilian *reais* and the interest and principal payments we make on the notes is determined by reference to the Brazilian *real*-U.S. dollar exchange rate, you will bear all of the risk that the Brazilian *real* may depreciate, and if the Brazilian *real* were to depreciate over the life of the notes, the interest and principal payments you receive on the notes would decrease, perhaps significantly. Brazil has historically experienced periods of extreme volatility. If the Brazilian *real* were to depreciate against the U.S. dollar, the principal amount due at the maturity or upon redemption of the notes could be significantly less than the initial amount you invested, and you could lose a significant portion of your investment in the notes. See "Exchange Controls and Foreign Exchange Rates" for a history of the exchange rate between the Brazilian *real* and the U.S. dollar.

Brazilian Government policy or actions could adversely affect the exchange rate between the Brazilian real and the U.S. dollar and could adversely affect the market value of the notes.

Brazil has had a floating interest rate since 1999. However, the Central Bank has from time to time intervened in the foreign exchange market. These interventions or other governmental actions could adversely affect the value of the notes, as well as the yield (in U.S. dollar terms) on the notes and the amount payable to you on an interest payment date, at maturity or upon redemption or acceleration.

Even in the absence of governmental action directly affecting currency exchange rates, political or economic developments in Brazil or elsewhere could lead to significant and sudden changes in the exchange rate between the Brazilian *real* and the U.S. dollar.

Furthermore, Brazilian law provides that, in the event of a serious imbalance in Brazil's balance of payments or a foreseeable likelihood of such an imbalance, the Brazilian government may, for a limited period of time, impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and on the conversion of Brazilian currency into foreign currencies. Brazil has not restricted the remittance of foreign investors' proceeds since 1994. However, no assurance can be given that such measures will not be instituted in the future. Changes in exchange controls could cause the value of the Brazilian *real* to depreciate against the U.S. dollar, resulting in a reduced yield to you, a possible loss on the notes and a possible adverse impact on the market value of the notes.

Brazilian bankruptcy laws may not be as favorable to you as insolvency and bankruptcy laws of other jurisdictions.

If we are unable to pay our indebtedness, including our obligations under the notes, we may become subject to bankruptcy proceedings in Brazil. The bankruptcy laws of Brazil currently in effect are significantly different from, and may be less favorable to creditors than, those of certain other jurisdictions. If we were to be declared bankrupt, statutory preferences such as claims for salaries, wages, secured credits, social security and other taxes, court fees and expenses, would have preference over any other claims. In addition, since the notes will be unsecured debt, the notes will rank equally in right of payment with our existing and future unsecured debt, and will be subordinated to all existing and future secured debt to the extent of the value of the assets securing the secured debt. Noteholders may also have limited voting rights at creditors' meetings in the context of a court reorganization proceeding. Furthermore, in the event of our bankruptcy, all of our debt obligations that are denominated in foreign currency, including the notes, will be converted into *reais* at the prevailing exchange rate on the date of declaration of such bankruptcy.

You may be unable to attach a significant portion of our assets to secure a judgment.

Brazilian courts will not enforce any attachment with respect to property located in Brazil and determined by the court to be dedicated to the provision of essential public services. A substantial portion of our assets, including our energy distribution network, would be deemed by Brazilian courts to be dedicated to the provision of an essential public service. These assets will not be available for liquidation in the event of bankruptcy or attachment to secure a judgment, and in such cases would, pursuant to the terms of our concessions and Brazilian law, revert to the Brazilian Government. Although the Brazilian Government will be obligated in such a scenario to indemnify us for such reversions, the compensation received may be lower than the market value of the assets. These restrictions on liquidation and attachment, as well as any enforcement action on the collateral, may lower significantly the amounts you would otherwise be entitled to receive in the event of our liquidation or in the event our concessions are terminated, and may have an adverse effect on our ability to obtain financing.

The Issuer's obligations under the notes are subordinated to certain statutory preferences.

Under Brazilian law, the Issuer's obligations under the notes are subordinated to certain statutory preferences. In the event of the liquidation, bankruptcy or judicial reorganization of the Issuer, such statutory preferences, including post-petition claims, claims for salaries, wages, social security, taxes and court fees and expenses and claims secured by collateral, among others, will have preference over any other claims, including claims by any investor in respect of the notes. In such a scenario, noteholders may be unable to collect amounts that they are due under the notes.

We cannot assure investors that a judgment of a court for liabilities under the securities laws of a jurisdiction outside Brazil would be enforceable in Brazil, or that an original action can be brought in Brazil against us for liabilities under applicable securities laws.

We are incorporated under the laws of Brazil. All of our assets are located in Brazil. All of our directors, executive officers and certain advisors named herein reside in Brazil. As a result, it may not be possible for investors to effect service of process within the United States upon us or our directors, executive officers and advisors, or to enforce upon us or our directors, executive officers and advisors, in U.S. or Brazilian courts, any judgments predicated upon the civil liability provisions of applicable securities laws. In addition, it may not be possible to bring an original action in Brazil against us for liabilities under securities laws of the United States or other jurisdictions or to enforce the notes if the indenture or the notes were to be declared void by a court applying the laws of the State of New York. See “Enforceability of Civil Liabilities.”

We may not be able to purchase the notes upon a specified change of control event.

Upon the occurrence of a specified change of control event, we will be required to offer to purchase each holder’s notes at a price equal to 101% of their principal amount plus accrued and unpaid interest. At the time of any specified change of control event, we may not have sufficient financial resources to purchase all of the notes that holders may tender in connection with any such change of control offer.

Payments under the notes are subject to our obtaining certain governmental authorizations.

The issuance of the notes are subject to certain registrations with the Central Bank, namely (i) registration of the main financial terms under the relevant Declaratory Registry of Financial Operations (*Registro Declaratório de Operações Financeiras*), or ROF, on the Information System of the Central Bank, which will be obtained prior to any such issuance, and (ii) registration of the schedule of payments in connection with any such issuance, which shall occur after the entry of the related proceeds into Brazil. In addition, further authorization from the Central Bank will be required to enable us to remit payments abroad in foreign currency under the notes other than scheduled payments of principal, interest, costs and expenses contemplated by the relevant ROF. There can be no assurance that any such special Central Bank authorization would be obtained or that if such authorization is obtained, such authorization would be obtained on a timely basis.

Judgments of Brazilian courts enforcing our obligations under the notes or the indenture would be payable only in reais.

If proceedings were brought in the courts of Brazil seeking to enforce our obligations under the notes, we would not be required to discharge our obligations in a currency other than *reais*. Any judgment obtained against us in a Brazilian court in respect of any payment obligations under the notes or the indenture would be expressed in *reais* equivalent to the amount of foreign currency of such sum at the prevailing exchange rate: (a) at the date the debt was originally due; or (b) at the date on which the judicial proceeding was filed; or (c) at the date the judgment is rendered, in which cases the inflation adjustment of the amount due should be made in accordance with the indexes established by the court. There can be no assurance that such rate of exchange will afford you full compensation of the amount invested in the notes plus accrued interest.

Transfers of the Notes will be restricted.

We are offering the notes in reliance upon exemptions from registration under the Securities Act and applicable state securities laws. As a result, you may not transfer or resell the notes except in a transaction registered in accordance with, or exempt from, these registration requirements. See “Transfer Restrictions.”

There is no established trading market for the Notes.

The notes are a new issue of securities for which there is no established trading market. Application has been made to the Irish Stock Exchange to admit the notes to listing on the Official List, and to trading on the Global Exchange Market, of the Irish Stock Exchange. If an active trading market does not develop or is not maintained, the market price and liquidity of the notes may be adversely affected. In that case, you may not be able to sell your notes at a particular time or at a favorable price. Future trading prices of the notes will depend on many factors, including our operating performance and financial condition, the interest of securities dealers in making a market, and the market for similar securities.

USE OF PROCEEDS

We estimate that the net proceeds (after deducting commissions and expenses) from this offering will be approximately R\$396,725,050. We intend to use the net proceeds from this offering for debt repayment and general corporate purposes.

EXCHANGE CONTROLS AND FOREIGN EXCHANGE RATES

Prior to March 14, 2005, there were two legal foreign exchange markets in Brazil, in which rates were freely negotiated, but could be strongly influenced by Central Bank intervention:

- the commercial rate exchange market, which was dedicated principally to trade and financial foreign exchange transactions, such as the buying and selling of registered investments by foreign entities, the purchase or sale of notes, or the payment of principal, fees and interest with respect to notes; and
- the floating rate exchange market that was generally used for transactions not conducted through the commercial rate exchange market.

On March 4, 2005, the National Monetary Council enacted Resolution No. 3,265, pursuant to which the commercial rate exchange market and the floating rate exchange market were unified in a sole exchange market, effective as of March 14, 2005. On May 25, 2008, the National Monetary Council enacted Resolution No. 3,568, which revoked Resolution No. 3,265, but the sole exchange market was maintained. The new regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *reais* by a foreign person or legal entity, without limitation as to amount, provided that the transaction is legal. However, the underlying transaction must have been valid. Foreign currencies may only be purchased through financial institutions domiciled in Brazil and authorized to operate in the exchange market. We cannot predict the impact of the enactment of new regulations on the foreign exchange market.

Between March 1995 and January 1999, the Central Bank permitted the gradual devaluation of the *real* against the U.S. dollar pursuant to an exchange rate policy that established a band within which the *real*-U.S. dollar exchange rate could float. Responding to pressure on the *real*, on January 13, 1999, the Central Bank widened the foreign exchange band and, on January 15, 1999, allowed the *real* to float freely.

The *real* appreciated against the U.S. dollar by 8.1% in 2004, 11.8% in 2005, 8.7% in 2006 and 17.2% in 2007. In 2008, due to the international financial crisis and slowdown of the economy, the *real* depreciated against the U.S. dollar by 31.9%. In 2009, the *real* appreciated against the U.S. dollar by 25.5% and on December 31, 2009, the dollar exchange rate was R\$1.74 per U.S.\$1.00. For the year ended December 31, 2010, the *real* appreciated against the U.S. dollar by 4.31%. As of March 31, 2011, the U.S. dollar exchange rate was R\$1.6287 to U.S.\$1.00.

In the past, the Brazilian Government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluation, periodic mini-devaluation during which the frequency of adjustments ranged from a daily to a monthly basis, floating exchange rate systems, exchange controls and dual exchange rate markets. We cannot predict whether the Central Bank or the Brazilian Government will continue to let the *real* float freely or intervene in the exchange rate market by returning to a currency band system or otherwise.

The *real* may depreciate or appreciate substantially against the U.S. dollar. Exchange rate fluctuations may adversely affect us and the market price of our notes. We are subject to foreign exchange rate instability, including devaluation of the *real*, which may adversely affect us.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian Government in the future, which could prevent us from making payments under the notes. For more information on these risks, see "Risk Factors – Risks Relating to the Notes – Brazilian Government policy or actions could adversely affect the exchange rate between the Brazilian *real* and the U.S. dollar and could adversely affect the market value of the notes."

The following tables set forth the U.S. dollar exchange rates, expressed in *reais* per U.S. dollar (R\$/U.S.\$) for the periods indicated, as reported by the Central Bank.

<u>Year</u>	<u>Period-end</u>	<u>Average for Period¹</u>	<u>Low</u>	<u>High</u>
2006	2.1380	2.1771	2.0586	2.3711
2007	1.7713	1.9483	1.7325	2.1556
2008	2.3370	1.8375	1.5593	2.5004
2009	1.7412	1.9935	1.7024	2.4218
2010	1.6662	1.7583	1.6554	1.8811

Source: Brazilian Central Bank

<u>Month</u>	<u>Period-end</u>	<u>Average for Period¹</u>	<u>Low</u>	<u>High</u>
October 2010	1.7014	1.6835	1.6554	1.7112
November 2010	1.7161	1.7133	1.6801	1.7336
December 2010	1.6662	1.6934	1.6662	1.7117
January 2011	1.6734	1.6749	1.6510	1.6912
February 2011	1.6612	1.6679	1.6612	1.6776
March 2011	1.6287	1.6589	1.6287	1.6757
April 2011 (through April 15)	1.5776	1.5939	1.5762	1.6194

Source: Brazilian Central Bank

¹ Represents the average of the exchange rates of each trading date.

CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2010 on an actual basis, as derived from our audited financial statements prepared in accordance with IFRS and as adjusted to reflect the issuance of the notes, after deducting commissions and expenses. There have been no material changes in our capitalization since December 31, 2010 except as indicated in the table below. You should read this table in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes appearing elsewhere in this offering memorandum.

		As of December 31, 2010 (in thousands)			
		Actual		As adjusted ⁽¹⁾	
Short-term debt					
Loans and financings	R\$ 205,032	US\$(²) 123,054	R\$ 205,032	US\$(²) 123,054	
Debentures	215,387	129,268	215,387	129,268	
Total short-term debt	420,419	252,322	420,419	252,322	
Long-term debt					
Loans and financing	1,298,582	779,367	1,695,307	1,017,469	
Debentures	363,077	217,907	363,077	217,907	
Total long-term debt	1,661,659	997,274	2,058,384	1,235,376	
Shareholders' equity and funds for capital increase					
	2,378,407	1,427,444	2,378,407	1,427,444	
Total Capitalization³	R\$4,460,485	US\$ 2,677,040	R\$4,857,210	US\$ 2,915,142	

¹ As adjusted to reflect the issuance of the notes, after deducting commissions and expenses.

² Translated for convenience using the U.S. dollar exchange rate from the Central Bank on December 31, 2010, of R\$1.6662 to U.S.\$1.00.

³ Total capitalization corresponds to the sum of total short-term debt, total long-term debt and shareholders’ equity and funds for capital increase.

SELECTED FINANCIAL AND OPERATING DATA

The tables below present selected financial and operating data as at and for the periods indicated. You should read the information below in conjunction with the audited financial statements and notes thereto beginning on page F-1 herein, as well as the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Summary Financial and Operating Information” in this offering memorandum.

The annual financial statements as of and for the years ended December 31, 2010 and 2009, included in this offering memorandum, have been prepared in accordance with IFRS and our annual financial statements for the years ended December 31, 2009 and 2008, included in this offering memorandum have been prepared in accordance with Brazilian GAAP, which differs in certain significant respects from IFRS. “Description of Certain Differences Between Brazilian GAAP and IFRS Applicable to Our December 31, 2009 and 2008 Brazilian GAAP Financial Statements” provides a description of the principal differences between Brazilian GAAP and IFRS, as they relate to us. We prepared our annual financial statements according to IFRS for the first time for the year ended December 31, 2010 and have restated our financial statements as of and for the year ended December 31, 2009 for comparative purposes. Because of the differences in accounting methodology between Brazilian GAAP and IFRS, our financial statements for 2010 and 2009 prepared in accordance with IFRS are not comparable with our financial statements for 2009 and 2008 prepared in accordance with Brazilian GAAP.

Solely for the convenience of the reader, real amounts as of and for the year ended December 31, 2010 have been translated into U.S. dollars at the U.S. dollar exchange rate as reported by the Central Bank on December 31, 2010 of R\$1.6662 to U.S.\$1.00. The U.S. dollar equivalent information should not be construed to imply that the real amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

The financial and operating data in the tables below have been prepared in accordance with IFRS for the years indicated.

	Year Ended December 31, (in thousands) (IFRS)		
	2010 ¹	2010	2009
Income Statement			
Gross revenue	US\$ 3,744,734	R\$ 6,239,476	R\$ 5,577,484
Electricity supply	1,237,317	2,061,618	1,940,476
Electricity Trading Chamber (CCEE)	30,029	50,034	13,249
Availability of distribution system	2,016,542	3,359,963	2,929,285
Construction revenues	416,008	693,153	631,724
Other income	44,837	74,708	62,750
Deductions from gross revenue	(1,107,401)	(1,845,152)	(1,581,358)
Net operating revenues	2,637,333	4,394,324	3,996,126
Electric energy purchased for resale	(992,302)	(1,653,373)	(1,478,277)
Cost with transmission system use charges	(136,428)	(227,317)	(197,756)
Operating costs	(613,468)	(1,022,161)	(932,734)
Gross income	895,134	1,491,473	1,387,359
Sales expenses	(125,690)	(209,425)	(173,495)
General and administrative expenses	(89,111)	(148,477)	(119,577)
Income before financial results and taxes	680,333	1,133,571	1,094,287
Financial income (expenses)	(11,204)	(18,668)	(27,207)
Income before income and social contribution	669,129	1,114,903	1,067,080
Income taxes and social contribution	(101,539)	(169,184)	(179,455)
Net income for the year	US\$ 567,590	R\$ 945,719	R\$ 887,625

¹ Translated for convenience using the U.S. dollar exchange rate from the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

		As of December 31, (in thousands) (IFRS)		
Balance Sheet: Assets		2010 ¹	2010	2009
Current Assets				
Cash and cash equivalents	US\$	60,783	R\$ 101,277	R\$ 217,329
Accounts receivables		530,180	883,386	794,525
Marketable securities		41,406	68,991	84,476
Other receivables		152,841	254,663	175,177
Total current assets		785,210	1,308,317	1,271,507
Non-current assets				
Accounts receivables		186,467	310,691	218,840
Other non current assets		339,995	566,500	560,245
Indemnification asset (concession)		266,454	443,965	308,170
Intangibles		1,647,258	2,744,662	2,399,118
Total non-current assets		2,440,174	4,065,818	3,486,373
Total assets	US\$	3,225,384	R\$5,374,135	R\$4,757,880

¹ Translated for convenience using the U.S. dollar exchange rate from the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

		As of December 31, (in thousands) (IFRS)		
Balance Sheet: Liabilities and Shareholders' Equity		2010 ¹	2010	2009
Current Liabilities				
Suppliers	US\$	201,509	R\$ 335,755	R\$ 319,345
Loans and financing		123,054	205,032	233,592
Debentures		129,268	215,387	82,419
Other accounts payable		227,203	378,566	610,621
Total current liabilities		681,035	1,134,740	1,245,977
Non-Current Liabilities				
Loans and financing		779,367	1,298,582	683,289
Debentures		217,907	363,077	469,438
Other accounts payable		119,631	199,329	237,015
Total non-current liabilities		1,116,906	1,860,988	1,389,742
Total shareholders' equity and funds for capital increase		1,427,444	2,378,407	2,122,161
Total liabilities and shareholders' equity	US\$	3,225,384	R\$5,374,135	R\$2,757,880

¹ Translated for convenience using the U.S. dollar exchange rate from the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

The following tables set forth our operating data and other financial information in IFRS as of and for the years ended December 31, 2010 and 2009.

	As of and for the year ended December 31,	
	2010	2009
Operating Data		
Energy purchased for resale (in MWh)¹	17,732,761	16,928,515
Electricity sales (in MWh)		
Residential	5,200,269	4,836,676
Industrial	3,459,558	3,564,156
Commercial	2,767,009	2,643,569
Rural	1,090,159	1,009,854
Other	2,069,680	2,029,137
Sub Total	14,586,675	14,083,392
Unbilled sales (R\$ thousands)²	14,262	640
Total customers (in thousands)	4,900,783	4,675,769
Installed capacity of transformers (MVA)	4,444	4,235
Concession area (km²)	563,000	563,000

¹ Energy purchased for resale consists of energy purchased from unrelated parties, related parties, from the CCEE, from PROINFA, system service charges, PIS and COFINS credits and other.

² Unbilled sales represents the difference between revenue recorded from energy supplied to customers and the amount billed by Coelba.

	As of and for the year ended December 31,		
	2010 ¹ (in US\$)	2010 (in R\$)	2009 (in R\$)
Other Financial Information (IFRS)			
Net income (in thousands)	567,590	945,719	887,625
Total assets (in thousands)	3,225,384	5,374,135	4,757,880
Total debt (in thousands)	1,249,597	2,082,078	1,468,738
Cash and cash equivalents (in thousands)	60,783	101,277	217,329
EBITDA ² (in millions)	808.8	1,347.6	1,266.8
EBITDA margin (%)		30.7%	31.7%
Total net debt ³ (in millions)		1,911.8	1,166.9
Total net debt/EBITDA ratio		1.42	0.92

¹ Translated for convenience using the U.S. dollar exchange rate from the Central Bank of R\$1.6662 to U.S.\$1.00 as of December 31, 2010.

² EBITDA is calculated as shown in the table below:

	Year ended December 31,	
	2010	2009
	(R\$ thousands) (IFRS)	
Net income	945.7	887.6
Income taxes and social contribution	169.2	179.5
Financial income	(336.7)	(307.9)
Financial expenses	355.4	335.1
Amortization	214.0	172.5
EBITDA	1,347.6	1,266.8

³ Total net debt represents long term and short term debt less cash and cash equivalents and marketable securities.

The financial and operating data in the tables below has been prepared in accordance with Brazilian GAAP for the years indicated. Because of the differences in accounting methodology between Brazilian GAAP and IFRS, our financial statements presented below for 2009 and 2008 prepared in accordance with Brazilian GAAP are not comparable with our financial statements for 2010 and 2009 prepared in accordance with IFRS.

	Year Ended December 31, (in thousands) (Brazilian GAAP)	
	2009	2008
Income Statement		
Gross revenue	R\$ 4,932,524	R\$ 4,655,857
Electricity supply	1,921,543	1,845,556
Electricity Trading Chamber (CCEE)	13,249	36,118
Availability of distribution system	2,934,983	2,697,550
Other income	62,749	76,633
Deductions from gross revenue	(1,581,760)	(1,540,753)
Net operating revenues	3,350,764	3,115,104
Electric energy purchased for resale	(1,516,697)	(1,325,550)
Cost with transmission system use charges	(222,305)	(180,653)
Operating costs	(312,289)	(311,148)
Gross income	1,299,473	1,297,753
Sales expenses	(173,495)	(165,135)
General and administrative expenses	(125,175)	(105,257)
Income before financial results and income taxes	1,000,803	1,027,361
Financial income (expenses)	(153,580)	(172,954)
Income before income taxes	847,223	854,407
Income taxes and social contribution	(137,840)	(133,463)
Income before reversal of interest on shareholders' equity	709,383	720,944
Reversal of interest on shareholders' equity	100,012	93,861
Net income for the year	R\$ 809,395	R\$ 814,805
	As of December 31, (in thousands) (Brazilian GAAP)	
	2009	2008
Balance Sheet: Assets		
Current Assets		
Cash and cash equivalents	R\$ 217,329	R\$ 334,809
Consumers, concessionaires and permissionaires	828,258	657,487
Marketable securities	84,476	72,619
Other receivables	223,000	199,345
Total current assets	1,353,063	1,264,260
Non-current assets		
Consumers, concessionaires and permissionaires	207,208	180,679
Other non current assets	482,968	528,111
Property, plant & equipment	2,498,842	2,147,225
Intangible assets	172,989	115,663
Total non-current assets	3,362,007	2,971,678
Total assets	R\$4,715,070	R\$4,235,938

		As of December 31, (in thousands) (Brazilian GAAP)	
		2009	2008
Balance Sheet: Liabilities and Shareholders' Equity			
Current Liabilities			
Suppliers	R\$	303,847	R\$ 234,242
Loans and financing		233,592	164,612
Debentures		82,419	67,910
Dividends and interest on shareholders' equity		644,836	318,212
Other accounts payable		341,645	293,343
Total current liabilities		1,606,339	1,078,319
Non-Current Liabilities			
Loans and financing		683,289	819,859
Debentures		469,438	550,940
Other accounts payable		174,767	153,921
Total non-current liabilities		1,327,494	1,524,720
Total shareholders' equity and funds for capital increase		1,781,237	1,632,899
Total liabilities and shareholders' equity		R\$4,715,070	R\$4,235,938

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is based on, and should be read in conjunction with, our audited financial statements and related notes as of and for the years ended December 31, 2010 and 2009, prepared in accordance with IFRS, as of and for the years ended December 31, 2009 and 2008, prepared in accordance with Brazilian GAAP, which begin on page F-2 of this offering memorandum, as well as "Presentation of Financial and Certain Other Information," "Summary Financial and Operating Information" and "Selected Financial and Operating Data" appearing elsewhere in this offering memorandum.

Our financial statements as of and for the years ended December 31, 2010 and 2009 have been prepared in accordance with IFRS. Our financial statements as of and for the years ended December 31, 2009 and 2008 have been prepared in accordance with Brazilian GAAP, which differs in certain respects from IFRS. See "Description of Certain Differences Between Brazilian GAAP and IFRS Applicable to our December 31, 2009 and 2008 Brazilian GAAP Financial Statements" for a description of the main differences between Brazilian GAAP and IFRS, as they relate to us.

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including, without limitation, those set forth in "Forward-Looking Statements" and the matters set forth in this offering memorandum generally.

Overview

We are the largest electricity distribution company in the State of Bahia, which is the seventh largest state economy in Brazil and the fifth largest state in Brazil in terms of area according to IBGE. We are essentially the sole distributor in our concession area, which covers approximately 563,000 square kilometers. We service 415 out of the 417 municipalities in Bahia. As of December 31, 2010, we had approximately 4.9 million customers.

In 2010 and 2009, we had gross revenues of R\$6,239.5 million and R\$5,577.5 million, respectively (each figure prepared in accordance with IFRS). We recorded net income of R\$945.7 million in 2010 and R\$887.6 million in 2009 (each figure prepared in accordance with IFRS) representing a margin of 15.2% and 15.9%, respectively. Our revenues are derived principally from: (i) the supply and sale of electricity to end customers; (ii) network usage charges, which are charges for the use of our proprietary distribution and transmission grid (TUSD); (iii) revenues earned from the sale of surplus energy on the Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica*) (CCEE); (iv) "construction revenue," which are revenues recognized from construction services or infrastructure improvement services used in the provision of electric energy distribution services; and (v) other revenues, consisting of, among others, service revenues, leasing revenues, and revenues associated with loss recovery which losses were caused by energy consumption fraud.

Our results of operations are significantly affected by a variety of factors, including:

- changes in the electricity tariffs we charge our customers;
- taxes on electricity sales;
- economic conditions in Brazil in general and in the State of Bahia in particular;
- availability of adequate supply of energy;
- our ability to reduce electricity losses; and
- regulatory factors.

The most important drivers of our financial performance are our operating income margin and cash flows generated from our sale of electricity to end customers and network usage charges (TUSD) charged to end customers and third parties who use our distribution network.

Principal Factors Affecting Our Results of Operations

Regulated Distribution Tariffs

Our results of operations are significantly affected by changes in the regulated electricity tariffs we charge our customers for electricity, as most of our revenues are derived from sales of electricity to captive final customers subject to these tariffs. In 2010 and 2009, sales to captive customers, including fees for using our distribution network, represented 86.9% and 87.3%, respectively, of our gross revenue. As a result, our revenues and our margins depend substantially on ANEEL's tariff-setting process and related annual adjustments. For a description of tariff regulations, see "The Brazilian Power Industry – Distribution Tariffs" and "Business – Tariff Structure."

The following table sets forth the most recent tariff adjustments published by ANEEL for Coelba for the years indicated as well as the total percent increase reflected in customer invoices. Generally, the percent increase reflected in customer invoices is slightly smaller than the actual tariff adjustment approved by ANEEL because of subsidies and savings that we pass on to our customers and/or customer discounts permitted by ANEEL.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Tariff adjustment approved by ANEEL	8.09%	9.86%	-10.28%	7.34%
Total percent increase reflected in customer invoices	5.91%	5.92%	-11.78%	5.4%

Brazilian Economic Conditions

As a company with all of its operations in Brazil, our performance is impacted by general economic conditions in Brazil. In particular, the general performance of the Brazilian economy affects demand for electricity and inflation affects our costs and margins. The Brazilian economic environment has been characterized by significant variations in economic growth, inflation and currency exchange rates. From 2001 to 2003, Brazil experienced a period of very low growth in gross domestic product, or GDP; since 2004, the economy has followed a recovery trend, experiencing an average 4.0% real GDP growth per annum until 2009. GDP growth in 2010 was 7.91%.

In 2007, the real appreciated 20.7% against the U.S. dollar. The average unemployment rate decreased from 10.0% on December 31, 2006 to 9.3% on December 31, 2007 in the main metropolitan regions of Brazil, according to the estimates of the Institute of Studies for the Development (*Instituto de Estudos para o Desenvolvimento – IED*). In 2007, inflation was 4.5% as measured by the IPCA, and the TJLP base interest rate was 6.3%. Brazilian real GDP increased by 6.1% in 2007.

In 2008, inflation was 5.9% as measured by the IPCA, within the inflation target range set by the Central Bank of between 2.5% and 6.5%. Stable inflation levels can be attributed to a tighter monetary policy that resulted in an increase of the SELIC rate in 2008, from 11.25% on December 31, 2007 to 13.75% on December 31, 2008.

2008 was marked by the global financial and economic crises. The principal impact of the global financial and economic crisis on the Brazilian economy was the deterioration of expectations for 2009 and 2010. The change in expectations caused an increase of the cost of capital from third parties, primarily beginning in the month of October 2008, in addition to exchange rate depreciation, a decrease in share prices on the BM&FBOVESPA and a decrease in industrial production.

During 2009, the Central Bank began reducing the SELIC rate, reaching 8.75%. For 2009, cumulative inflation year to date was 4.31%, as measured by the IPCA. In 2009, the real appreciated by 25.5% against the

U.S. dollar, reaching R\$1.74 to U.S.\$1.00, according to the Central Bank. For the year ended December 31, 2010, the Central Bank increased the SELIC rate, to 10.75%.

For the year ended December 31, 2010, cumulative inflation year to date was 5.91%, as measured by the IPCA, and the real appreciated by 4.31% against the U.S. dollar, reaching R\$1.67 to U.S.\$1.00 for the same period, according to the Central Bank.

The following table shows inflation, SELIC interest rates, and the appreciation or depreciation of the real against the U.S. dollar for the years ended December 31, 2010, 2009 and 2008.

	Year Ended December 31,		
	2010	2009	2008
Inflation (IGP-M) ⁽¹⁾	11.3%	(1.7)%	9.8%
Inflation (IPC-A) ⁽²⁾	5.91%	4.3%	5.9%
Effective SELIC Interest Rate ⁽³⁾	10.75%	8.65%	13.66%
Depreciation (appreciation) of the <i>real</i> vs. U.S. dollar	(4.31)%	(25.5)%	31.9%
Period-end exchange rate (R\$/U.S.\$)	R\$ 1.67	R\$ 1.74	R\$ 2.34
Average exchange rate (R\$/U.S.\$) ⁽⁴⁾	R\$ 1.75	R\$ 1.99	R\$ 1.84

Sources: Fundação Getúlio Vargas, IBGE, and the Central Bank.

¹ Inflation (IGP-M) is the general market price index measured by the Getúlio Vargas Foundation.

² Inflation (IPC-A) is a broad consumer price index measured by IBGE.

³ SELIC was calculated based on the monthly average rate from January to December of each year.

⁴ Represents the average of the commercial selling exchange rates on the last day of each month during the period.

An improved economic environment positively impacts our business through increased customer demand as a result of improved socio-economic indicators among our customer base but negatively impacts our business through inflation, which increases our operating costs and financial expenses. We are able to recover a portion of these increased costs, which are included in the Parcel A Costs of our tariff readjustment, but there is generally a lag in time between when the increased costs are incurred and when the increased revenues are received following our annual tariff adjustments.

Energy Losses

As of December 31, 2010, our energy losses stood at 13.2%, evidencing the success of management in reducing energy losses, which had reached 17% when we were privatized in July 1997.

The table below sets forth the amount of our energy losses (technical and commercial) during the years ended December 31, 2010, 2009 and 2008.

	Year ended December 31		
	2010	2009	2008
Total losses at period end (%)	13.20	12.47	12.95
Technical (%)	9.94	10.10	10.24
Commercial (%)	3.26	2.37	2.71

Critical Accounting Policies

In preparing the financial statements included in this offering memorandum, we made estimates and assumptions that we consider reasonable based on our historical experience and other factors. The presentation of our financial condition and results of operations requires that our management make estimates about inherently uncertain matters, such as, for example, recognition of unbilled revenue from the supply of electric energy and from use of our distribution network, provisions for doubtful accounts, amortization, impairment of long lived assets, provisions for contingencies, assessments of financial assets at fair value, registration of the sale of energy within the CCEE and income taxes.

Our financial presentation would be materially affected if we were to use different estimates or if we were to change our estimates in response to future events. To provide an understanding of how our management forms its judgments about future events, including the factors and assumptions underlying those estimates, we have identified the following critical accounting policies.

Unbilled Revenue

Corresponds to revenue from the supply of electricity, delivered and not billed to consumers, and to unbilled revenue from the use of the distribution system, calculated on an estimated basis, for the period from the date of monthly reading to the last day of the month.

Provisions for Doubtful Accounts

Accounts receivable and other are presented net of allowance for doubtful accounts. Allowance for doubtful accounts is recognized at an amount considered sufficient by management to cover probable losses on accounts receivable and notes receivable from consumers whose recovery is considered unlikely. Allowances are accrued based on amounts receivable from residential consumer loans overdue more than 90 days, commercial loans overdue for more than 180 days and industrial, rural, public authorities, public lighting and public services overdue for more than 360 days. We also undertake an individual analysis of our notes receivable and the balance for each customer in order to obtain a proper balance of the claims considered difficult to receive, based on experience of management in relation to actual losses, and the existence of collateral among other considerations.

Amortizations

We amortize our intangible assets on a straight-line basis. The determination of useful lives of intangible assets requires a certain level of subjective judgment. Such determination is inherently uncertain due to multiple factors that may cause a premature loss of asset value and that can require the application of the impairment analysis described in “– Impairment of Long-Lived Assets” below. Amortization expenses may differ if we are required to materially change the assumptions used to determine the useful life of our intangible assets.

Impairment of Long-Lived Assets

We review long-lived assets for impairment, primarily intangible and indemnification assets with definite lives, for the purpose of determining and measuring impairment when events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. In evaluating impairment of long-lived assets, such evaluation requires significant assumptions and estimates regarding matters that are inherently uncertain, including projections of our future operating income and cash flows, future growth rates, and the remaining useful lives of the assets, among other factors. In addition, projections are computed over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While we believe that the estimates used are reasonable, the use of different assumptions could materially affect the recoverable amount.

Fair Value of Financial Instruments

We determined the fair value of financial instruments actively traded on stock exchanges based on closing purchase prices on the balance sheet date, without deducting transaction costs. The fair value of financial instruments for which there is no active market is determined through valuation techniques. These techniques include use of recent market transactions (on an arm’s length basis), reference to the current fair value of a similar instrument, discounted cash flow analysis or other valuation methods.

Provisions for Contingencies

We record provisions for tax, labor and civil cases if an outflow of resources embodying economic benefits, in the estimate of management, will be required to settle the attending obligation and a reasonable estimate can be made of the amount of that obligation.

We are also subject to various civil and labor claims covering a broad range of issues that arise in the normal course of our business activities. Provisions are reviewed and adjusted to take into account changes in circumstances such as the limitation period applicable, findings of tax inspections or additional exposures identified based on new issues or decisions of courts. Actual results may differ from those estimates.

Purchase and Sale Operations in the Electric Energy Trade Chamber (CCEE)

Records of purchase and sale of energy in the CCEE are recognized on an accrual basis, according to information disclosed by CCEE or to our management estimates (when such information from CCEE is not timely available).

Income Taxes

We calculate our taxable income and pay income taxes based on results of operations determined under Brazilian GAAP. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review the deferred tax assets for recoverability. Deferred tax assets are recorded when recoverability is considered probable. When performing such reviews, we are required to make significant estimates and assumptions about future taxable income. In order to determine future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to different external and internal factors, such as economic and industry trends, interest rates, and changes in our business strategies. The use of different assumptions and estimates could significantly change our financial statements. A change in the assumptions and estimates with respect to our expected future taxable income could result in a reduction in deferred tax assets being charged to income. If we operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or discount rates, the time period over which the underlying temporary differences become taxable or deductible, or any change in its future projections, we could be required to establish a valuation allowance against or write off all or a significant portion of our deferred tax assets resulting in a substantial increase of our effective tax rate and a material adverse impact on operating results.

Summary of the Changes to IFRS and the Reconciliation to Shareholders' Equity and Net Income as of and for the year ended December 31, 2009

	As of December 31, 2009
Shareholders' equity and funds for capital increase (BR GAAP)	1,781,237
Reversal of dividends not approved ¹	402,444
Fair value adjustments of indemnification assets, net of tax	(3,046)
Opening balance adjustment due to first time adoption of IFRS	(20,504)
Other adjustments	(37,970)
Shareholders' equity and funds for capital increase (IFRS)	<u>2,122,161</u>
	For the Year Ended December 31, 2009
Net income for the year ended (BR GAAP)	809,395
Write off of regulatory charges ²	48,543
Capitalization of interest ³	20,259
Actuarial gain on pension plan ⁴	8,327
Other adjustments	1,101
Net income for the year ended (IFRS)	<u>887,625</u>

Description of the major adjustments due to adoption of IFRS:

- (1) Dividends declared and not paid in excess of the minimum mandatory figure, referring to 2009, were recognized as adjustment in the shareholders' equity and reversed in the dividends payable account, in the balance sheet, where they were originally presented in accordance with former rules.
- (2) Regulatory assets and liabilities recorded before the date of first-time adoption of the IFRS were charged against retained earnings and the statement of income for the current period, on an accrual basis.
- (3) The amount of borrowing costs eligible for capitalization was defined by the Company by applying the weighted average rate on expenses of intangible assets in progress.
- (4) Company recognized surplus with the Private Pension Plan – Defined Benefit to the probable amount of reduction in the future contributions of the sponsor for such plan (IAS 19 – Employee Benefit).

Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009 (IFRS)

The following table sets forth the components of our income statements for the years ended December 31, 2010 and 2009. Our income statements for the years ended December 31, 2010 and 2009 have been prepared in accordance with IFRS.

Income Statement	Year Ended December 31, (in thousands) (IFRS)	
	2010	2009
Gross revenue	R\$ 6,239,476	R\$ 5,577,484
Electricity supply	2,061,618	1,940,476
Electricity Energy Trading Chamber (CCEE)	50,034	13,249
Availability of distribution system	3,359,963	2,929,285
Construction revenues	693,153	631,724
Other income	74,708	62,750
Deductions from gross revenue	(1,845,152)	(1,581,358)
Net operating revenue	4,394,324	3,996,126
Electric energy purchased for resale	(1,653,373)	(1,478,277)
Cost with transmission system use charges	(227,317)	(197,756)
Operating costs	(1,022,161)	(932,734)
Gross income	1,491,473	1,387,359
Sales expenses	(209,425)	(173,495)
General and administrative expenses	(148,477)	(119,577)
Income before financial results and income taxes	1,133,571	1,094,287
Financial income (expenses)	(18,668)	(27,207)
Income before income taxes	1,114,903	1,067,080
Income taxes and social contribution	(169,184)	(179,455)
Net income for the year	R\$ 945,719	R\$ 887,625

Gross Revenue

Our gross revenue increased 11.9% to R\$6,239.5 million in 2010 from R\$5,577.5 million in 2009. Our revenues are derived principally from: (i) the supply and sale of electricity to end customers; (ii) network usage charges, which are charges for the use of our proprietary distribution and transmission grid (TUSD); (iii) revenues earned from the sale of surplus energy on the Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica*) (CCEE); (iv) “construction revenue,” which are revenues recognized from construction services or infrastructure improvement services used in the provision of electric energy distribution services; and (v) other revenues, consisting of, among others, service revenues, leasing revenues, and revenues associated with loss recovery which losses were caused by energy consumption fraud.

Electricity supply

Revenues from distribution of electricity to customers increased 6.2% to R\$2,061.6 million in 2010 from R\$1,940.5 million in 2009. These figures are net of network usage charges, which are discussed separately below. Such increase was due principally to a 7.5%, 7.9% and 4.7% increase in consumption for our residential, rural and commercial customers, respectively, in 2010. These increases in consumption reflected an increase in our customer base (due in part to federal government programs, such as *Luz Para Todos* and *Bolsa Família*), an improvement in socio-economic indicators (including disposable income levels among our customer base, which has served to stimulate increased demand among our customers), and ongoing efforts to improve our energy loss ratios.

In 2010, we recorded revenues of R\$2,078.3 million from residential customers, R\$1,235.7 million from commercial customers, R\$939.0 million from industrial customers and R\$750.4 million from rural and other customers, in each case inclusive of network usage charges. The following table shows select operating and financial data by category of customer during the years ended December 31, 2010 and 2009.

	Number of invoiced customers		MWh		R\$ thousands	
	2010	2009	2010	2009	2010	2009
Consumers						
Residential	4,290,998	4,059,661	5,200,269	4,836,676	2,078,339	1,806,361
Industrial	21,565	20,942	3,459,558	3,564,156	939,033	910,476
Commercial	307,476	296,826	2,767,009	2,643,569	1,235,749	1,109,506
Rural	195,504	192,463	1,090,159	1,009,854	217,618	189,049
Public power	45,923	43,050	600,767	572,881	239,829	199,990
Public lighting	15,970	15,904	706,099	700,360	132,161	122,565
Public service	8,243	7,298	748,480	741,020	160,811	163,156
Own consumption	347	361	14,334	14,876	—	—
Supply	1	1	—	—	—	—
Unbilled revenue	—	—	—	—	14,262	640
Transfer to distribution activity	—	—	—	—	(3,260,057)	(2,873,577)
Subtotal	4,886,027	4,636,506	14,586,675	14,083,392	1,757,745	1,628,166
Energy Sector General Agreement	—	—	—	—	(521)	—
Subvention to low income consumers	—	—	—	—	304,394	312,310
Total	4,886,027	4,636,506	14,586,675	14,083,392	2,061,618	1,940,476

Electric Energy Trade Chamber – CCEE

The CCEE is a private nonprofit entity, regulated and monitored by ANEEL, whose purpose is to facilitate the sale of excess electricity over the SIN grid. One of the CCEE's main roles is to hold public auctions on the regulated market through delegation from ANEEL. In addition, the CCEE is responsible for (i) registering energy trading contracts on the regulated market, contracts resulting from contracting adjustments and contracts made on the free market, and (ii) calculating and settling short-term transactions.

In each of 2010 and 2009, we sold surplus energy on the CCEE, earning revenues of R\$50.0 million in 2010 and revenues of R\$13.2 million in 2009.

Availability of Distribution System

We also earn revenue from network usage charges, which are charges for the use of our proprietary distribution and transmission grid by our end customers and third parties. Total revenue earned from network usage charges increased 14.7% to R\$3,360.0 million in 2010 from R\$2,929.3 million in 2009. Such increase in network usage charges was principally due to an increase in transfer trading activities on our distribution network among our captive customers, which increased 14.7% year over year and which ultimately reflects an increase in the volume of energy distributed through our distribution network.

Construction Revenues

We recorded revenue for construction services under IFRIC 12 – Service Concession Arrangements, which requires that electrical energy concessionaires must record and measure revenue from services provided in accordance with IAS 11 – Construction Contracts. As a result, we recognize revenue and costs from construction services and infrastructure improvement services used in the provision of our electric energy distribution services. Construction revenues increased 9.7% to R\$693.2 million in 2010 from R\$631.7 million in 2009, principally due to increases in the construction and improvement of infrastructure used in providing electrical distribution services.

Other

Other income increased 19.1% to R\$74.7 million in 2010 from R\$62.8 million in 2009, principally due to an increase in revenue earned from fraud invoice administration costs and public lighting tax. Revenue earned from fraud invoice administration costs increased due to our increased efforts to combat our commercial energy loss rate.

Deductions from gross revenue

Deductions from gross revenue increased 16.7% to R\$1,845.2 million in 2010 compared to R\$1,581.4 million in 2009. As a percentage of gross revenue, deductions from gross revenue remained relatively stable at 29.6% in 2010 and 28.4% in 2009. The most significant deductions from gross revenues are (i) taxes levied on operating revenues, such as ICMS (a state value-added tax on sales and services), PIS (a federal value-added tax), COFINS (a federal value added tax) and ISS (a municipal value-added tax on services), and (ii) fuel consumption account (CCC) quotas, which represents the portion of the tariff revenue earned by distributors and paid by distributors to the regulator for use of the distribution systems. See “The Brazilian Power Industry – Regulatory Charges” for further information on CCC quotas.

Taxes levied increased 13.8% year over year, to R\$1,553.7 million in 2010 from R\$1,365.9 million in 2009, principally due to increases in ICMS and COFINS taxes. Deductions related to CCC quotas increased 47.9% year over year, to R\$159.9 thousand in 2010 from R\$108.1 thousand in 2009, principally due to changes resulting from Law 12,111/2009, which amended the formula for calculating the total cost of the CCC quota. As a result of

the law change, effective in 2010, CCC quotas now reflect the total cost of generation and fuel, which served to increase the percentage of our tariff revenue related to the CCC quota owed to our regulator.

Cost of Services

Operating costs increased 11.3% to R\$2,902.9 million in 2010 from R\$2,608.8 million in 2009. Operating costs consist primarily of cost of electricity purchased for resale and costs associated with transmission system use charges.

Cost of Energy Purchased for Resale

Total cost of energy purchased for resale increased 11.8% to R\$1,653.4 million in 2010 from R\$1,478.3 million in 2009.

This increase was primarily due to an increase in energy purchases (17,732,761 MWh in 2010 compared to 16,928,515 MWh in 2009) and an increase of 12.59% in the average cost of energy purchased in 2010 as compared to 2009 (R\$104.08/MWh in 2010 as compared to R\$92.44/MWh in 2009), partially offset by PIS and COFINS credits.

We increased the amount of energy we purchased to ensure we have sufficient energy to satisfy our consumer market, which has grown at an average growth rate of 6.4% over the past five years. The increase in the cost of energy purchased was due to the readjustment of contracts by the IPCA inflation index and an effective date of new energy contracts with higher fares. We are generally able to pass through these increased costs to our customers through our annual tariff adjustments.

Costs with Transmission System Use Charges

Costs with transmission system use charges increased 14.9% to R\$227.3 million in 2010 from R\$197.8 million in 2009. The increase cost of charges for use of the transmission system is a result of changes in the methodology for calculating TUST imposed by Normative Resolution No. 349/2009 and the increase in annual fees for the 2010-2011 cycle tariff approved by Resolution 1022/2010.

Operating Costs

Operating costs increased 9.6% to R\$1,022.2 million in 2010 from R\$932.7 million in 2009. The increase in operating cost is principally a result of the increase in construction cost of R\$61.5 million as a result of increased infrastructure built to attend the demand of the new customers and other operating costs of R\$ 15.9 million.

Gross Income

Gross income increased 7.5% to R\$1,491.5 million in 2010 compared to R\$1,387.4 million in 2009, due to the factors discussed above.

Operating Expenses

Operating expenses consist primarily of expenses associated with personnel costs, third party services, materials, management fees, and private pension plans and are allocated into (i) sales expenses or (ii) general and administrative expenses.

Sales Expenses

Sales expenses increased 20.7% to R\$209.4 million in 2010 from R\$173.5 million in 2009, principally due to expenses associated with third party services related to the sales function, such as account delivery activities,

collection notices, telemarketing, and collecting agent services. Third party services associated with the sales function accounted for 47.8% of sales expenses in 2010. Sales expenses related to personnel costs and expenses (principally salaries, social charges, meal assistance, vacation accrual and health plans) also account for a significant portion of sales expenses (29.3% in 2010), although personal sales expenditures increased only marginally year over year (from R\$59.1 million in 2009 to R\$61.4 million in 2010).

General and administrative expenses

General and administrative expenses increased 24.2% to R\$148.5 million in 2010 from R\$119.6 million in 2009, primarily due to third party services associated with administrative and operational matters, such as maintenance of software, and consulting, auditing and data processing services. Such third party services accounted for 41.6% of general and administrative expenses in 2010. A portion of our personnel expenses is also allocated to general and administrative expenses, and accounted for 37.2% of general and administrative expenses in 2010. Such personnel expenses increased 5.5% from R\$52.3 million in 2009 to R\$55.2 million in 2010.

Financial Income and Expenses

Financial Income

Financial income increased 9.3% to R\$336.7 million in 2010 from R\$307.9 million in 2009, due primarily to a credit of R\$69.6 million for PIS/COFINS taxes paid which had been levied on interest income earned.

Financial Expenses

Financial expenses increased 6.0% to R\$355.4 million in 2010 compared to R\$335.1 million in 2009, due primarily to increased interest expense charges due to increases in the levels of our indebtedness and increases in the CDI and IGPM indexes, to which a portion of our interest rates are linked.

Income and Social Contribution Taxes

We recorded charges of R\$169.2 million in income and social contribution taxes in 2010, compared to R\$179.5 million in 2009, representing a year over year decrease of 5.7%, and amounting to effective tax rates of 15.2% and 16.8%, respectively. These charges were partially offset by incentive tax receipts from the Supervisory Authority for the Development of the Northeast of Brazil (“Sudene”) booked as revenue of R\$166.4 million in 2010 and R\$148.2 million in 2009.

Net Income

As a result of the factors discussed above, we recorded net income of R\$945.7 million in 2010 compared to R\$887.6 million in 2009, an increase of 6.5%.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008 (Brazilian GAAP)

The following table sets out the components of our income statements for the years ended December 31, 2009 and 2008. Our income statements for the years ended December 31, 2009 and 2008 have been prepared in accordance with Brazilian GAAP, which differs in certain significant respects from IFRS. “Description of Certain Differences Between Brazilian GAAP and IFRS Applicable to our December 31, 2009 and 2008 Brazilian GAAP Financial Statements” provides a description of certain differences between Brazilian GAAP and IFRS, as they relate to us.

Income Statement	As of December 31, (in thousands) (Brazilian GAAP)	
	2009	2008
Gross revenue	R\$ 4,932,524	R\$ 4,655,857
Electricity supply	1,921,543	1,845,556
Electricity Energy Trading Chamber (CCEE)	13,249	36,118
Availability of distribution system	2,934,983	2,697,550
Other income	62,749	76,633
Deductions from gross revenue	(1,581,760)	(1,540,753)
Net operating revenue	3,350,764	3,115,104
Electric energy purchased for resale	(1,516,697)	(1,325,550)
Cost with transmission system use charges	(222,305)	(180,653)
Operations costs	(312,289)	(311,148)
Gross income	1,299,473	1,297,753
Sales expenses	(173,495)	(165,135)
General and administrative expenses	(125,175)	(105,257)
Income before financial results and income taxes	1,000,803	1,027,361
Financial income (expenses)	(153,580)	(172,954)
Income before income taxes	847,223	854,407
Income taxes and social contribution	(137,840)	(133,463)
Income before reversal of interest on shareholders’ equity	709,383	720,944
Reversal of interest on shareholders’ equity	100,012	93,861
Net income for the year	R\$ 809,395	R\$ 814,805

Gross Revenue

Our gross revenue increased 5.9% to R\$4,932.5 million in 2009 from R\$4,655.9 million in 2008. Our revenues are derived principally from: (i) the supply and sale of electricity to end customers; (ii) network usage charges, which are charges for the use of our proprietary distribution and transmission grid (TUSD); (iii) revenues earned from the sale of surplus energy on the Energy Trading Chamber (*Câmara de Comercialização de Energia Elétrica*) (CCEE) and (iv) other revenues, consisting of, among others, service revenues, leasing revenues, and public lighting tax.

Electricity supply

Revenues from distribution of electricity to customers increased 4.1% to R\$1,921.5 million in 2009 from R\$1,845.6 million in 2008. These figures are net of network usage charges, which are discussed separately below. Such increase was due principally to a 10.8%, 13.9% and 7.9% increase in consumption for our residential, industrial and commercial customers, respectively. These increases in consumption reflected an increase in our customer base (a reflection of federal government programs, such as *Luz Para Todos* and *Bolsa Família*), an improvement in socio-economic indicators such as disposable income levels among our customer base, and continued efforts to improve our energy loss ratios.

In 2009, we recorded revenues of R\$1,806.4 million from residential customers, R\$1,109.5 million from commercial customers, R\$910.5 million from industrial customers and R\$674.8 million from rural and other customers, in each case inclusive of network usage charges. The following table shows select operating and financial data by category of customer for 2009 and 2008.

	Number of consumers		MWh (*)		R\$	
	2009	2008	2009	2008	2009	2008
Consumers:						
Residential	4,059,661	3,858,548	4,836,676	4,364,108	1,806,361	1,714,305
Industrial	20,942	20,323	3,564,156	3,126,526	910,476	827,976
Commercial	296,826	288,553	2,643,569	2,451,407	1,109,506	1,016,844
Rural	192,463	192,995	1,009,854	1,042,764	189,049	193,588
Government	43,050	41,460	572,881	527,684	199,990	199,295
Public Lighting	15,904	15,702	700,360	662,235	122,565	120,955
Public Service	7,298	6,680	741,020	718,441	163,157	162,523
Own Consumption	361	375	14,876	15,042	—	—
Supply	1	1	—	—	—	3
Unbilled supply	—	—	—	—	640	(17,992)
Transfer to distribution activity	—	—	—	—	(2,873,577)	(2,594,849)
Subtotal	4,636,506	4,424,637	14,083,392	12,908,207	1,628,167	1,712,648
Revenue (reversal) from extraordinary tariff recomposition	—	—	—	—	—	(20,631)
Revenue (reversal) from tariff adjustment	—	—	—	—	(13,284)	(93,373)
Revenue (reversal) from free energy	—	—	—	—	11,962	(22,431)
Tariff subvention for lower income consumers	—	—	—	—	294,698	269,343
Total	4,636,506	4,424,637	14,083,392	12,908,207	1,921,543	1,845,556

Electric Energy Trade Chamber – CCEE

The CCEE is a private nonprofit entity, regulated and monitored by ANEEL, whose purpose is to facilitate the sale of excess electricity over the SIN grid. One of the CCEE's main roles is to hold public auctions on the regulated market through delegation from ANEEL. In addition, the CCEE is responsible for (i) registering energy trading contracts on the regulated market, contracts resulting from contracting adjustments, and contracts made on the free market, and (ii) calculating and settling short-term transactions.

In each of 2009 and 2008, we sold surplus energy on the CCEE, recording revenues of R\$13.2 million in 2009 and revenues of R\$36.1 million in 2008.

Availability of Distribution System

We also record revenue from network usage charges, which are charges for the use of our distribution and transmission grid by our customers and third parties. Total revenue recorded from network usage charges increased 8.8% to R\$2,935.0 million in 2009 from R\$2,697.6 million in 2008. Such increase in network usage charges was principally due to an increase in our customer base that pays for network usage and an increase in the TUSD tariff of 1.57%.

Other

Other income decreased 18.1% to R\$62.7 million in 2009 from R\$76.6 million in 2008 principally due to a 54.3% decrease in revenue from services rendered to third parties from R\$34 million in 2008 to R\$16 million in 2009 due to non-recurring revenue received in 2008 as a result of installation of electrical distribution equipment in a shopping center complex constructed in that year.

Deductions from gross revenue

Deductions from gross revenue increased 2.7% to R\$1,581.8 million in 2009 compared to R\$1,540.8 million in 2008. As a percentage of gross revenue, deductions from gross revenue were 32.1% in 2009 and 33.1% in 2008. The most significant deductions from gross revenues are (i) taxes levied on operating revenues, such as ICMS (a state value-added tax on sales and services), PIS (a federal value-added tax), COFINS (a federal value added tax) and ISS (a municipal value-added tax on services), and (ii) fuel consumption account (CCC) quotas, which represents the portion of the tariff revenue earned by distributors and paid by distributors to the regulator for use of the distribution systems. See “The Brazilian Power Industry – Regulatory Charges” for further information on CCC quotas.

Taxes levied increased 2.5% year over year, to R\$1,365.9 million in 2009 from R\$1,333.0 million in 2008, principally due to increases in ICMS and COFINS taxes.

Cost of Services

Operating costs increased 12.9% to R\$2,051.3 million in 2009 from R\$1,817.4 million in 2008. Operating costs consist primarily of cost of electricity purchased for resale and costs associated with transmission system use charges.

Cost of Energy Purchased for Resale

Cost of energy purchased for resale increased 14.4% to R\$1,516.7 million in 2009 from R\$1,325.6 million in 2008.

This increase was primarily due to an increase in energy purchases (16,928,515 MWh in 2009 compared to 15,505,317 MWh in 2008) and an increase of 5.30% in the average cost of energy purchased in 2009 as compared to 2008 (R\$92.44/MWh in 2009 as compared to R\$87.88/MWh in 2008).

Transmission System Use Charges

Costs associated with transmission system use charges increased 23.1% to R\$222.3 million in 2009 from R\$180.7 million in 2008 principally due to an increase in the tariff rate for use charges of the SIN, per ANEEL Resolution 844 effective from July 1, 2009.

Gross Income

Gross income increased 0.1% to R\$1,299.5 million in 2009 compared to R\$1,297.8 million in 2008, due to the factors discussed above.

Operating Expenses

Operating expenses consist primarily of expenses associated with personnel, third party services, materials, management fees, and private pension plans and are allocated into (i) sales expenses or (ii) general and administrative expenses.

Sales Expenses

Sales expenses increased 5.1% to R\$173.5 million in 2009 from R\$165.1 million in 2008, principally due to expenses associated with third party services related to the sales function, in particular access charge activities, meter reading and billing management. Sales expenses increased year over year as sales expenses in 2008 were partially offset by a reversal of regulatory charge provisions.

General and administrative expenses

General and administrative expenses increased 18.9% to R\$125.2 million in 2009 from R\$105.3 million in 2008, primarily due to increases in personnel costs and expenses and increases in other general operating expenses.

Financial Income and Expenses

Financial Income

Financial income decreased 13.8% to R\$317.2 million in 2009 from R\$368.2 million in 2008, due primarily to a decrease in income earned financial investments and swap operations, partially offset by a increase in income earned on foreign exchange and monetary variations.

Financial Expenses

Financial expenses, net of interest on shareholder's equity, decreased 17.1% to R\$370.8 million in 2009 compared to R\$447.3 million in 2008, due primarily to a decrease in interest expense associated with our indebtedness and positive exchange variations due to the appreciation of the *real* against the U.S. dollar.

Income and Social Contribution Taxes

We recorded expenses of R\$137.8 million in current income and social contribution taxes for 2009, compared to R\$133.5 million in 2008, representing a year over year increase of 3.3%, and amounting to effective tax rates of 16.3% and 15.6%, respectively.

Net Income

As a result of the factors discussed above, we recorded net income of R\$809.4 million in 2009 compared to R\$814.8 million in 2008, a decrease of 0.7%.

Indemnification Asset (Concession)

IFRIC 12 – Service Concession Arrangements and the terms of our concession contract permits public electric energy concessionaires such as ourselves to receive indemnification from the concession granting authority (ANEEL) for our investment in assets that have not been fully amortized or depreciated as of the expiration date of our concession (August 7, 2027). This right to indemnification is recorded as a non-current asset in our balance sheet and represents the estimated portion of investments realized and not amortized from the date of the balance sheet until the expected end of our concession period. The rationale behind this accounting rule is that when our concession expires, all our assets that are materially related to the rendering of our electricity distribution services revert to the Brazilian government.

As of December 31, 2010, the value of such indemnification asset was R\$444.0 million, which represents a 44.1% increase from the value we recorded as of December 31, 2009 (R\$308.2 million). Such increase was principally due to an increase in investments made in 2010 in our distribution and transmission network in the amount of R\$101.7 million.

Intangible Assets

We also record as an “intangible assets” related to the estimated economic useful life of each asset of the distribution infrastructure. As of December 31, 2010, the value of such intangible assets was R\$2,744.7 million, which represents a 14.4% increase from the value we recorded on December 31, 2009 (R\$2,399.1 million). This increases was due to investments we made for distribution and transmission of our energy supply, which are classified as intangible assets in progress.

The estimated share of investments made that will not be amortized by the end of the expiration period of the concession are recorded as an indemnification asset.

Capital Expenditures

Our principal capital expenditures in the past several years have been for the maintenance, upgrading and expansion of our distribution networks, improvement of operational efficiency, the *Luz Para Todos* program, which refers to the bringing of electricity to potential customers not yet connected to the distribution grid; implementation of safety and maintenance programs; and purchases of technology to continue to improve our customer service.

The following table sets forth our capital expenditures for the years ended December 31, 2010, 2009 and 2008. The table also shows subsidies received.

	As of December 31,		
	2010	2009	2008
Total capital expenditure (R\$ millions)	976.5	804.7	631.0
Subsidies received (R\$ millions)	363.1	231.4	341.9
Percent of Total capital expenditure represented by subsidies	37.2%	28.8%	54.2%

For the years 2011 through 2013, our capital expenditure budget is approximately R\$2.5 billion.

We expect to finance a significant portion of our capital expenditure through *Banco Nacional de Desenvolvimento Econômico e Social* – BNDES, *Financiadora de Estudos e Projetos* – FINEP, Banco do Nordeste do Brasil S.A. – BNB, Centrais Elétricas Brasileiras – Eletrobrás and the European Investment Bank.

Liquidity and Capital Resources

Our capital requirements are primarily for the following purposes:

- to continue improving our distribution system;
- to meet our debt service obligations; and
- to pay dividends.

We believe we have sufficient cash flow from operations to service our indebtedness in the short and medium term.

Sources of Funds

Our main sources of funds derive from our operating cash generation and financings.

Cash Flows

Year ended December 31, 2010 Compared to the Year Ended December 31, 2009 (IFRS)

The table below sets forth our cash flows from operating activities, investing activities and financing activities for the periods indicated:

	For the Year ended December 31,	
	2010	2009
	R\$ (thousands) (IFRS)	
Net cash provided by operating activities	1,119,804	1,083,189
Net cash used for financing activities	(554,094)	(512,307)
Net cash used for investment activities	(681,762)	(688,362)
Net decrease on cash and cash equivalents	(116,052)	(117,480)
Cash and cash equivalents at the beginning of the year	217,329	334,809
Cash and cash equivalents at the end of the year	101,277	217,329
Net decrease on cash and cash equivalents	(116,052)	(117,480)

Net cash provided by operating activities was R\$1,119.8 million in 2010, as compared to R\$1,083.2 million in 2009. The increase mainly reflected our increase in net income for the period.

Net cash used for investment activities remained relatively stable at R\$681.8 million in 2010, as compared to R\$688.4 million in 2009. This slight decrease mainly reflects a decrease in cash expensed to our indemnification asset (concession).

Net cash used for financing activities increased to R\$554.1 million in 2010 as compared to R\$512.3 million in 2009, principally due to a dividends payment increase from R\$333.8 million in 2009 to R\$1,002.4 million in 2010 and partially offset by net cash received from the issuance of debentures (R\$80.3 million) and from released funds from loans and financing, which totaled R\$762.5 million in 2010.

Year ended December 31, 2009 Compared to Year Ended December 31, 2008 (Brazilian GAAP)

The table below sets forth our cash flows from operating activities, investing activities and financing activities for the periods indicated:

	For the Year ended December 31,	
	2009	2008
	R\$ (thousands) <i>(Brazilian GAAP)</i>	
Net cash provided by operating activities	1,080,152	1,306,763
Net cash used for financing activities	(392,399)	(934,858)
Net cash used for investment activities	(805,233)	(634,769)
Net decrease on cash and cash equivalents	(117,480)	(262,864)
Cash and cash equivalents at the beginning of the year	334,809	597,673
Cash and cash equivalents at the end of the year	217,329	334,809
Net decrease on cash and cash equivalents	(117,480)	(262,864)

Net cash provided by operating activities was R\$1,080.2 million in 2009, as compared to R\$1,306.8 million in 2008. The decrease mainly reflected an increase in assets, specifically accounts receivable from consumers, concessionaires and licensees in the amount of R\$197.7 million.

Net cash used for investment activities was R\$805.2 million in 2009, as compared to R\$634.8 million in 2008. This increase mainly reflects an increase in expenditure on property, plant and equipment.

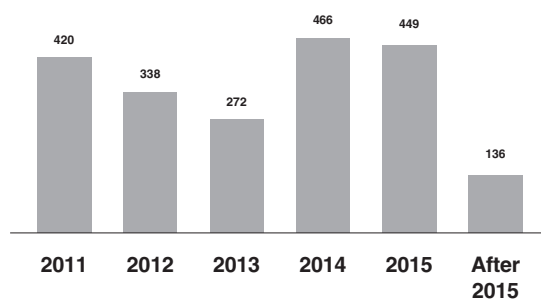
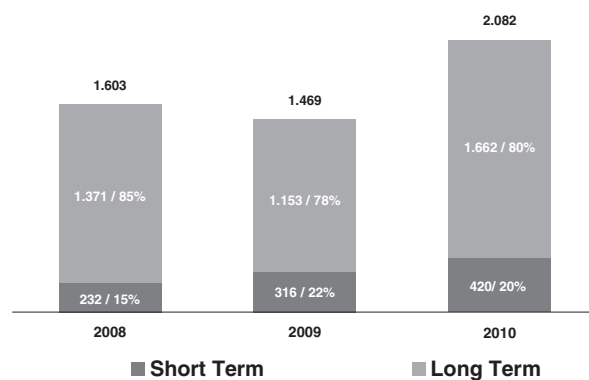
Net cash used for financing activities was R\$392.4 million in 2009 and R\$934.9 million in 2008. This decrease mainly reflects a decrease in dividend payments and payments of interest on shareholder's equity.

Indebtedness

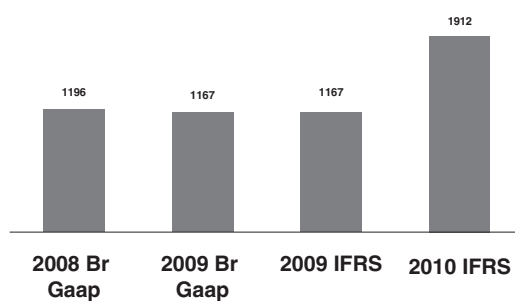
As of December 31, 2010, we had R\$2,082.1 million of indebtedness, including short- and long-term loans and financing and debentures, an increase of 41.8% from R\$1,468.7 million as of December 31, 2009.

We have issued debentures in the local capital markets, of which R\$578.5 million was outstanding as of December 31, 2010. All our debenture issuances are denominated in *reais*. As of December 31, 2010, our remaining indebtedness is primarily from bank loans, which includes debt to BNDES, Banco do Nordeste, Banco do Brasil, FINEP (*Financiadora de Estudos e Projetos*) and Eletrobrás. We also have a dollar-denominated term loan outstanding in the amount of US\$150 million, which instrument is governed by New York law and was negotiated with a syndicate of banks led by Citigroup and Banco do Brasil.

The following tables set forth our total short term and long term indebtedness for the years ended December 31, 2010, 2009 and 2008 as well as our debt amortization schedule for 2011 and beyond, each in millions of *reais*.



The following table sets forth our net debt for the years ended December 31, 2010, 2009 and 2008, in millions of *reais*.



Bank Financings

The following table sets forth materials terms of our bank facilities:

Source	Date of signature	Currency and Amount Outstanding As of December 31, 2010 (thousands)	Objective	Interest	Swap	Maturity	Collateral
BID	03/23/86	US\$714.0	Expansion and improvement program of the Bahia State – 2nd tranche	3.0% p.a.	CDI - 6% p.a.	2011	Guarantee State/ Federal government and bank guarantee
BNB	11/29/04	R\$40,000.0	Distribution investment program	18% p.a.	Not applicable	2012	Receivables centralization, liquidity fund and guarantee by Neoenergia
BNB IV	06/27/08	R\$84,172.0	Investment in lines and network systems	10% p.a.	Not applicable	2016	Receivables centralization, liquidity fund and guarantee by Neoenergia
BNB V	08/22/08	R\$8,372.0	Transmission and distribution networks improvement	10% p.a.	Not applicable	2016	Receivables centralization, liquidity fund and guarantee by Neoenergia
BNDES/FINEM	10/04/06	R\$7,390.0	Electricity Sub-Transmission and Distribution	TJLP + 4.30% p.a.	Not applicable	2011	Neoenergia guarantee and reserve account
BNDES/FINEM	12/12/07	R\$59,907.0	Electricity Sub-Transmission and Distribution	TJLP + 3.30% p.a.	Not applicable	2012	Neoenergia guarantee and reserve account
BNDES/FINEM	03/16/09	R\$210,337.0	Electricity Distribution	TJLP + 2.12 p.a. / TJLP + 3.12% p.a. / 4.50% p.a.	Not applicable	2015	Neoenergia guarantee
ELETROBRÁS	1999 to 2009	R\$213,197.0	Distribution lines and network expansion and “Luz Para Todos”	5% p.a.	Not applicable	2022	Promissory note and own revenues
FINEP	12/23/04	R\$233.0	Electricity distribution and efficiency investment	TJLP	Not applicable	2011	Neoenergia guarantee
FINEP	10/14/09	R\$48,932.0	Innovation project	5% p.a.	Not applicable	2018	Neoenergia guarantee
TÍTULOS EXTERNOS	12/28/05	US\$150,000.0	Electricity distribution investment	Libor + 1.875% p.a.	106.75%/ 107.25%/ 101.61%/ 101.72%/ 103.27% of CDI	2015	No guarantee
BANCO DO BRASIL	03/23/10	R\$300,000.0	Working capital	CDI + 1% p.a.	Not applicable	2015	No guarantee
BANCO DO BRASIL	05/06/10	R\$100,000.0	Working capital	12.149% p.a.	99.5% do CDI	2014	No guarantee
BNB	09/09/10	R\$40,590.0	Distribution networks expansion and modernization	10% p.a.	Not applicable	2018	Receivables centralization, liquidity fund and guarantee Neoenergia
BANCO DO BRASIL	12/09/10	R\$90,000.0	Working capital	11.80% p.a.	Not applicable	2012	No guarantee

Our bank financings were contracted to finance our activities and/or the construction of our facilities and for working capital purposes.

A portion of our loans and financings require compliance with certain financial indices with pre-determined parameters. The agreement entered into with BNDES/FINEM 2006 require a Net Debt/(Net Debt + Shareholder's Equity) ratio less than or equal to 0.55. The agreement entered into with FINEM 2007 requires a Debt/EBITDA ratio less than or equal to 1.6 up to 2012 and Net Debt/(Net Debt + Shareholder's Equity) ratio less than or equal to 0.6 up to 2012. Our New York-law governed, US\$ denominated syndicated loan requires a Net Debt/EBITDA ratio less than or equal to 3 and EBITDA/financial income greater than or equal to 2. As of December 31, 2010, we were in compliance with all our contractual ratio requirements. Furthermore, as shown in the table above, a portion of our loans has been guaranteed by our revenues, promissory notes, our controlling shareholder, administrative buildings, bank guarantees or restricted short term investments (reserve accounts).

Debt Offerings

All of our debt offerings are unsecured issuances of debentures denominated in *reais* in the Brazilian capital markets. Funds obtained by means of debentures were used to strengthen our cash position. Our debenture indentures require the maintenance of debt ratios and interest coverage at predetermined parameters, as follows: Net Debt/EBITDA less than or equal to 3 and EBITDA/Financial Income more than or equal to 2. Funds obtained from the issuance of debentures were used to strengthen our tax position.

The following table sets forth the materials terms of our debenture issuances:

Instrument (thousands)	Interest Rate	Issue Date	Maturity Date	Amount Outstanding (Main) (thousands)
1 ^a Debenture (R\$ 224,998.9)	Accumulated INPC	April 19, 1996	April 19, 1998	—
2 ^a Debenture (R\$ 120,000.0)	102.5% DI	July 01, 2000	July 01, 2003	—
3 ^a Debenture (R\$ 85,293.0)	Accumulated USD + 10.80% per year	January 27, 2004	January 27, 2014	R\$ 19,994.0
4 ^a Debenture (R\$ 450,000.0)	Accumulated DI rates 3.50% per year	June 1, 2004	June 1, 2008	—
5 ^a Debenture – 1 ^a Serie (R\$ 440,000.0)	Accumulated DI rates 1.4% per year	June 1, 2005	June 1, 2010	—
5 ^a Debenture – 2 ^a Serie (R\$ 100,000.0)	Accumulated IGPM rates 10.8% per year	June 1, 2005	June 1, 2011	R\$100,000.0
6 ^a Debenture (R\$353,920.0)	Accumulated DI rates 0.60% per year	December 1, 2007	December 1, 2014	R\$314,599.0
7 ^a Debenture (R\$80,000.0)	106.7% DI	December 20, 2010	Janeiro 12, 2013	R\$ 80,000.0

Market Risk

Exchange Rate Risk

We have U.S. dollar exchange-rate exposure because a portion of our debt and certain other liabilities are denominated in U.S. dollars. As of December 31, 2010, 12.3%, or R\$256.2 million (including accrued interest), of our indebtedness was U.S. Dollar-denominated. All of our foreign-currency denominated instruments are hedged through currency swap transactions at the time of incurrence of such liability. We further discuss foreign currency denominated assets and liabilities in Notes 15 and 16 to our audited financial statements included elsewhere in this offering memorandum.

Interest Rate Risk

Our revenues and expenses are affected by changes in interest rates due to the impact that these changes have on interest expense from variable-rate debt instruments, variable-rate purchase contracts and on interest income generated from our cash and investment balances.

As of December 31, 2010, we had R\$2,082.1 million of indebtedness of which 36.6% was CDI indexed, 12.3% was USD indexed, 22.4% was fixed rate indexed, 10.7% was TJLP indexed and 18.0% had another index. We further discuss interest rate risk in Notes 15 and 16 to our audited financial statements included elsewhere in this offering memorandum.

Derivatives

We engage in derivatives trading to hedge against interest and exchange rate variations. Our management monitors changes in the markets, in order to restructure these hedge transactions and extend their terms depending on the performance of the R\$/U.S.\$ exchange rate. We continue to seek to replace derivative instruments with simpler structures with greater liquidity, with a view to lower risk exposure. We further discuss our derivative financial instruments in Note 30 to our audited financial statements included elsewhere in this offering memorandum.

Operating Risk

Credit Risk

Credit risk arises from the possibility that we incur losses due to the difficulty in collecting amounts billed to consumers, concessionaires and permittees. In order to reduce this risk and manage risk of default, we monitor accounts receivables from consumers by implementing various collection efforts, including interrupting supply if consumers fail to make payments

Debt Acceleration Risk

We have loan, financing and debenture agreements with financial covenants that generally require compliance with economic and financial indices at certain levels. Failure to comply with these covenants may result in debt acceleration. For more information, see Notes 15 and 16 to our audited financial statements included elsewhere in this offering memorandum.

Risks Related to Energy Shortage

The Brazilian electric energy system is supplied mainly by hydroelectric generation. A long period of drought conditions may reduce the level of water reservoirs for power plants, resulting in an increase in the cost of acquiring energy in the spot market and a hike in the system charges. A rationing program could, furthermore, be introduced by the Brazilian government.

THE BRAZILIAN POWER INDUSTRY

General

In 2010, the MME approved a ten-year Energy Expansion Plan 2010-2019, or PDE 2019, establishing criteria for expanding the Brazilian electrical energy system to define benchmarks for implementing new generation and transmission facilities required to serve projected growth in the Brazilian electric energy market.

PDE 2019 was designed to increase total installed generating capacity in Brazil from 112,455 MW in 2010 to 167,078 MW in 2019, including 116,699 MW from hydroelectric sources, 28,850 MW from thermoelectric sources and 21,528 MW from alternative sources. This plan is subject to an annual review based on energy use and the viability of generation projects.

Approximately 37% of the installed power generating capacity and 56% of the high voltage transmission lines in Brazil are operated by Centrais Elétricas Brasileiras S.A. – Eletrobras, or Eletrobrás, a company controlled by the Brazilian Government. The remaining high voltage transmission networks are held by state or local electric companies. Electricity is distributed by approximately 64 state or municipal concessionaires that were mostly privatized by the Brazilian federal government or by state governments. Some Brazilian states control entities involved in the generation, transmission and distribution of electricity, as is the case with Companhia Energética de São Paulo, or CESP, Companhia de Energia Elétrica do Paraná, or COPEL, and the Companhia Energética de Minas Gerais, or CEMIG.

Historical Background

The Brazilian constitution provides that the development, use and sale of energy may be undertaken directly by the Brazilian Government or indirectly through the granting of concessions, permissions or authorizations. Historically, the Brazilian power industry has been dominated by generation, transmission and distribution concessionaires controlled by the Brazilian Government. In recent years, the Brazilian Government has taken a number of measures to remodel the power industry. In general, these measures were aimed at increasing the role of private investment and eliminating foreign investment restrictions, thus increasing overall competition in the power industry.

In particular, the Brazilian Government has taken the following measures:

- i. The Brazilian Constitution was amended in 1995 to authorize foreign investment in power generation. Prior to this amendment, all generation concessions were held either by a Brazilian individual, an entity controlled by Brazilian individuals or by the Brazilian Government.
- ii. The Brazilian Government enacted Law No. 8,987 on February 13, 1995 the Concessions Law, and Law No. 9,074 on July 7, 1995, or the Power Concessions Law, that together:
 - required that all concessions for the provision of energy related services be granted through public bidding processes;
 - gradually allowed certain electricity customers with significant demand, designated free customers, to purchase electricity directly from suppliers holding a concession, permission or authorization;
 - provided for the creation of generation entities, or Independent Power Producers, which, by means of a concession, permission or authorization, may generate and sell, for their own account and at their own risk, all or part of the electricity they generate to free customers, distribution concessionaires and trading agents, among others;
 - granted free customers and electricity suppliers open access to all distribution and transmission systems; and

- eliminated the need for a concession to construct and operate power projects with capacity from 1 MW to 30 MW, known as Small Hydroelectric Power Plants, or SHP.
- iii. The creation of ANEEL and of the CNPE, in 1997.
 - iv. The Brazilian Government enacted Law No. 10,848 on March 15, 2004 to define new guidelines for the purchase and sale of electrical energy between the companies holding concessions, authorizations for distribution, generation and transmission of electricity, and the distribution of energy to final customers.

In 1998, the Brazilian Government enacted Law No. 9,648, or the Power Industry Law, to overhaul the basic structure of the electricity industry. The Power Industry Law, which introduced competitive generation, with the value of the energy determined by the market and independent transmission with free access, provided for the following:

- the establishment of a self-regulated body responsible for the operation of the spot market;
- a requirement that distribution and generation companies enter into initial energy supply agreements, or the Initial Supply Contracts, known as initial supply contracts, generally “take or pay” commitments, at prices and volumes approved by ANEEL;
- the creation of the ONS, a non-profit, private entity responsible for the operational management of the generation and transmission activities of the SIN grid;
- the establishment, in accordance with Law No. 9,074 and Law No. 8,987, of public bidding processes for concessions for the construction and operation of power plants and transmission facilities;
- segregation of the energy generation, transmission, distribution and trading businesses (de-verticalization);
- definition of restrictions to the generation and distribution monopoly; and
- indication of the BNDES as financial agent of the energy sector, in order to offer financial support for new energy generation projects.

In 2001, Brazil faced a serious energy crisis that lasted until the end of February 2002. As a result, the Brazilian Government implemented measures that included:

- a program for the rationing of electricity consumption in the most adversely affected regions, namely the Southeast, Central-West and Northeast regions of Brazil; and
- the creation of the Electricity Crisis Management Chamber (*Câmara de Gestão e Crise de Energia Elétrica*), or GCE, which passed a series of emergency measures that provided for reduced electricity consumption targets for residential, commercial and industrial customers in the affected regions by introducing special tariff regimes that encouraged the reduction of electricity consumption.

In April 2002, the Brazilian federal government promulgated new measures, such as the establishment of the Extraordinary Fee Reset (*Recomposição Tarifária Extraordinária*), or RTE, in order to compensate distributors for losses incurred during the energy rationing program, as well as the creation of PROINFA, in order to motivate the development of alternative sources for generation. The Brazilian federal government also established rules for universalizing the public service of distributing electricity, which consists of meeting all requests for supply, including increased loads, without any onus on the requesting customer, as long as the regulatory conditions are met. ANEEL established general conditions for preparing plans for universalizing electricity, targeting universal coverage by 2014 and stipulating fines for non-compliance by distributors.

On March 15, 2004, the Brazilian Government enacted a new Industry Model Law, or the New Industry Model Law, in an effort to restructure the power industry to provide incentives to private and public entities to build and maintain generation capacity and to assure the supply of electricity in Brazil at moderate tariffs through

competitive public electricity bidding processes (Law No. 10,848, dated March 15, 2004). This law was implemented by a number of decrees enacted by the Brazilian Government as of May 2004. On July 30, 2004, the Brazilian federal government published Decree No. 5.163, which governs the sale of energy under the terms of the New Industry Model Law and grants authorizations and concessions for generation projects. The Decree also includes norms for auction procedures, the form of contracts for the purchase and sale of energy, and the methods for passing along costs to end-users.

Concessions

The companies or consortia that wish to build or operate facilities for generation, transmission or distribution of electricity in Brazil must apply to MME or to ANEEL, as representatives of the Brazilian Government, for a concession, permission or authorization, as the case may be. Concessions grant rights to generate, transmit or distribute electricity in the relevant concession area for a specified period. This period is usually 35 years for new generation concessions, and 30 years for new transmission or distribution concessions.

Existing concessions may be renewed one time at the granting authority's discretion. The Concession Law establishes, among other things, the conditions that the concessionaire must comply with when providing electricity services, the rights of customers, and the obligations of the concessionaire and the granting authority. The main provisions of the Concession Law are summarized as follows:

- *Adequate service.* The concessionaire must render adequate, regular, continuous, efficient, safe and accessible service.
- *Use of land.* The concessionaire may use public land or request that the granting authority expropriate necessary private land for the benefit of the concessionaire. In such a case, the concessionaire must compensate the affected private landowners.
- *Strict liability.* The concessionaire is strictly liable for direct and indirect damages resulting from the inadequate rendering of electricity distribution services, such as abrupt supply interruptions and disturbances arising from the generation, transmission or distribution systems.
- *Changes in controlling interest.* The granting authority must approve any direct or indirect change in the concessionaire's controlling interest.
- *Intervention by the granting authority.* The granting authority may intervene in the concession to ensure the adequate performance of services and full compliance with applicable contractual and regulatory provisions. Within 30 days of the date of the decree authorizing the granting authority's intervention, the granting authority is required to commence an administrative proceeding in which the concessionaire is entitled to contest the intervention. During the term of the administrative proceeding, an administrator appointed by the granting authority becomes responsible for carrying out the concession. If the administrative proceeding is not completed within 180 days of the decree date, the intervention ceases and the concession is returned to the concessionaire. The concession is also returned to the concessionaire if the granting authority's administrator decides not to terminate the concession and the concession term has not yet expired.
- *Termination of the concession.* The termination of the concession agreement may be accelerated in the case of bankruptcy or dissolution of the concessionaire or by means of expropriation and/or forfeiture. Expropriation is the early termination of a concession for reasons related to the public interest that must be expressly declared by law. Forfeiture must be declared by the granting authority after ANEEL or MME has made a final administrative ruling that the concessionaire, among other things, (1) has failed to render adequate service or comply with applicable law or regulation, (2) no longer has the technical, financial or economic capacity to provide adequate service, or (3) has not complied with penalties assessed by the granting authority. The concessionaire has the right to a full defense in any administrative proceeding intended to terminate its concession and may contest the expropriation or forfeiture in the courts. The concessionaire is entitled to indemnification for its investments in

expropriated assets that have not been fully amortized or depreciated, after deduction of any fines and damages due by the concessionaire to the granting authority. However, if the Issuer's concession agreements were to be terminated for reasons attributable to them, the amount of compensation required to be paid to the Issuer could be materially reduced due to discounts by virtue of fines or other penalties imposed by the granting power. In addition, the Issuer's credit rights to receive proceeds relating to the early termination of the Issuer's distribution concessions have been assigned or encumbered to a FIDC, and may be assigned to certain of their other creditors. Consequently, the compensation to which the Issuer would be entitled in case of termination of their distribution concession may not be available to the holders of the notes. Accordingly, the imposition of fines or penalties on the Issuer or the termination of its concessions could have an adverse effect on its financial condition and results of operations. See "Risk Factors – Risks Relating to our Operations and the Brazilian Power Industry." We could be penalized by ANEEL for failing to comply with the terms of our concession agreements and applicable regulations, which could result in fines, other penalties and, depending on the gravity of the non-compliance, in the termination of our concessions.

- *Expiration.* When the concession expires, all assets that are materially related to the rendering of the electricity services revert to the Brazilian Government. Following the expiration, the concessionaire is entitled to indemnification for its investments in assets that have not been fully amortized or depreciated as of the expiration.

For information regarding our concession agreement, see "Business – Concessions, authorizations and permits."

Penalties

ANEEL's regulation provides for sanctions against the agents of the electricity sector and allows ANEEL to impose penalties based on the nature and severity of the breach (including warnings, fines, temporary suspension from the right to participate in bidding procedures for new concessions, licenses or authorizations and forfeiture). Depending on the breach, the fines can be up to two per cent of the revenue (net of value-added taxes and service taxes) of the concessionaire in the 12-month period preceding any assessment notice. Some infractions that may result in fines relate to the failure of the concessionaire to request ANEEL's approval of certain transactions, including the following:

- execution of contracts between related parties;
- sale or assignment of assets or receivables related to services rendered or the imposition of any encumbrance (including any security, bond, guarantee, pledge and mortgage) on them or any other assets related to the concession or the revenue of the electricity services; and
- changes in the concessionaire's control.

In the case of contracts executed between related parties, ANEEL may seek to impose restrictions on the terms and conditions of these contracts and, in extreme circumstances, determine that the contract be rescinded.

In addition to the penalties discussed above, ANEEL may commence an administrative proceeding against an issuer seeking to annul a transaction that it believes will adversely affect such issuer's ability to provide adequate services under its concessions.

The granting power may also enact a decree granting it the authority to intervene in a concession. The decree must set out the term, objectives and limits of the intervention and the reasons for the enactment of the decree. Once the intervention is declared, the administrative proceeding will be commenced within 30 days to pursue the desired remedy and assess damages. Proceedings must be concluded within 180 days, except in the event the intervention is cancelled.

In the event of a partial or total failure by a concessionaire to perform its obligations under a concession agreement, ANEEL may also limit the concession area, impose a sub-concession in all or part of the concession area, expropriate the shares held by the concessionaire's controlling shareholders and sell them in a public auction or terminate the concession agreement.

Principal Authorities

Ministry of Mines and Energy (MME)

The MME is the Brazilian Government's primary regulator of the power industry, acting as the granting authority on behalf of the Brazilian Government and empowered with policy-making, regulatory and supervisory capacities. Following adoption of the New Industry Model Law, the Brazilian Government, acting primarily through the MME, will undertake certain duties that were previously the responsibility of ANEEL, particularly the granting of concessions and the issuance of directives governing the bidding process for concessions relating to public services.

Brazilian Electric Regulatory Agency (ANEEL)

The Brazilian power industry is also regulated by ANEEL, an independent federal regulatory agency. After enactment of the New Industry Model Law, ANEEL's primary responsibility became to regulate and supervise the power industry in line with the policy to be dictated by the MME and to respond to matters which are delegated to it by the Brazilian Government and by the MME. ANEEL's current responsibilities include, among others:

- administering concessions for electricity generation, transmission and distribution activities, including the approval of electricity tariffs;
- supervising the rendering of services by the concessionaires and imposing the applicable penalties;
- enacting regulations for the electricity industry;
- implementing and regulating the development of electricity sources, including the use of hydroelectric energy;
- promoting the public bidding process for new concessions;
- settling administrative disputes among agents of the power industry; and
- defining the criteria and methodology for the determination of transmission and distribution tariffs.

National Energy Policy Council

The National Council for Energy Policy (*Conselho Nacional de Política de Energia*), or CNPE, is an advisory body to the President of the Republic which formulates policies and guidelines for energy in order to develop the country's energy resources on a rational basis.

ONS

The basic role of the ONS is to coordinate and monitor generation and transmission operations of the SIN grid, subject to regulation and supervision by ANEEL. Its institutional mission is to assure users of the SIN of the continuity, quality and an economical supply of electric energy. It also proposes expansions of the network and reinforcement of existing systems to be considered in planning extensions of transmission systems and proposes rules for operating transmission installations in the SIN grid, for approval by ANEEL.

Wholesale Energy Market and the Energy Trading Chamber-CCEE

The CCEE is a private nonprofit entity, regulated and monitored by ANEEL, whose purpose is to make it possible to sell electricity over the SIN grid. One of the CCEE's main roles is to hold public auctions on the regulated market through delegation from ANEEL. In addition, the CCEE is responsible for (i) registering energy trading contracts on the regulated market, contracts resulting from contracting adjustments, and contracts made on the free market, and (ii) calculating and settling short-term transactions.

Energy Research Company-EPE

The EPE was set up in August 2004 and is responsible for conducting strategic research in the electric sector including research related to electricity, oil, gas, coal and renewable energy sources. Research conducted by the EPE will be used to support the MME in its role of devising programs for the Brazilian energy sector.

Energy Industry Monitoring Committee

The New Industry Model Law authorized the creation of the Energy Industry Monitoring Committee (*Comitê de Monitoramento do Setor Elétrico*), or CMSE, which acts under the direction of the MME and is composed of representatives from ANEEL, the National Petroleum Agency (*Agência Nacional do Petróleo*), or ANP, the CCEE, EPE and ONS. The CMSE is responsible for:

- monitoring the activities of the energy sector;
- evaluating the supply and demand of the energy market; and
- presenting preventive and corrective actions for the maintenance and recovery of energy supply and demand to the CNPE.

The New Industry Model Law

Summary

The New Industry Model Law introduced material changes to the regulation of the power industry with a view to (1) provide incentives to private and public entities to build and expand generation capacity and (2) assure the supply of electricity in Brazil at reasonable rates through competitive public electricity bidding processes.

To achieve reasonable rates, the New Industry Model Law requires that: (a) all energy purchases by distributors must be made through auctions, based on the lowest rate; (b) contracting is realized through the pooling system of ACR; and (c) load contracting is separated into two types of transactions, in each case as established in auctions: (i) contracting electricity from new plants, to promote expansion; and (ii) contracting electricity from existing plants, to meet existing demand for energy.

The New Industry Model Law governs, among other matters, norms relating to: (i) auction procedures; (ii) the form of energy contracts; and (iii) the methodology for passing costs on to end-users. The key features of the New Industry Model Law include:

- Creation of two parallel environments for the trading of electricity (1) ACR, for purchase by distribution companies through public auctions and (2) ACL that handles unregulated purchasers, such as free customers and energy trading companies, in which competition will be permitted.
- Creation of a spot market where differences between the amounts generated/consumed, on the one hand, and the amounts contracted, on the other, are settled. The settlement price is called the Price for Liquidating Differences (*Preço de Liquidação de Diferenças*) ("PLD"), which is produced in a chain of simulation models, with stochastic representation of natural inflows to the reservoirs of the hydroelectric plants.

- A requirement that distribution companies purchase electricity sufficient to satisfy 100% of their projected energy needs.
- Restrictions on certain activities of distributors, so as to ensure that they focus only on their core business to guarantee more efficient and reliable services to captive customers.
- Restrictions on self-dealing, to provide an incentive to distributors to purchase electricity at the lowest available prices rather than buying electricity from related parties.
- Enforcement of contracts executed prior to the New Industry Model Law, in order to provide stability to transactions carried out before its enactment.
- A prohibition on the sale of energy by distributors to free customers at unregulated rates.

Challenges to the Constitutionality of the New Industry Model Law

The New Industry Model Law is currently being challenged on constitutional grounds before the Brazilian Supreme Court with respect to formal aspects.

On October 11, 2006, the STF dismissed the actions before STF by a seven to four vote, stating that, in principle, the New Industry Model Law does not breach the Federal Constitution of Brazil. The STF has not yet issued a final ruling in this case; therefore, the New Industry Model Law remains in effect.

Coexistence of Two Electricity Trading Environments

Under the New Industry Model Law, electricity purchase and sale transactions will be carried out in two markets: (1) the Regulated Market, which includes electricity purchases by distribution companies through public bids, and (2) the Free Market, which includes purchases of electricity by non-regulated agents such as free customers and energy traders.

The electricity generated by (1) low capacity generation projects located near the consumption points, such as cogeneration plants and the SHPs, or Distributed Generation, (2) plants qualified under the first phase of the Proinfa, a program designed to diversify Brazil's energy sources, (3) Itaipu, and (4) energy contracts executed before the New Industry Model Law will not be subject to the public bidding process for the supply of electricity to the Regulated Market. The electricity generated by Itaipu is traded by Eletrobrás and the volumes that must be bought by each distribution company are necessarily determined by ANEEL. The prices at which Itaipu energy is traded are denominated in U.S. dollars and established in accordance with a treaty executed between Brazil and Paraguay. Therefore, the prices for Itaipu are subject to the variation of the dollar/*real* exchange rate. Changes in the price of energy generated by Itaipu are, however, subject to the recovery mechanism of expenses not administered by the distributor, such as sector and transmission fees.

Restricted Activities and De-Verticalization

Distributors in the SIN are not permitted to (1) develop activities related to the generation or transmission of electricity, (2) sell electricity to free customers, except for those in their concession area and under the same conditions and tariffs maintained with respect to captive customers in the Regulated Market, (3) hold, directly or indirectly, any interest in any other company or partnerships, or (4) develop activities that are unrelated to their respective concessions, except for those permitted by law or in the relevant concession agreement. The New Industry Model Law required compliance with these rules by September 2005 or, with the benefit of a waiver granted by ANEEL, by March 2007 through a process called De-Verticalization. See “– De-Verticalization Reorganization in Compliance with the New Industry Model Law” below.

Elimination of Self-Dealing

Since the purchase of electricity for captive customers will be performed through the Regulated Market, so-called self-dealing, whereby distributors are permitted to meet up to 30% of their electricity needs through electricity acquired from affiliated companies, is no longer permitted, except in the context of agreements that were duly approved by ANEEL before the enactment of the New Industry Model Law. Distributors may, however, make purchases from affiliated companies if the distributor participates in the public bidding process through the Regulated Market, and the generator that bids the lowest price is an affiliated party.

Contracts Executed Prior to the New Industry Model Law

The New Industry Model Law provides that the contracts executed by distribution companies and approved by ANEEL before the enactment of the New Industry Model Law cannot be amended with respect to their period terms, prices or volumes, except for the Initial Supply Contracts, as described below.

During the transition period (1998-2006) to the free and competitive energy market established by the Power Industry Law, the purchase and sale of electricity between generation and distribution concessionaires must occur pursuant to Initial Supply Contracts. The purpose of the transition period was to permit the gradual introduction of competition in the industry and to protect market participants against exposure to potentially volatile short-term market prices. During this period, the Initial Supply Contracts were reduced by 25.0% each year, commencing in 2002 and phased out on December 31, 2006.

Electricity Purchases under the New Industry Model Law

Concessionaires, permit holders and authorized electricity distributors in the public service in the SIN grid must, through bidding in the auction process, guarantee complete satisfaction of their market in the ACR.

ANEEL is responsible for regulating the bids for regulated energy contracting and conducting the auction, either directly or through the intermediation of the CCEE. The criterion of the lowest price is utilized to determine the winners of the auction, i.e., the winners are those that offer electricity at the lowest price per MW/hour to meet the demand anticipated by the distributors.

Energy Auctions

Energy auctions for new generating projects will be held (i) five years before the initial delivery date (referred to as “A-5” auctions), and (ii) three years before the initial delivery date (referred to as “A-3” auctions). There will also be auctions of energy for existing generating facilities (i) held one year before the initial delivery date (referred to as “A-1” auctions), and (ii) approximately four months before the delivery date (referred to as “market adjustments”). The call announcements for the auctions are drafted by the CCEE following guidelines determined by the MME, notably the use of the “lowest rate” criterion for determining winning bids.

Each generating company that sells energy through an auction must sign a CCEAR with each distribution company in proportion to the distributor’s estimated demand. CCEARs for “A-5” and “A-3” auctions will be for terms ranging from 15 to 30 years depending on the product offered, and CCEARs for “A-1” auctions will be for a term ranging from 5 to 15 years. Contracts arising from market adjustment auctions will be limited to a term of two years.

In relation to passing on the cost of purchasing electricity from auctions to rates for final customers, the regulations establishing the regulated market determined the use of a formula referred to as the Annual Reference Value (*Valor Anual de Referência*), or VR, which is a weighted average of the costs of buying electricity in “A-5” and “A-3” auctions calculated for all distributors as a whole, which will be the maximum limit for passing on costs of purchasing energy from existing units in adjustment auctions and for contracting distributed generation.

The VR acts as a stimulus for distributors to buy electricity to meet their needs at “A-5” auctions, at a cost of acquisition that should be less than that of energy contracted in “A-3” auctions, and the VR will be applied as a limit for passing on costs to final customers in the first three years of contracts for energy from new units. From the fourth year on, individual acquisition costs will be passed on in full.

Auctions of Existing Energy

Auctions of existing energy complement contracts for new energy, thus accounting for the entire load. The purpose is to periodically re-contract existing energy through annual auctions of contracts with terms of 5 to 15 years. Delivery of the energy is effected as of the year after the auction, and for this reason the auction is called A-1. A-1 auctions have minimum and maximum parameters for energy purchases.

Besides their duration, contracts for existing energy have other special characteristics that differentiate them from new energy contracts: the amount of existing energy contracted can be reduced at any time if the load of the distributor decreases due to the migration of captive customers to the free market; and the amount of energy contracted can be reduced at the distributor’s discretion by up to 4% each year to adapt to departures from the projected demand.

Auctions of New Energy

Auctions of new energy are intended to promote the construction of new capacity to attend to growing consumption by distributors. In these auctions, long-term energy supply contracts of 15-30 years are offered to generation candidates.

Each year, two types of auctions of new energy are conducted:

- Principal Auction (A-5), which offers bilateral contracts for new capacity with terms of 15 to 30 years, in which operations commence 5 years after the auction. With these terms, the contract makes it possible for the investor who has won the auction to obtain project financing and provides the time necessary to build the new plant.
- Supplemental Auction (A-3), which offers bilateral contracts for new capacity lasting 15 to 30 years. In this case, however, the plants must come on line 3 years after the auction. The purpose is to create a complement to the A-5 auction, realized 2 years before, permitting corrections of deviations caused by uncertainty in the trajectory of demand.

Adjustment Auctions

This type of auction seeks to make “fine adjustments” between the energy contracted and demand.

These auctions offer contracts with terms of up to 2 years and are conducted 3 or 4 times a year, with delivery in the same year, within a maximum of 4 months counted from the Auction date. For this reason, these contracts are known as “A0.” The distributor may buy up to 1% of the total amount of energy contracted through adjustment auctions. Like distributed generation contracts (discussed below), the costs of acquiring this energy also are limited, for purposes of passing on costs to captive customers, to the VR described below.

Auctions of Alternative Energy

In addition to auctions of new and existing energy, the MME may periodically hold auctions specifically to contract alternative sources of energy (biomass, SHPs, wind and solar sources). Standardized long-term contracts (10-30 years) are offered, and procedures are similar to A-3 and A-5 auctions. The first auction of alternative energy took place in June 2007.

Auction of Distributed Generation

Distributors may hold special bidding procedures to contract energy from power plants located in their concession area (voltage below 230 KV). Up to 10% of a distributor's demand may be supplied by this type of contract. To participate in the process, the generating company must obey the following restrictions, among others: (i) minimum efficiency for thermoelectric units (except those fired by a biomass or waste processing source), and (ii) maximum capacity of 30 MW for hydroelectric source and others.

Special Auctions

Current legislation also permits the Brazilian Government to conduct certain special auctions in accordance with specific energy policy purposes. These auctions are conducted to stimulate competition between specific technologies, competition for a specific technology, or for a specific project. The special auctions are discussed below.

Auction for Structural Projects

Current legislation gives the Brazilian Government the right to promote auctions for specific projects that are considered to be strategic for the country. This is the case, for example, in auctions for the plants on the Madeira, Santo Antônio and Jirau rivers, auctioned in December 2007 and May 2008, respectively.

Auctions of Reserve

Finally, the Brazilian Government also can conduct special auctions for contracting reserve energy.

These auctions are entirely determined by the government (design, type of energy to be contracted, demand for the auction, etc.). The first reserve auction occurred on April 30, 2008 and contracted only energy generated with sugar-cane bagasse for delivery in 2009 and 2010. The second reserve auction took place on December 14, 2009 and contracted exclusively wind energy to be delivered starting in July 2012 for a period of 20 years.

Reduction of the Level of Contracted Electricity

Decree No. 5,163, enacted on July 30, 2004, which regulates the trade of electricity under the New Industry Model Law, allows distribution companies to reduce their CCEARs of existing energy: (1) to compensate for the exit of potentially free customers from the Regulated Market, pursuant to a specific declaration delivered to MME, (2) by up to 4.0% per year of the initial contracted amount due to market deviations from the estimated market projections, at the distribution companies' discretion, beginning two years after the initial electricity demand was declared and (3) in the event of increases in the amounts of electricity acquired pursuant to contracts entered into before March 16, 2004.

The circumstances in which the reduction of the level of contracted electricity will occur will be duly set forth in the CCEARs, and may be exercised at the sole discretion of the distribution company and in compliance with the provisions described above and ANEEL regulations.

On July 18, 2005, ANEEL Resolution nº 161 implemented the Surplus and Deficit Compensation Mechanism (*Mecanismo de Compensação de Sobras e Déficits*), or MCSD. The MCSD allows distributors with surplus energy to transfer it to distributors with deficits by signing assignment agreements. In this way, the MCSD is an additional mechanism for the distributors to manage the risks of under- and over-contracting. The declaration of surpluses and deficits for the MCSDs are voluntary, but they must precede the reduction of amounts of energy in reference to the exit of potentially free customers, additional amount of contracts prior to March 16, 2004, and the other market deviations (annual limit of 4% based on the amount originally contracted).

Tariffs for the Use of the Distribution and Transmission Systems

ANEEL oversees tariff regulations that govern access to the distribution and transmission systems. The tariffs are (i) network usage charges, which are charges for the use of the proprietary local grid of distribution companies (or TUSD), and (ii) a tariff for the use of the transmission system, comprised of the Basic Network and its ancillary facilities, or TUST. In recent years, the Brazilian Government has had a goal of improving the national transmission system and, as a result, certain transmission companies have engaged in significant expansion programs, which have been paid for by increases in transmission tariffs and charges. The increase in transmission tariffs and charges paid by distribution concessionaires are passed on to their respective customers through Annual Tariff Adjustments. The following is a summary of each tariff or charge:

TUSD

The TUSD is paid by generators and free customers for the use of the distribution system of a distribution company to which the relevant generator or free customer is connected and is revised annually according to the variation of its two components. The first component is named “TUSD Charges” and it is measured according to the use of electricity. The other component, “TUSD Wire,” is measured by the contracted demand.

Customers who opt for the Free Market continue to pay the tariff for the use of their distribution system to their local electricity distribution company, yet cease to pay the electricity tariff due to purchasing electricity supply with another supplier. Generally, the loss of revenue caused by free customers does not cause a reduction in the electricity distribution companies’ profit margins, since the electricity distribution companies continue to receive the tariff for the use of the distribution systems. Electricity distribution companies obtain a return on their investment from the tariff for the use of the distribution system since they are not allowed to charge spreads on the electricity tariff. However, the tariffs paid by free customers for the use of the distribution system are not adjusted by the Extraordinary Tariff Adjustment, which was created to compensate electricity distributors and generators for the losses caused by the rationing program.

Decree No. 5,597, dated as of November 26, 2005, authorized the free customers to connect directly to the basic grid through their own network. As a result, in case a free customer connects directly to the basic grid, without using the distribution network, payment of the TUSD will not be due. There may be a reduction in the profit margins of the distribution companies, as a result of the non-payment of TUSD by the free customers directly connected to the basic grid.

TUST

The TUST is paid by distribution companies, generators and free customers for the use of the Basic Network and is adjusted annually according to, and on the same date as, the annual revenue of the transmission companies adjustment. According to criteria established by ANEEL, owners of the different parts of the transmission grid have transferred the coordination of their facilities to the ONS in return for receiving regulated payments from users of the transmission system. Network users, including generation companies, distribution companies and free customers, have signed contracts with the ONS entitling them to use the transmission grid in return for the payment of published tariffs. Other parts of the grid that are owned by transmission companies but which are not considered part of the transmission grid are made available directly to the interested users who pay a specified fee to the relevant transmission company.

Economic-Financial Equilibrium

Under Brazilian Concession Law, any concession to provide public services, including the Issuer’s concessions, implicitly requires the maintenance of the balance between the rights and obligations of the parties during the term of the concession. This principle is known as economic-financial equilibrium (*equilíbrio econômico financeiro*).

The principal method used to maintain economic-financial equilibrium is a change to the tariffs the concessionaires charge their customers for the supply of energy or for the use of its distribution systems through annual adjustments, periodic adjustments and extraordinary adjustments.

Distribution Tariffs

The distributor's energy supply tariff is composed of the sum of two tariffs:

(i) **Energy Tariff**: this is essentially the average cost of the distributor's portfolio of energy purchase contracts. This cost varies as a function of the portfolio's composition, the renewal prices of contracts that will expire in the future and the new power prices in regard to the future contracts at the A-3 and A-5 auctions to meet the increase of demand. Additionally, ANEEL allocates charges for transporting energy from Itaipu, which is called the System Service Charge, losses on the Basic Network and research and development TFSEE to the energy tariff. This tariff is paid only by captive customers, with no differentiated customers with access to different voltage levels;

(ii) **Distribution Use of System Tariff (Tarifa do Uso do Sistema de Distribuição), or TUSD**: this is the cost for the service of transporting electricity through the distribution network. The distributor's operating margin is allocated to this tariff, which is necessary for it to maintain its economic and financial balance. This margin must be sufficient to cover the company's operation and maintenance costs and provide an adequate return on the capital invested compatible with the sector risk. Additionally, ANEEL also allocates a series of sector charges to the TUSD. This tariff is paid by all the agents who use the distribution system (captive and free customers, generators and distributors) and is charged at different amounts depending on the voltage level accessed.

Distribution energy supply tariff rates are annually reviewed by ANEEL according to a parametric formula set forth in the respective concession agreement. ANEEL has the authority to adjust and review tariffs in response to changes in electricity purchase costs and market conditions. When adjusting distribution tariffs, ANEEL divides the costs of distribution concessionaires between (1) costs that are beyond the control of the distributor, or Parcel A costs, and (2) costs that are under the control of distributors, or Parcel B costs. The readjustment of tariffs is based on a formula that takes into account the division of costs between the two categories. Parcel A costs include, among others, the following:

- costs of long-term power supply agreements entered into prior to March 2004;
- costs of power purchased from generators on the open market;
- costs of power purchased at public auctions, including any MCSD adjustments;
- certain regulatory charges; and
- connection and usage charges for the third parties transmission and distribution systems.

The pass-through of electricity purchase costs under supply agreements negotiated before the enactment of the New Industry Model Law is subject to a ceiling based on a normative value established by ANEEL for each different source of energy (such as hydroelectric, thermoelectric and alternative sources of energy). The normative value applied to the supply contracts is adjusted annually in order to reflect increases in costs incurred by generators. Such adjustment takes into account (1) inflation, (2) costs incurred and (3) fuel related costs. Costs incurred and measured by IGP-M shall correspond to at least 25% of all costs incurred by generators.

Parcel B costs are those that are within our control and include, among others:

- return on investment related to the concession area and its expansion;
- taxes on revenue;

- depreciation costs; and
- operation and maintenance costs of the distribution system.

Because the revenue required for distributors are calculated on an annual basis, the flow of revenue must be compatible with the economic costs of the services performed during the relative 12 month-period following the tariff adjustment. If the required revenue, as estimated for a certain year, happens to be different from the revenue verified by concessionaires in the same period, as calculated on the basis of the tariff in force for that relevant period, the distribution companies may suffer an adjustment of their tariffs (*Reposicionamento Tarifário*, or “RT”), in order to eventually have the required revenue equaling the revenue as verified.

Distribution companies have their tariffs revised every three to five years. However, since their revenue may be negatively affected by inflation, the Annual Tariff Adjustment discussed aims at mitigating the effects of inflation during this period. Therefore, as of the date of the Annual Tariff Adjustment, Parcel A and B components are updated according to the so-called Índice de Reajuste Tarifário, or IRT, by means of which all variations in both Parcel A and B components are recognized (in particular, with regard to Parcel B component, the value of IRT is adjusted based on the X factor described below).

Each distribution company’s concession agreement provides for an Annual Tariff Adjustment (reajuste anual). In general, Parcel A costs are fully passed through to customers. Parcel B costs, however, are restated for inflation in accordance with the IGP-M index, adjusted by an X factor.

The terms of the concession contracts under which electricity distribution companies operate provide for Periodic Tariff Adjustments (*revisão periódica*) every three to five years which, in the case of our distribution concessionaires, takes place every five years. These adjustments are designed to (1) assure that revenue are sufficient to cover Parcel B operating costs and essential investments for the services within the scope of each such company’s concession and (2) determine the X factor, which is based on three components: (i) Xc, which is a factor set each year based on our customer satisfaction as surveyed by ANEEL; (ii) Xa, which is a factor set each year based on the difference between the IPCA and IGP-M inflation indexes multiplied by our total personnel costs (since our labor increases are based on the IPCA and our tariff increases are based on the IGP-M); and (iii) Xe, which is a factor set every five years based on productivity gains over such period. The X factor is used to adjust the proportion of the change in the IGP-M index that is to be applied to the Parcel B component in the annual adjustments. Accordingly, upon the completion of each Periodic Tariff Adjustment, application of the X factor (due to the Xe component) requires distribution companies to share their productivity gains with final customers. The Xe factor will not apply to second round tariff revisions.

The X factor is used to adjust the proportion of the change in the IGP-M index that is to be applied to the Parcel B component in the annual adjustments. Accordingly, upon the completion of each Periodic Tariff Adjustment, application of the X factor (due to the Xe) requires distribution companies to share their productivity gains with final customers.

In addition, concessionaires of electricity distribution are entitled to extraordinary tariff review (*revisão extraordinária*), on a case by case basis, to ensure their financial and economic equilibrium and compensate them for unpredictable costs, including taxes, that significantly change their cost structure.

Since 2002, low-income customers have benefited from a special tariff established by the Brazilian Government through ANEEL. During 2002, the deficit generated by the application of this special tariff was financed by Eletrobrás with funds from the RGR. In 2002, pursuant to Decree No. 4,336/02, it was determined that the distribution companies would be compensated for the revenue loss resulting from the special tariff by the Brazilian Government with funds derived from dividends paid by Eletrobrás.

Compensation of Generators

Unlike electricity distribution concessionaires, generation concessionaires generally lack provisions in their concession contracts for fixed tariffs or mechanisms for the adjustment of tariffs. Under initial contracts, the tariffs set between the generators and the respective electricity distribution companies are subject to approval by ANEEL. Under bilateral contracts, prices are freely negotiated between the parties.

The prices negotiated between generators and distributors under bilateral contracts executed prior to the enactment of the New Industry Model Law were influenced primarily by the limitations on transferring electricity-purchasing costs to the tariffs charged to final customers by electricity distribution companies. As a result, the electricity purchased through these contracts was influenced by the normative values established by ANEEL.

Limitations on the transfer of costs for contracts executed after the enactment of the New Industry Model Law are based on the Annual Reference Value, which corresponds to the average electricity prices determined at A-5 and A-3 auctions, calculated for all electricity distribution companies. The Annual Reference Value, which is applied to the first three years of electricity purchase contracts for new generation projects, creates an incentive for electricity distribution companies to purchase their expected electricity demands at A-5 auctions, where lower prices are expected. Beginning in the fourth year of the contracts, purchase costs may be transferred in their entirety to final customers' tariffs.

These transfer restrictions ultimately limit the electricity prices charged by generators, since the prices cannot be higher than the normative value or the Annual Reference Value and still remain competitive and eligible for ANEEL approval. Following the enactment of the New Industry Model Law, generators can only sell their electricity to distributors through public auctions conducted by ANEEL and the CCEE.

Quality of Service Provided

ANEEL uses two tests to verify the quality of service provided by electricity concessionaires. The first test is duration of interruption (DEC), which shows the average time of a power outage per customer. Only interruptions equal to or greater than three minutes are considered. The second test is frequency of interruption (FEC), which shows the average number of interruptions each customer suffers. Only interruptions equal to or greater than three minutes are considered.

ANEEL uses this information to gauge whether the concessionaire is adequately performing its duties under the concession. Breaches of the annual limits will result in fines being levied by ANEEL.

De-Verticalization Reorganization in Compliance with the New Industry Model Law

The New Industry Model Law rules the segregation of the electric sector activities in Brazil based on generation, transmission and distribution operations. Under the New Industry Model Law no entity may engage in more than one of these activities. Accordingly, vertically integrated electric utilities, including our Company, were required to restructure their operations. The primary purposes of the De-Verticalization Reorganization were:

- to preserve the independence of each utility concession, thereby avoiding contamination between concessionaires in the creation of costs and compensation bases for the public service of providing energy, enabling the measurement of the economic and financial balance of each utility concession, assuring transparent management and allowing the market and Brazilian customers to be fully informed of the results of each utility concession; and
- to implement and foster competition in the generation and trading activities of the electricity sector and to improve the regulation of the transmission and distribution businesses, in which a network monopoly currently exists.

The New Industry Model Law provides that distribution concessionaires, as well as companies permitted or authorized to distribute electricity through the interconnected system, shall not engage in: (i) generation activities, (ii) transmission activities, (iii) the sale of electricity to free customers, except for those sales in the distributor's concession area under the same conditions applicable to captive customers, (iv) holding interests in other companies, either directly or indirectly, except to obtain and manage financial resources required to provide electrical service, and when stipulated in the applicable concession contracts, or (v) activities that are foreign to the company's purposes except in cases provided for by law and in the respective concession contracts. These restrictions do not apply to (i) the supply of electricity to isolated systems, (ii) the service of the concessionaire's own market, if its volume is less than 500 GWh per year, or (iii) procurements, applications or loans to the electricity distribution companies themselves, or to a company in its own group, with the prior consent of ANEEL.

Activities performed by concessionaires that are not associated and do not interfere with the public service of electricity distribution, according to their respective concession contracts, are included as alternative sources of income for the concessionaire. The income derived from such activities is considered in the determination of the concessionaires' tariffs, in order to maintain reasonable tariffs for electricity services.

Similarly, concessionaires and companies authorized to perform generation or transmission operating in the interconnected system are prohibited from associating with or controlling companies that distribute electricity in the interconnected system.

Concessionaires, as well as companies permitted or authorized to distribute, transmit and generate electricity, were required to comply with these restructuring rules by September 2005 or, with the benefit of an extension granted by ANEEL, by March 2007.

Regulatory Charges

The main charges in the electric sector are as follows:

- **CCC** – Account for the Consumption of Combustibles: a charge for subsidizing electricity generation whose process involves fossil fuels in isolated systems. CCC is paid by all end-users through a fee on use of the transmission system (*tarifa de uso do sistema de transmissão - TUST*), if the customer is connected directly to the basic grid, or through a fee on use of the distribution system (*tarifa de uso do sistema de distribuição - TUSD*), if the customer is connected to the local distributor. Customers that invest in self-production are exempt to the extent they are self-sufficient. The amount of CCC to be collected is set prior to each year by Eletrobrás.
- **CDE** – This charge is used to promote wind energy, SHP, gas and coal; promote universalization of electricity; and subsidize the rate for low-income customers. This charge is paid by all customers through the TUST or TUSD. Like the CCC, customers that invest in self-production are exempt to the extent they are self-sufficient. CDE is set annually by ANEEL.
- **CFURH** – Financial Compensation for the Use of Water Resources (*Compensação Financeira pelo Uso dos Recursos Hídricos*): this is profit-sharing with states, municipalities and the Brazilian Government from the development of water resources. The New Industry Model Law requires that the holders of a concession or authorization to generate electric energy, exploring for the use of water resources, shall pay a fee of approximately 6.7% on the value of hydroelectric energy they generate. Hydroelectric companies pay this charge to the federal, state and municipal governments, in which the plant or the plant's reservoir is located, calculated according to a formula established by ANEEL. Hydroelectric energy from SHPs is exempt from the CFURH.
- **EER** – Encargo de Energia de Reserva: The EER is a regulatory tax created to collect funds for the reserve of energy contracted by CCEE. These energy reserves are used to increase the safety of the energy supply in the SIN. The EER collects funds for the reserve of energy contracted by CCEE and is collected monthly from final customers of the SIN, except in 2009 when it was charged only in March.

- **ESS** – Encargo de Serviço de Sistema: ANEEL’s Resolution No. 173 of November 28, 2005 establishes the Charge System Service (*Encargo de Serviço do Sistema*) (“ESS”) due by all final customers under the energy tariff. Since January 2006, the ESS has been included in the Annual Tariff Adjustment and Periodic Tariff Adjustments. These charges are based on annual estimates of the ONS on October 31 of each year, and paid by customers connected to the SIN grid, mainly to cover costs related to the system’s services.
- **ONS** – A rate used to cover the costs of the Brazilian System Operator (*Operador Nacional do Sistema*) and paid by its members, including generation, distribution, and transmission companies.
- **R&D** – A research and development charge on the industry invested in electric efficiency programs and other research and development. Generation, distribution and transmission companies must invest annually at least 1% of their net operating revenue in R&D.
- **PROINFA** – As mentioned above, this charge subsidizes the program of incentives for alternative sources. The charge is collected from all customers through the TUST and TUSD. Low-income customers and those located in isolated areas are exempt.
- **RGR** – Global Reversion Reserve (*Reserva Global de Reversão*): an industry charge to compensate for assets remaining at the end of a concession period, and promote resources for expanding services is paid by all public concessionaires.
- **TFSEE** – Taxa de Fiscalização de Serviços de Energia Elétrica: a charge to cover ANEEL’s costs, paid by all industry participants. The Inspection Tax by ANEEL is an annual tax paid by the owners of concessions, licenses and authorizations. Currently, the Inspection Tax is deducted from the RGR Fund.
- **UBP** – Use of Public Goods (*Uso do Bem Público*): a rate for the right to a concession paid by investors in hydroelectric plants to use the site to generate electricity. This payment is necessary since hydroelectric concessions are federal and cannot be granted without payment.

In certain circumstances, power companies are compensated for assets not yet depreciated that are used in connection with a concession that is revoked or not renewed. In 1971, the Brazilian Congress created a Global Reversion Fund (*Reserva Global de Reversão*), or RGR Fund, designed to provide funds for compensation in these circumstances. ANEEL assesses a fee on all distribution and certain generation companies operating under public service regimes of monthly contributions to the RGR Fund at an annual rate equal to 2.5% of the company’s fixed assets in service, but not to exceed 3.0% of total operating revenue in any year. In recent years, the RGR Fund has been used principally to finance generation and distribution projects. According to Provisional Measure No. 517 from December 30, 2010, the RGR Fund is scheduled to be phased out by the end of 2035, and ANEEL must revise the tariff so that the customer will receive some benefit from the termination of the Fund.

The Brazilian Government has imposed a fee on Independent Power Producers reliant on hydrological resources, except for SHPs, similar to the fee levied on public-industry companies in connection with the RGR Fund. Independent Power Producers are required to make contributions to the Public Use Fund (*Fundo de Uso do Bem Público*), or UBP Fund, according to the rules of the corresponding public bidding process for the granting of concessions.

Distribution companies, and generation companies that sell directly to final customers, must contribute to the Fuel Consumption Account (*Conta de Consumo de Combustível*), or CCC. The CCC was created in 1973 to generate financial reserves to cover elevated costs associated with the increased use of thermoelectric energy plants, in the event of a rainfall shortage, given the higher marginal operating costs of thermoelectric energy plants compared to hydroelectric energy plants. Each energy company is required to contribute annually to the CCC. The annual contributions are calculated on the basis of estimates of the cost of fuel needed by the thermoelectric energy plants in the following year. The CCC, in turn, reimburses energy companies for a substantial portion of the fuel costs of their thermoelectric energy plants. The CCC is administered by Eletrobrás.

In February 1998, the Brazilian Government provided rules for phasing out the CCC. In April 2002, the Brazilian Government established that subsidies from the CCC would continue to be paid to those thermoelectric plants located in isolated systems for a period of 20 years in order to promote generation of electricity in these regions. In December 2009, the Brazilian Government established new rules for existing thermoelectric plants and new ones located in the isolated systems and for those plants to be connected to the SIN.

In 2002, the Brazilian Government instituted the Energy Development Account (*Conta de Desenvolvimento Energético, or CDE*), which is funded through annual payments made by concessionaires for the use of public assets, penalties and fines imposed by ANEEL and, since 2003, the annual fees to be paid by agents offering electricity to final customers, by means of a charge to be added to the tariffs for the use of the transmission and distribution systems. These fees are adjusted annually. The CDE was created to support the (1) development of electricity production throughout the country, (2) production of electricity by alternative energy sources and (3) universalization of energy services throughout Brazil. The CDE will be in effect for 25 years and is administered by Eletrobrás.

ANEEL also charges a fee for the inspection of the energy service agents and concessionaires, known as the Electric Energy Service Inspection Fee (*Taxa de Fiscalização dos Serviços de Energia Elétrica*), which was created by Federal Law n. 9,427, dated December 26, 1996. The fee is equivalent to 0.5% of the annual economic benefit declared by the agent or concessionaire. The value of the economic benefit is based on the authorized generation and transmission concessionaires' installed capacity or on the annual sales revenue declared by the distribution concessionaires.

Additionally, Itaipu has an exclusive transmission network, which is not part of the basic transmission network or of the intermediate transmission system. Users of this system is remunerated by a specific charge known as the Itaipu Transportation Charge (*Encargo de Transporte de Itaipu*), paid by companies that are entitled to quotas of Itaipu's energy and calculated proportionally to their respective quotas.

Default in the Payment of Regulatory Charges

The New Industry Model Law establishes that the default in the payment of CFURH and of the contributions to the RGR Fund, to PROINFA, to CDE, to CCC, or the non-execution of other payments, such as those due to the purchase of electric energy in ACR or in Itaipu shall prevent that such person in default proceeds with readjustments or revisions of tax (except for extraordinary revisions) and that it receives resources from the RGR Fund, from CDE or from CCC.

Electricity generated from alternative sources, wind farms and SHPs is exempt from the following regulatory charges normally applicable to electricity generation operations: (i) financial compensation for the CFURH; (ii) ANEEL's research and development program; and (iii) the Account for the Consumption of Combustibles (*Conta de Consumo de Combustíveis Fósseis*) or CCC; and (iv) the Account for Energy Development (*Conta de Desenvolvimento Energético*) or CDE.

Electricity Reallocation Mechanism

Under the trading or marketing rules in force, financial protection against hydrological risks for generator companies is ensured through the Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*), or MRE. The MRE is a five-step financial mechanism whose purpose is to share the risks that affect hydrological generating companies in order to ensure optimization of hydroelectric resources for the SIN grid.

These steps are detailed below:

1. determining whether net production of energy within the MRE reaches the total fixed generating capacity or assured energy levels for the MRE members taken as a whole;

2. determining whether any generator produced volumes in excess of or below its assured energy volume as stated by the ONS;
3. if certain generators that are MRE participants have produced in excess of their level of assured energy, the additional energy generated will be allocated to other MRE generators that have not reached their levels of assured energy. This additional energy generated is designated “optimized energy” and is first allocated between the generators in a region and then across different regions, to ensure that all MRE members reach their assured energy level;
4. if, after step (3) above has been completed, all MRE members have reached their assured energy levels (or their contracted energy, for MRE members that have not contracted 100% of their assured energy), and there is still excess energy, the regional network’s additional generation, referred to as “secondary energy” must be allocated between generators in different regions. Energy prices will be negotiated at the CCEE prices prevailing in the region in which the energy was generated; and
5. if, after step (3) or (4) above, not all MRE members have reached the MRE total assured energy level, the shortfall will be paid by MRE members based on the Price for Liquidating Differences (*Preço de Liquidação de Diferenças*), or PLD.

Under the market rules in force, protection from hydrological risks for centrally dispatched hydro plants is provided through an Energy Reallocation Mechanism, or ERM, which attempts to mitigate the risks involved in the generation of hydrological electricity by mandating that hydro plants share the hydrological risks of the Interconnected Power System. According to Brazilian law, the revenue from the sale of electricity by hydroelectric generation companies does not depend on the electricity generated by them but rather on the Assured Energy of each plant which is determined in each relevant authorization act (e.g., concession agreements). Any imbalance between the electricity actually generated and the Assured Energy is covered by the ERM. The purpose of the ERM is to mitigate hydrological risks, guaranteeing that all participant plants in the ERM receive the revenue related to their Assured Energy, irrespective of the volume of electricity generated by them. In other words, the ERM reallocates the electricity, transferring (or allocating) surplus electricity from those who generated in excess of their Assured Energy for those who generated less than their Assured Energy. The effective generation dispatch is determined by ONS, which takes into account nationwide electricity demand, hydrological conditions and transmission constraints. The volume of electricity actually generated by the plant, either less or in excess of the Assured Energy, is priced pursuant to a tariff denominated “Energy Optimization Tariff,” which covers the operation and maintenance costs of the plant. This revenue or additional expense will be accounted monthly by each generator.

Rationing

The New Industry Model Law establishes that, in a situation where the Brazilian Government decrees a compulsory reduction in the consumption of electricity in a certain region, all Energy Agreements in the Regulated Market, registered within the CCEE in which the buyer is located, shall have their volumes adjusted in the same proportion to the consumption reduction.

Research and Development

The companies holding concessions, permission and authorizations for distribution, generation and transmission of electricity must invest every year a minimum of 1.0% of their net operational revenue in research and development. Small Hydroelectric Power Plants and wind, sun and biomass energy projects are not subject to this requirement.

“Light for All” Program of the Energy Distribution Services

In 2002, the Brazilian Government began to implement a universal energy program, (*Programa Luz para Todos*) (“Light for All”) with the intention of making electric energy available to customers that would not

otherwise have access to it. In this program, the costs of connection to the energy network are paid by energy distributors instead of the customers.

ANEEL established goals for the expansion of the distribution services rendered by public service energy distribution companies holding concessions or permissions, including the final goal of achieving universal access to electric energy by 2011. ANEEL defined a reduction factor, to be applied to tariffs during the period in which distributors fail to accomplish these universal projects. The funding originated from the use of public assets and from fines imposed on distributors.

Production, Marketing and Markets

The Brazilian electric industry includes the electric power generation, distribution, transmission and marketing businesses. The Brazilian electric system consists of a national interconnected system comprising four electric subsystems and various smaller individual systems in the Northern region. These four electric subsystems (which, collectively, account for 96.6% of electric capacity in Brazil) are interconnected by high voltage network of transmission lines.

From January through May of 2010 power consumption in Brazil totaled 170,336 GWh, 10.3% higher for the same period in 2009, according to data from the *Empresa de Pesquisa Energética* (“EPE”). For coming years, power consumption is expected to grow at the same pace as the country’s economic performance.

Environmental Regulations

We are subject to extensive environmental legislation in Brazil at the federal, state and municipal levels. Compliance with this legislation is supervised by governmental bodies and agencies, which may impose administrative penalties for any breach.

Violations of environmental law may give rise to an environmental crime that may be charged against a legal entity’s officers, who are subject to arrest, and the legal entity itself. Violations of environmental law may also give rise to administrative penalties such as fines of up to R\$50 million (which may be doubled or tripled for repeat offenses) and temporary or permanent suspension of business. These penalties are applied irrespective of the obligation to repair any damage to the environment and/or to third parties.

As of the enactment of Law 6,938/81, which established Brazil’s national environmental policy, activities that may or actually pollute the environment, or that may in any way cause environmental damage, are subject to environmental licensing. In general, the environmental licensing of a potential pollutant is reviewed by the relevant state government. Activities that may generate a regional environmental impact or that are carried out in areas of interest or that belong to the Brazilian Government are subject to licensing by the Brazilian Institute for the Environment and Renewable Natural Resources (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*), or IBAMA. In specific cases, municipal environmental agencies have the licensing authority.

Environmental licenses are necessary for both initial construction phases of development as well as any additional construction. The licenses granted must be renewed periodically. Three licenses are issued in the environmental licensing process: (i) the preliminary license, (ii) the implementation license, and (iii) the operating license.

For projects where the environmental impact is considered significant, an environmental impact study would be prepared by outside experts. In addition, in those cases, the company must pay environmental compensation to support the deployment and maintenance of conservation units. This amount shall equal no more than 0.5% of the total amount of investments required to implement the project, not including investments relating to the plans, projects and programs required in the licensing procedure for environmental impact

mitigation, as well as charges and costs incidental to the financing of the project. It is important to mention that the law that established the value of the environmental compensation is now under discussion before the supreme court of Brazil.

Any delays or denials by the environmental licensing authority in issuing or renewing license requests, as well as the any inability to meet the requirements established by the environmental authorities during the environmental licensing process, may prejudice or even prevent construction and regular maintenance. Failure to obtain and maintain a valid environmental license or to comply with environmental laws and regulations may result in civil and criminal penalties, even if no damage to the environment has taken place. These failures may also subject us to administrative penalties such as fines of up to R\$10 million (which may double or triple for repeat offenses), suspension of public agency subsidies or injunctions requiring the temporary or permanent suspension of the offending operations.

BUSINESS

Summary

We are the largest electricity distribution company in the State of Bahia, which is located in the northeast of Brazil, which is the seventh largest state economy in Brazil and the fifth largest state in Brazil in terms of area according to IBGE. We are essentially the sole distributor in our concession area, which covers approximately 563 thousand square kilometers. We service 415 out of the 417 municipalities in Bahia.

Bahia forms part of the northeast region of Brazil. Bahia covers an area of approximately 564,692 square kilometers (IBGE). Bahia is the most industrialized state in the northeast region of Brazil while possessing one of the largest economic growth indexes in Brazil in recent years, according to SEI – *Superintendência de Estudos Econômicos e Sociais da Bahia*. Bahia's economy historically has been based on agriculture, chemical, petrochemical industries, and mining. The State of Bahia has a population of approximately 14,021,000, as of December 31, 2010 (IBGE).

For the year ended December 31, 2010, we had 4,900,783 million customers and annual sales of 15,329 GWh, generating gross revenue of R\$ 6.2 billion. The majority of our customers are residential customers, which accounted for 41.5% of our revenues from electricity supply for the year ended December 31, 2010. Our commercial customers 24.7% of our revenues from electricity supply and industrial customers account for 18.8%, with rural, public power and other customers accounting for the remainder of our revenues from electricity supply, in each case for the year ended December 31, 2010. We are primarily concentrated on our residential and commercial customers, which are higher tariff paying clients.

History & Corporate Structure

We were founded in 1959, as a *sociedade de economia mista* controlled by the State of Bahia. In 1960, by Decree No. 48.161/60 of the federal government of Brazil, we were granted authorization to operate as an electrical utility.

In 1968, we incorporated the Centrais Elétricas do Rio das Contas ("CERC"), whose operating area consisted of the southern portion of the State of Bahia. In 1973, we incorporated two additional utilities, the Companhia de Energia Elétrica da Bahia ("CEEB"), whose operating area consisted of the cities of Salvador and Recôncavo Branco, and the Companhia de Eletrificação Rural do Nordeste ("CERN"), whose operating area consisted of small municipalities in the northeastern of the State of Bahia. As a result of the aforementioned incorporations, and together with the acquisition of additional electrical utilities operated by smaller municipalities, our total concession area grew to cover approximately 563 thousand square kilometers and we now serve 415 out of the 417 municipalities in Bahia.

In 1994, we registered with the CVM as a public company, and on July 31, 1997, we were privatized by the Brazilian government through an auction on the stock exchange of Rio de Janeiro. Through this privatization auction, we were acquired by Neoenergia, a consortium comprised of:

- Previ (49%), the pension fund of Banco do Brasil's employees;
- Iberdrola (39%), a leading global electricity company; and
- BB Banco de Investimento S.A. (12%), a state-owned bank and subsidiary of Banco do Brasil S.A.

On August 8, 1997, we signed with the federal government of Brazil a 30 year concession contract, authorizing us to own and operate generation, transmission and distribution businesses in the State of Bahia. The current expiration date of our concession contract is August 7, 2027. Our concession contract is renewable for an additional 30 year period subject to certain conditions (see "– Tariff Structure" below).

As of December 31, 2010, Neoenergia owned 87.8% of our capital stock, with the remaining 12.2% owned by Iberdrola Energia S.A. (8.5%), Previ (2.3%), and others (1.4%).

In 2005, in order to comply with requirements mandated by ANEEL, we exited the generation and transmission businesses to concentrate exclusively on our electricity distribution business.

Competitive Strengths

Our competitive strengths are as follows:

- *Investment grade rating:* We hold an investment grade rating from Standard & Poors, which is reflective of our resilient financial performance, the strong growth prospects for our concession area, regulatory framework stability and our prudent financial policy. Our investment grade rating allows us to achieve a lower cost of capital in our financing activities.
- *Solid credit fundamentals:* Due to our strong operational efficiency and effective management practices, we generate solid free operating cash flow which provides us with a strong and comfortable liquidity position. We generated EBITDA of R\$1,347.6 million for the year ended December 31, 2010 with a net debt position of R\$1,911.8 million as of December 31, 2010, resulting in a net debt to EBITDA ratio of 1.42x. Our solid cash flow position and low net debt to EBITDA ratio permit us to access financing on favorable terms which additionally allows us to achieve a lower cost of capital in our financing activities.
- *High operating quality:* In 2010, we had annual sales of 15,329 GWh, generating gross revenue of R\$6.2 billion. Our customers/employee ratio was 1,928 as of December 31, 2010, a significant increase from our customers/employee ratio of 567 as of December 31, 1997. Our energy losses were 13.2% in 2010, evidencing the success of our management team's attempts to reduce energy losses, which had reached 17% when we were privatized in 1997. Furthermore, we present strong quality of service indicators as represented by an average duration of interruption in 2010 of 26.59 hours and a frequency of interruption on an annual basis of 11.17 hours. We continuously strive to maintain high-quality performance of our electrical system through continuous investment in our distribution network and transmission lines which allows us to improve our DEC and FEC figures.
- *We are the largest electricity distributor in the State of Bahia and we operate in a state with a growing economy and increasing income per capita:* We are essentially the sole distributor in our concession area, in which we service 415 out of 417 municipalities in the State of Bahia. The State of Bahia, moreover, has exhibited one of the largest economic growth indexes in Brazil in recent years (according to IBGE). As a result of such vibrant growth in the State of Bahia and through government programs such as *Luz Para Todos* and *Bolsa Familia*, our residential customers have benefitted from improved socio-economic indicators, which has increased income per capita and led to increased demand and consumption levels among our residential customers. Our commercial and industrial customers have also benefitted from recent strong growth in Bahia's economy, reflective of strong growth in the Brazilian economy as a whole, which has increased demand and consumption levels among these customers.
- *Our financial plan is focused on the extension of our debt maturities and diversification of our funding sources and financial instruments:* Our financial policy is focused on financing investment plans via development banks and multilateral organizations, diversifying our financial instruments and funding sources, extending the tenors of our financial instruments, and spreading out the amortization schedules of our financial instruments. We aim to be within the first quartile of companies from the electric sector in Brazil with the highest rating and leverage ratios of net debt to EBITDA of less than 2.0x, short term debt to total debt of less than 20% and EBITDA to net financial expenditures greater than 3.5x.
- *Strong shareholders and management team:* Our principal shareholder, Neoenergia, is a consortium comprised of Previ (49%), the pension fund of Banco do Brasil's employees, Iberdrola (39%), a leading global electricity company, and BB Banco de Investimento S.A. (12%), a state-owned bank and subsidiary of Banco do Brasil S.A. Neoenergia is one of the largest groups operating in the Brazilian electrical sector, with operations spanning the entire electric energy production chain, with

businesses in the areas of generation, transmission, distribution and commercialization. Furthermore, we have a dedicated management team with extensive experience in the electricity generation, transmission and distribution businesses, which has contributed to our strong track record of improving our operational and financial efficiency.

Our Strategy

Our mission is to be a benchmark provider of electricity distribution in the State of Bahia and to be the “power and light” of the State of Bahia. We seek to contribute to the development of the State of Bahia and to universalize high quality electricity distribution in the State of Bahia. In 2010, we celebrated our 50th anniversary, a historic mark in our corporate history that reaffirmed our dedication to distribute electricity to the citizens of the State of Bahia in a sustainable and socially responsible manner that decisively contributes to the development of the State of Bahia. We are continuously focused on improving our quality of service indicators, as measured by DEC and FEC, and our energy loss ratios, improving our distribution networks and strengthening our financial profile by extending our debt maturities and diversifying our funding sources and financial instruments.

Distribution Activities

Service Area

Our concession area covers approximately 563,000 square kilometers in the State of Bahia. We distribute electricity in 415 out of 417 municipalities in Bahia. In 2010, we supplied electricity to approximately 4.9 million clients. We distributed 15,329 GWh energy through our network in 2010, 14,262 GWh in 2009, and 13,678 GWh in 2008.

Distribution Network

Electricity is transferred from power generators to customers through transmission, sub-transmission and distribution systems. Transmission is the bulk transfer of electricity at voltages of 230Kv or greater from generation facilities and power stations to sub-transmission and distribution systems by means of a transmission grid. Sub-transmission is the bulk transfer of electricity that has been transformed from voltages of 230Kv or higher to voltages of 138Kv or 88Kv from transmission systems to the distribution systems. Distribution is the transfer of electricity that has been transformed from voltages of 138Kv or 88Kv to voltages of 34.5Kv or lower from transmission and sub-transmission systems to final customers. Electricity in Brazil is transmitted at different levels of high voltage (750Kv, 600Kv, 500Kv, 450Kv, 230Kv, 138Kv and 69Kv). Our transmission is comprised of the higher voltages of 138Kv and 69Kv and distribution is in the form of medium voltages of 34.5Kv, 13.8Kv, and 11.9Kv.

As of December 31, 2010, our network and distribution lines covered more than 223 thousand kilometers and consisted of 294 substations and 396 power transformers. Our system consists primarily of overhead distribution and transmission lines. Our distribution and transmission network is connected to the Paulo Afonso generation complex, located on the São Francisco river, in Bahia, and also to the Sobradinho generation complex, which is located further upstream on the same river. Both are hydraulic generation plants belonging to CHESF. The 230Kv transmission line originating at the Sobradinho generation plant supplies the central and western regions of Bahia. The southern and northeastern regions of Bahia are supplied by five circuits: two 500Kv and three 230 Kv transmission lines, originating at the Paulo Afonso generation plant and extending to three substations: Cicero Dantas, Catu, and Camaçari. The Camaçari substation supplies electricity to the metropolitan region of Salvador, which is our main load center.

We have further strengthened our power grid through a 1998 connection to the Xingo generation plant, which plant became operational in 1997, and a 2003 connection to the Serra da Mesa / Bom Jesus da Lapa / Sapeaçu transmission line. Additionally, the launching of the hydraulics power plants of Itapebi in 2003 and Pedra do Cavalo in 2004 also contributed to the strengthening of our power grid.

The table below sets forth our services as of December 31, 2010:

<u>General</u>	<u>As of December 31, 2010</u> (unaudited)
Concession area (in Km ²)	563,000
Municipalities covered	415
Customers	4,900,783
Sale of electricity on the captive market	14,587 GWh
Total sale of electricity	15,329 GWh
Number of employees	2,541
<u>Transmission</u>	
Total Km of sub-transmission lines	8,382
<u>Distribution Features</u>	
Number of substations	294
Distribution transformers	178,587
Installed capacity of transformers (MVA)	4,444 MVA
DEC (annual duration of disconnection – hours)	26.59
FEC (annual frequency of disconnections – times)	11.17

System Performance

The following table sets forth our sales in volumes (GWh) for the years ended December 31, 2010, 2009, and 2008.

<u>Description</u>	<u>2010</u>	<u>2009</u> (unaudited) (GWh)	<u>2008</u>
Sales in own market			
Residential	5,200.3	4,836.7	4,364.1
Industrial	3,459.6	3,564.1	3,126.5
Commercial	2,767.0	2,643.6	2,451.4
Rural	1,090.2	1,009.9	1,042.8
Others	2,069.6	2,029.1	1,923.4
<u>Total Sales</u>	14,586.7	14,083.4	12,908.2
Demand from free customers	742 GWh	179 GWh	770 GWh

Energy Losses

We experience two types of energy losses: technical and commercial. Technical losses are those that generally occur in the ordinary course of our distribution of electricity, including losses in our equipment and electricity network. Commercial losses generally result from illegal connections, metering errors, meter defects, and fraud. Our energy loss rate was 13.20% for the year ended December 31, 2010 and 12.47% for the year ended December 31, 2009. Our commercial loss rate was 3.26% for the year ended December 31, 2010 and 2.37% for the year ended December 31, 2009. Our technical losses were 9.94% for the year ended December 31, 2010 and 10.10% for the year ended December 31, 2009. We believe these rates are acceptable when compared to other Brazilian distribution concessionaires and evidence the success of our management team in reducing energy loss rates, which had reached upwards of 17% when we were privatized in 1997.

The table below sets forth the amount of our energy losses (technical and commercial) for 2010, 2009 and 2008.

	Year ended December 31					
	2010		2009		2008	
	GWh	%	GWh	%	GWh	%
Total losses at period end	2,331	13.20	2,031	12.47	2,034	12.95
Technical	1,756	9.94	1,645	10.10	1,609	10.24
Commercial	576	3.26	386	2.37	426	2.71

We believe that our level of technical losses is principally due to the large area covered by our distribution and transmission network. We focus our efforts on reducing our electricity losses by concentrating on reducing our commercial losses, as we believe that commercial losses can be reduced at a lower cost and more rapidly than technical losses. The principal reasons for our commercial losses are the following: (i) illegal connections by individuals who have never been Coelba customers; (ii) unauthorized reconnections carried out by previous customers who had been disconnected; (iii) fraud (for example, customers tampering with meters or diverting electricity before it is metered); (iv) losses due to errors in reading meters, billing or recording; and (v) out of date records in relation to public lighting. Nonetheless, we have begun to take the following steps in order to reduce our non-technical losses: (i) on-site inspection of customers in order to detect irregularities; (ii) reduction of illegal connections or unauthorized reconnections through the increase of on-site inspections and, where necessary or appropriate, the lodging of civil and criminal complaints; and (iii) meter substitution. Through these and other measures, we expect to further reduce our levels of commercial losses.

Purchases of Energy

Following the deverticalization process undertaken in 2005, in which we exited the generation and transmission businesses to focus solely on electricity distribution, we no longer generate our own electricity which we distribute but rather (i) purchase electricity in public auctions, (ii) purchase energy via long-term bilateral contracts, or (iii) purchase energy on the spot market.

Public Auctions

Under the New Industry Model Law, distribution companies, including us, must purchase energy in public auctions. The first auction relating to the sale of energy of existing generation undertakings took place on December 7, 2004. The first auction relating to the sale of energy of new generation undertakings took place on December 16, 2005. Public auctions accounted for approximately 74% of our energy supply for the years ended December 31, 2010 and December 31, 2009.

Bilateral Contracts

Following the implementation of the New Industry Model Law, subject to certain exceptions described in “The Brazilian Power Industry – The New Industry Model Law – Electricity Purchases under the New Industry Model Law,” we are no longer allowed to enter into freely negotiated bilateral contracts in the Regulated Market and, therefore, must purchase all of our future energy needs through public auctions conducted by ANEEL. However, bilateral contracts existing before the implementation of the New Industry Model Law will remain in effect until they expire in accordance with their terms. Bilateral contracts accounted for approximately 24% of our energy supply for the years ended December 31, 2010 and 2009.

Other

Purchases of energy from CCEE refers to purchases of energy on the spot market, PROINFA. The PROINFA program was established by the Brazilian government to create incentives for the development of alternative sources of energy, such as wind energy projects and biomass projects. Spot market purchases accounted for approximately 2% of our energy supply for the years ended December 31, 2010 and December 31, 2009.

Energy Supply

We purchase energy from other suppliers for distribution. For the year ended December 31, 2010, we purchased approximately 17,733 GWh energy, at an average price of R\$104.08 per MWh. For the year ended December 31, 2009, we purchased approximately 16,874 GWh million of energy, at an average price of R\$92.44 per MWh.

Supply Arrangements in the Regulated Market

We expect to purchase our future electricity needs through long-term contracts entered into pursuant to industry-wide auctions. According to the New Industry Model Law, all electricity distribution companies and free customers in Brazil are required to have long-term contracts (defined as six months or longer) in place for the purchase of at least 100% of their forecasted five-year electricity needs. During each fiscal year, distribution companies are required to disclose all agreements with a term equal to or greater than one year, and free customers are permitted to review these agreements.

Customers and Analysis of Demand

Customers

We classify our customers into the following categories: residential, commercial (including service-oriented businesses, universities and hospitals), industrial (comprised of manufacturing and process activities), rural and public sector (comprising federal, state, municipal, and other public buildings, public lighting and public services). As of December 31, 2010, the majority of our customers are residential customers, accounting for 41.5% of our revenues from electricity supply. Our commercial customers represent 24.7% of our revenues from electricity supply, industrial customers 18.8%, and rural, public power and other customers accounting for the remainder of revenues from electricity supply. We are primarily concentrated on our residential and commercial customers, which are higher tariff paying clients. Further, relative to other Brazilian distributors, we are less concentrated in the industrial sector. This has proven to be an advantage to us, as (i) industrial customer sales tend to offer lower margins and (ii) we are less exposed to the risk of a significant decrease in overall sales due to the loss of “free clients”, those industrial customers that are allowed to purchase energy from other suppliers through bilateral contracts. Our most important category of customers are our residential customers. As of December 31, 2010, we had 4,900,783 customers, representing a 4.8% increase over year-end 2009.

Our customer base includes “captive” and “free” customers. A recent change in the electricity sector was the designation of certain customers of electric power as potentially “free” customers. Potentially free customers are those whose demand exceeds 3MW, supplied with electricity at a voltage equal to or higher than 69kV (or at any other voltage, so long as the supply began by 1995). All other customers are considered “captive” customers. See “– Potentially Free Customers” below.

As of December 31, 2010, we had approximately 4.3 million residential customers whose consumption accounted for approximately 35.7%, 34.3%, and 33.8% of the total volume of electricity sold for the years ended December 31, 2010, 2009, and 2008 respectively. We generated approximately 41.5%, 40.1%, and 39.6% of our gross revenue from the distribution of electricity to residential customers, respectively, during those periods.

As of December 31, 2010, we had approximately 307 thousand commercial customers, which included retail enterprises, offices, banks, service-oriented businesses, private universities and private hospitals whose consumption accounted for approximately 19.0%, 18.8%, and 19.0% of the total volume of electricity sold for the years ended December 31, 2010, 2009, and 2008 respectively. We generated approximately 24.7%, 24.6%, and 25.6% of our gross revenue from the distribution of electricity to commercial customers, respectively, during those periods.

As of December 31, 2010, we had approximately 21 thousand industrial customers, which include large-volume users engaged in manufacturing and processing whose consumption accounted for approximately 23.7%,

25.3%, and 24.2% of the total volume of electricity sold for the years ended December 31, 2010, 2009, and 2008 respectively. We generated approximately 18.8%, 20.2%, and 19.1% of our gross revenue from the distribution of electricity to industrial customers, respectively, during those periods.

As of December 31, 2010, we had approximately 196 thousand rural customers whose consumption accounted for approximately 7.5%, 7.2%, and 8.1% of the total volume of electricity sold for the years ended December 31, 2010, 2009, and 2008 respectively. We generated approximately 4.3%, 4.2%, and 4.5% of our gross revenue from the distribution of electricity to rural customers, respectively, during those periods.

As of December 31, 2010, we had approximately 70 thousand public sector customers (public sector, public lighting, and public service customers), which include large-volume users engaged in manufacturing and processing whose consumption accounted for approximately 14.1%, 14.3%, and 14.8% of the total volume of electricity sold for the years ended December 31, 2010, 2009, and 2008 respectively. We generated approximately 10.6%, 10.8%, and 11.2% of our gross revenue from the distribution of electricity to public sector customers, respectively, during those periods.

We have a diverse customer base that consists primarily of residential and commercial customers, which we believe provides stability in the event of economic downturns. Supply of electricity to residential customers is presently our most profitable area of business.

Potentially Free Customers

A recent change in the electricity sector was the designation of certain customers of electric power as “potentially free customers”. Potentially free customers are those whose demand exceeds 3MW, supplied with electricity at a voltage equal to or higher than 69kV (or at any other voltage, so long as the supply began by 1995). In addition, customers with contracted demand of 500kW or more may become free customers if they move to energy from renewable energy sources, such as wind, biomass or SHPs. These customers were granted the right to select their own supplier of electric power pursuant to terms set forth in the New Industry Model Law. The New Industry Model Law entitles our customers to elect whether to have the power supplied by any other electric power distribution company. Although potentially free customers within our distribution concession area are no longer required to purchase energy from us, they are nonetheless required to pay a tariff for the use of our distribution system (TUSD).

Analysis of Demand

We recorded gross sales in the regulated market of 14,586 MWh for the year ended December 31, 2010, 14,083 MWh for the year ended December 31, 2009, and 12,908 MWh for the year ended December 31, 2008. This power supply led to gross revenue of R\$5,003.5 million for the year ended December 31, 2010 and R\$4,501.1 million for the year ended December 31, 2009.

The following table sets forth our total number of customers as well as the total electricity we distributed to each of our principal types of customers and the revenues generated for the periods indicated.

<u>Number of captive customers (thousands)</u>	<u>Year Ended December 31,</u>			
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
		<u>(unaudited)</u>		
Residential	4,306	4,094	3,892	3,704
Industrial	21	21	21	20
Commercial	307	300	291	289
Rural	196	194	194	194
Others	70	67	64	62
Total	<u>4,901</u>	<u>4,676</u>	<u>4,462</u>	<u>4,269</u>

Electricity Sales in MWh – Own market in MWh	Year Ended December 31,			
	2010	2009	2008	2007
		(unaudited)		
Residential	5,200,269	4,836,676	4,364,108	4,037,969
Industrial	3,459,558	3,564,156	3,126,526	2,168,227
Commercial	2,767,009	2,643,569	2,451,407	2,278,745
Rural	1,090,159	1,009,854	1,042,764	1,008,690
Others	2,069,680	2,029,137	1,923,402	1,185,189
Total	14,586,675	14,083,392	12,908,207	11,378,820

Growth in residential and commercial customer demand benefitted principally from policies implemented by the Brazilian government, such as a reduction in taxes on electro-domestic items, a reduction in interest rates, programs such as Bolsa Família, an increase in the minimum salary in real terms, and a reduction in the unemployment rate in the State of Bahia, which in aggregate served to increase energy consumption levels in these sectors. The increased rate of growth in the residential sector also reflects an increase in the size of our customer base, which in turn is a result of federal programs such as Luz Para Todos coupled with our initiatives to reduce our levels of commercial losses as more fully described herein. See “– Distribution Activities – Energy Losses.”

Revenue earned from our industrial customers benefitted from the return of industrial customers from the free market to the captive market, although, when industrial customers are considered in aggregate (captive and free customers), there was a decrease in consumption of 2.9% for the year ended December 31, 2010 as compared to 2009 due to the continued impact of the international financial crisis on industrial manufacturing and production levels.

Rural customers saw an increase in consumption of 7.9% for the year ended December 31, 2010 as compared to 2009 as a result of weather and climate variations that impacted irrigation needs in 2009, especially in the western and northern portions of the State of Bahia, which experienced greater than average rainfall levels in the second half of the year.

Additionally, our residential and commercial sector customer energy demand is also influenced by seasonality factors. Energy consumption by these customers is strongly influenced by temperature variations, principally in the summer months due to increases in energy consumption through increased customer use of air-conditioners and refrigerators and similar equipment induced by the hotter temperatures. The final calendar quarter is also a period of seasonal increases in energy demand due to increases in industrial production to attend to end-of-year festivities. On the other hand, during the cooler winter months of May through August, we generally experience decreased levels of energy demand.

Energy Sales Average Tariffs

The tables below show average tariff rates by types of customers, for each of the periods indicated:

	Year Ended December 31,			
	2010	2009	2008	2007
		in R\$ (unaudited)		
Residential	274.18	258.00	267.01	294.05
Industrial	219.06	207.17	209.61	243.04
Commercial	304.32	287.90	304.47	333.71
Rural	174.92	164.28	161.53	171.12
Public Sector	224.86	210.11	217.87	233.04
Public power	335.61	315.70	338.41	366.94
Public lighting	175.80	165.25	170.17	186.37
Public services	182.24	170.89	173.31	182.91
Own consumption	294.05	292.20	325.40	347.42
Average	252.48	237.22	244.50	271.42

Adjustment of Tariffs

Electric energy distributors operate within a publicly regulated area with respect to both the tariffs applied by them and the required financial results. Distribution tariff rates are reviewed annually by ANEEL, according to the parametric formula set forth in the respective concession agreements. ANEEL also has the authority to adjust and review tariffs in response to changes in electricity purchase costs and market conditions under periodic or extraordinary tariff adjustments. See “– Tariff Structure” below.

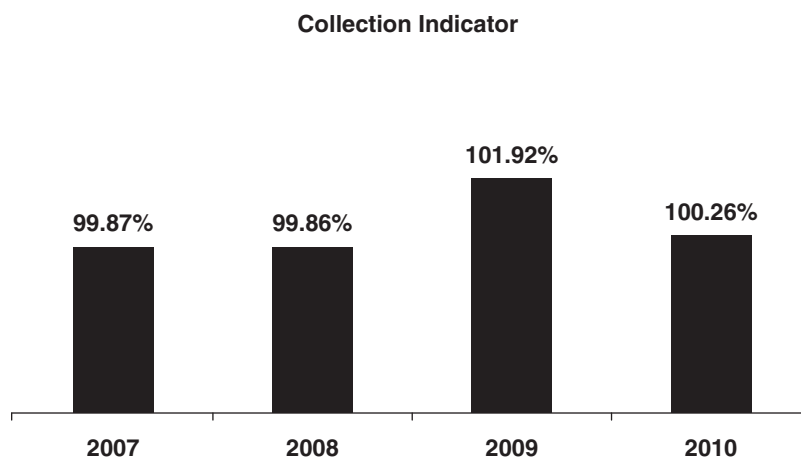
The following table sets forth the most recent tariff adjustments published by ANEEL for Coelba for the years indicated as well as the total percent increase perceived by customers in their billings.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Tariff adjustment approved by ANEEL	8.09%	9.86%	-10.28%	7.34%
Total perceived effect on customer accounts	5.91%	5.92%	-11.78%	5.4%

Billing Procedures

We bill each of our customers on a monthly basis. Those customers who fail to pay their bills on a due date are subject to a penalty for late payment consisting of 2.0% of the relevant bill per month and 1.0% interest per month. We are focusing on improving our collection methods in relation to customers to whom we distribute electricity below 11.8Kv and who historically have had much higher payment default rates than our other customers.

The following chart sets out the evolution of our collection indicators since 2007 through the first quarter of 2010.



Quality of Service Provided

ANEEL uses two tests to verify the quality of service provided by concessionaires in the electricity sector. The first test is the duration of interruption, or DEC, that shows the average time each customer is without electricity when an outage occurs. Only interruptions equal to or greater than one minute are considered. The second test is frequency of interruption, or FEC, that shows the average number of interruptions each customer suffers. Only interruptions equal to or greater than one minute are considered.

The table below shows the duration and frequency of interruptions for the periods indicated.

	DEC ¹		FEC ²	
	Annual Limit ³	Actual (unaudited)	Annual Limit ³	Actual
2010	21.53	26.59	15.18	11.17
2009	22.95	14.97	17.14	7.47
2008	25.26	14.01	18.51	7.01
2007	25.95	14.01	18.82	7.85

¹ Average duration of interruption, in hours.

² Average frequency of interruption, on an annual basis.

³ As determined by ANEEL.

ANEEL uses this information to gauge whether the concessionaire is adequately performing its duties under the concession. Breaches of the annual limits will result in fines being levied by ANEEL.

Potential reasons for the annual limits being exceeded are: (i) an increase in the volume of emergency incidents in rural areas of the concession area, driven by the growth of distribution lines as a result of the Luz Para Todos program; (ii) increased planned interventions in the network due to investments in improving the continuity of electricity supply that requires distributors in most cases to shut down the network to carry out activities safely; and (iii) increased adverse weather conditions throughout the concession area resulting in interruptions particularly in rural areas that have undergone major expansions due to the Luz Para Todos program.

While we strive to maintain high-quality performance of our electrical system through continuous investment in our distribution network and transmission lines, the program Luz Para Todos each year results in greater territorial customer dispersion and intensive physical growth of our distribution network. In addition, restrictive environmental regulations create additional challenges with respect to us meeting our target improvements in our DEC and FEC quality indicators.

Competition

The Brazilian electric industry in which we operate is competitive; however, given that we are essentially the sole distributor in our concession area, we do not face direct competition in our concession area except from the class of consumers considered to be potentially free customers. Our current concession contract expires on August 7, 2027.

Seasonal Cycles

We do not face significant seasonality because the economic characteristics of the industrial, residential and commercial markets that we serve, whether captive markets or free customers, require a relatively uniform total flow of electricity throughout the year. Furthermore, the electricity transmission and distribution infrastructure does not present structural or operational characteristics that would render it susceptible to seasonality. Our revenue and results are influenced more significantly by the performance of the regional economy in our concession area than by seasonality.

The following table sets forth the volume of sales of our electric energy for the four most recently completed quarters:

<u>2010</u>	<u>MWh Sold</u>	<u>%</u>
	<u>(unaudited)</u>	
4 th Quarter	3,799,300	26.05
3 rd Quarter	3,582,837	24.56
2 nd Quarter	3,604,946	24.71
1 st Quarter	3,599,592	24.68
Total	<u>14,586,675</u>	<u>100.0</u>

Research and Development

Our distribution concession agreement requires us to invest 1% of our net operating revenue as defined by ANEEL in research and development and efficiency programs. Our efficiency program benefits our customers through reductions in electricity losses, installation of energy-efficient equipment and educational projects. For the year ended December 31, 2010 and the year ended December 31, 2009 we spent approximately R\$7.4 million and R\$6.7 million, respectively, on research and development.

Environmental Matters

Our distribution systems are subject to comprehensive federal, state, and municipal legislation relating to the preservation of the environment. We are in compliance with the environmental licensing procedures or are in the process of negotiating compliance terms with the applicable regulatory entities. We are not aware of any costs or liabilities relating to environmental matters which we have incurred or may incur which would have a material adverse effect on our business, financial condition or results of operations.

Concession

We operate under a concession agreement granted by the Brazilian government through ANEEL for our distribution business. We operate under Concession Contract Nr. 010/97, granted by Decree of August 6, 1997, and our concession contract expires on August 7, 2027. Our concession area for the distribution of electric energy comprises 415 out of the 417 municipalities of the State of Bahia, comprising an area of approximately 563,000 square kilometers.

Our concession contract requires us to meet certain quality standards specified in the concession contract and/or by ANEEL and also imposes various restrictions on our operating activities. For example, we are required to meet specified mandates in relation to the quality level of the electricity supplied, to comply with certain indexes relating to the continuity of electricity supply, to maintain “tension variations” within certain specified limits, to maintain detailed records of customer requests and complaints and our responses to such requests and complaints, and we are required to establish a consumer council composed of members of various consumer classes that acts as a consultative body which provides guidance and evaluation of the quality of service provided by us.

In addition, we, among other things, may not dispose, assign, pledge or encumber our properties and facilities used to perform our duties without the prior and express consent of ANEEL; we must provide our services in accordance with general norms and rules which apply to all electrical power public service carriers and which are established by ANEEL from time to time; and we may not cease to provide electricity services to persons within our concession area other than for, among other reasons, failure to make due payment for electricity supplied or improper use of the electricity supply.

In the event of non-renewal of our concession, we must transfer all assets used in connection with the concession services to the Brazilian government against payment by the Brazilian government to us of an amount

equal to the non-depreciated and non-amortized value of our investment in our assets which revert to the Brazilian government upon termination of our concession contract and which have not been fully recovered by us less any depreciation and special obligations relating to such investment.

Under the terms of our concession contract, no amendment may be made to our bylaws and no action may be taken involving a change of control without the prior approval of ANEEL. The transfer of our rights under the concession contract or a change of control transaction without the prior approval of ANEEL could result in the forfeiture of our concession.

Further, we are subject to penalties under our concession contract if we fail, (i) to comply with certain indices established by ANEEL relating to the continuity of supplies and supply tension or other requirements established by ANEEL relating to the quality of our services, (ii) to supply certain information in connection with any inspection of Coelba carried out by ANEEL, (iii) to comply with certain requirements established by ANEEL following such an inspection or (iv) to comply with any other legal or regulatory requirement of ANEEL or any other provision of our concession contract. Under the terms of our concession contract and the Public Concessions Law, a concession may be terminated (i) upon lapse of its contractual term, (ii) upon a duly authorized expropriation for public interest reasons, (iii) by forfeiture, (iv) by Coelba, following a judicial ruling permitting such a termination, (v) by annulment due to corruption or other irregularities in relation to the procedure for, or the granting of, the relevant concession and (vi) a bankruptcy or dissolution of Coelba.

Forfeiture of the concession contract may be declared by ANEEL (i) if we render inadequate or deficient services, based on rules, criteria, indices and parameters established by ANEEL or other authorized regulatory bodies, (ii) for failure to comply with the terms of our concession contract or the laws or rules relating to such contract, (iii) for failure to provide service, except in the event of an “act of God” or force majeure, (iv) if we no longer have the economic, technical or operating resources to maintain adequate levels of service, (v) for failure to pay or comply in a timely manner with any penalties imposed by ANEEL following a breach of our concession contract, (vi) for failure to respond to notification by the authorities to regularize service rendering, or (vii) if we are convicted in a final and unappealable decision for tax evasion. In the case of such forfeiture, concessionaires are generally entitled to notification, a right to cure and due process.

In the event of a termination of our concession contract, we would be entitled to receive an amount from the Brazilian government equal to the non-depreciated and non-amortized value of our investment in our assets which revert to the Brazilian government upon termination of our concession contract and which have not been fully recovered by us less any depreciation and special obligations relating to such investment.

We believe that we are in material compliance with our concession contract.

Tariff Structure

All electricity distribution companies in Brazil are subject to extensive regulation of their tariffs. The tariffs that Brazilian electricity distribution companies may charge their consumers are subject to the approval of ANEEL. Our concession contract sets out a price cap tariff mechanism and other tariff arrangements that apply to us. For tariff purposes, our customers are classified according to the voltage level at which we supply electricity. High voltage customers are classified as Group A customers and our remaining customers are classified as Group B customers. Customers are further classified into customer type, including: (i) residential, (ii) low income residential, (iii) rural, (iv) rural electrification cooperative (an entity which buys electricity through the wholesale market and sells it to its members through a private distribution network), (v) irrigation public services (small government irrigation projects), (viii) public illumination and (ix) others. Furthermore, Group A customers are subject to two tariff systems: 1) a conventional tariff system and 2) a time/season tariff system, with Group A customers charged tariffs based on the amount of electricity they consume and the highest level of their electricity demand during a relevant period.

Only one tariff system, the conventional tariff system, applies to Group B customers. Under the conventional tariff system, Group B customer tariffs are based only upon their consumption of electricity. However, even though their actual consumption may be lower, each Group B customer is subject to a minimum monthly charge based on a minimum consumption of 30KWh, 50KWh or 100KWh per month depending on the number of connections supplying the relevant customer's premises.

We are required to apply subsidized or discounted tariffs to certain categories of customers. Low-income residential customers are entitled to electricity at subsidized tariffs. If a low-income residential customer's consumption exceeds 220KWh per month, they become ineligible to receive subsidized tariffs. Customers classified as rural (i.e. most of their electricity consumption is applied in agricultural activities), rural electricity cooperatives and customers who provide water supply, sewage and sanitation services receive a 10.0%, 50.0% and 15.0% discount, respectively, on both their consumption tariff and demand tariff (if any). In 1998, ANEEL approved a proposal by Coelba to reclassify certain low-income residential customers as residential customers.

Our concession contract establishes the circumstances in which our tariffs can be adjusted. Furthermore, we are required to apply to ANEEL for a tariff adjustment annually. This tariff adjustment is carried out pursuant to a formula in our concession contract as set out and described below:

$$IRT = \frac{VPA_1 + VPB_0 \times (IVI \pm X)}{RA_0}$$

- IRT is the adjustment factor to be applied to the previous tariffs in order to establish the new tariffs;
- VPA_1 is defined as our non-manageable costs, including the cost of our electricity purchases and regulatory charges ("Non-manageable Costs"), taking into account the conditions in force at the date of the latest tariff adjustment;
- VPB_0 is defined as the remaining value of our service income after the deduction of Non-manageable Costs and ICMS sales tax, taking into account the conditions in force at the time of the immediately preceding tariff adjustment;
- IVI is the IGPM inflation rate in the period between the month prior to the immediately preceding tariff adjustment and the month prior to the current tariff adjustment;
- X is the efficiency and productivity coefficient described below; and
- RA_0 is defined as our service income, calculated taking into account the tariffs in force at the time of the immediately preceding tariff adjustment but excluding ICMS sales tax.

Under the formula, we are allowed to fully pass through to our customers our cost of electricity purchases and other non-manageable costs as well as inflation increases on our controllable costs. Under the terms of our concession contract, the "X Factor" for the first five annual tariff adjustments will be zero. Thereafter, the value of the "X Factor" will be determined by ANEEL taking into consideration alternatives in our cost structure and our market (including efficiency gains or technological improvements we make), the level of tariffs charged by other electricity distributors, both in Brazil and internationally, and the level of tariffs required to further operating efficiencies and to ensure tariff moderation. ANEEL has not provided any further clarification as to how it intends to determine the "X Factor" nor has it given any indication as to what percentage of any efficiency gains or savings we make should be reflected in the "X Factor." On or prior to the fifth anniversary of the first tariff adjustment of our concession contract, ANEEL will establish a new "X Factor" to apply for the following five annual tariff adjustments. However, ANEEL has not clarified whether the "X Factor" which will apply to each such annual tariff adjustment in such five year period will be the same or whether it will vary from year to year.

The first tariff adjustment under our concession contract took place in April 1998 and resulted in a tariff increase of 3.53% across all our tariff categories. The last readjustment applied to our tariffs was in April 2010

which resulted in an increase of 8.09% across all of our tariff categories. We are also entitled under our concession contract to request an adjustment in our tariffs following a significant alteration in our cost of operation, including any increases in the tariffs which apply to our electricity supplies. In addition, ANEEL may also carry out a tariff adjustment at any time in order to maintain or re-establish the economic or financial balance of the our concession contract or to reflect, or compensate for, any tax or legal charges other than income tax charges.

Insurance

We are required by law to maintain insurance for losses resulting from fire at our various substations and for losses to equipment during transportation. We currently maintain our insurance coverage with Itaú Seguros. However, we do not carry insurance coverage for business interruption risk. We believe that we maintain adequate insurance coverage that is customary in Brazil for the type of business in which we are engaged and which is in compliance with our obligations under our concession contract.

Employees

As of December 31, 2010, our work force consisted of 2,541 full-time employees. Since our privatization in 1997, our workforce has decreased by approximately 22.8%. We do not expect any significant reductions in our work force over the next few years.

We maintain one pension plan for our employees, FAELBA, which is available to all employees. FAELBA is a non-profit private welfare entity, whose objective is the provision of welfare benefits to its employees and has Coelba as its single sponsor. The pension plan is financed by the employees in conjunction with Coelba, in the proportion of one-third and two-thirds, respectively.

Property, Plant & Equipment

Our principal properties consist of our distribution network located in the State of Bahia. Easements guaranteed to us for an undetermined period of time underlie our distribution network. No assurance can be given as to the benefit of any such easements to us or as to the duration thereof. We own our headquarters building. Pursuant to Brazilian law, certain properties and facilities we use to perform our duties under our concession contract cannot be transferred, assigned, pledged sold or encumbered without the consent of ANEEL. See “– Concessions.”

Legal Proceedings

We are a party to certain lawsuits and administrative proceedings before various courts and government agencies arising from the ordinary course of business involving labor disputes, civil liabilities and other matters.

We are not aware of any material actual or pending litigation or other contingencies which have not been adequately provided for in our financial statements as of and for the year ended December 31, 2010 or which would have a material adverse effect on our financial condition or results of operations. See Note 21 of our financial statements for the year ended December 31, 2010 included elsewhere in this offering memorandum for more detailed information.

MANAGEMENT

We are managed by our *Conselho de Administração*, our Board of Directors, and our *Diretoria Executiva*, our board of executive officers. We also have a permanent *Conselho Fiscal*, or Fiscal Council.

Board Of Directors

Our Board of Directors consists of six members elected to one-year terms at our annual shareholder meeting. Our employees are assured the right to elect one director.

According to our bylaws, our Board of Directors is required to meet quarterly in regular session. The Board of Directors met 14 times during 2010, and 11 times during 2009. The Board of Directors is responsible for, among other things, establishing general business policies and strategies, the election and removal of executive officers, oversight of management, monitoring company risks, and the appointment and replacement of external auditors. According to our bylaws, members of the Board of Directors serve two year terms, with re-election permitted. The members of our Board of Directors do not have any conflicts of interest between any of their duties to us and their private interests or other duties.

Set forth below are the names, ages, positions, dates of appointment and brief biographical descriptions of each member of the Board of Directors of Coelba:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Held Position Since</u>
<i>Marco Geovanne Tobias da Silva</i>	44	President of the Board of Directors	2011
<i>Gonzalo Pérez Fernández*</i>	61	Member of the Board of Directors	2010
<i>Gonzalo Gómez Alcantára</i>	51	Member of the Board of Directors	2010
<i>Marcelo Souza Marinho</i>	54	Financial Analyst and Member of the Board of Directors	2010
<i>Marcelo Maia de Azevedo Correa</i>	54	Executive Officer and Member of the Board of Directors	2010
<i>Jose Mauricio Pereira Coelho</i>	43	Member of the Board of Directors	2010

**Indicates the Director also serves on the Board of Directors of our holding company, Neoenergia.*

Marco Geovanne Tobias da Silva. Mr. Tobias da Silva is an economist graduate of the Universidade de São Paulo (USP) and a finance specialist graduate of the Fundação Getulio Vargas (FGV). He serves on the Board of Directors of the following companies: Neoenergia, CELPE, COSERN, Affluent Power Generation, Affluent Power Transmission, Itapebi Generation Energy, NC Energy, Termopernambuco, Baguari I Power Generation, Goiás South, Generation CIII, Bahia PCH I, Bahia PCH II, Bahia PCH III, Neoenergia Investments, Generation Blue Sky and Narandiba SE. He is also a member of the Compensation Committee of Neoenergia, an alternate member of the Audit Committee of Neoenergia and a member of the Board of Directors of the Brazilian Institute of Investor Relations (IBRI).

Gonzalo Pérez Fernández. Mr. Fernández is an industrial engineer and specialist graduate in electric techniques from the Escola Técnica Superior de Ingenheiros Industriais de Madrid and earned a “PDD 91” from the Instituto de Estudos Superiores de Empresa – Universidade de Navarra. Mr. Fernández is the Latin America General Director for Iberdrola S.A. Mr. Fernández is a member of the Boards of Directors of Neoenergia, CELPE, COSERN, Itapebi, Termopernambuco and NC Energia.

Gonzalo Gómez Alcantára. Mr. Alcantára is an engineering graduate of the Universidade Pontificia Camillas (Madrid-Espanã). Mr. Alcantára was a hydroelectric engineer at Hidroelétrica Española, IBERDROLA and IBERDROLA Engenharia e Consultoria. He was also a manager of the department of automation and telecommunication of CELPE. In addition, he has served as manager of assets and commerce of Empresa Elétrica da Guatemala. Mr. Alcantára is currently the Director of Distribution for Neenergia and member of the administrative councils of Coelba, CELPE and COSERN.

Marcelo Souza Marinho. Mr. Marinho is an economics graduate from the Universidade Federal da Bahia – UFBA and a management specialist graduate from the Fundação Getulio Vargas (FGV).

Marcelo Maia de Azevedo Correa. Mr. Azevedo Correa is an engineering graduate of PUC-RJ and a finance specialist graduate of IBMEC. Mr. Correa has served as Neoenergia's President since January 2004.

Jose Mauricio Pereira Coelho. Mr. Coelho is an accounting graduate from Faculdade Unigranrio, and a corporative governance specialist and holds a master's in business administration from the Fundação Getulio Vargas (FGV). Mr. Coelho is currently an executive manager of Banco do Brasil in the insurance, providence and capitalization areas.

Board of Executive Officers

Our management board consists of five members elected for a three-year mandate, with the possibility of re-election at the end of their three year term. The Management Board's membership consists of the following positions: President, Investor Relations and Finance Director, Regulation Director, Human Resources Director and Planning and Control Director. The board of directors is responsible for, among other things, establishing general business policies and strategies, the election and removal of executive officers, oversight of management, monitoring company risks, the appointment and replacement of external auditors and the approval of our annual budget.

Our Board of Directors is subdivided into the following committees: (i) audit; (ii) remuneration and succession; and (iii) financial committee. Our Audit Committee is principally responsible for evaluating, coordinating, and supervising our internal audit functions; identifying and evaluating risks relevant to Neoenergia and its subsidiary and affiliated companies; coordinating and supervising compliance with applicable accounting laws and standards; evaluating the results of internal and external audits; proposing the nomination and selection of internal and external auditors; evaluating and proposing recommendations within the scope of the audit function to the Board of Directors; reviewing and revising economic and financial results and management results for internal or external release; and verifying the adequacy of, and implementation of, internal controls. The Remuneration and Succession Committee is principally responsible for establishing fixed and variable compensation levels for our principal executives. The Financial Committee is principally responsible for coordinating selection of suppliers of financial services with respect to contracts above R\$1.5 million and evaluating and conducting studies, analyses and proposals solicited by the Board of Directors with respect to financial services supplied to Coelba.

Set forth below are the names, ages, positions, dates of appointment and brief biographical descriptions of each member of our management board:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Held Position Since</u>
<i>Moises Afonso Sales Filho</i>	54	President	2009
<i>Erik da Costa Breyer</i>	39	Investor Relations and Finance Director	2009
<i>Solange Maria Pinto Ribeiro</i>	48	Regulation Director	2009
<i>Lady Batista de Moraes</i>	43	Human Resources Director	2009
<i>Paulo Roberto Dutra</i>	43	Planning and Control Director	2009

Moises Afonso Sales Filho. Mr. Filho is the president of our management board and is an electrical engineering graduate of the Universidade Federal da Bahia - UFBA.

Erik da Costa Breyer. Mr. Breyer is the investor relations and finance director of our management board. He holds a law degree from the Universidade Federal Fluminense, a master's in business administration degree from the Fundcao Dom Cabral, and a finance and capital market specialist degree from the Fundação Getúlio Vargas.

Solange Maria Pinto Ribeiro. Ms. Ribeiro is the regulation director of the management board and an electrical engineering graduate of the Universidade Federal de Pernambuco. She holds a masters in electrical engineering degree from PUC-Rio.

Lady Batista de Moraes. Ms. de Moraes is the human resources director of our Management Board. She holds a degree in psychology from the Universidade Católica de Goiás, a human resources management specialist degree from the Fundação Getúlio Vargas and a master's in business administration degree from ESPM.

Paulo Roberto Dutra. Mr. Dutra is the planning and control director of our Management Board. He holds a business administration degree from the Faculdade Cândido Mendes and holds a finance specialist degree from FGV- RJ.

Fiscal Council

Our by-laws provide for a Fiscal Council, elected upon request of our shareholders at a shareholders' meeting. The main responsibilities of the Fiscal Council consist of assessing management activities, reviewing financial statements, and reporting its findings to shareholders.

Shares Owned by Members of our Board of Directors and Board of Executive Officers

The following table indicates the shares owned by each member of our Board of Directors and Board of Executive Officers, as of December 31, 2010:

<u>Member of Board of Directors</u>	<u>Common Shares</u>	<u>Preferred Shares</u>	<u>Total</u>	<u>% of Total Share Capital</u>
<i>Marco Geovanne Tobias da Silva</i>	1	0	1	0.0000005%
<i>Gonzalo Pérez Fernández</i>	1	0	1	0.0000005%
<i>Gonzalo Gómez Alcantára</i>	1	0	1	0.0000005%
<i>Marcelo Souza Marinho</i>	3	0	3	0.0000016%
<i>Marcelo Maia de Azevedo Correa</i>	1	0	1	0.0000005%
<i>Jose Mauricio Pereira Coelho</i>	1	0	1	0.0000005%
<i>Moises Afonso Sales Filho</i>	0	0	0	0.0000000%
<i>Erik da Costa Breyer</i>	0	0	0	0.0000000%
<i>Solange Maria Pinto Ribeiro</i>	0	0	0	0.0000000%
<i>Lady Batista de Moraes</i>	0	0	0	0.0000000%
<i>Paulo Roberto Dutra</i>	37	0	37	0.0000197%

Compensation

For the year ended December 31, 2010, the aggregate compensation, including cash and benefits-in-kind, paid to members of our Board of Directors, our Board of Executive Officers and Fiscal Council was R\$3,625,664.

The table below sets out the overall management compensation for the periods indicated.

	Year ended December 31,		
	2010	2009	2008
Board of Directors	R\$ 84,000	R\$ 70,000	R\$ 94,000
Executive Board	R\$3,417,012	R\$3,326,935	R\$2,918,049
Fiscal Council (<i>Conselho Fiscal</i>)	R\$ 124,652	R\$ 124,891	R\$ 108,000
Total	R\$3,625,664	R\$3,521,826	R\$3,120,049

PRINCIPAL SHAREHOLDERS

Capital Composition

As of December 31, 2010, our capital stock was R\$542.2 million, all of which was fully subscribed and paid for. Our share capital was comprised of 109,304,516 common shares and 78,872,822 preferred shares (approximately 19.5 million type “A” shares and 59.3 million type “B” shares). Our authorized share capital, as of December 31, 2010, was comprised of 188,177 shares (109,305 common shares and 78,872 preferred shares). Each common share entitles the holder to one vote in our shareholder’s meeting. Type B preference shares are identical in all respects to Type A preference shares, except that Type B preference shares are entitled to tag along rights.

Principal Shareholders

The following table sets forth the principal holders of our common and preferred shares as of December 31, 2010:

Shareholders	Common Shares			Preferred shares			Total	%
		%	A	%	B	%		
Neoenergia S.A.	98,122	89.8	7,864	40.2	59,315	100	165,531.0	87.8
Iberdrola Energia S.A.	5,598	5.1	10,394	53.1		0	16,050.2	8.5
Previ	3,318	3.0	994	5.1		0	4,320.1	2.3
Other	2,267	2.1	305	1.6		0	2,575.7	1.4
Total	109,305	100	19,557	100	59,315	100	188,477.0	100

Each common share entitles the holder to one vote at our shareholder’s meeting. Preferred shares of both classes do not carry any voting rights. In addition, (i) holders of Class A preferred shares are entitled to dividends that will be at least 10% higher than the capital represented by Class A preferred shares; (ii) holders of Class B preferred shares are paid dividends only after Class A shareholders receive their entitlement, and such dividends are to be at least 10% higher than those paid to holders of common shares.

We are not aware of any current arrangements the operation of which may, at a subsequent date, result in a change of control transaction.

Neoenergia S.A.

Furthermore, our principal shareholder, Neoenergia, is a consortium comprised of Previ (49%), the pension fund of Banco do Brasil’s employees; Iberdrola (39%), a leading global electricity company; and BB Banco de Investimento S.A. (12%), a state-owned bank and subsidiary of Banco do Brasil S.A. Neoenergia is one of the largest groups operating in the Brazilian electrical sector, with operations spanning the entire electric energy production chain, with businesses in the areas of generation, transmission, distribution and commercialization. In addition to its stake in Coelba, Neoenergia controls COSERN (Companhia Energetica do Rio Grande do Norte) and CELPE (Companhia Energetica de Pernambuco). COSERN and CELPE are energy distribution companies operating primarily in the states of Rio Grande do Norte and Pernambuco, respectively, both of which are in the Northeast of Brazil.

RELATED PARTY TRANSACTIONS

From time to time we engage in a number of transactions with companies that are owned or controlled, directly or indirectly by Neoenergia or shareholders in Neoenergia. Any transactions with related parties have been made consistent with normal business operations using terms and conditions available in the market and are in accordance with the applicable legal standards. Examples of transactions we engage in with companies that are owned or controlled by Neoenergia include electric energy supply contracts, distribution system use agreements, transmission system use agreements, contracts for transmission system connection and property lease contracts. Neoenergia also, from time to time, guarantees a portion of our indebtedness.

See Notes 15 and 29 of our financial statements for the year ended December 31, 2010 included elsewhere in this offering memorandum for more detailed information.

DIVIDENDS AND DIVIDEND POLICY

Amounts Available for Distribution

At each annual shareholders' meeting, our Board of Executive Officers is required to recommend how net profits for the preceding fiscal year are to be allocated. For purposes of Brazilian Corporate Law, net profits are defined as net income after income taxes and social contribution taxes for such fiscal year, net of any accumulated losses from prior fiscal years. In accordance with Brazilian Corporate Law and our by-laws, the amounts available for dividend distribution are the amounts equal to our net profits less any amounts allocated from such net profits to the legal reserve and/or a contingency reserve for anticipated losses.

We are required to maintain a legal reserve, to which we must allocate 5% of net profits for each fiscal year until the amount equals 20% of our capital stock. Brazilian Corporate Law also provides for two additional, discretionary allocations of net profits that are subject to approval by the shareholders at the annual meeting based on the advice of our Board of Directors or Board of Executive Officers. First, a percentage of net profits may be allocated to a contingency reserve for anticipated losses that are deemed probable in future years. Any amount allocated in a prior year must be either reversed in the fiscal year in which the loss was anticipated if that loss does not occur, or written off in the event the anticipated loss occurs. Second, if the mandatory distributable dividend exceeds the realized portion of net profits in a given year, the excess may be allocated to an unrealized revenue reserve. Under Brazilian Corporate Law, realized net profits are defined as the amount of net profits that exceed the net positive result of equity adjustments and profits or revenue from operations with financial results after the end of the next succeeding fiscal year.

Under Brazilian Corporate Law, a company's by-laws may provide for the creation of a discretionary reserve. The by-laws may authorize the allocation of a percentage of a company's net profits to the discretionary reserve, setting forth the purpose, criteria for allocation and maximum amount of the reserve. Under Brazilian corporate law, a company may also allocate a portion of its net profits for discretionary appropriations for an expansion plan and other capital investment projects, the amount of which would be based on a capital budget previously presented by management and approved by the company's shareholders.

The amounts available for distribution may be increased by a reversion of the contingency reserve for anticipated losses recorded in prior years but not realized, or further increased or reduced as a result of the allocations of revenue to or from the unrealized reserve. The amounts available for distribution are determined on the basis of financial statements prepared in accordance with the method prescribed by Brazilian Corporate Law.

The legal reserve is subject to approval by our shareholders at the annual meeting and may be destined for capital increase and absorption of losses. The calculation of net profits and allocations to reserves for any fiscal year is determined on the basis of financial statements prepared in accordance with the method prescribed by Brazilian Corporate Law.

Mandatory Distribution

Brazilian Corporate Law generally requires that the by-laws of each Brazilian corporation specify a minimum percentage of the corporation's amounts available for distribution for each fiscal year that must be distributed to its shareholders as dividends, also known as the mandatory distributable amount. Under our by-laws, the mandatory distributable amount has been fixed at 25% of the amount available for distribution (subject to certain adjustments in accordance with Article 202 of Brazilian Corporate Law), to the extent amounts are available for distribution.

Payment of Dividends

We are required by Brazilian Corporate Law and by our by-laws to hold an annual shareholders' meeting by the end of the fourth month after the end of each fiscal year at which, among other things, the shareholders have

to decide on the payment of an annual dividend. The payment of annual dividends is based on the financial statements prepared for the relevant fiscal year. Under Brazilian Corporate Law, dividends generally are required to be paid within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which the dividend was declared. A shareholder has a three-year period from the dividend payment date to claim dividends (or interest payments as described under "Record of Dividend Payments and Interest Attributed to Shareholders' Equity") in respect of its shares, after which the amount of the unclaimed dividends reverts to us.

Record of Dividend Payments and Interest Attributed to Shareholders' Equity

Brazilian law provides for the distribution to shareholders of interest attributed to shareholders' equity as an alternative form of payment. This interest is calculated by reference to the *Taxa de Juros de Longo Prazo*, or TJLP, as determined by the Central Bank from time to time (the Brazilian Government's long-term interest rate). We may treat these payments as a deductible expense for corporate income tax and social contribution purposes, but the deduction cannot exceed the greater of:

- 50% of net income (after social contribution on profits and before taking such distribution and any deductions for income taxes into account) for the period in respect of which the payment is made; and
- 50% of the sum of retained earnings and profit reserves. Any payment of interest on shareholders' equity to shareholders, whether or not they are Brazilian residents, is subject to Brazilian withholding income tax at the rate of 15% (or 25% if the beneficiary is resident in a tax haven jurisdiction). The amount paid to shareholders as interest attributed to shareholders' equity pursuant to the approval of our Board of Directors, net of any withholding tax, may be included as part of any mandatory distributable amount.

We have been using interest on equity payments on our quarter distributions with payments each semester and annual distributions of dividends.

For 2010, our Board of Directors approved a dividend payment in the amount of R\$712.7 million. For 2009, our Board of Directors approved a dividend payment of R\$629.6 million.

SUDENE Tax Incentive restricts dividend payments

Companies that are residents in the Northeastern Region of Brazil and have infra-structure related activity are granted a tax incentive where a tax deduction is allowed from the income tax due. When this deduction generates a positive effect on the results of operations of a fiscal year, however, the positive effect can only be used to increase the social capital or to absorb accumulated accounting losses. Thus, any eventual profits resulted from this tax incentive cannot be distributed as dividends.

DESCRIPTION OF THE NOTES

The following is a description of certain provisions of the notes offered hereby. The following information does not purport to be a complete description of the notes and is subject and qualified in its entirety by reference to the provisions of the notes and the Indenture (as defined below). The notes and the Indenture, and not this description, control your rights as a noteholder. Capitalized terms used in the following summary and not otherwise defined herein shall have the meanings ascribed to them in the Indenture. Copies of the Indenture may be obtained, upon written request, from the Issuer or The Bank of New York Mellon, as the trustee.

General

Indenture

The notes will be governed by an Indenture (the “Indenture”), to be dated as of April 27, 2011, among the Issuer, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent (the “Trustee”) and calculation agent (the “Calculation Agent”) and The Bank of New York Mellon (Ireland) Limited, as Irish paying agent. The Issuer will issue the notes under the Indenture. The Trustee has the following two principal roles under the Indenture:

- First, the Trustee can enforce the rights of noteholders against the Issuer if it defaults in respect of the notes. There are some limitations on the extent to which the Trustee acts on behalf of the noteholders, as described under “– Remedies Upon Occurrence of an Event of Default” below.
- Second, the Trustee performs administrative duties for the Issuer, such as processing debt service payments and sending notices to noteholders.

Principal, Maturity and Interest

The notes will initially be issued in an aggregate principal amount of R\$400,000,000, which is the amount in *reais* equivalent to U.S.\$253,324,889.17, calculated using the Settlement Rate (as defined below) on April 19, 2011, of R\$1.5790 per one U.S. dollar. The notes will mature on April 27, 2016 (the “Maturity Date”). The principal amount of the notes will be payable in U.S. dollars in full in a single payment upon maturity unless redeemed or repurchased earlier pursuant to the terms of the Indenture. The notes will be issued in fully registered form in denominations of R\$250,000 and integral multiples of R\$1,000 in excess thereof.

The notes will bear interest at a fixed rate of 11.75% *per annum* from the date of issuance until all required amounts due in respect thereof have been paid. Interest on the notes will be paid semi-annually in arrears on April 27 and October 27 of each year (each, an “Interest Payment Date”), commencing on October 27, 2011, to the persons in whose name a note is registered at the close of business, New York City time, on the preceding April 12 or October 12 whether or not a Business Day (each, a “Record Date”), as the case may be. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

The principal of, premium, if any, and interest on the notes will be paid in U.S. dollars, as calculated by the Issuer at the Settlement Rate (as defined below) and notified to the Calculation Agent in writing and then confirmed by the Calculation Agent by translating the *reais* amount into U.S. dollars at the Settlement Rate (as defined below) on the applicable Rate Calculation Date (as defined below).

Ranking

The notes will be general unsecured and unsubordinated obligations of the Issuer, will rank *pari passu* among themselves and will be:

- equal in right of payment to all other existing and future unsecured and unsubordinated debt of the Issuer;

- senior in right of payment to the Issuer's subordinated debt;
- effectively subordinated to certain obligations of the Issuer that benefit from priority of payment under applicable law; and
- effectively subordinated to secured debt of the Issuer to the extent of such security.

As of December 31, 2010, the Issuer had total debt of R\$2,082.1 million (U.S.\$1,249.6 million), of which R\$1,301.7 million (U.S.\$781.2 million) was unsecured debt of the Issuer and R\$780.4 million (U.S.\$468.4 million) was secured debt of the Issuer.

Listing

Application will be made to list the notes on the Irish Stock Exchange for trading on the Global Exchange Market. The Issuer will use commercially reasonable efforts to obtain and maintain such listing; however, listing approval has not been obtained for the notes and the Issuer cannot assure the holders of the notes that the notes will be accepted for listing. If it subsequently becomes impracticable or unduly burdensome to maintain the listing of the notes on the Irish Stock Exchange due to changes in listing requirements occurring subsequent to the Issue Date, the Issuer shall use all reasonable endeavors to procure and maintain an alternative admission to listing, trading and/or quotation for the notes by such other comparable listing authority, exchange or system as it may reasonably decide.

Additional Notes

Subject to the covenants described below, the Issuer may, from time to time and without your consent as a holder of the notes, issue notes under the Indenture having the same terms in all respects as the notes except that interest will accrue on the additional notes from their date of issuance; *provided, however*, that unless such notes are issued under a separate CUSIP, either such additional notes are part of the same "issue" within the meaning of United States Treasury Regulations Section 1.1275-1(f), such additional notes are issued in a qualified reopening within the meaning of United States Treasury Regulations Section 1.1275-2(k), or neither the notes nor such additional notes are issued with original issue discount for U.S. federal income tax purposes. The notes offered hereby and any additional notes will be treated as a single class for all purposes under the indenture and will vote together as one class on all matters with respect to the notes.

Payments of Principal and Interest

Payment of the principal of the notes, together with accrued and unpaid interest thereon, or payment upon redemption prior to maturity, will be made only following the surrender of the notes at the office of the Trustee or any other paying agent.

Payments of interest on a note, other than the last payment of principal and interest or payment in connection with a redemption of the notes prior to maturity, will be made on each payment date to the person in whose name the note is registered at the close of business, New York City time, on the relevant Record Date.

The principal of and interest on the notes will be payable in U.S. dollars, or in such other coin or currency of the United States of America as is legal tender for the payment of public and private debts at the time of payment, as calculated by the Issuer and confirmed by the Calculation Agent by translating the applicable *realis* amount into U.S. dollars at the Settlement Rate (as defined below) on the applicable Rate Calculation Date (as defined below). Payments of principal and interest shall be made by depositing immediately available funds in U.S. dollars into an account maintained by, or on behalf of, the Trustee, acting on behalf of the noteholders, at least one Business Day prior to the relevant payment date. Payments in respect of global notes will be paid by wire transfer of immediately available funds to the account specified by the holders, and payments in respect of certificated notes will be paid by U.S. dollar check drawn on, or, if requested in writing by a holder of at least U.S.\$10.0 million in aggregate principal amount of notes, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.

If any scheduled interest or principal payment date or any date for early redemption of the notes is not a Business Day, the payment will be made on the next Business Day. No interest on the notes will accrue as a result of this delay in payment.

Subject to applicable law, the Trustee and the paying agents will pay to the Issuer upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years. Thereafter, noteholders entitled to these monies must seek payment from the Issuer.

For purposes of all payments of interest, principal or other amounts contemplated herein:

“BRL12” means the Trade Association for the Emerging Markets (“EMTA”) BRL Industry Survey Rate (BRL12), calculated if the R\$Ptax Rate is not available, which is the final Brazilian *real*/U.S. dollar specified rate of U.S. dollars, expressed as the amount of Brazilian *reais* per one U.S. dollar, published on EMTA’s website (which, at the date hereof, is located at <http://www.emta.org>) for the Rate Calculation Date. BRL12 is calculated by EMTA (or a service provider EMTA may select in its sole discretion) using the EMTA BRL Industry Survey Methodology dated as of 1 March 2004, as amended from time to time, pursuant to which EMTA conducts a twice-daily survey of up to 15 Brazilian financial institutions that are active participants in the Brazilian *real*/U.S. dollar spot market, with a required minimum participation of at least 5 financial institutions.

“BRL13” means the EMTA BRL Indicative Survey Rate (BRL13), calculated if the R\$Ptax Rate is not available, which is the final Brazilian *real*/U.S. dollar specified rate of U.S. dollars, expressed as the amount of Brazilian *reais* per one U.S. dollar, published on EMTA’s website (which, at the date hereof, is located at <http://www.emta.org>) for the Rate Calculation Date. BRL13 is calculated by EMTA (or a service provider EMTA may select in its sole discretion) using the EMTA BRL Industry Survey Methodology dated as of 1 March 2004, as amended from time to time, pursuant to which EMTA conducts a survey of up to 30 Brazilian and non-Brazilian financial institutions that are active participants in the Brazilian *real*/U.S. dollar spot market, with a required minimum participation of at least 8 financial institutions.

“Business Day” means a day, other than a Saturday, a Sunday, or a legal holiday or a day on which commercial banks and foreign exchange markets are authorized or obligated to close in the City of New York; *provided, however*, that solely for the purposes of determining the Settlement Rate, “Business Day” means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open, or not authorized to close, in São Paulo, Brazil, and the City of New York.

“Rate Calculation Date” means the third Business Day preceding each Interest Payment Date, redemption date, purchase date or the Maturity Date.

“Settlement Rate” means, for any Rate Calculation Date, the rate determined by the Issuer (and notified to the Calculation Agent in writing, to be confirmed by the Calculation Agent) that is equal to the Brazilian *real*/U.S. dollar commercial rate, expressed as the amount of Brazilian *reais* per one U.S. dollar as reported by *Banco Central do Brasil* (the “Central Bank”) on the SISBACEN Data System and on its website (which, at the date hereof, is located at <http://bcb.gov.br>) under transaction code PTAX800 (“Consultas de Câmbio” or “Exchange Rate Enquiry”), Option 5, “Venda” (“Cotações para Contabilidade” or “Rates for Accounting Purposes”) (or any successor screen established by the Central Bank), for such Rate Calculation Date (the “R\$ Ptax Rate”); *provided, however*, that if the R\$ Ptax Rate scheduled to be reported on any Rate Calculation Date is not reported by the Central Bank on such Rate Calculation Date, then the Settlement Rate will be BRL12 (as notified by the Issuer to the Calculation Agent in writing, to be confirmed by the Calculation Agent); in the event BRL12 is unavailable, then the Settlement Rate will be BRL13 (as notified by the Issuer to the Calculation Agent in writing, to be confirmed by the Calculation Agent). If the Settlement Rate cannot be calculated as described above, the Issuer will determine the Settlement Rate by reference to the quotations received from three leading Brazilian banks as shall be selected by the Issuer in its sole discretion (collectively, the “Reference Banks”). The Issuer will notify the Calculation Agent in writing of each such quotation and the Settlement Rate, and the

Settlement Rate shall be confirmed by the Calculation Agent using the quotations provided by the Issuer. The quotations will be determined in each case for such Rate Calculation Date as soon as practicable after (i) the Issuer determines that the Settlement Rate cannot be calculated as described above for such Rate Calculation Date and (ii) the identities of the Reference Banks are provided by the Issuer to the Calculation Agent by written notice. The Issuer will ask each of the Reference Banks for quotations for the offered Brazilian *real*/U.S. dollar exchange rate for the sale of U.S. dollars. The Settlement Rate will be the average of the Brazilian *real*/U.S. dollar exchange rates obtained from the Reference Banks. If only two quotations are obtained, the Settlement Rate will then be the average of the Brazilian *real*/U.S. dollar exchange rates obtained from the Reference Banks. If only one quotation is obtained, the Settlement Rate will be that quotation. Where no such quotations are obtained from the Reference Banks, if the Issuer determines in its sole discretion that there are one or two other suitable replacement banks active in the Brazilian *real*/U.S. dollar market, the Issuer shall ask such banks to provide such quotations to the Issuer, which such quotations the Issuer shall deliver to the Calculation Agent as soon as practicable after the identities of such replacement banks are provided by the Issuer to the Calculation Agent by written notice, and the Issuer shall use such quotations as it receives to determine the Settlement Rate (taking an average rate, as set forth above, if applicable), such Settlement Rate to be notified to the Calculation Agent in writing, to be confirmed by the Calculation Agent using the quotations provided by the Issuer; *provided, however*, that if the Reference Banks and any such replacement banks are not providing quotations in the manner described above, the Settlement Rate will be the Settlement Rate determined as of the preceding Rate Calculation Date.

Absence of Restrictive Covenants

The Indenture will not contain any covenants restricting the ability of the Issuer to (i) pay dividends or make investments, (ii) dispose of assets, (iii) issue and sell capital stock, (iv) enter into transactions with affiliates, or (v) engage in business other than its present business.

Certain Covenants

The following covenants, among others, will, so long as any of the notes remain outstanding apply to, as the case may be, the Issuer and its Subsidiaries:

Payment Obligations under the Notes and the Indenture

The Issuer shall duly and punctually pay all amounts owed by it under the terms of the notes and the Indenture.

Limitation on Debt

(a) The Issuer will not, and will not permit any of its Subsidiaries to, Incur any Debt; *provided* that the Issuer or any of its Subsidiaries may Incur Debt if, on the date of the Incurrence, after giving pro forma effect to the Incurrence and the receipt and the application of the proceeds therefrom, the Net Debt to EBITDA Ratio shall not exceed 3.0 to 1.0.

(b) Notwithstanding the foregoing, the Issuer and, to the extent provided below, any Subsidiary may Incur the following (“Permitted Debt”):

(1) Debt of the Issuer or a Subsidiary so long as such Debt is owed to the Issuer or a Subsidiary and which, if the obligor is the Issuer, is subordinated in right of payment to the notes;

(2) Debt of the Issuer pursuant to the notes (other than relating to additional notes);

(3) Debt of the Issuer or a Subsidiary (“Permitted Refinancing Debt”) constituting an extension or renewal of, replacement of, or substitution for, or issued in exchange for, or the net proceeds of which are used to repay, redeem, repurchase, refinance or refund, including by way of defeasance (all of the above, for

purposes of this clause, “refinance”) then outstanding Debt in an amount not to exceed the principal amount of the Debt so refinanced, plus premiums, fees and expenses; *provided* that:

(A) in case the Debt to be refinanced is subordinated in right of payment to the notes, the new Debt, by its terms or by the terms of any agreement or instrument pursuant to which it is outstanding, is expressly made subordinate in right of payment to the notes at least to the extent that the Debt to be refinanced is subordinated to the notes,

(B) the new Debt does not have a Stated Maturity prior to (i) the Stated Maturity of the Debt to be refinanced, and the Average Life of the new Debt is at least equal to the remaining Average Life of the Debt to be refinanced, or (ii) the 91st day after the Stated Maturity of the notes and does not have any scheduled principal payments prior to such date; and

(C) Debt Incurred pursuant to clauses (1), (4), (5), (9), (10), (11) and (12) may not be refinanced pursuant to this clause;

(4) Hedging Agreements of the Issuer or any Subsidiary entered into in the ordinary course of business or directly related to Debt permitted to be Incurred by the Issuer or any Subsidiary pursuant to the indenture, and in each case not for speculative purposes;

(5) Debt of the Issuer or any Subsidiary in respect of performance bonds, reimbursement obligations with respect to letters of credit, bankers’ acceptances, completion guarantees and surety or appeal bonds provided by the Issuer or any of its Subsidiaries in the ordinary course of their business or Debt with respect to reimbursement type obligations regarding workers’ compensation claims;

(6) Debt of the Issuer or any Subsidiary outstanding on the Issue Date;

(7) Acquired Debt;

(8) Debt of the Issuer or any Subsidiary arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, *provided, however*, that such Debt is extinguished within five Business Days of its Incurrence;

(9) Debt of the Issuer or any Subsidiary, including but not limited to obligations under Capital Leases, mortgage financings or purchase money obligations, incurred for the purpose of financing (whether prior to or within 365 days after) all or any part of the purchase price or cost of construction or improvement of property or assets, whether through direct purchase of assets or the Capital Stock of any Person owning those assets, or Incurred to refinance any such purchase price or cost of construction or improvement, and refinancings thereof, in an aggregate amount not to exceed at any one time outstanding U.S.\$50 million;

(10) Guarantees by the Issuer or any Subsidiary of Debt of the Issuer or any Subsidiary Incurred under any other clause of this covenant; *provided* that if such Debt is subordinated in right of payment to the notes, any such guarantee with respect to such Debt shall be subordinated in right of payment to the notes;

(11) Debt of the Issuer or any Subsidiary to the extent that the net proceeds thereof are promptly deposited to defease or to satisfy and discharge the notes in accordance with the indenture; and

(12) Debt of the Issuer or any Subsidiary Incurred on or after the Issue Date not otherwise permitted in an aggregate principal amount not to exceed at any one time outstanding the greater of (i) U.S.\$50 million and (ii) 2.75% of the Issuer’s Consolidated Net Tangible Assets.

(c) Notwithstanding anything to the contrary in this covenant, the maximum amount of Debt that the Issuer and its Subsidiaries may Incur pursuant to this covenant shall not be deemed to be exceeded, with respect to any outstanding Debt, solely as a result of fluctuations in the exchange rate of currencies.

(d) For purposes of determining compliance with this covenant, in the event that any proposed Debt meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (10) of paragraph (b) above, or is entitled to be Incurred pursuant to paragraph (a) above, the Issuer and its Subsidiaries will be permitted to classify such item of Debt at the time of its Incurrence in any manner that complies with this covenant or to later reclassify all or a portion of such item of Debt.

(e) The Issuer may not Incur any Debt that is subordinate in right of payment to other Debt of the Issuer unless such Debt is also subordinate in right of payment to the notes on substantially identical terms.

(f) The accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Debt of the same instrument or the payment of regularly scheduled dividends on Disqualified Stock in the form of additional Disqualified Stock with the same terms will not be deemed to be an Incurrence of Debt for purposes of this covenant; *provided* that any such outstanding additional Debt or Disqualified Stock paid in respect of Debt Incurred pursuant to any provision of clause (b) above will be counted as Debt outstanding for purposes of any future Incurrence of Debt pursuant to clause (a) above.

(g) For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Debt, the U.S. dollar-equivalent principal amount of Debt denominated in a non-U.S. currency will be calculated based on the relevant currency exchange rate in effect on the date such Debt was Incurred or, in the case of revolving credit Debt, first committed; *provided* that if such Debt is Incurred to refinance other Debt denominated in a non-U.S. currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction will be deemed not to have been exceeded so long as the principal amount of such Permitted Refinancing Debt does not exceed the principal amount of such Debt being refinanced. The principal amount of any Debt Incurred to refinance other Debt, if Incurred in a different currency from the Debt being refinanced, will be calculated based on the currency exchange rate applicable to the currencies in which such Permitted Refinancing Debt is denominated that is in effect on the date of such refinancing.

Maintenance of corporate existence

The Issuer will, and will cause each of its Material Subsidiaries (as defined below) to, maintain in effect its corporate existence and all registrations necessary therefor and take all actions to maintain all rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its businesses, activities or operations, *provided* that this covenant shall not require the Issuer or any of its Material Subsidiaries to maintain any such right, privilege, title to property, franchise or the like or require the Issuer to preserve the corporate existence of any of its Material Subsidiaries, if the failure to do so would not have a material adverse effect on the Issuer and its Subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders or is not otherwise prohibited by the Indenture.

Maintenance of Government Authorizations

The Issuer will, and the Issuer will cause its Subsidiaries to, duly obtain and maintain in full force and effect all consents, concessions, authorizations, approvals or licenses of any government or governmental agency or authority under the laws of Brazil or any other jurisdiction having jurisdiction over the Issuer or any of its Subsidiaries, as the case may be, necessary in all cases for the Issuer or any of its Subsidiaries, as the case may be, to operate its business and to comply with the Indenture and make payments under the notes, except where the failure to do so would not have a material adverse effect on the Issuer and its Subsidiaries taken as a whole.

Maintenance of Office or Agency

The Issuer will maintain an office or agency in the Borough of Manhattan, the City of New York, where notices to and demands upon the Issuer in respect of the Indenture and the notes may be served. Initially this office will be at the offices of CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011, and the Issuer will agree not to change the designation of such office without prior written notice to the Trustee and designation of a replacement office.

Ranking

The notes will be unsecured and unsubordinated obligations of the Issuer and the Issuer will ensure that the notes will rank at least *pari passu* with all other existing and future Debt of the Issuer (other than obligations preferred by statute or by operation of law); except to the extent any such other Debt ranks above the notes by reason of Liens permitted under the covenant described under “– Limitation on Liens.”

Notice of Certain Events

The Issuer will give written notice to the Trustee, as soon as is practicable and in any event within ten calendar days after the Issuer becomes aware, or should reasonably become aware, of the occurrence of any event of default or an event which with the passage of time or notice may become an event of default (a “default”), accompanied by an Officers’ Certificate (as defined in the Indenture) of the Issuer setting forth the details of such event of default or default and stating what action the Issuer proposes to take with respect thereto.

Limitation on Consolidation, Merger, Sale or Conveyance

Other than as provided below, the Issuer will not, in one or a series of transactions, consolidate or amalgamate with or merge into any Person or convey, lease or transfer all or substantially all of its assets (determined on a consolidated basis for the Issuer and its Subsidiaries) to any Person or permit any Person to merge with or into it unless:

- (a) the Issuer is the continuing entity, or the Person formed by such consolidation or into which the Issuer is merged or that acquired or leased such property or assets of the Issuer (the “Successor Company”) will be a company organized and validly existing under the laws of the Federative Republic of Brazil or any political subdivision thereof, the United States of America or any state thereof or the District of Columbia or any other country member of the Organization for Economic Co-operation and Development (OECD) and shall assume by a supplemental indenture (in the form satisfactory to the Trustee) all of the Issuer’s obligations under the notes and the Indenture;
- (b) immediately after giving effect to the transaction, no event of default or default has occurred and is continuing; and
- (c) the Issuer or the Successor Company, as applicable, has delivered to the Trustee an Officers’ Certificate and an opinion of counsel, each stating that all conditions precedent required under the Indenture relating to such transaction and the supplemental indenture, if applicable, have been satisfied.

Upon the consummation of any transaction effected in accordance with these provisions, if the Issuer is not the continuing Person, the Successor Company will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Indenture and the notes with the same effect as if such Successor Company had been named as the Issuer in the Indenture. Upon such substitution, the Issuer will be released from its obligations under the Indenture and the notes.

Limitation on Liens

The Issuer will not, and will not permit any of its Subsidiaries to, issue, be liable in respect of, assume or guarantee any Debt, if that Debt is secured by a Lien upon any property of any such Person now owned or hereafter acquired, unless, together with the issuance, assumption or guarantee of such Debt, the notes shall be secured equally and ratably with (or prior to) such Debt for so long as such Debt is so secured.

This restriction does not apply to:

- (a) any Lien in existence on the date of the Indenture;
- (b) any Lien on any property or assets (including Capital Stock of any Person) acquired, constructed or improved by the Issuer or any of its Subsidiaries after the date of the Indenture, which is created, incurred or assumed contemporaneously with, or within 12 months after, that acquisition (or in the case

of any such property constructed or improved, after the completion or commencement of commercial operation of such property, whichever is later) to secure or provide for the payment of any part of the purchase price of such property or the costs of that construction or improvement (including costs such as escalation, interest during construction and finance costs); *provided* that in the case of any such construction or improvement the Lien shall not apply to any other property owned by the Issuer or any of its Subsidiaries, other than any unimproved real property on which the property so constructed, or the improvement, is located;

- (c) easements, rights-of-way and other encumbrances (“real property encumbrances”) on title to real property that do not render title to the property encumbered thereby unmarketable, materially reduce the value thereof or materially adversely affect the use of such property for its intended purposes either individually or in the aggregate when taken together with all such real property encumbrances in existence at such time;
- (d) any Lien on any property or assets existing at the time of its acquisition and which is not created as a result of or in connection with or in anticipation of that acquisition (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such property);
- (e) any Lien on any property or assets acquired from a corporation or any other Person which is merged with or into the Issuer or its Subsidiaries, or any Lien existing on property of a corporation or any other Person which existed at the time such corporation becomes a Subsidiary of the Issuer and, in either case, which is not created as a result of or in connection with or in anticipation of any such transaction (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such corporation);
- (f) any Lien which secures only Debt owing by any of the Issuer’s Subsidiaries, to one or more of the Issuer’s Subsidiaries or to the Issuer and one or more of the Issuer’s Subsidiaries;
- (g) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing paragraphs (a) through (f) inclusive; *provided* that the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured plus any premiums, fees and expenses in connection with such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property);
- (h) any Lien arising by operation of law (including a decision by a court) in the ordinary course of business;
- (i) any Lien securing Hedging Agreements or other similar transactions entered into in the ordinary course of business;
- (j) any Liens granted to secure borrowings from, directly or indirectly, (a) Banco Nacional de Desenvolvimento Econômico e Social – BNDES (including loans from *Financiadora de Estudos e Projectos – FINEP*), or any other Brazilian governmental development bank or credit agency (including, for the avoidance of doubt, Banco do Nordeste do Brasil S.A. – BNB), (b) Centrais Elétricas Brasileiras – Eletrobras or (c) any international or multilateral development bank or government-sponsored agency, export-import bank or official export-import credit insurer;
- (k) pledges or deposits in connection with worker’s compensation laws, unemployment insurance laws or similar legislation or pursuant to any requirement of the Brazilian pensions regulator (the *Secretaria de Previdência Complementar*) or any successor of it, or good faith deposits, letters of credit and performance, surety, appeal or similar bonds in connection with bids, tenders, contracts (other than for payment of Debt) or leases to which the Issuer or any Subsidiary is a party, or deposits for the payment of rent, in each case incurred in the ordinary course of business; and
- (l) any Lien of the Issuer or any of its Subsidiaries that does not fall within paragraphs (a) through (k) above and that secures an aggregate amount of Debt which, when aggregated with then outstanding

Debt secured by all other Liens of the Issuer and its Subsidiaries pursuant to this paragraph (l) (together with any Sale and Lease-Back Transaction (as defined below) that would otherwise be prohibited by the provisions of the Indenture described below under “– Limitations on Sale and Lease-Back Transactions”) does not exceed 15% of Consolidated Net Tangible Assets.

Limitations on Sale and Lease-Back Transactions

The Issuer will not, and will not permit any of its Subsidiaries to, enter into any Sale and Lease-Back Transaction with respect to any property of such Person, unless either:

- (a) the Issuer or that Subsidiary would be entitled pursuant to the provisions of the Indenture described above under “– Limitation on Liens” (including any exception to the restrictions set forth therein) to issue, assume or guarantee Debt secured by a Lien on any such property without equally and ratably securing the notes, or
- (b) the Issuer or that Subsidiary shall apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value of the property so leased, to the retirement, within 12 months after the effective date of the Sale and Lease-Back Transaction, of any of the Issuer’s Debt ranking at least *pari passu* with the notes and owing to a Person other than the Issuer or any of its Subsidiaries or to the construction or improvement of real property or personal property used by the Issuer or any of its Subsidiaries in the ordinary course of business.

These restrictions will not apply to:

- (1) transactions providing for a lease term, including any renewal, of not more than three years; and
- (2) transactions between the Issuer and any of its Subsidiaries or between the Issuer’s Subsidiaries.

Provision of Financial Statements and Reports

The Issuer shall provide the Trustee and, upon request, to the holders of the notes:

- (a) within 120 days following the end of each fiscal year of the Issuer after the Issue Date, the annual audited financial statements (including the notes thereto) in a form substantially similar to the financial statements included in this offering memorandum prepared in accordance with IFRS and presented in the English language and a report thereon by the Issuer’s certified independent public accountants; and
- (b) within 60 days following the end of the first three fiscal quarters in each fiscal year of the Issuer beginning with the quarter ending after the Issue Date, all quarterly unaudited financial statements (including the notes thereto), prepared in accordance with IFRS and presented in the English language or financial statements meeting the requirements of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*) on the Issue Date, accompanied by a statement of “limited review” (*revisão limitada*) by internationally recognized public accountants selected by the Company, which limited review shall be based upon a review made in accordance with the specific applicable rules issued by the Instituto Brasileiro de Contadores – IBRACON (Brazilian Accountants Institute) and the Conselho Federal de Contabilidade (Federal Accounting Counsel).

In addition, the Issuer will furnish to any noteholder holding an interest in a restricted global note, or to any prospective purchaser designated by such noteholder, upon request of such noteholder, financial and other information described in paragraph (d)(4) of Rule 144A with respect to the Issuer to the extent required in order to permit such noteholder to comply with Rule 144A with respect to any resale of its note, unless during that time, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act and no such information about the Issuer is otherwise required pursuant to Rule 144A.

For so long as the notes are listed on the Global Exchange Market of the Irish Stock Exchange and the rules of such exchange so require, the above information will be made available at the specified offices of each paying agent.

Appointment to Fill a Vacancy in the Office of the Trustee

The Issuer, whenever necessary to avoid or fill a vacancy in the office of the Trustee, will appoint in the manner set forth in the Indenture, a successor Trustee, so that there shall at all times be a trustee with respect to the notes.

Payment of Additional Amounts

Any and all payments of principal, premium, if any, and interest in respect of the notes shall be made without withholding or deduction for any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Brazil or any other jurisdiction or political subdivision thereof in which the Issuer is organized or is a resident for tax purposes having power to tax or by the jurisdictions in which any paying agents appointed by the Issuer are organized or the location where payment is made, or any political subdivision or any authority thereof or therein having power to tax (a “Relevant Jurisdiction”), unless such withholding or deduction is required by law. In the event that any such withholding or deduction is required, the Issuer shall pay such additional amounts (“Additional Amounts”), as will result in the receipt by the noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such Additional Amounts shall be payable in respect of any note:

- (a) to the extent that such taxes in respect of such note would not have been imposed but for the existence of any current or former connection of the noteholder with the Relevant Jurisdiction other than the mere holding of such note or the receipt of payments thereon or enforcement of rights thereunder;
- (b) in respect of any estate, inheritance, gift, sales, transfer or personal property taxes imposed with respect to such notes, except as otherwise provided in the Indenture;
- (c) to the extent that such holder would not be liable or subject to such withholding or deduction of taxes but for the failure to make a valid declaration of non-residence or other similar claim for exemption if:
 - (i) the making of such declaration or claim is required or imposed by statute, treaty, regulation, ruling or administrative practice of the relevant taxing authority as a precondition to an exemption from, or reduction in, the relevant taxes; and
 - (ii) at least 60 days prior to the first payment date with respect to which the Issuer shall apply this clause (c), the Issuer has notified the holders of notes in writing that they shall be required to provide such declaration or claim; or
- (d) where (in the case of a payment of principal or interest on redemption) the relevant note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such Additional Amounts if it had surrendered the relevant note on the last day of such period of 30 days.

“Relevant Date” means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in New York City by the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the noteholders.

Any reference to principal or interest shall be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under this section or under “– General – Payments of Principal and Interest” above.

Redemption and Repurchase

The notes will not be redeemable prior to maturity, except as described below.

Tax Redemption

The notes may be redeemed at the option of the Issuer in whole, but not in part, at 100% of their principal amount plus accrued and unpaid interest and Additional Amounts, if any, to but excluding the redemption date, at any time upon giving not less than 30 nor more than 60 days' written notice to the noteholders (which notice shall be irrevocable) if the Issuer certifies in writing to the Trustee that the Issuer has or will become obliged to pay Additional Amounts reflecting a withholding tax rate in excess of 15% (or at a rate of 25% in case the holder of the notes is resident in a tax haven jurisdiction, i.e., countries which do not impose any income tax or which impose it at a minimum rate lower than 20% or where the laws impose restrictions on the disclosure of ownership composition or securities ownership) as provided or referred to under "– Certain Covenants – Payment of Additional Amounts" above as a result of any change in, or amendment to, the laws or regulations of Brazil or any political subdivision or any authority thereof or therein having power to tax, or any change in the official application or interpretation of such laws or regulations (including a determination by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date of the notes and, in any such case, such obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided* that no such notice of redemption shall be given to redeem the notes earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the notes were then due. Prior to the giving of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee:

- (1) an Officers' Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (2) an opinion of independent legal advisors of recognized standing, in form and substance satisfactory to the Trustee, to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

The Trustee shall be entitled to accept such Officers' Certificate and opinion as sufficient evidence of the satisfaction of the circumstances, as the case may be, set out in paragraph (1) or (2) above, in which event it shall be conclusive and binding on the noteholders. Upon the expiry of any such notice as is referred to in this paragraph, the Issuer shall be bound to redeem the notes in accordance with this paragraph.

In any redemption pursuant to the foregoing, the Issuer shall pay the paying agent on the Business Day prior to the date fixed for redemption an amount in U.S. dollars, as calculated by us and confirmed by the Calculation Agent by translating the *reais* amount into U.S. dollars at the Settlement Rate on the applicable Rate Calculation Date, equal to the sum of (i) the then outstanding principal amount of the notes, (ii) all unpaid interest accrued to the date fixed for redemption and (iii) all other amounts owed to noteholders under the terms of the Indenture or the notes. No such redemption shall be effective unless and until the Trustee receives the amount payable upon redemption on the payment date from the paying agent.

Repurchase of the Notes upon a Change of Control

No later than 30 days following a Change of Control that results in a Ratings Decline, the Issuer will make an Offer to Purchase all outstanding notes at a purchase price in U.S. dollars, as calculated by the Issuer and confirmed by the Calculation Agent by translating the *reais* amount into U.S. dollars at the Settlement Rate on the applicable Rate Calculation Date, equal to 101% of the principal amount plus accrued but unpaid interest to the date of purchase and Additional Amounts, if any.

An "Offer to Purchase" must be made by written offer, which will specify the principal amount of notes subject to the offer and the purchase price. The offer must specify an expiration date (the "Expiration Date") not

less than 30 days or more than 60 days after the date of the offer and a settlement date for purchase (the “Purchase Date”) not more than five Business Days after the Expiration Date. The offer must include information which the Issuer believes will enable the holders to make an informed decision with respect to the Offer to Purchase. The offer will also contain instructions and materials necessary to enable holders to tender notes pursuant to the offer. The Issuer will comply with Rule 14e-1 under the Exchange Act (to the extent applicable) and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

A noteholder may tender all or any portion of its notes pursuant to an Offer to Purchase, subject to the requirement that any portion of a note tendered must be in a multiple of R\$1,000 principal amount and that the minimum tender of any noteholder must be no less than R\$250,000. No such purchase in part shall reduce the outstanding principal amount of the notes held by any holder to below R\$250,000. Noteholders shall be entitled to withdraw notes tendered up to the close of business on the Expiration Date. On the Purchase Date, the purchase price will become due and payable on each note accepted for purchase pursuant to the Offer to Purchase, and interest on the notes purchased will cease to accrue on and after the Purchase Date provided that payment is made available on that date.

The Issuer will not be required to make an Offer to Purchase upon a Change of Control that results in a Ratings Decline if (1) a third party makes the Offer to Purchase in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Issuer and purchases all notes properly tendered and not withdrawn under the Offer to Purchase or (2) notice of redemption for all outstanding notes has been given pursuant to the Indenture as described above under the caption “—Redemption and Repurchase,” unless and until there is a default in payment of the applicable redemption price.

Notwithstanding anything to the contrary contained herein, an Offer to Purchase may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Offer to Purchase is made.

The Issuer agrees to obtain, in a timely manner and prior to making any Offer to Purchase, all necessary consents and approvals from all appropriate Brazilian and other governmental authorities or agencies having jurisdiction over it and the Offer to Purchase for the remittance of funds outside of Brazil.

The Issuer may incur indebtedness in the future that may provide that a change of control (as defined herein or defined differently) is a default or may require that such instruments be repurchased by the Issuer upon a change of control. Moreover, the exercise by the noteholders of their right to require the Issuer to purchase the notes could cause a default under other indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Issuer. In addition, any remittance of funds outside of Brazil to noteholders or the Trustee may require the consent of the Central Bank, which may not be granted. The Issuer’s ability to pay cash to the noteholders following the occurrence of a change of control may be limited by the Issuer’s then existing financial resources. The Issuer cannot assure you that sufficient funds will be available when necessary to make the required purchase of the notes.

Cancellation

Any notes redeemed by the Issuer will be promptly cancelled and may not be reissued or resold.

Purchases of Notes by the Issuer or Any of its Subsidiaries or Affiliates

The Issuer or any of its Subsidiaries or affiliates may at any time purchase any notes in the open market or otherwise at any price; provided that, in determining whether noteholders holding any requisite principal amount of notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture,

notes owned by the Issuer or any of its Subsidiaries or affiliates shall be deemed not outstanding for purposes thereof. Any notes that are purchased by the Issuer or any of its Subsidiaries in the open market or otherwise may be cancelled, held or resold by the Issuer or any Subsidiary as the Issuer or any Subsidiary may determine, provided that any such resales are conducted in compliance with all applicable securities laws.

Events of Default

The following events will each be an “event of default” under the terms of the Indenture:

- (a) The Issuer defaults in the payment of the principal or any related Additional Amounts, if any, of any note when the same becomes due and payable at maturity, upon acceleration or redemption, or otherwise;
- (b) The Issuer defaults in the payment of interest or any related Additional Amounts, if any, on any note when the same becomes due and payable, and the default continues for a period of 30 calendar days;
- (c) The Issuer fails to comply with the covenant described under “– Certain Covenants – Limitation on Consolidation, Merger, Sale or Conveyance”;
- (d) The Issuer shall fail to perform, observe or comply with any other covenant or agreement contained in the notes or Indenture and such failure continues for a period of 60 calendar days after written notice to the Issuer by the Trustee acting at the written direction of holders of 25% or more in aggregate principal amount of the notes, or to the Issuer and the Trustee by the holders of 25% or more in aggregate principal amount of the notes;
- (e) (i) The acceleration of any Debt of the Issuer or any of its Material Subsidiaries by reason of default, unless such acceleration is at the option of the Issuer or any such Material Subsidiary, as the case may be, or (ii) the Issuer or any of its Material Subsidiaries fails to pay any amount in respect of principal, interest or other amounts due in respect of any Debt on the date required for such payment (in each case after giving effect to any applicable grace period); *provided, however*, that the aggregate amount of any such Debt falling within (i) above and any relevant payments falling within (ii) above (as to which the time for payment has not been extended by the relevant obligees) equals or exceeds U.S.\$30 million (or its equivalent in another currency);
- (f) One or more final and nonappealable judgments or final decrees is entered against the Issuer or any of its Subsidiaries involving an aggregate liability (not yet paid or reimbursed by insurance) of U.S.\$30 million or more (or its equivalent in another currency), and all such judgments or decrees shall not have been vacated, discharged or stayed within 180 calendar days after the applicable judgment or decree is entered;
- (g) The Issuer or any of its Material Subsidiaries shall commence a voluntary case or other proceeding seeking liquidation, judicial or extrajudicial reorganization or other relief with respect to itself or its Debt under any bankruptcy, insolvency or other similar law now or hereafter in effect, or seek the appointment of a trustee, receiver, judicial administrator (*administrador judicial*), liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment or conveyance for the benefit of creditors;
- (h) A court of competent jurisdiction enters an order or decree against the Issuer or any of its Material Subsidiaries for (i) liquidation, reorganization or other relief with respect to it or its Debt under any bankruptcy, insolvency or other similar law now or hereafter in effect or (ii) the appointment of a trustee, receiver, judicial administrator (*administrador judicial*), liquidator, custodian or other similar official of it or any substantial part of its property; *provided* that such order or decree shall remain undismissed and unstayed for a period of 90 calendar days;

- (i) Any event occurs that under the laws of Brazil or any political subdivision thereof has substantially the same effect as any of the events referred to in any of paragraphs (g) or (h);
- (j) The Issuer denies or disaffirms its obligations under the notes or the Indenture; or
- (k) All or substantially all of the assets of the Issuer or any of its Material Subsidiaries shall be condemned, seized or otherwise appropriated, or custody of such assets shall be assumed by any governmental authority or court or any other Person purporting to act under the authority of the government of any jurisdiction, or the Issuer or any of its Material Subsidiaries shall be prevented from exercising normal control over all or substantially all of their assets for a period of 60 consecutive days or longer.

Remedies Upon Occurrence of an Event of Default

If an event of default occurs, and is continuing, the Trustee shall, upon the request of noteholders holding not less than 25% in principal amount of the notes then outstanding, by written notice to the Issuer (and to the Trustee if given by noteholders), declare the principal amount of all of the notes and all accrued interest thereon immediately due and payable; *provided* that if an event of default described in paragraphs (g), (h), or (i) above occurs and is continuing, then and in each and every such case, the principal amount of all of the notes and all accrued interest thereon shall, without any notice to the Issuer or any other act by the Trustee or any noteholder, become and be accelerated and immediately due and payable. Upon any such declaration of acceleration, the principal of the notes so accelerated and the interest accrued thereon and all other amounts payable with respect to the notes shall be immediately due and payable. If the event of default or events of default giving rise to any such declaration of acceleration shall be cured following such declaration, such declaration may be rescinded by noteholders holding a majority of the notes then outstanding.

The noteholders holding at least a majority of the aggregate principal amount of the outstanding notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, or that the Trustee determines in good faith may involve the Trustee in personal liability, or for which the Trustee reasonably believes it will not be adequately indemnified against the costs, expenses or liabilities, which might be incurred, or that may be unduly prejudicial to the rights of noteholders not taking part in such direction, and the Trustee may take any other action it deems proper that is not inconsistent with any such direction received from noteholders. A noteholder may not pursue any remedy with respect to the Indenture or the notes directly against the Issuer (without the Trustee) unless:

- (a) the noteholder gives the Trustee written notice of a continuing event of default;
- (b) noteholders holding not less than 25% in aggregate principal amount of outstanding notes make a written request to the Trustee to pursue the remedy;
- (c) such noteholder or noteholders offer the Trustee adequate security and indemnity satisfactory to the Trustee against any costs, liability or expense;
- (d) the Trustee does not comply with the request within 60 calendar days after receipt of the request and the offer of indemnity; and
- (e) during such 60-calendar-day period, noteholders holding a majority in aggregate principal amount of the outstanding notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any noteholder to receive payment of the principal of, premium, if any, interest on or Additional Amounts related to such note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the notes, which right shall not be impaired or affected without the consent of such noteholder.

Modification of the Indenture

The Issuer and the Trustee may, without the consent of the noteholders, amend, waive or supplement the Indenture for certain specific purposes, including, among other things, curing ambiguities, defects or inconsistencies, to conform the Indenture to this “Description of the Notes” or making any other provisions with respect to matters or questions arising under the Indenture or the notes or making any other change that will not adversely affect the interest of the noteholders.

In addition, with certain exceptions, the Indenture may be modified by the Issuer and the Trustee with the consent of the holders of a majority of the aggregate principal amount of the notes then outstanding. However, without the consent of each noteholder affected, no modification may (with respect to any notes held by non-consenting holders):

- (a) change the maturity of any payment of principal of or any installment of interest on any note;
- (b) reduce the principal amount or the rate of interest, or change the method of computing the amount of principal or interest payable on any date;
- (c) change any place of payment where the principal of or interest on the notes is payable;
- (d) change the coin or currency in which the principal of or interest on the notes is payable;
- (e) impair the right of the noteholders to institute suit for the enforcement of any payment on or after the date due;
- (f) reduce the percentage in principal amount of the outstanding notes, the consent of whose noteholders is required for any modification or the consent of whose noteholders is required for any waiver of compliance with certain provisions of the Indenture or certain defaults under the Indenture and their consequences provided for in the Indenture; or
- (g) change or modify the ranking of the notes that would have a material adverse effect on the noteholders.

Transfer and Exchange

A noteholder may transfer or exchange notes in accordance with the Indenture. The notes are subject to restrictions on transfer and may only be offered and sold in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Notice to Investors.” The registrar and the Trustee may require a noteholder, among other things, to furnish appropriate endorsements and transfer documents (in addition to those required by the Indenture), and the Issuer may require a noteholder to pay any taxes and fees required by law or permitted by the Indenture. The Issuer is not required to transfer or exchange any note for a period of 15 days before the notes are to be redeemed for tax reasons. The registered noteholder will be treated as the owner of it for all purposes.

The Trustee

The Bank of New York Mellon will be the Trustee under the Indenture. The Issuer may have normal banking relationships with The Bank of New York Mellon or any of its affiliates in the ordinary course of business. The address of the Trustee is 101 Barclay Street, 4th Floor, New York, NY 10286.

Registrar; Paying Agents; Transfer Agents; Calculation Agent; Irish Listing Agent and Paying Agent

The Issuer has initially appointed The Bank of New York Mellon as registrar, paying agent, transfer agent and Calculation Agent and The Bank of New York Mellon (Ireland) Limited as Irish listing agent and paying agent. The Issuer may at any time appoint new paying agents, transfer agents and registrars. However, the Issuer will at all times maintain a paying agent in New York City until the notes are paid.

Notices

The Issuer will also mail notices to the registered address of the noteholders as provided in the register. So long as DTC or its nominee is the registered holder of a global note, each person owning a beneficial interest in such global note must rely on the procedures of DTC, Clearstream or Euroclear, as the case may be, to receive notices provided to DTC. Each person owning a beneficial interest in a global note who is not a participant in DTC must rely on the procedures of the participant through which the person owns its interest in such global note to receive notices provided to DTC.

In addition, so long as the notes are listed on Global Exchange Market of the Irish Stock Exchange and the rules of such stock exchange so require, notices, at the expense of the Issuer, will also be published in a leading daily newspaper of general circulation in Ireland (which is expected to be the *Irish Times*) or alternatively the Issuer may also publish a notice on the website of the Irish Stock Exchange (www.ise.ie). Any such notice will be deemed to have been delivered on the date of first publication.

Governing Law

The Indenture and the notes are governed by the laws of the State of New York.

Jurisdiction

The Issuer has consented to the non-exclusive jurisdiction of any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan in the City of New York, New York, United States, and any appellate court from any thereof. The Issuer has appointed CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011, as its authorized agent upon which service of process may be served in any action or proceeding brought in any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan in the City of New York in connection with the Indenture or the notes.

Waiver of Immunities

To the extent that the Issuer may in any jurisdiction claim for itself or its assets immunity from a suit, execution, attachment, whether in aid of execution, before judgment or otherwise, or other legal process in connection with and as set out in the Indenture and the notes and to the extent that in any jurisdiction there may be immunity attributed to the Issuer or the Issuer's assets, whether or not claimed, the Issuer has irrevocably agreed for the benefit of the noteholders not to claim, and irrevocably waive, the immunity to the full extent permitted by law except for the immunity provided under Brazilian law to property of the Issuer that is considered essential for the rendering of public services under any concession agreement, authorization or license (*bens vinculados à concessão ou bens reversíveis*), to the extent such immunity cannot be waived or contested.

Currency Rate Indemnity

The Issuer has agreed that, if a judgment or order is made by any court for the payment of any amount in respect of any notes, the Issuer will indemnify the relevant noteholder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Issuer's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the notes.

Certain Definitions

“Acquired Debt” means Debt of a Person existing at the time the Person was acquired by the Issuer or the Person merges with or into or becomes a Subsidiary and not incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Subsidiary of, or was otherwise acquired by, the Issuer.

“Affiliate” means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling,” “controlled by” and “under common control with”) with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Average Life” means, with respect to any Debt, the quotient obtained by dividing (i) the sum of the products of (x) the number of years from the date of determination to the dates of each successive scheduled principal payment of such Debt and (y) the amount of such principal payment by (ii) the sum of all such principal payments.

“Capital Lease” means, with respect to any Person, any lease of any Property which, in conformity with IFRS, is required to be capitalized on the balance sheet of such Person.

“Capital Stock” means, with respect to any Person, any and all shares of stock of a corporation, partnership interests or other equivalent interests (however designated, whether voting or non-voting) in such Person’s equity, including any Preferred Stock, entitling the holder to receive a share of the profits and losses, and a distribution of assets, after liabilities, of such Person.

“Change of Control” means (a) Neoenergia shall (i) cease to own, directly or indirectly, a majority of the Voting Stock in the Issuer or (ii) no longer have the ability to, directly or indirectly, exercise management control over the Issuer; or (b) any combination of the Principal Neoenergia Shareholders, or any such entity alone, or in combination with Subsidiaries thereof, shall cease (i) to beneficially own in the aggregate at least one-third of the economic interests in, or the voting shares of, Neoenergia or (ii) to have the ability to, directly or indirectly, exercise management control over Neoenergia.

“Consolidated Net Tangible Assets” means the total amount of assets of the Issuer and its Subsidiaries on a consolidated basis, less current liabilities, less depreciation, amortization and depletion, less goodwill, trade names, trademarks, patents and other intangibles, calculated based on the Issuer’s most recent consolidated annual or quarterly balance sheet; all calculated in accordance with IFRS.

“Debt” of any Person means, without duplication,

- (i) all obligations of such Person for borrowed money;
- (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade and commercial accounts payable arising in the ordinary course of business and repaid within 90 calendar days of the provision of such property or services and except obligations arising under indefeasible rights of use entered into in the ordinary course of business;
- (iv) all obligations of such Person as lessee which are capitalized in accordance with IFRS;

- (v) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments, excluding (a) obligations in respect of letters of credit, bankers' acceptances and other similar instruments issued in respect of trade accounts payable to the extent not drawn upon or presented, or, if drawn upon or presented, to the extent the resulting obligation of such Person is paid in accordance with its respective terms and (b) letters of credit, bankers' acceptance or other similar instruments other than those in respect of trade amounts payable issued in respect of obligations of any Person that are not Debt by reason of clauses (i) to (iv) or (vi) to (viii) of this definition;
- (vi) all Capital Stock of such Person or any of its Material Subsidiaries that, by its terms is mandatorily redeemable or subject to repurchase or a sinking fund on or before the Maturity Date;
- (vii) all Debt pursuant to any of the foregoing clauses secured by a Lien on any asset of such Person, whether or not such Debt is otherwise Debt of such Person (and to the extent not otherwise included in items (i) through (vi) above); *provided*, that the amount of such Debt shall be the lesser of (x) the fair market value of such asset on the date the Lien attached and (y) the amount of such Debt; and
- (viii) all guarantees by such Person of Debt of another Person (each such guarantee to constitute Debt in an amount equal to the amount of such other Person's Debt guaranteed thereby to the extent not otherwise included in items (i) through (vii)).

"Disqualified Equity Interests" means Equity Interests that by their terms or upon the happening of any event are:

- (1) required to be redeemed or redeemable at the option of the holder prior to the Stated Maturity of the notes for consideration other than Qualified Equity Interests, or
- (2) convertible at the option of the holder into Disqualified Equity Interests or exchangeable for Debt;

provided that Equity Interests will not constitute Disqualified Equity Interests solely because of provisions giving holders thereof the right to require repurchase or redemption upon a "change of control" occurring prior to the Stated Maturity of the notes if those provisions:

- (A) are no more favorable to the holders than the covenant described under the caption "-- Repurchase of Notes Upon a Change of Control" and
- (B) specifically state that repurchase pursuant thereto will not be required prior to the Issuer's repurchase of the notes as required by the Indenture.

"Disqualified Stock" means Capital Stock constituting Disqualified Equity Interests.

"EBITDA" means, for any period:

- (1) consolidated net revenue for services; *minus*
- (2) consolidated cost of services rendered; *minus*
- (3) consolidated administrative and selling expenses; *minus*
- (4) consolidated other operating income, net; *plus*
- (5) any amortization expenses included in any of the foregoing;

as each such item is reported on the most recent financial statements delivered by the Issuer to the Trustee and prepared in accordance with IFRS.

"Equity Interests" means all Capital Stock and all warrants or options with respect to, or other rights to purchase, Capital Stock, but excluding Debt convertible into equity.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“Hedging Agreements” mean any interest rate protection agreements, interest rate swaps, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts and other similar agreements so long as such agreements are entered into for the purpose of managing the Issuer’s consolidated borrowings or investments, hedging the Issuer’s consolidated underlying assets or liabilities or in connection with the Issuer’s and its Subsidiaries’ line of business, and not for the purposes of speculation.

“IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Board, as in effect from time to time.

“Incur” means, with respect to any Debt or Capital Stock, to incur, create, issue, assume or guarantee such Debt or Capital Stock. If any Person becomes a Subsidiary on any date after the date of the Indenture, the Debt and Capital Stock of such Person outstanding on such date will be deemed to have been Incurred by such Person on such date for purposes of the covenant described under the caption “—Certain Covenants—Limitation on Debt.” The accretion of original issue discount or payment of interest in kind will not be considered an Incurrence of Debt.

“Investment Grade Rating” means a rating equal to or higher than Baa3 (or the equivalent) by Moody’s or BBB- (or the equivalent) by S&P.

“Issue Date” means the date on which the initial notes are issued under the Indenture.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to give any security interest).

“Material Subsidiary” means, in respect of any Person, any direct or indirect “significant subsidiary” thereof as such term is defined in Rule 12b-2 of the Exchange Act.

“Moody’s” means Moody’s Investors Service, Inc., a Subsidiary of Moody’s Corporation, and its successors.

“Neoenergia” means Neoenergia S.A. (formerly denominated as Guaraniana S.A.).

“Net Debt” means, as of any date of determination, the aggregate amount of Debt of the Issuer and its Subsidiaries less the sum of consolidated cash and cash equivalents and consolidated marketable securities recorded as current assets, in all cases determined in accordance with IFRS and as set forth in the most recent consolidated balance sheet of the Issuer.

“Net Debt to EBITDA Ratio” means, on any date (the ‘transaction date’), the ratio of:

(x) the aggregate amount of Net Debt at that time to

(y) EBITDA for the four fiscal quarters immediately prior to the transaction date for which financial statements are available (the “reference period”).

In making the foregoing calculation,

(1) pro forma effect will be given to any Debt Incurred (and the application of proceeds thereof) during or after the reference period to the extent the Debt is outstanding or is to be Incurred on the transaction date as if the Debt had been Incurred on the first day of the reference period; and

(2) pro forma effect will be given to:

(A) the acquisition or disposition of companies, divisions or lines of businesses by the Issuer and its Subsidiaries, including any acquisition or disposition of a company, division or line of business since the beginning of the reference period by a Person that became a Subsidiary after the beginning of the reference period, and

(B) the discontinuation of any discontinued operations that have occurred since the beginning of the reference period as if such events had occurred, and, in the case of any disposition, the proceeds thereof applied, on the first day of the reference period.

To the extent that pro forma effect is to be given to an acquisition or disposition of a company, division or line of business, the pro forma calculation will be (i) based upon the most recent four full fiscal quarters for which the relevant financial information is available and (ii) determined in good faith by the chief financial officer or the treasurer of the Issuer.

“Person” means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or any nation or government, any state, province or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Preferred Stock” means, with respect to any Person, any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

“Principal Neoenergia Shareholders” means Iberdrola Energia S.A., BB Banco de Investimentos S.A. and Caixa de Previdência dos Funcionários do Banco do Brasil – Previ.

“Qualified Equity Interests” means all Equity Interests of a Person other than Disqualified Equity Interests.

“Rating Agency” means each of Moody’s and S&P, *provided* that if either of Moody’s or S&P ceases to rate the notes or fails to make a rating on the notes publicly available, the Issuer will appoint a replacement for such Rating Agency that is a “nationally recognized statistical rating organization” within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act.

“Rating Date” means the date which is 90 days prior to the earlier of (i) a Change of Control and (ii) public notice of the occurrence of a Change of Control or of the intention of the Issuer to effect a Change of Control.

“Ratings Decline” means the occurrence of the following on, or within 90 days after, the date of public notice of the occurrence of a Change of Control or of the intention by the Issuer to effect a Change of Control (which period shall be extended so long as the rating of such notes is under publicly announced consideration for possible downgrade by either of the Rating Agencies): (i) in the event the notes are assigned an Investment Grade Rating by each of the Rating Agencies on the Rating Date, the rating of the notes by either of the Rating Agencies shall be below an Investment Grade Rating; or (ii) in the event the notes are rated below an Investment Grade Rating by either of the Rating Agencies on the Rating Date, the rating of the notes by either of the Rating Agencies shall be decreased by one or more gradations (including gradations within rating categories as well as between rating categories). The Issuer will provide the Trustee with prompt written notice of any Ratings Decline, and the Trustee shall not be deemed to have knowledge of any Ratings Decline until it receives such notice.

“S&P” means Standard & Poor’s Ratings Group, division of McGraw Hill, Inc. and its successors.

“Sale and Lease-Back Transaction” means any transaction or series of related transactions pursuant to which the Issuer or any of its Subsidiaries sells or transfers any property to any Person with the intention of taking back a lease of such property.

“Stated Maturity” means (i) with respect to any Debt, the date specified as the fixed date on which the final installment of principal of such Debt is due and payable or (ii) with respect to any scheduled installment of principal of or interest on any Debt, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Debt, not including any contingent obligation to repay, redeem or repurchase prior to the regularly scheduled date for payment.

“Subsidiary” means with respect to any Person, any corporation, limited liability company, partnership, association or other business entity of which more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more Subsidiaries of such Person (or a combination thereof).

“Voting Stock” of any specified Person at any time means the Capital Stock or other securities of such Person that is at the time entitled to vote generally in the election of the board of directors or similar managerial controlling body of such Person.

Form, Denomination and Registration

In the United States, the notes are being offered and sold to “qualified institutional buyers,” as defined in Rule 144A, in reliance on Rule 144A. Notes also may be offered and sold in offshore transactions in reliance on Regulation S. Except as set forth below, notes will be issued in registered, global form in minimum denominations of R\$250,000 and integral multiples of R\$1,000 in excess thereof. Notes will be issued at the closing of the offering only against payment in immediately available funds. The notes will be issued in registered form without interest coupons. No notes will be issued in bearer form.

The notes will be represented by Regulation S global notes (as defined below) and restricted global notes (as defined below) (each sometimes referred to herein as a “global note” and together sometimes referred to herein as the “global notes”).

Notes sold outside the United States in reliance on Regulation S will be represented by one or more global notes in certificated, fully registered form without interest coupons (collectively, “Regulation S global notes”) and will be deposited with the Trustee as custodian for DTC, and registered in the name of DTC or its nominee for the accounts of Euroclear and Clearstream (as indirect participants in DTC).

Notes sold in reliance on Rule 144A under the Securities Act initially will be represented by one or more global notes in certificated, fully registered form without interest coupons (collectively, “restricted global notes”) and will be deposited with the Trustee as custodian for DTC and registered in the name of DTC or its nominee. Restricted global notes will be subject to certain restrictions on transfer and will bear a legend to that effect as described under “Notice to Investors.”

Beneficial interests in Regulation S global notes may be transferred to a person who takes delivery in the form of an interest in restricted global notes only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a person that the transferor reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Beneficial interests in restricted global notes may be transferred to a person who takes delivery in the form of an interest in Regulation S global notes only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S. Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Global Notes

Upon the issuance of Regulation S global notes and restricted global notes, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated

by or on behalf of the initial purchasers. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC, to which we refer as DTC participants, or persons who hold interests through DTC participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC participants) and the records of DTC participants (with respect to interests of persons other than DTC participants).

So long as DTC or its nominee is the registered owner or holder of a global note, DTC, or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such global note for all purposes under the Indenture. No beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture.

Investors may hold their interests in Regulation S global notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S global notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in Regulation S global notes in customers' securities accounts in the depositaries' names on the books of DTC. Investors that are qualified institutional buyers may hold their interests in restricted global notes directly through DTC if they are DTC participants, or indirectly through organizations that are DTC participants.

Payments of the principal and interest and any Additional Amounts on individual notes represented by a global note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the global note representing such notes. None of the Issuer, the Trustee, registrar, transfer agent or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The Issuer expects that DTC or its nominee, upon receipt of any payment of principal, interest or Additional Amounts, if any, in respect of a global note representing any notes held by it or its nominee, will credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in such global note held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants.

Transfers between DTC participants will be effected in accordance with DTC rules and procedures and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and procedures.

The laws of some states require that certain persons take physical delivery of securities in certificated form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect participants and certain banks. Accordingly, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of each interest, may be affected by the lack of a physical certificate for such interest.

Subject to compliance with the transfer restrictions applicable to the notes described above and under "Notice to Investors," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules and procedures on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by

the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels, Belgium time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in Regulation S global notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a Business Day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transactions in interests in a global note settled during such processing will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day following settlement in DTC.

The Indenture will provide that all notes which are purchased or otherwise acquired by the Issuer may not subsequently be resold or otherwise transferred.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of notes (including, without limitation, the presentation of notes for transfer, exchange or conversion as described below) only at the direction of one or more DTC participants to whose account with DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such participant or participants has or have given such direction. However, in the limited circumstances described herein, DTC will exchange the global notes for certificated notes in certificated form, which it will distribute to DTC participants and which, if representing interests in the restricted global note, will be legended as set forth under “Notice to Investors.” See “– Certificated Notes.”

DTC has advised the Issuer as follows: DTC will act as the depositary for the notes. The notes will be issued as fully registered senior notes registered in the name of Cede & Co., which is DTC’s nominee name. Fully registered global notes will be issued for the notes, in the aggregate principal amount of the issue, and will be deposited with the Trustee, as custodian for DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes to participants’ accounts, thereby eliminating the need for physical movement of certificates. Direct participants of DTC include securities brokers and dealers, including the initial purchasers of the notes, banks, trust companies, clearing corporations and certain other organizations. Access to DTC’s system is also available to indirect participants, which include securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

To facilitate subsequent transfers, all global notes representing the notes which are deposited with, or on behalf of, DTC will be registered in the name of DTC’s nominee, Cede & Co. The deposit of global notes with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the global notes representing the notes; DTC’s records

reflect only the identity of the direct participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the global notes representing the notes. Under its usual procedure, DTC mails an omnibus proxy to the Issuer as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consent or voting rights to those direct participants to whose accounts the notes are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

DTC may discontinue providing its services as securities depository with respect to the notes at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not appointed, certificated notes are required to be printed and delivered. See “– Certificated Notes.”

In limited circumstances as described below, the Issuer may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, certificated notes will be printed and delivered. See “– Certificated Notes.”

Although DTC, Euroclear and Clearstream have agreed to the procedures described above in order to facilitate transfers of interests in the global notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. None of the Trustee, registrar, transfer agent, any paying agent or the Issuer will have any liability or responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If (i) DTC is at any time unwilling or unable to continue as a depository for the global notes and a successor depository is not appointed by the Issuer within 90 days or (ii) an event of default shall have occurred and be continuing and the beneficial holder of a note shall have requested that the Issuer issue to such beneficial holder its proportionate interest in a global note, the Issuer will issue certificated notes which may bear the legend referred to under “Notice to Investors,” in exchange for the global notes. Holders of an interest in a global note may receive certificated notes, which may bear the legend referred to under “Notice to Investors,” in accordance with DTC’s rules and procedures in addition to those provided for under the Indenture; *provided, however*, that if the Issuer is issuing certificated notes pursuant to clause (ii) above, the Issuer shall only be required to issue certificated notes to the beneficial owners of the notes who request certificated notes.

The holder of a certificated note may transfer such note by surrendering it at the office or agency maintained by the Issuer for such purpose in the Borough of Manhattan, New York City, New York, which initially will be the office of the Trustee. Upon the transfer, exchange or replacement of certificated notes bearing the legend, or upon specific request for removal of the legend on a certificated note, the Issuer will deliver only certificated notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

None of the Trustee or any paying agent, registrar or transfer agent shall be required to register the transfer of or exchange certificated notes for a period from the record date to the due date for any payment of principal of, or interest on, the notes or register the transfer of or exchange any notes for 15 days prior to selection for redemption through the date of redemption. In the case of a transfer of only part of a certificated registered note, a new certificated note in respect of the balance of the principal amount of the certificated registered note transferred will be delivered, and in the case of any lost, stolen, mutilated or destroyed certificated registered note, a holder thereof may obtain a new certificated registered note.

Prior to presentment of a note for registration of transfer (including a global note), the Issuer, the Trustee, each paying agent, registrar and transfer agent, and any agent of the Issuer or the Trustee may treat the person in whose name such note is registered as the owner or holder of such note for the purpose of receiving payment of principal, interest and any Additional Amounts on such note and for all other purposes whatsoever, whether or not such note is overdue, and none of the Issuer, the Trustee or any agent of the Issuer shall be affected by notice to the contrary.

TAXATION

Brazilian Taxation

The following discussion is a general description of certain Brazilian tax aspects of the notes applicable to a holder of the notes that is an individual, entity, trust or organization that is not resident or domiciled in Brazil for purposes of Brazilian taxation (“Non-Resident Holder”) and does not purport to be a comprehensive description of the tax aspects of the notes. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The earnings of foreign companies and persons not resident in Brazil are generally taxed in Brazil when (i) paid, credited or otherwise received from Brazilian sources; (ii) the transaction giving rise to such earnings involves assets in Brazil; or (iii) the transaction giving rise to such earnings is carried out with persons and companies resident or domiciled in Brazil. The Non-Resident Holder should note that, as to the discussion below, other income tax rates or treatment may be provided for in any applicable tax treaty between Brazil and its country of residence.

Interest Payment Under the notes

Interest (including original issue discount) payable by Coelba to a Non-Resident Holder is generally subject to withholding income tax at the rate of 15%, unless: (i) some other lower rate is provided for in a tax treaty between Brazil and the country where the Non-Resident Holder is domiciled; or (ii) the Non-Resident Holder is domiciled in a country or jurisdiction which does not impose any income tax or which imposes an income tax at a maximum effective rate lower than 20% or where internal legislation imposes restrictions on the disclosure of shareholding composition or securities ownership or do not allow for the identification of the effective beneficiary of income (a “Low Tax Jurisdiction”), in which case the applicable rate is 25%.

In the event that Coelba is required to make any payment under the notes to a Non-Resident Holder, Coelba will be allowed under Brazilian tax laws to pay such additional amounts as may be necessary to ensure that the net amount to be received by the Non-Resident Holder after the assessment of withholding income tax will equal the amounts that would have been paid in the absence of such withholding.

Capital Gains

Capital gains generated outside Brazil as a result of a transaction between two non-residents of Brazil with respect to assets located in Brazil are subject to income tax in Brazil, according to Article 26 of Law No. 10,833, enacted on December 29, 2003.

Although we believe that the notes do not fall within the definition of assets located in Brazil for purposes of Law No. 10,833/03, considering the general and unclear scope of this legislation and the absence of judicial guidance in respect thereof, we are unable to predict how Law No. 10,833 would be interpreted in the Brazilian courts. If such courts were to determine that the notes constitute assets located in Brazil, gains realized by a Non-Resident Holder from the sale or other disposition of the notes to a Brazilian resident or even to a non-Brazilian resident will be subject to income tax in Brazil at a rate of 15% (or 25% if such Non-Resident Holder is located in a Low Tax Jurisdiction).

On June 4, 2010, Brazilian tax authorities enacted Normative Ruling No. 1,037 listing (i) the countries and jurisdictions considered Low Tax Jurisdictions or where the local legislation does not allow access to information related to the shareholding composition of legal entities, to their ownership or to the identity of the ultimate beneficiary of the income attributed to non-residents and (ii) the privileged tax regimes, which definition is provided by Law No. 11,727, of June 23, 2008. Although we believe that the best interpretation of the current tax legislation should lead to the conclusion that the above mentioned “privileged tax regime” concept should apply solely for purposes of Brazilian transfer pricing and thin capitalization rules, we cannot assure you whether subsequent legislation or interpretations by the Brazilian tax authorities regarding the definition of a “privileged tax regime” will also apply to a Non-Resident Holder on payments made by us.

We recommend prospective investors to consult their own tax advisors from time to time to verify any possible tax consequence arising from Normative Ruling No. 1,037, Law No. 11,727 and any related Brazilian tax law or regulation concerning Low Tax Jurisdiction and “privileged tax regimes”. If the Brazilian tax authorities determine that interest payments on the notes will be remitted to a Non-Resident Holder under a “privileged tax regime”, the withholding income tax applicable to such payments could be assessed at a rate up to 25%.

Other Tax Considerations

Pursuant to Decree No. 6,306, of December 14, 2007 (as amended from time to time), the conversion of Brazilian *reais* into foreign currency and the conversion of foreign currency into Brazilian *reais* are subject to the tax on foreign exchange transactions (“IOF/Exchange”). Currently, the foreign exchange transactions related to payments under notes with a minimum average term of more than 720 days are subject to IOF/Exchange at a zero percent rate. If the notes are redeemed in a period equal or lesser than 720 days of their issuance, the IOF/Exchange rate will be levied at a 6.0% rate plus applicable fines and interest. However, the Brazilian government can increase such rate at any time up to a rate of 25%, but only with respect to future foreign exchange transactions.

Generally, there are no stamp, transfer or other similar taxes in Brazil applicable to the transfer, assignment or sale of the notes outside Brazil, nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the notes, except for gift and inheritance taxes imposed in some states of Brazil on gifts and bequests by a Non-Resident Holder to individuals or entities domiciled or residing within such Brazilian states.

The above description is not intended to constitute a complete analysis of all Brazilian tax consequences relating to the ownership of notes. Prospective purchasers of notes should consult their own tax advisors concerning the tax consequences of their particular situations.

Certain United States Federal Income Tax Consequences

THIS DISCLOSURE IS LIMITED TO THE U.S. FEDERAL INCOME TAX ISSUES ADDRESSED HEREIN. ADDITIONAL ISSUES MAY EXIST THAT ARE NOT ADDRESSED IN THIS DISCLOSURE AND THAT COULD AFFECT THE U.S. FEDERAL INCOME TAX TREATMENT OF THE NOTES. THIS TAX DISCLOSURE WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE COMPANY OF THE NOTES, AND IT CANNOT BE USED BY ANY U.S. TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE ASSERTED AGAINST THE HOLDER UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”). U.S. TAXPAYERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a description of certain U.S. federal income tax consequences that may be relevant to the acquisition, ownership and disposition of the notes by U.S. Holders, as defined below. This description addresses only the U.S. federal income tax considerations applicable to U.S. Holders that purchase notes pursuant to this offering for the “issue price,” which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes is sold for money and that will hold the notes as capital assets (generally, assets held for investment). This description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

- certain financial institutions;
- insurance companies;
- real estate investment trusts or regulated investment companies;
- dealers or traders in securities or currencies;

- tax-exempt entities;
- persons that will hold the notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes;
- persons subject to the U.S. federal alternative minimum tax;
- persons that have a “functional currency” other than the U.S. dollar; or
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes.

This description is based on the Code, existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as available on the date hereof. U.S. tax laws and the interpretation thereof are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a “U.S. Holder” is a beneficial owner of the notes for U.S. federal income tax purposes that is:

- a citizen or individual resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if either (x) it is subject to the primary supervision of a court within the United States and one or more U.S. persons has the authority to control all substantial decisions of the trust or (y) it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

The U.S. federal income tax treatment of a partner in a partnership (including any entity classified as a partnership for U.S. federal income tax purposes) that holds notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships and partners in such partnerships should consult their tax advisors concerning the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of the notes by the partnership.

This discussion does not address any U.S. federal tax consequences other than U.S. federal income tax consequences (such as the estate and gift tax or the Medicare tax on net investment income). This discussion additionally does not address U.S. state, local and non-U.S. tax consequences. You should consult your tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of the notes, in your particular circumstances.

Characterization of the Notes

In certain circumstances (see “Description of Notes—Redemption and Repurchase—Repurchase of the Notes upon a Change of Control) we may be obligated to make payments on the notes in excess of stated principal and interest. This obligation could potentially subject the notes to special rules that apply to contingent payment debt instruments. These special rules generally require a holder of a contingent payment debt instrument to accrue interest income at a rate higher than the stated interest rate on the debt instrument and to treat as ordinary income (rather than capital gain) any gain recognized on a sale, exchange or retirement of the notes. Notwithstanding the possibility of such contingent payments, under applicable US Treasury regulations, payments on a note that are subject to a remote or incidental contingency may be ignored. We believe that the prospect that such payments will be made should be considered a remote or incidental contingency, and therefore we intend to take the position that the foregoing contingencies should not cause the notes to be treated as contingent payment debt instruments. Assuming such position is respected, a U.S. holder would be required to

include in income the amount of any such additional payments at the time such payments are received or accrued in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes. Our position is binding on a holder, unless the holder discloses in the proper manner to the IRS that it is taking a different position. It is possible that the IRS may take a contrary position from that described above. U.S. holders are urged to consult their own tax advisors regarding the potential application to the notes of the contingent payment debt instrument rules and the consequences thereof.

The remainder of this disclosure assumes that the notes will not be considered contingent payment debt instruments.

Section 988 Considerations

Because the notes are denominated in a currency other than the U.S. dollar, the notes are subject to special rules under Section 988 of the Code and the Treasury regulations thereunder (the "988 regulations"). The proper application of the 988 regulations to the notes is unclear. In this discussion of the federal income tax issues, the Settlement Rate on each Rate Calculation Date (as set forth above under "Description of the Notes – Principal, Maturity and Interest") is treated as the relevant exchange rate for determining income, gain or loss with respect to the Notes. The following discussion assumes that such treatment is correct under the 988 regulations. However, the IRS could adopt other treatments. For example, the IRS could require a U.S. Holder to calculate income, gain or loss on the notes by using the spot rate in effect on the issue date or on a relevant payment date, which in each case could be different than the corresponding Settlement Rate. If the IRS were to take such contrary positions, the character, amount, source and timing of income, gain or loss on the notes could be significantly different from what is described below. For example, a U.S. Holder could be required to recognize foreign currency gain on the issue date as a result of real appreciation between the corresponding Rate Calculation Date and the issue date. Foreign currency gains are taxed as ordinary income. Alternatively, a real appreciation between the corresponding Rate Calculation Date and the issue date could result in the notes being issued with original issue discount. In such a case, a holder would be required to include original issue discount in income over the life of the notes. U.S. Holders are strongly urged to consult their tax advisors regarding the proper application of the 988 regulations and their potential interpretation to create foreign currency gain or original issue discount on issuance of the notes, and any reporting obligations implicated by those rules.

Payments of Interest

A U.S. Holder that uses the cash method of accounting will recognize interest income equal to the U.S. dollar amount received in respect of the interest.

A U.S. Holder that uses the accrual method of accounting will recognize accrued interest income by translating interest accrued in reais at the average rate of exchange for the accrual period or shorter period within the taxable year. Alternatively, an accrual method U.S. Holder may elect to translate interest income into U.S. dollars at the spot rate on (i) the last day of the accrual period or shorter period within the taxable year, or (ii) on the date of receipt if that date is within five business days of the last day of the interest accrual period or of the taxable year. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS. An accrual method U.S. Holder will recognize U.S. source ordinary income or loss (which will not be treated as interest income or expense) with respect to accrued interest income on the date the interest payment is actually received. The amount of ordinary income or loss recognized will equal the difference between the U.S. dollar amount of the interest payment received in respect of the accrual period and the U.S. dollar amount of interest income that has accrued during the accrual period (as determined above).

The amount of interest income will include amounts withheld in respect of any Brazilian withholding taxes. A U.S. Holder, whether on the cash method or the accrual method of accounting, will take into income the amount of any Brazilian withholding tax at the spot rate of the date the withholding tax is paid. As a result of this

rule, the amount included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest, plus any additional amounts with respect thereto, will be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Issuer with respect to the payment. Interest income earned by a U.S. Holder with respect to a note will constitute foreign source income for purposes of calculating the U.S. Holder's foreign tax credit limitation. Brazilian income taxes withheld from interest income may be eligible for credit against the U.S. Holder's federal income tax liability or, at the election of the U.S. Holder, for deduction in computing the U.S. Holder's taxable income. The rules governing foreign tax credits are complex and subject to multiple conditions and limitations. Therefore, U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

Sale, Exchange, Retirement or Other Taxable Disposition

Upon the sale, exchange, retirement or other taxable disposition of a note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other taxable disposition and the U.S. Holder's adjusted tax basis in the note. The U.S. Holder's adjusted tax basis in a note is generally equal to the U.S. dollar cost of the note (minus any amount attributable to accrued interest). If the notes are sold, exchanged or retired, the amount realized on such disposition is the U.S. dollar equivalent based on (i) in the case of a sale, exchange or other taxable disposition, the spot rate in effect on the date of such disposition or (ii) in the case of retirement, the Settlement Rate on the applicable Rate Calculation Date. For these purposes, the amount realized does not include any amount attributable to accrued interest, which will be taxed as interest.

A portion of any gain or loss described above may be taxed as ordinary income or loss. In the case of a sale, exchange or other taxable disposition of a note, the ordinary income or loss generally equals the difference between (i) the U.S. dollar value of the U.S. Holder's purchase price for the note and (ii) the principal of the note in reais translated at the spot rate in effect on the date of such disposition. In the case of retirement, the ordinary income or loss portion of the gain equals the difference between (i) the U.S. dollar value of the U.S. Holder's purchase price and (ii) the principal of the note in reais translated at the Settlement Rate on the applicable Rate Calculation. Any such ordinary income or loss is recognized only to the extent of, in each case, the total gain or loss recognized by a U.S. Holder on the sale, exchange, retirement or other taxable disposition. Any remaining gain or loss will be long-term or short-term U.S. source capital gain or loss, based on the holding period.

A U.S. Holder may be required to file a reportable transaction disclosure statement with its U.S. federal income tax return, if it realizes a loss on the sale or other disposition of a note that is greater than an applicable threshold amount, which depends on the status of the holder. A U.S. Holder that claims a deduction with respect to a note should consult its tax advisor regarding the potential need to file a reportable transaction disclosure statement.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the notes and the proceeds from a sale or other disposition of the notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if the U.S. Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS. U.S. Holders should consult their tax advisors concerning the application of information reporting and backup withholding rules.

Recently enacted legislation requires certain U.S. Holders to report information to the IRS with respect to their investment in Notes if such Notes are not held through a custodial account with a U.S. financial institution. Investors who fail to report required information could become subject to substantial penalties. Prospective

investors are encouraged to consult with their own tax advisors regarding the possible implications of this new legislation on their investment in Notes.

European Union Savings Directive (Directive 2003/48/EC)

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State (the “Beneficial Owners”); however, for a transitional period, Luxembourg and Austria are instead requested (unless during that period, they elect otherwise) to apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35% (the rate being 20% until June 30, 2011 and 35% after such date); the Beneficial Owners may request that no tax be withheld provided that they comply with the relevant exchange of information procedure provided under Section 13 of the EC Council Directive 2003/48/EC in Luxembourg or in Austria, as the case may be. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On November 13, 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

ERISA AND CERTAIN OTHER CONSIDERATIONS

The following discussion is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal tax penalties, and was written to support the promotion or marketing of the offering. Each prospective investor should seek advice based on such person's particular circumstances from an independent tax advisor.

The U.S. Employee Retirement Income Security Act of 1974, as amended, or ERISA, imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA plans") and on those persons who are fiduciaries with respect to ERISA plans. Investments by ERISA plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA plan's investments be made in accordance with the documents governing the ERISA plan. The prudence of a particular investment must be determined by the responsible fiduciary of the ERISA plan by taking into account the ERISA plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed above under "Risk Factors."

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended, ("the Code"), prohibit certain transactions involving the assets of an ERISA plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA plans, "Plans")) and certain persons (referred to as "parties in interest" for purposes of ERISA or "disqualified persons" for purposes of the Code) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. Among other possible adverse results, a party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any notes (or interests in notes) are acquired by a Plan with respect to which Coelba or the initial purchaser or any of their respective affiliates is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire notes and the circumstances under which such decision is made. We cannot assure you that any exemption will be available with respect to any particular transaction involving the notes, or, if available, that any particular exemption will cover all possible prohibited transactions.

By its acquisition of any notes or interests in notes, the purchaser thereof, and any transferee thereof, will be deemed to have represented and agreed either that (1) either (a) it is not (and for so long as it holds the notes or interests in notes will not be), and is not acting on behalf of (and for so long as it holds any Note or interest therein will not be acting on behalf of) a Plan or any entity whose underlying assets include "plan assets" by reason of such plan's investment in such entity or a governmental plan, church plan or foreign or other plan which is subject to any U.S. federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its acquisition and holding of the notes or interests in notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or foreign or other plan, a violation of any substantially similar U.S. federal, state, local or foreign law), or (2) it will not sell or otherwise transfer such notes or any interest therein otherwise than to a purchaser or transferee that is deemed to make the same representations, warranties and agreements with respect to its acquisition, holding and disposition of such notes and any interest therein.

Governmental plans, foreign plans and certain church and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA or

Section 4975 of the Code, may nevertheless be subject to other U.S. federal, state, local or foreign laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any notes.

The foregoing discussion is general in nature and not intended to be all inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any notes or interests in notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA.

PLAN OF DISTRIBUTION

Banco Itaú BBA International, S.A. – London Branch, BB Securities Ltd. and BNP Paribas Securities Corp. are acting as initial purchasers. Subject to the terms and conditions set forth in a purchase agreement dated April 19, 2011 among us and the initial purchasers, we have agreed to sell to the initial purchasers, and each of the initial purchasers has agreed, severally and not jointly, to purchase from us, the principal amount of notes set forth opposite its name below.

<u>Initial Purchaser</u>	<u>Principal Amount of Notes</u>
Banco Itaú BBA International, S.A. – London Branch.	R\$133,333,333
BB Securities Ltd.	133,333,333
BNP Paribas Securities Corp.	133,333,334
Total	R\$400,000,000

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed, severally and not jointly, to purchase all of the notes sold under the purchase agreement if any of these notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers propose initially to offer the notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

Banco Itaú BBA International, S.A. – London Branch is not a broker-dealer registered with the SEC and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that Banco Itaú BBA International, S.A. – London Branch intends to effect sales of the notes in the United States, it will do so only through Itaú BBA USA Securities, Inc., or one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

BB Securities Ltd. is not a broker-dealer registered with the SEC and therefore may not make sales of any Notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that BB Securities Ltd. intends to effect sales of the Notes in the United States, BB Securities Ltd. will do so only through Banco do Brasil Securities LLC or one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

The initial purchasers and/or their affiliates may enter into derivative and/or structured transactions with clients, at their request, in connection with the notes and the initial purchasers and/or their affiliates may also purchase some of the notes to hedge their risk exposure in connection with such transactions. Also, the initial purchasers and/or their affiliates may acquire for their own proprietary account the notes. Such acquisitions may have an effect on demand and the price of the offering.

It is expected that delivery of the notes will be made against payment therefore on or about April 27, 2011 which will be the fifth business day in the United States following the date of pricing of the notes (“T+5”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market in the United States generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers wishing to trade notes on the date of pricing or the subsequent business day in the United States will be required, by virtue of the fact that the notes will initially settle in T+5, to specify an alternative settlement

cycle at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the date of pricing or the subsequent business day in the United States should consult their own professional advisor.

Notes Are Not Being Registered

The notes have not been registered under the Securities Act or any state securities laws. The initial purchasers propose to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The initial purchasers will not offer or sell the notes except to persons they reasonably believe to be qualified institutional buyers or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each subsequent purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under “Transfer Restrictions.”

New Issue of Notes

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any U.S. securities exchange or for inclusion of the notes on any automated dealer quotation system. Application has been made to the Irish Stock Exchange to admit the notes to listing on the Official List, and to trading on the Global Exchange Market, of the Irish Stock Exchange. We have been advised by the initial purchasers that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

No Sales of Similar Securities

We have agreed that we will not, for a period of 90 days after the date of this offering memorandum, without first obtaining the prior written consent of Banco Itaú BBA International, S.A. – London Branch, BB Securities Ltd. and BNP Paribas Securities Corp., offer, sell, or contract to sell or announce the offering of, any debt securities issued or guaranteed by the Issuer (other than the notes and any additional notes).

Short Positions

In connection with the offering, the initial purchasers may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing notes in the open market. A short position is more likely to be created if the initial purchasers are concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the initial purchasers’ purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor any of the initial purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Notice to Investors within Brazil

The notes (and related guarantee) have not been, and will not be, registered with the CVM. The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or unauthorized distribution under Brazilian laws and regulations. The notes (and related guarantee) are not being offered into Brazil. Documents relating to the offering of the notes, as well as information contained therein, may not be supplied to the public in Brazil, nor be used in connection with any offer for subscription or sale of the notes to the public in Brazil.

Notice to Prospective Investors in Switzerland

This document, as well as any other material relating to the notes which are the subject of the offering contemplated by this offering memorandum, do not constitute an issue prospectus pursuant to Article 652a of the Swiss Code of Obligations. The notes will not be listed on the SWX Swiss Exchange and, therefore, the documents relating to the notes, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of SWX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SWX Swiss Exchange. The notes are being offered in Switzerland by way of a private placement, i.e., to a small number of selected investors only, without any public offer and only to investors who do not purchase the notes with the intention to distribute them to the public. The investors will be individually approached by us from time to time. This document, as well as any other material relating to the notes, is personal and confidential and does not constitute an offer to any other person. This document may only be used by those investors to whom it has been handed out in connection with the offering described herein and may neither directly nor indirectly be distributed or made available to other persons without our express consent. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

Notice to Prospective Investors in the Dubai International Financial Centre

This document relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This document is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The notes which are the subject of the offering contemplated by this offering memorandum may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the notes offered should conduct their own due diligence on the notes. If you do not understand the contents of this document you should consult an authorized financial adviser.

Notice to Prospective Investors in the United Kingdom

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

Each purchaser of the notes must comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Ireland

The notes will not and may not be offered, sold, transferred or delivered, whether directly or indirectly, otherwise than in circumstances which do not constitute an offer to the public within the meaning of the Irish Companies Act, 1963-2006, and the notes will not and may not be the subject of an offer in Ireland which would require the publication of a prospectus pursuant to Article 3 of Directive 2003/71/EC.

Notice to Prospective Investors in Hong Kong SAR

The notes will not be offered or sold in Hong Kong SAR, by means of any document, any notes other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong SAR, and no invitation, document or advertisement relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong SAR (except if permitted to do so under the securities laws of Hong Kong SAR) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong SAR or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong SAR and any rules made under that ordinance has or will be issued, whether in Hong Kong SAR or elsewhere.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person specified in Section 274 of the SFA, Chapter 289 of Singapore, (2) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Other Relationships

The initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us and our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. BB Banco de Investimento S.A., an affiliate of BB Securities Ltd., an initial purchaser of the notes being offered hereby, holds a 12% interest in our principal shareholder, Neoenergia. In addition, an affiliate of BNP Paribas Securities Corp. is a lender under an amended and restated note and provides currency hedging with respect to such note. Affiliates of Banco Itaú BBA International, S.A. – London Branch, an initial purchaser of the notes offered hereby, are lenders to the Company under various loan agreements and notes.

TRANSFER RESTRICTIONS

The notes have not been registered under the Securities Act or any securities laws of any jurisdiction, and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of, the Securities Act and such other securities laws. Accordingly, the notes are being offered hereby only (1) to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (2) outside of the United States in reliance upon Regulation S under the Securities Act, to non-U.S. persons who will be required to make certain representations to us and others prior to the investment in the notes.

Each purchaser of the notes that is purchasing in a sale made in reliance on Rule 144A or Regulation S will be deemed to have represented and agreed as follows:

(1) The purchaser

(a) (i) is a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A and (ii) is acquiring the notes for its own account or for the account of another qualified institutional buyer; or

(b) is not a U.S. person, as such term is defined in Rule 902 under the Securities Act, and is purchasing the notes in accordance with Regulation S.

(2) The purchaser understands that the notes are being offered in transactions not involving any public offering in the United States within the meaning of the Securities Act, that the notes have not been registered under the Securities Act or any securities laws of any jurisdiction and that for so long as the notes are “restricted securities” for purposes of the Securities Act:

(a) the notes may be offered resold, pledged or otherwise transferred only (i) to a person who is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, outside the United States to a non-U.S. person in a transaction meeting the requirements of Rule 904 under the Securities Act, or in accordance with another exemption from the registration requirements of the Securities Act (and based upon an opinion of counsel, if the Issuer so requests), (ii) to us or (iii) pursuant to an effective registration statement and, in each case, in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction; and

(b) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of the resale restrictions set forth in (a) above.

(3) The purchaser confirms that

(a) such purchaser has such knowledge and experience in financial and business matters, that it is capable of evaluating the merits and risks of purchasing the notes and that such purchaser and any accounts for which it is acting are each able to bear the economic risks of its or their investment;

(b) such purchaser is not acquiring the notes with a view towards any distribution thereof in a transaction that would violate the Securities Act or the securities laws of any state of the United States or any other applicable jurisdiction; provided that the disposition of its property and the property of any accounts for which such purchaser is acting as fiduciary will remain at all times within its control; and

(c) such purchaser has received a copy of the offering memorandum and acknowledges that such purchaser has had access to such financial and other information and has been afforded an opportunity to ask such questions of our representative and receive answers thereto as it has deemed necessary in connection with its decision to purchase the notes.

(4) The purchaser understands that the certificates evidencing the notes will, unless otherwise agreed by us, bear a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT, OR

(2) REPRESENTS THAT IT IS NOT A U.S. PERSON, IS NOT ACQUIRING THIS SECURITY FOR THE ACCOUNT OF OR BENEFIT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, AND

(3) AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT:

(A) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH (3)(D) ABOVE, THE COMPANY RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS IT MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

(5) The purchaser acknowledges that the Issuer and the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the foregoing acknowledgements, representations and agreements deemed to have been made by it are no longer accurate, it will promptly notify the initial purchasers. If such purchaser is acquiring the notes as a fiduciary or agent for one or more investor accounts, such purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(6) The purchaser acknowledges that by its purchase of any note, or any interest therein, it will be deemed to have represented, warranted and agreed that with respect to the acquisition, holding and disposition of the notes, or any interest therein, (1) either (A) it is not, and is not acting on behalf of (and for so long as it holds the notes will not be, or be acting on behalf of), an employee benefit plan (as defined in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended, or ERISA) subject to the provisions of part 4 of subtitle B of Title I of ERISA, a plan to which Section 4975 of the United States Internal Revenue Code of 1986, as amended, or the Code, applies, or any entity whose underlying assets include “plan assets” by reason of such an employee benefit plan’s and/or plan’s investment in such entity (each, a Benefit Plan Investor) or a governmental, church or non-U.S. plan which is subject to any federal, state, local, non-U.S. or other laws or

regulations that are substantially similar to the fiduciary responsibility or prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code (or Similar Laws) and no part of the assets used by it to acquire or hold such notes or any interest therein constitutes the assets of such Benefit Plan Investor or such plan, or (B) its acquisition, holding and disposition of such note or any interest therein does not and will not constitute or otherwise result in a non exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, a non-exempt violation of any Similar Laws); and (2) it will not sell or otherwise transfer such notes or any interest therein otherwise than to a purchaser or transferee that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such notes and any interest therein.

LEGAL MATTERS

The validity of the notes will be passed upon for the Issuer by Gibson, Dunn & Crutcher LLP, United States counsel to the Issuer, and for the initial purchasers by Milbank, Tweed, Hadley & McCloy LLP, United States counsel to the initial purchasers.

Matters of Brazilian law will be passed upon for the Issuer by Pinheiro Guimarães Advogados, Brazilian counsel to the Issuer, and for the initial purchasers by Machado, Meyer, Sendacz e Opice Advogados, Brazilian counsel to the initial purchasers.

INDEPENDENT AUDITORS

The financial statements of Companhia de Eletricidade do Estado da Bahia as of and for the years ended December 31, 2010 and 2009, included elsewhere in this offering memorandum, have been audited by Ernst & Young Terco Auditores Independentes S.S., independent auditors, as stated in their report appearing herein.

The financial statements of Companhia de Eletricidade do Estado da Bahia as of and for the years ended December 31, 2009 and 2008, included elsewhere in this offering memorandum, have been audited by Ernst & Young Auditores Independentes S.S., independent auditors, as stated in their report appearing herein.

Ernst & Young Terco Auditores Independentes S.S. is registered under number CRC 2SP 015.199/0-6-F-BA with the Regional Accounting Council of the State of Bahia (*Conselho Regional de Contabilidade do Estado de Bahia-CRC-BA*), or CRC-BA, an accounting professional body. Ernst & Young Terco Auditores Independentes S.S.'s address is Av. Tancredo Neves, 1189, 17th Floor, 41820-021 Salvador, BA, Brazil.

On October 1, 2010, Ernst & Young Auditores Independentes S.S. and Terco Grant Thornton Auditores Independentes merged to form Ernst & Young Terco Auditores Independentes S.S.

ENFORCEABILITY OF CIVIL LIABILITIES

We have been advised by our Brazilian counsel, Pinheiro Guimarães Advogados, that subject to the specific requirements described below, a final conclusive judgment for the payment of money rendered by any New York state or federal court sitting in New York City in respect of the notes would be recognized in the courts of Brazil (to the extent that Brazilian courts may have jurisdiction) and such courts would enforce such judgment without any retrial or reexamination of the merits of the original action only if such judgment has been previously ratified by the Superior Court of Justice (*Superior Tribunal de Justiça*), Brazil, such ratification being available only if such ratification:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian legislation;
- is not subject to appeal;
- is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

The confirmation process may be time-consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, we cannot assure you that confirmation would be obtained, that the confirmation process would be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment, including for violation of the securities laws of countries other than Brazil, including the U.S. securities laws.

A plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that may ensure such payment. This bond must have a value sufficient to satisfy the payment of court fees and defendant's attorneys' fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments that have been duly confirmed by the Brazilian Superior Court of Justice.

The ability of a judgment creditor to satisfy a judgment by attaching certain assets of the defendant is limited by provisions of Brazilian law. In particular, property of Coelba that is considered essential for the rendering of public services under any concession agreement or license (*bens vinculados à concessão ou bens reversíveis*) is subject to immunity provided under Brazilian law and cannot be attached.

GENERAL INFORMATION

The issue and terms of the notes have been authorized by the Issuer pursuant to the resolutions of the Issuer's Board of Directors adopted on March 25, 2011. Except as disclosed in this Offering Memorandum, there are no conflicts of interest between any of our shareholders, management or related parties with respect to the notes.

Application has been made to the Irish Stock Exchange to admit the notes to listing on the Official List, and to trading on the Global Exchange Market, of the Irish Stock Exchange. There can be no assurance that listing on the Irish Stock Exchange will be achieved prior to the issue date of the notes or otherwise or that, if obtained, such listing will be maintained. Copies of the Issuer's by-laws (*Estatuto Social*) and the indenture (containing the forms of the notes) will be available during the term of the notes at the office of the Trustee and the listing agent for the notes listed on the Global Exchange Market of the Irish Stock Exchange. In addition, a copy of the Indenture and copies of all audited financial statements in English of the Issuer since 2008 may be obtained free of charge at the office of the special paying agent during the term of the notes.

The Issuer's shares trade on São Paulo Stock Exchange and the Issuer is subject to the periodic reporting and disclosure requirements established by the CVM (with whom the Issuer is registered under the number 14524).

The Issuer produces audited annual financial statements in Portuguese and English prepared in accordance with IFRS. Copies of all such financial statements, including the financial statements contained herein and prepared in accordance with IFRS, may be obtained from the Issuer's offices and the Issuer's website. For so long as the notes shall remain outstanding, physical copies of the following documents may be inspected during normal business hours at the specified offices of any paying agent and the listing agent: (i) the constitutive documents of the Issuer; (ii) the Indenture; and (iii) the two most recent publicly available audited annual financial statements of the Issuer beginning with such financial statements for the years ended December 31, 2009.

The Issuer also produced interim quarterly unaudited financial statements in Portuguese and English prepared in accordance with IFRS. Copies of all such unaudited financial statements, including the Issuer's Financial Statements contained herein and prepared in accordance with Brazilian GAAP until December 31, 2010, may be physically obtained from the Issuer's offices and electronically obtained from its website. Ernst & Young Terco, independent auditors, have agreed to the inclusion of their audit reports and special review reports in this offering memorandum in the form and context in which they are included.

Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position, or any material change with respect to the trends affecting the Issuer's business, since December 31, 2010, the date of the last audited financial statements included in this offering memorandum, or, the Issuer believes, that could materially affect its prospects for the current fiscal year other than as would be consistent with its operations as discussed in this offering memorandum.

Except as disclosed in this offering memorandum, the Issuer is not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, or which has had a significant effect on the Issuer's financial position since December 31, 2010 nor so far as the Issuer is aware is any such litigation or arbitration pending or threatened.

The notes and the Indenture are governed by the laws of the State of New York. Claims against the Issuer (if any) for payment of principal and interest in respect of the Notes shall be prescribed and become void unless made within a period of six years of the applicable payment date.

The notes offered and sold outside the United States to purchasers in transactions outside the United States in accordance with the requirements of Regulation S have been accepted for clearance through DTC, Euroclear and Clearstream with an International Securities Identification Number of USP30587AA09 and a CUSIP Number

of P30587AA0. The notes offered or sold in the United States to qualified institutional buyers pursuant to Rule 144A have been accepted for clearance through DTC, Euroclear and Clearstream with an International Securities Identification Number of US20442CAA53 and a CUSIP Number of 20442CAA5. Delivery of the notes (the issue date) is expected to be made to investors in book-entry form through The Depository Trust Company, or DTC, and its participants, including Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, société anonyme, Luxembourg, or Clearstream, on or about April 27, 2011.

In addition to being mailed to holders, so long as the notes are listed on the Official List of the Irish Stock Exchange, copies of all notices to holders of the notes will be published on the official website of the Irish Stock Exchange (www.ise.ie/) and/or will be published in a leading daily newspaper of general circulation in the Republic of Ireland which is expected to be *The Irish Times*. The expenses related to the admission of the notes to the Global Exchange Market of the Irish Stock Exchange are expected to be approximately EUR 4,940.

DESCRIPTION OF CERTAIN DIFFERENCES BETWEEN BRAZILIAN GAAP AND IFRS APPLICABLE TO OUR DECEMBER 31, 2009 AND 2008 BRAZILIAN GAAP FINANCIAL STATEMENTS

The financial statements as of and for the years ended December 31, 2009 and 2008 included in the Offering Memorandum were prepared in accordance with Accounting Practices Adopted in Brazil, or “Brazilian GAAP,” in effect as of December 31, 2009. Brazilian GAAP comprises the accounting guidelines provided by the Brazilian Corporate Law No. 6404, as amended, the rules and regulations issued by CVM, the Brazilian Securities Commission (*Comissão de Valores Mobiliários*) and by ANEEL, the National Electric Energy Agency (*Agência Nacional de Energia Elétrica*), and the accounting standards issued by the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*), or CFC, and the Accounting Standards Committee (*Comitê de Pronunciamentos Contábeis*), or CPC. The financial statements have not been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). Certain differences exist between Brazilian GAAP and IFRS which might be material to the financial information included in the Offering Memorandum. The matters described below summarize certain differences between Brazilian GAAP and IFRS that may be material. The Company is responsible for preparing the summary below. The Company has not prepared a complete reconciliation of its financial statements and related footnote disclosures between Brazilian GAAP and IFRS and has not quantified such differences as of and for the year ended December 31, 2008. Accordingly, no assurance is provided that the following Description of certain differences between Brazilian GAAP and IFRS is complete, and should not be construed as exhaustive. This section makes no attempt to identify or quantify the impact of these differences.

In making an investment decision, investors must rely upon their own examination of the Company, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Brazilian GAAP and IFRS, and how those differences affect the financial information included in the Offering Memorandum. In reading this summary, prospective investors in the Notes should also have regard to the considerations:

- This summary includes differences between Brazilian GAAP and IFRS as of December 31, 2008. Differences resulting from changes in accounting standards or from transaction or events that had occurred before December 31, 2008 have not been taken into account in this summary.
- Differences between Brazilian GAAP and IFRS resulting from future changes in accounting standards or from transactions or events that may occur in the future have not been taken into account in this summary and no attempt has been made to identify any future events, ongoing work and decisions of the regulatory bodies that promulgate Brazilian GAAP and IFRS that could affect future comparisons between Brazilian GAAP and IFRS. The current differences disclosed in this summary are not intended to be complete and are subject to, and qualified in their entirety by, reference to the respective pronouncements of the Brazilian and those of the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.
- As differences between Brazilian GAAP and IFRS may be significant to the financial position or results of operations of the Company prospective investors unfamiliar with Brazilian GAAP should consult their own professional advisors for an understanding of the differences between Brazilian GAAP and IFRS and how those differences might impact the financial information presented herein.

This summary does not address differences related to the classification of amounts in the financial statements or footnote disclosures.

Service Concession Arrangements

Under Brazilian GAAP, the infrastructure related to service concession arrangements was accounted as the company's property, plant and equipment and it was depreciated considering the useful lives determined by the regulatory agency (ANREL) which is considered the useful life of the asset.

In accordance with IFRS, the Interpretation IFRIC 12 addresses the accounting by private-sector operators involved in providing public sector infrastructure assets and services. Its scope is limited to public-to-private service concession arrangements in which:

- The grantor controls the use of the infrastructure;
- The grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement;
- The grantor is considered to control the use of the infrastructure when it controls or regulates;
- The services to be provided with the infrastructure;
- To whom those services must be provided; and
- The price to be charged for those services.

Where a significant residual interest will exist in the infrastructure at the end of the service concession arrangement, that residual interest must revert to the grantor for the arrangement to be within the scope of the Interpretation. If the arrangement is such that no significant residual interest exists at the end of the term (commonly called "whole-of-life service concession arrangements") the arrangement is within the scope of the Interpretation, irrespective of which party controls any remaining insignificant residual interest. The first principle established in IFRIC 12 is that the infrastructure should not be recognised as property, plant and equipment of the operator. On the basis of the economic benefits to which it is entitled under the arrangement, the operator must determine whether the nature of the asset it receives is a financial asset and/or an intangible asset.

Regulatory assets and liabilities

Under Brazilian GAAP, a company operating in a regulated environment is often allowed by the regulator to make a fixed return on its investment or recoup its investment by increasing prices over a defined period. Consequently, the future price that the regulated entity is allowed to charge its customer may be influenced by past cost levels and investment levels. The regulated entity may also be required to decrease future prices to reflect the current recovery of costs expected to be incurred in the future. The anticipated recovery of current costs and future costs in a regulated environment are accounted for as regulatory assets and liabilities.

Regulatory assets do not meet the definition of an intangible asset under IFRS because they are not a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. In addition, under IFRS, the right to charge a higher price to customers can result in economic benefits only in connection with future sales to those customers. The economic benefits from sales to customers should be recognized in accordance with IAS 18 "Revenue," which requires delivery of the goods or services to the customers. This regulatory liability, in most circumstances, would not be a provision under IAS 37 as it is not a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. Instead, the entity will charge less and receive less from the individual customers in the subsequent period to address the fact that the entity has recovered future costs in the current period. This is because the regulatory requirement to reduce future prices constitutes a decrease in the price charged to customers for future supplies and not a refund to particular customers based on the amounts by which they were individually "overcharged." In other words, new customers that had not previously been "overcharged" would nevertheless benefit from the lower prices, while former customers who had been "overcharged" in the past but were no longer customers would neither get a refund nor benefit from the future lower prices.

Income Taxes

Under Brazilian GAAP, the recognition of tax credits derived from temporary differences and tax losses is an area that requires, considerable judgment. In general, tax credits were recognized when there was evidence of future realization, in a continuous operation. Generally, tax credits can be accounted for only if (a) the loss has been caused by identified and unusual events and the probability of new and similar events is unlikely; (b) there was an expectation of generating positive results for subsequent periods, as well as generation of tax liabilities to permit the realization of tax credits, properly verified through a technical analysis, and (c) there were tax obligations accounted for as liabilities, up to the limit and corresponding to the same period, in order to apply the tax credit. Tax credit recognition rules prohibit maintaining the tax credit whenever there has been a tax loss for the last three-years or available evidence indicates that realization is unlikely. Also, some additional requirements should be met for a public company, such as (i) additional supporting analysis to recognize deferred tax assets, (ii) the condition to recognize deferred tax assets based on a history of profitability, presenting taxable income in three out of the past five fiscal years (including the year being reported), and (iii) the prohibition of recognizing deferred tax assets if it is expected that they will be realized in more than 10 years as from the reporting date.

Under IFRS, the liability method is used to calculate the income tax provision, as specified in IAS 12, "Income Taxes." Under the liability method, deferred tax assets or liabilities are recognized with a corresponding charge or credit to income for differences between the financial and tax basis of assets and liabilities at each year/period end. Deferred taxes are computed based on the enacted tax rate of income taxes. Net operating loss carry forwards arising from tax losses are recognized as assets. The deferred tax asset shall be recognized to the extent that it is probable that future taxable profit will result in the realization of such deferred tax asset.

Earnings Per Share

Under Brazilian GAAP, earnings per share was normally computed on the number of shares outstanding at the end of the year, although it was acceptable to use a weighted-average basis.

Under IFRS, in accordance with IAS 33 "Earnings per Share (EPS)", the presentation of earnings per share must be disclosed on the face of the income statement by enterprises with publicly traded ordinary shares or potential ordinary shares, or those in the process of issuing such instruments. The EPS data to be presented is basic EPS and diluted EPS for each class of share. EPS based on alternative measures of earnings also may be presented if required. Computations of basic and diluted earnings per share data should be based on the weighted average number of shares outstanding during the period and all potentially dilutive shares outstanding during each period presented, respectively.

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Brazilian GAAP Financial Statements

As of and for the year ended December 31, 2009 and 2008

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A free translation from Portuguese into English of report of independent auditors on financial statements

Report of independent auditors on financial statements

To the Board of Directors and Shareholders of

Companhia de Eletricidade do Estado da Bahia – COELBA

Salvador – BA

We have audited the accompanying financial statements of Companhia de Eletricidade do Estado da Bahia – COELBA, which comprise the statement of financial position as at December 31, 2010 and the income statement, statement of changes in quotaholders' equity and cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board – *IASB* and the accounting practices adopted in Brazil, as well as for the internal controls management has determined as necessary to allow the preparation of these financial statements free of material misstatements, regardless of whether or not 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 the Brazilian and International auditing standards. These standards require that auditors comply with ethic requirements and that audit be planned and performed to obtain reasonable assurance whether the financial statements are free from material 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 misstatements in the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Companhia de Eletricidade do Estado da Bahia – COELBA as of December 31, 2010, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the accounting practices adopted in Brazil.

Other matters

Statements of value added

We have also audited the statement of value added for the year ended December 31, 2010, which presentation is required by the Brazilian Corporate Law for publicly held companies, and as supplementary information under the International Financial Reporting Standards as issued by the International Accounting Standards Board, whereby no statement of value added presentation is required. These statements have been subject to the same auditing procedures previously described and, in our opinion, is presented fairly, in all material respects, in relation to the overall financial statements.

Salvador, January 25, 2011.

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC-2SP015199/O-F-BA

Paulo José Machado
Accountant CRC-1RJ 061.469/O-4-S-BA

Shirley Nara Santos Silva
Accountant CRC-1BA-022650/O-O

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
BALANCE SHEETS
December 31, 2010 and 2009 and January 1, 2009
(In thousands of reais)

	<u>Notes</u>	<u>12/31/2010</u>	<u>12/31/2009</u> (Restated)	<u>1/1/2009</u> (Restated)
Assets				
Current assets				
Cash and cash equivalents	4	101,277	217,329	334,809
Accounts receivables and other receivables	5	883,386	794,525	630,397
Marketable securities	6	68,991	84,476	72,619
Taxes and social contributions recoverable	7	133,819	55,536	67,312
Inventories		8,014	5,334	6,361
Prepaid expenses		2,281	2,176	1,852
Other assets	9	110,549	112,131	103,529
Total current assets		1,308,317	1,271,507	1,216,879
Noncurrent assets				
Accounts receivables and other receivables	5	310,691	218,840	191,428
Taxes and social contributions recoverable	7	56,972	45,826	41,576
Deferred taxes	10	49,517	84,611	91,108
Affiliates and parent company	29	138	250	905
Tax benefit – merged goodwill from parent company	8	227,469	246,364	266,479
Judicial deposits	11	170,352	131,278	100,548
Pension plan asset	32	39,340	23,269	10,854
Other assets	9	11,853	15,259	16,516
Other investments		10,859	13,388	13,201
Indemnification asset (concession)	12	443,965	308,170	268,434
Intangibles	13	2,744,662	2,399,118	1,997,507
Total noncurrent assets		4,065,818	3,486,373	2,998,556
Total assets		5,374,135	4,757,880	4,215,435

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
BALANCE SHEETS
December 31, 2010 and 2009 and January 1, 2009
(In thousands of reais)

	<u>Notes</u>	<u>12/31/2010</u>	<u>12/31/2009</u> (Restated)	<u>1/1/2009</u> (Restated)
Liabilities and shareholders' equity				
Current liabilities				
Suppliers	14	335,755	319,345	241,936
Loans and financing	15	205,032	233,592	164,612
Debentures	16	215,387	82,419	67,910
Salaries and social charges payable	17	30,656	38,205	34,268
Regulatory charges	18	65,049	50,551	75,319
Taxes and social contributions payable	19	115,803	117,770	82,018
Dividends and interest on equity	20	29,177	320,621	25,585
Provisions	21	15,879	14,171	13,469
Other liabilities	22	122,002	69,303	74,901
Total current liabilities		1,134,740	1,245,977	780,018
Noncurrent liabilities				
Suppliers	14	6,349	5,480	1,417
Loans and financing	15	1,298,582	683,289	819,859
Debentures	16	363,077	469,438	550,940
Regulatory charges	18	18,700	40,413	25,432
Taxes and social contributions payable	19	3,775	18,998	16,365
Deferred taxes	10	66,720	67,003	30,801
Provisions	21	93,221	83,681	83,929
Pension plan liability	32	1,882	1,996	2,198
Other liabilities	22	8,682	19,444	37,424
Total noncurrent liabilities		1,860,988	1,389,742	1,568,365
Shareholders' equity	23			
Share capital		542,163	542,163	542,163
Capital reserves		698,050	698,050	698,050
Income reserves		647,539	480,856	332,518
Other comprehensive income		19,862	(3,046)	—
Additional dividends proposed		469,099	402,444	292,627
Total shareholders' equity		2,376,713	2,120,467	1,865,358
Funds for capital increase		1,694	1,694	1,694
Total shareholders' equity and funds for capital increase		2,378,407	2,122,161	1,867,052
Total liabilities and shareholders' equity		5,374,135	4,757,880	4,215,435

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
STATEMENTS OF INCOME
December 31, 2010 and 2009
(In thousands of reais)

	<u>Notes</u>	<u>2010</u>	<u>2009</u> (Restated)
Gross revenues	24	6,239,476	5,577,484
(-) Deductions from gross revenue	25	(1,845,152)	(1,581,358)
Net operating revenues		4,394,324	3,996,126
Cost of service	26	(2,902,851)	(2,608,767)
Gross income		1,491,473	1,387,359
Sales expenses	26	(209,425)	(173,495)
General and administrative expenses	26	(148,477)	(119,577)
Income before financial results and taxes		1,133,571	1,094,287
Financial income	27	336,687	307,937
Financial expenses	27	(355,355)	(335,144)
		(18,668)	(27,207)
Income before income and social contribution		1,114,903	1,067,080
Income tax and social contribution			
Current	19	(293,840)	(263,320)
Deferred		(22,813)	(44,268)
Incentive tax (Sudene)		166,364	148,248
Goodwill amortization and provision reversal		(18,895)	(20,115)
		(169,184)	(179,455)
Net income for the year		945,719	887,625
Basic and diluted earnings per share (in reais):			
Ordinary		4.79	3.78
Preferred “A”		4.79	3.78
Preferred “B”		5.26	4.16

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2010 and 2009 and January 1, 2009
(In thousands of Reais)

	Share capital	Capital reserves			Income reserves			Other comprehensive income	Accumulated income	Additional dividends proposed	Total shareholders' equity
		Remuneration of assets and rights constituted with own capital	Special goodwill reserve	Incentive tax reserve	Incentive tax reserve	Legal reserve	Profit retention reserve				
Balances at January 1, 2009 (restated) . .	542,163	18,569	339,052	340,429	159,016	108,433	65,069	—	—	292,627	1,865,358
Loss on available for sale assets . . .								(3,046)			(3,046)
Proposed dividends approval										(292,627)	(292,627)
Prescribed dividends							90				90
Net income for the year (restated)									887,625		887,625
Destination:											
Incentive tax reserve (SUDENE)					148,248				(148,248)		—
Interest on equity									(100,013)		(100,013)
Intermediate dividends									(236,920)		(236,920)
Additional dividends									(402,444)	402,444	—
Balances at December 31, 2009 (restated)	542,163	18,569	339,052	340,429	307,264	108,433	65,159	(3,046)	—	402,444	2,120,467
Gain on available for sale assets . . .								22,908			22,908
Proposed dividends approval										(324,215)	(324,215)
Prescribed dividends							319				319
Net income for the year									945,719		945,719
Destination:											
Incentive tax reserve (SUDENE)					166,364				(166,364)		—
Interest on equity									(106,832)		(106,832)
Intermediate dividends									(281,653)		(281,653)
Additional dividends									(390,870)	390,870	—
Balances at December 31, 2010	<u>542,163</u>	<u>18,569</u>	<u>339,052</u>	<u>340,429</u>	<u>473,628</u>	<u>108,433</u>	<u>65,478</u>	<u>19,862</u>	<u>—</u>	<u>469,099</u>	<u>2,376,713</u>

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2010 and 2009
(In thousands of reais)

	<u>2010</u>	<u>2009</u> (Restated)
Operating activities		
Income before taxes	1,114,903	1,067,080
Adjustments to reconcile income before taxes to cash from operating activities		
Amortization	213,986	172,517
Interest and monetary variation, net	150,103	106,188
Pension plan gains	(16,071)	(12,415)
Loss on intangible asset write-off	9,345	6,426
Provision for pension plan liability	(114)	(202)
Contingencies provision	11,248	454
Allowance for doubtful accounts	(5,958)	(6,640)
Total	1,477,442	1,333,408
(Increase) decrease on assets		
Accounts receivables and other assets	(174,754)	(144,892)
Marketable securities	30,452	164,128
Taxes and social contributions recoverable	(89,429)	(16,026)
Inventories	(2,680)	(1,027)
Deferred taxes	35,094	(6,497)
Tax benefit – merged goodwill from parent company	18,895	20,115
Judicial deposits	(39,074)	(30,730)
Other assets	(163,123)	(52,329)
Total	(384,619)	(67,258)
Increase (decrease) on liabilities		
Suppliers	17,279	71,524
Salaries and social contributions payable	(7,549)	(36,202)
Regulatory charges	(7,213)	(9,787)
Taxes payable	(17,190)	(268,276)
Deferred taxes	(283)	36,202
Other liabilities	41,937	23,578
Total	26,981	(182,961)
Net resources from operations	1,119,804	1,083,189
Financing activities		
Released funds from loans and financing	762,464	205,550
Issued debentures	80,274	—
Payment of loans and financing	(266,247)	(302,567)
Payment of debentures	(128,221)	(81,502)
Dividends payment	(1,002,364)	(333,788)
Total	(554,094)	(512,307)
Investment activity		
Indemnification asset (concession)	(112,887)	(114,543)
Intangibles	(568,875)	(573,819)
Total	(681,762)	(688,362)
Net cash decrease	(116,052)	(117,480)
Cash and cash equivalents at the beginning of the year	217,329	334,809
Cash and cash equivalents at the end of the year	101,277	217,329
Net cash decrease	(116,052)	(117,480)

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
STATEMENTS OF VALUE ADDED
Years ended December 31, 2010 and 2009
(In thousands of reais)

	<u>2010</u>	<u>2009</u> (Restated)
Revenues		
Electricity and service sales	6,239,476	5,577,484
Allowance for doubtful accounts	(30,932)	(24,297)
Result from disposal/decommissioning of assets and rights	1,969	(4,176)
	<u>6,210,513</u>	5,549,011
Inputs acquired from third parties		
Consumed raw materials	(1,880,690)	(1,676,033)
Materials, services from third parties and other	(970,831)	(850,302)
	<u>(2,851,521)</u>	(2,526,335)
Gross value added	3,358,992	3,022,676
Amortization	(206,042)	(172,517)
Net value added	3,152,950	2,850,159
Transferred value added		
Financial income	336,687	307,937
Total value added to be distributed	<u>3,489,637</u>	<u>3,158,096</u>
Value added distribution		
Personnel		
Remunerations	117,700	106,767
Social charges (except INSS)	25,453	26,177
Private pension plan	(5,757)	(4,596)
Meal assistance	9,863	9,215
Assistance covenant and other benefits	3,583	3,473
Vacation and 13 th salary	29,681	24,579
Health plan	10,200	9,475
Labor indemnities	9,554	8,050
Profit sharing	13,296	33,631
Management fees	3,308	2,964
Service order closure	2,254	1,588
(-) Transfers to service orders	(79,233)	(87,127)
Others	—	5,534
Subtotal	<u>139,902</u>	139,730
Government		
INSS (over payroll)	22,883	23,542
ICMS	1,037,019	914,781
PIS/COFINS over revenues	513,236	448,323
Income and social contribution taxes	169,184	179,455
Intra-sector obligations	299,655	223,550
Others	3,493	2,816
Subtotal	<u>2,045,470</u>	1,792,467
Financing and debentures		
Interest and monetary and foreign exchange variation	355,355	335,144
Rents	3,191	3,130
Subtotal	<u>358,546</u>	338,274
Shareholders		
Interest on equity	106,833	100,012
Dividends	672,522	639,365
Incentive tax reserve (SUDENE)	166,364	148,248
Subtotal	<u>945,719</u>	887,625
Total distributed value added	<u>3,489,637</u>	<u>3,158,096</u>

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
SOCIAL BALANCE SHEETS – ADDITIONAL INFORMATION (UNAUDITED)

Years ended December 31, 2010 and 2009

(In thousands of reais, except where otherwise indicated)

1. Calculation base	2010				2009			
Net revenue (RL)	4,394,324				3,996,126			
Operating result (RO)	1,114,903				1,067,080			
Gross payroll (FPB)	192,995				186,036			
Total value added (VAT)	3,489,637				2,158,096			
2. Internal social indicators (1)	R\$ thousands	% on FPB	% on RL	% on VAT	R\$ thousands	% on FPB	% on RL	% on VAT
Meals	9,039	4.68	0.21	0.26	8,964	4.82	0.22	0.28
Compulsory social charges	48,907	25.34	1.11	1.40	45,908	24.68	1.15	1.45
Private pension plan	8,567	4.44	0.19	0.25	8,474	4.55	0.21	0.27
Health	10,774	5.58	0.25	0.31	10,495	5.64	0.26	0.33
Occupational safety and health	1,698	0.88	0.04	0.05	1,873	1.01	0.05	0.06
Education	495	0.26	0.01	0.01	349	0.19	0.01	0.01
Professional training and development	2,116	1.10	0.05	0.06	1,931	1.04	0.05	0.06
Day care center allowance	692	0.36	0.02	0.02	748	0.40	0.02	0.02
Sports	—	—	—	—	33	0.02	—	—
Transportation	906	0.47	0.02	0.03	816	0.44	0.02	0.03
Profit sharing	13,296	6.89	0.30	0.38	33,631	18.08	0.84	1.06
Others	232	0.12	0.01	0.01	461	0.25	0.01	0.01
Total internal social indicators	96,721	50.12	2.20	2.77	112,683	61.11	2.84	3.60
3. External social indicators								
Education	1,356	0.12	0.03	0.04	1,390	0.13	0.03	0.04
Culture	1,680	0.15	0.04	0.05	20,327	1.90	0.51	0.64
Faz culture project	212	0.02	0.00	0.01	250	0.02	0.01	0.01
Rouanet law	1,153	0.10	0.03	0.03	828	0.08	0.02	0.03
Audiovisual law	200	0.02	—	0.01	2,153	0.20	0.05	0.07
Culture fund	—	—	—	—	17,000	1.59	0.43	0.54
COELBA cinema	115	0.01	—	—	96	0.01	—	—
Health and sanitation	945	0.08	0.02	0.03	188	0.02	—	0.01
Sports	5	—	—	—	90	0.01	—	—
Social development	381,039	34.18	8.67	10.92	366,688	34.36	9.18	11.61
Electricity for all	270,005	24.22	6.14	7.74	262,668	24.62	6.57	8.32
Universalization	11,034	9.96	2.53	3.18	104,020	9.75	2.60	3.29
Technological research and development	16,810	1.51	0.38	0.48	26,995	2.53	0.68	0.85
Others	296	0.03	0.01	0.01	756	0.07	0.02	0.02
Total contribution to society	402,131	36.07	9.15	11.52	416,433	39.03	10.42	13.19
Taxes (except social charges)	1,870,401	167.76	42.56	53.60	1,631,893	152.93	40.84	51.67
Total external social indicators	2,272,532	203.83	51.72	65.12	2,018,326	189.14	50.51	63.91
4. Environmental indicators								
Investments related to Company's operations								
Vegetation handling	9,906	0.89	0.23	0.28	9,099	0.85	0.23	0.29
Replacement of equipment	5,235	0.47	0.12	0.15	5,497	0.52	0.14	0.17
Oil recycling	158	0.01	0.00	0.00	301	0.03	0.01	0.01
Environmental licenses	2,405	0.22	0.05	0.07	2,953	0.28	0.07	0.09
Compacted or isolated network	24,883	2.23	0.57	0.71	21,966	2.06	0.55	0.70
Environmental education	124	0.01	—	—	91	0.01	—	—
Photovoltaic solar energy	20,382	1.83	0.46	0.58	12,175	1.14	0.30	0.39
Environmental management system	429	0.04	0.01	0.01	269	0.03	0.01	0.01
Other environmental projects	288	0.15	0.01	0.01	90	0.01	—	—
Subtotal	63,809	5.72	1.45	1.83	52,442	4.91	1.31	1.66
Investments in external programs and/or projects								
Research and development	1,378	0.12	0.03	0.04	471	0.04	0.01	0.01
Energetic efficiency (3)	55,253	4.96	1.26	1.58	11,727	1.10	0.29	0.37
Environmental education for the community	1,135	0.10	0.03	0.03	590	0.06	0.01	0.01
Others	98	0.01	0.00	0.00	920	0.09	0.02	0.03
Subtotal	57,864	5.19	1.31	1.66	13,707	1.28	0.34	0.43
Total investments in environment	121,673	10.91	2.77	3.49	66,149	6.20	1.66	2.09
						2010	2009	
Number of environmental, administrative and judicial proceedings against the entity						18	0	
Amount of administrative and/or judicial penalties and indemnification related to environmental matter						4,205	0	
Environmental liabilities and contingencies						0	0	

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
SOCIAL BALANCE SHEETS – ADDITIONAL INFORMATION (UNAUDITED)

Years ended December 31, 2010 and 2009

(In thousands of reais, except where otherwise indicated)

	2010				2009			
In relation to establishment of annual targets to minimize residues, consumption in general in production/operations and increase effectiveness in using natural resources, the Company:	() Does not have targets	() Meets 0 to 50%	() Meets 51 to 75%	(X) Meets 76 to 100%	() Does not have targets	() Meets 0 to 50%	() Meets 51 to 75%	(X) Meets 76 to 100%
	2010				2009			
5. Functional body indicators								
N° of employees at period end				2,541				2,550
N° of admissions in the period				234				71
N° of dismissals in the period				231				167
N° of outsourced employees (1)				11,977				9,305
N° of trainees (1)				224				120
N° of employee above 45 years of age				1,561				1,578
N° of employees by age bracket:								
18 to 35				790				657
36 to 60				1,720				1,877
Above 60				31				16
N° of employees by school level:								
Elementary school				232				87
High school				198				202
Technical school				1,125				1,323
University undergraduate				801				755
University graduate				185				183
N° of employees by gender:								
Male				1,981				2,000
female				560				550
% of head positions by gender:								
Male				79%				78%
Female				21%				22%
N° of black employee working at the Company				2,080				2,026
% of head positions held by black employees				68%				72%
N° of handicapped employees (1)				67				73
Gross remuneration segregated into								
Employees				124,094				116,598
Management				4,339				3,163
Outsourced				N/A				N/A
Independent workers				N/A				N/A
6. Significant information about Corporate citizenship exercise								
Ration between higher and lower remuneration				49				49
N° of total occupational accidents				27				18
Social and environmental projects developed by the Company were defined by	() directors	(X) directors and managers	() all employees	() directors	(X) directors and managers	() all employees		
The occupational safety and health standards were defined by	(X) directors and managers	() all employees	() all (+) Cipa	(X) directors and managers	() all employees	() all (+) Cipa		
In relation to Union freedom, collective bargaining right and internal representation of employees, the Company:	() does not get involved	(X) follows OIT rules	() encourages and uses OIT	() does not get involved	(X) follows OIT rules	() encourages and uses OIT		
Private pension is granted to:	() directors	() directors and managers	(X) all employees	() directors	() directors and managers	(X) all employees		
Profit sharing is granted to:	() directors	() directors and managers	(X) all employees	() directors	() directors and managers	(X) all employees		

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
SOCIAL BALANCE SHEETS – ADDITIONAL INFORMATION (UNAUDITED)

Years ended December 31, 2010 and 2009

(In thousands of reais, except where otherwise indicated)

	2010			2009		
In the selection of suppliers, the same ethical, social responsibility and environmental standards adopted by the Company	() are not considered	() are suggested	(X) are required	() are not considered	() are suggested	(X) are required
In relation to employees participation in the volunteer work project, the Company	() does not get involved	() supports	(X) organizes and encourages	() does not get involved	() supports	(X) organizes and encourages
Civil litigation						
Nº of total claims and complaints from consumers						
At the Company		175,688			71,188	
At Procon		1,555			286	
In court		8,861			7,276	
% of claim and complaints resolved:						
At the Company		90%			95%	
At Procon		90%			95%	
In court		63%			65%	
Amount of penalties and indemnification to customers, determined by consumer protection and defense bodies or the courts (2)		7,571			6,946	
Initiatives carried out by the entity to clear or minimize the cause of complaints:						
1. Counting 15 days for the suspension of the electricity from the date of the delivery the invoice instead of the issuance date.						
2. Change the spreadsheets of irregularities into SAP/CCS.						
3. Procedures to the application of seasonality to non industrial consumers.						
4. Suspended the questioning of the consumption difference to regular consumers with derivation of ramal to thirds						
5. Orientation to the correct classification of Public Agent Sports Court.						
6. Hiring a consulting to prepare a diagnostic and propose improvements in the process of RDE, Irregularities and Supplier Quality.						
Observations:						
1. The amounts composing internal social indicators includes employees and management. We do not have amounts related to outsourced and independent workers.						
2. The increase in penalties and indemnifications to customers is due to the implementation of the new commercial system – SAP/CCS.						
3. The difference in amount expended in the COELBA's Energetic Efficiency Program in 2010 compared to 2009 was due to the increase in the project of freezers donations.						
Labor contingencies and liabilities:						
Number of labor claims:						
Files against the entity		1,011			951	
Considered groundful		298			280	
Considered not groundful		78			67	
Total amount of indemnification and penalties paid under court order (3)		9,554			8,311	
Total value added to be distributed (R\$ thousand)		In 2010: 3,489,637			In 2009: 3,158,096	
Distribution of Value Added (DVA):		58.62% govern 22.33% shareholders parties 4.77% Incentive tax (SUDENE) 0% Retained			56.76% govern 23.41% shareholders parties 4.69% Incentive tax (SUDENE) 0% Retained	

7. Other information

CNPJ: 15.139.629/0001-94, energetic sector – BA

For clarification about declared information: André Luis Margalhão Gondim, phone (71) 3370 – 5141, e- mail: agondim@COELBA.com.br

This Company does not use child or slave labor, is not involved with prostitution or sexual exploration of children and adolescents and is not involved with corruption.

Our Company values and respects diversity internally and externally.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
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(In thousands of reais)

1. OPERATIONS

Companhia de Eletricidade do Estado da Bahia – COELBA, a publicly-held corporation and a subsidiary of NEOENERGIA S/A (“NEOENERGIA”), is a public electric energy concessionaire, incorporated for the purpose of designing, building and operating systems for sub-transmission, processing, distribution and sale of electric power and related services that may be granted or allowed, and performing activities associated with electric energy services. The Company may also provide technical services in its area of expertise, carry out export and import operations, and perform other acts necessary to accomplish its goals. The Company’s activities are regulated and supervised by the National Agency of Electric Energy (ANEEL), an agency reporting to the Ministry of Mines and Energy.

The Company’s headquarter is at Av. Edgard Santos, 300, Narandiba, Salvador – State of Bahia.

The Company has been granted concession to distribute electric energy in 415 of the 417 municipalities of the state of Bahia, and in the municipalities of Delmiro Gouveia in the state of Alagoas and of Dianópolis in the state of Tocantins, covering a total concession area of 563 thousand square km, authorized by Decree dated August 6, 1997 and regulated by Concession Agreement No. 010, signed on August 8, 1997, and amendments, effective for 30 years, until August 7, 2027.

Furthermore, considering the current electric sector regulations, the Company provides services to free consumers in the state of Bahia since 2002.

The authorization to conclude the preparation of these financial statements was given by the Company’s management on January 25, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

2.1. Basis of presentation

The financial statements were prepared in accordance with accounting practices adopted in Brazil, which include the provisions of the Corporation Law and accounting procedures issued by the Brazilian Securities and Exchange Commission (CVM) and the Comitê de Pronunciamentos Contábeis (“CPC”), which are in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB).

The preparation of the financial statements requires the use of accounting estimates, which take into consideration objective and subjective factors, based on management’s judgment to determine the adequate amount to be recorded in the financial statements.

Significant items subject to such estimates include: registration of unbilled revenue from supply of electric energy and from use of distribution network, registration of sale of energy within the Electric Energy Trade Chamber (CCEE), assessment of financial assets at fair value, estimates of the fair value of investment properties, analysis of the risk of credit to determine allowance for doubtful accounts, in addition to analysis of the other risks to determine other provisions, including provision for contingencies.

The book values of recognized assets and liabilities that represent items subject to hedge at fair value, which, alternatively, would be recorded at amortized cost, are adjusted to demonstrate variations in the fair values attributable to risks that are being hedged.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.1. Basis of presentation—Continued

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in the estimate process. The Company reviews its estimates and assumptions at least on an annual basis.

The Company adopted all standards, revised standards and accounting interpretations issued by CVM and CPC effective at December 31, 2010.

The accounting practices detailed below were applied consistently to all periods presented herein and for preparation of the opening balance sheet at January 1, 2009, for purposes of transition to the new accounting pronouncements.

2.2. Translation of foreign currency balances

The financial statements are presented in Reais (R\$), which is also the Company's functional currency.

Monetary assets and liabilities denominated in foreign currency that are not hedge instruments or hedged items are translated into the functional currency at the exchange rate in force on the respective balance sheets. Gains and losses arising from translation of these assets and liabilities between the rate of exchange in effect at the transaction date and the fiscal year closing dates are recognized as financial income or expenses in the statement of income.

2.3. Revenue recognition

Revenue is recognized to the extent in which it is probable that economic benefits will be generated for the Company and it may be reliably measured. Net revenue is measured based on the fair value of consideration received, excluding discounts, rebates and taxes on sales.

a) Unbilled revenue

This corresponds to revenue from electric energy delivered and not billed to the consumer, and to unbilled use of the distribution network, calculated on an estimated basis, referring to the period after the monthly measurement to the last day of the month.

b) Construction revenue

ICPC 01 establishes that the electric energy concessionaire must record and measure revenue from services provided in accordance with Accounting Pronouncement CPC 17 – Construction Revenue (construction or improvement services) and CPC 30 – Revenue (services from operations – supply of electric energy), even when under a single concession agreement.

The Company recognizes revenues and costs from construction services or infrastructure improvement services used in the provision of electric energy distribution services. The construction margin adopted is established at zero, considering that: (i) the Company's business purpose is distribution of electric energy; (ii) all construction revenue relates to construction of infrastructure to meet its business purpose, i.e., distribution of electric energy; and (iii) the Company outsources the construction of infrastructure with unrelated parties. The totality of additions to intangible assets in progress is

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.3. Revenue recognition—Continued

transferred to the statement of income on a monthly basis as construction costs, after deduction of funds from the registration of special obligations.

c) Interest income

Interest income is recognized when it is likely that economic benefits will flow to the Company and the amount may be reliably measured.

Interest income is recorded on a straight-line basis, considering the term and the effective interest rate applied to the outstanding principal amount. The effective interest rate is the rate that discounts the exact amount of receipts from estimated future cash flows during the estimated useful life of the financial asset in relation to the initial net book value of such asset.

2.4. Current and deferred income and social contribution taxes

Deferred tax liabilities are recognized for all taxable temporary differences, except when resulting from:

- Initial recognition of goodwill derived from expectation of future profitability; or
- Initial recognition of an asset or liability in a transaction that: does not correspond to a business combination and, upon occurrence of the transaction, neither the book income nor the taxable income is affected (tax loss).

Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is likely that there will be taxable profit against which the deductible temporary difference may be matched, unless the deferred tax asset arises from initial recognition of an asset or liability in a transaction that:

- Does not correspond to a business combination; and
- Upon occurrence of the transaction, neither the book income nor the taxable income is affected (tax loss).

They are calculated based on income and social contribution tax rates in force on the financial statement preparation date.

For calculation of the income and social contribution taxes on net income, the Company adopts the Transition Tax Regime (RTT), which permits that the effects from the changes arising from Laws No. 11,638/2007 and 11,941/2009 be excluded from the referred tax basis.

The Company is entitled to Income Tax reduction (incentive tax from SUDENE—Supervisory Authority for Development of the Northeast of Brazil), calculated based on the profit from tax incentive activities (see Note 23).

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.5. Sales taxes

Revenues, expenses and assets are recognized net of sales taxes, except when:

- sales taxes incurred on the purchase of goods or services are not recoverable from the tax authorities, case in which sales taxes are recognized as part of asset cost of acquisition or of the expense item, as applicable; and
- amounts receivable and payable are presented together with the amount of sales taxes.

The net amount of sales taxes, whether recoverable or payable, is included as a component of amounts receivable or payable in the balance sheet.

2.6. Financial instruments

a) Financial assets

The Company's financial assets are classified as financial assets at fair value through profit or loss (those held for trading and those designated as such upon initial recognition), loans and receivables, investments held to maturity, financial assets available for sale or derivatives classified as effective hedge instruments.

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

The Company's financial assets include cash and cash equivalents, accounts receivable, marketable securities, indemnification assets (concession), other credits and derivative financial instruments classified as hedge instruments.

a.1) Subsequent measurement of financial assets

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

- Financial assets at fair value through profit or loss

Financial assets are classified as held for trading if they were acquired for the purpose of sale in the short term.

Financial assets at fair value through profit or loss are presented in the balance sheet at fair value, and corresponding gains or losses are stated in the statement of income.
- Loans and receivables

Loans and financing are non-derivative financial assets, with fixed or determinable payments, not traded in an active market. After their initial recognition, they are measured at amortized cost using the effective interest rate method, less impairment losses. Amortized cost is calculated taking into consideration any discount or "premium" on acquisition and rates or costs incurred. Amortization of the effective interest rate method is included under financial income, in the statement of income. Impairment losses are recognized as financial expenses in the statement of income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.6. Financial instruments—Continued

1) Subsequent measurement of financial assets—Continued

a) Financial assets—Continued

- Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the intention and ability to hold them to maturity. After their initial recognition, they are measured at amortized cost using the effective interest rate method, less impairment losses.

- Financial assets available for sale

Financial assets available for sale are non-derivative assets not classified as: (a) loans and receivables, (b) investments held to maturity or (c) financial assets at fair value through profit or loss.

After initial recognition, they are measured at fair value, and any unrealized gains or losses are recorded as other comprehensive income until the investment disposal, with exception of impairment losses, interest calculated under the effective interest rate method and gains or losses on foreign exchange variation of monetary assets, recognized directly in the statement of income for the period.

a.2) Derecognition (write-off) of financial assets

A financial asset (or, when applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows have expired;
- The Company has transferred its rights to receive cash flows from the asset or assumed an obligation to fully pay cash flows received, without significant delay, to a third party under a transfer agreement; and (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has not transferred nor substantially maintained all risks and rewards of the asset, but has transferred the control over the asset.

b) Financial liabilities

The Company's financial liabilities are classified at fair value through profit or loss, as loans and financing or as derivatives classified as hedge instruments, as applicable. The Company determines the classification of its financial liabilities upon initial recognition.

Financial liabilities are initially recognized at fair value and, in the case of loans and financing, include the directly related transaction cost.

The Company's financial liabilities include payables to suppliers, loans and financing, debentures and derivative financial instruments classified as hedge instruments.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.6. Financial instruments—Continued

b) Financial liabilities—Continued

b.1) Subsequent measurement of financial liabilities

The measurement of financial liabilities depends on their classification, as follows:

- Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities for trading and those initially designated at fair value through profit or loss.

The Company does not record financial liabilities at fair value through profit or loss.

- Held for trading

Financial liabilities are classified as held for trading if they were acquired for the purpose of sale in the short term. This category includes derivative financial instruments contracted by the Company that do not meet the hedge accounting criteria defined by CPC 38. Derivatives are also classified as held for trading, unless they are initially designated as effective hedge instruments. Gains and losses on liabilities for trading are recognized in the statement of income.

- Loans and financing

After initial recognition, loans and financing subject to interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are posted to the statement of income upon write-off of the liabilities and during the process of amortization by the effective interest rate method.

b.2) Derecognition (write-off) of financial liabilities

A financial liability is derecognized upon revocation, cancelation or expiry of the obligation. When an existing financial liability is replaced by another liability of the same lender, under substantially different conditions, or the conditions of an existing liability are significantly changed, such replacement is treated as derecognition of the original liability and recognition of a new liability, the difference between the corresponding book amounts being recognized in the statement of income.

c) Fair value of financial instruments

The fair value of financial instruments actively traded on stock exchanges is determined based on closing purchase prices on the balance sheet date, not deducting transaction costs.

The fair value of financial instruments for which there is no active market is determined through valuation techniques. These techniques include use of recent market transactions (on an arm's length basis); reference to the current fair value of a similar instrument; discounted cash flow analysis or other valuation methods.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.7. Derivative financial instruments and hedge accounting

The Company enters into swap derivatives with the objective of managing the risk exposure arising from fluctuations in foreign exchange and interest rates. As provided for in CPC 38, such derivatives were recorded as hedge financial instruments (hedge accounting).

The Company does not have derivatives agreements for commercial and speculative purposes (see Note 30).

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

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

For hedge accounting purposes, hedges are classified at fair value when they provide protection against exposure to changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment, or of an identified part of such asset, liability or firm commitment, attributable to a specific risk which could impact the statement of income.

Any gains or losses arising from changes in the fair value of such derivatives and hedged item during the year are recorded directly to the statement of income, under financial income (expenses).

The Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, the objectives and the risk management strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, the nature of the risks excluded from the hedge relationship, the prospective demonstration of effectiveness of the hedge relationship and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value of the hedged item.

Such hedges are expected to be highly effective in offsetting changes in the fair value, and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting periods for which they were designated.

2.8. Cash and cash equivalents

Cash and cash equivalents include cash balances, demand deposits and highly liquid short-term investments, readily convertible in a known cash amount, with insignificant risk of change in value. These investments are carried at cost plus interest to the date of the balance sheet and measure at fair value, with gain or loss recorded in the income statement.

2.9. Accounts receivable and other receivables

These include accounts receivable from supply of electric energy and use of network, whether billed or unbilled, the latter being on an estimated basis, services rendered, late-payment fines, among others, to the balance sheet date, recorded on an accrual basis. They are considered financial assets and classified as loans and receivables.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.9. Accounts receivable and other receivables—Continued

Accounts receivable and other receivables are presented net of allowance for doubtful accounts, recognized in an amount considered sufficient by management to cover probable losses on realization of accounts receivable from consumers and trade notes receivable whose recovery is assessed as improbable.

Allowance for doubtful accounts is set up based on amounts receivable from residential class consumers overdue for more than 90 days, commercial class consumers overdue for more than 180 days and industrial, rural, government, public lighting and public services overdue for more than 360 days. An individual analysis of trade notes receivable and of the each consumer's balance is also considered, so as to obtain an adequate judgment of the amounts considered of doubtful recovery, based on management's experience with effective losses, existence of security interest, among others.

2.10. Marketable securities

These are classified as financial assets held to maturity, stated at amortized cost plus contracted interest and recognized proportionally until the financial statements reporting dates, equivalent to their fair values.

2.11. Inventories

Materials and equipment in inventories, classified as current assets (maintenance and administrative supplies), are stated at average acquisition cost not exceeding their replacement values, less provision for losses when applicable.

2.12. Other investments

These are represented by investments in real properties, stocks and shares in the rights to sell audiovisual work, not intended for the purpose of the concession, and are recognized at acquisition cost, net of provision for losses when applicable.

2.13. Indemnification asset (concession)

Relates to the estimated portion of investments realized and not amortized until the end of the concession period, classified as a financial asset as it refers to an unconditional right to receive cash or another financial asset directly from the granting power, arising from adoption of Accounting Interpretation ICPC 01 – Service Concession Arrangements and Accounting Guidance OCPC 05 – Service Concession Arrangements.

This portion of infrastructure classified as financial asset accrues interest by means of the regulatory WACC, whereby interest of the investment is included in the monthly customer tariff.

The financial asset's fair value is revised on a quarterly basis considering the General Market Price Index (IGPM). Any differences between the fair value recorded and the new fair value are recognized directly in shareholders' equity as other comprehensive income. On the tariff review date, which takes place every five years (the next review is estimated to occur in April 2013), the financial asset may be adjusted to its fair value, according to the interest basis established for the new replacement value by the tariff criteria.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.14. Intangible assets

These include use rights over infrastructure that has been constructed or acquired by the operator or provided for use by the granting power, under an electric energy utility concession agreement (right to charge for the services provided from the utility service users), in accordance with CVM Rules No. 553, of November 12, 2008, No. 611, of December 22, 2009 and No. 654, of December 28, 2010, which approved CPC 04 – Intangible assets, ICPC 01 – Service Concession Arrangements and OCPC 05 – Service Concession Arrangements, respectively.

They are valued at acquisition cost, less accumulated amortization and impairment losses, when applicable.

The Company believes there is no indication that the book value of its intangible assets exceeds their recoverable amount, based on the methodology for calculation of the interest basis used to calculate the depreciation charged via tariff, since, while the book records are shown at historical cost, the basis for calculating the regulatory depreciation corresponds to assets valued at a new replacement value.

However, in order to support this understanding, the Company performs annual impairment tests using the method of the present value of future cash flows generated by the assets resulting in an amount in excess of the book value (see Note 13).

2.15. Loans, financing and debentures

Liabilities denominated in local currency are updated by monetary variation and effective interest incurred through the balance sheet dates, according to the terms of financing agreements, net of transaction costs incurred in obtaining the funds.

According to CPC 38, foreign currency-denominated liabilities are regarded as hedge items (hedge accounting), and recorded at market value.

Borrowing costs corresponding to acquisition, construction or production of qualifying assets, in this case the intangible asset corresponding to the right to use the infrastructure for provision of utility services, are included in the cost of the intangible asset in progress until the date in which it is ready for the intended use, as per CVM Rules No. 553, of November 12, 2008 and No. 577, of June 5, 2009, which approved CPC 04 – Intangible assets and CPC 20 – Borrowing costs, respectively.

Gains from temporary investment of funds from specific loans obtained and not yet used in the qualifying assets are deducted from the costs with loans qualified for capitalization.

All other borrowing costs are recognized in the statement of income for the period, when incurred.

2.16. Regulatory charges

a) Global Reversion Reserve (Reserva Global de Reversão – “RGR”)

Electric energy sector charge payable monthly by electric energy concessionaires in order to provide resources for the reversion, expansion and improvement of electric energy public services. Its annual value amounts to 2.5% of investments made by the concessionaire in assets linked to the provision of electric energy services, limited to 3.0% of its annual revenue.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.16. Regulatory charges—Continued

b) Fuel Consumption Account (Conta de Consumo de Combustível – “CCC”)

This represents portion of the tariff revenue paid by distributors in the interconnected systems for two purposes: 1) payment of costs of fuel used in thermal plants that are activated to cover hydrologic uncertainties and; 2) subsidy of part of the cost of fuel in isolated systems to allow for electric energy tariffs in those sites to be similar to those adopted in interconnected systems.

c) Energy Development Account (Conta de Desenvolvimento Energético – “CDE”)

This aims at fostering energy development of the States and competitiveness of energy produced from alternative sources, in areas served by the interconnected systems, allowing the universal electric service. The amounts to be paid are also defined by ANEEL.

d) Energy Efficiency Programs (Programa de Eficiência Energética – “PEE”) – Research and Development (Pesquisa e Desenvolvimento – “P&D”) – National Scientific and Technological Development Fund (Fundo Nacional de Desenvolvimento Científico e Tecnológico – “FNDCT”) and Energy Research Company (Empresa de Pesquisa Energética – “EPE”)

These are reinvestment programs required by ANEEL from electric energy distributors, which must annually allocate 1% of their net operating revenue to these programs.

e) Electric Energy Service Inspection Fee (Taxa de Fiscalização de Serviços de Energia Elétrica – “TFSEE”)

The inspection fee amounts levied on electric energy distribution are different and proportional to the size of the service provided, calculated annually by ANEEL, considering the economic value added by the concessionaire.

f) System Service Charge – (Encargo de Serviço do Sistema – “ESS”)

This represents the cost incurred to maintain the reliability and stability of the National Interconnected System to meet the demand for electric energy in Brazil. This cost is calculated monthly by the CCEE and paid by consumers to generation agents.

2.17. Payment of dividends

Accounting for dividends is in accordance with CPC 25 and ICPC 08, which determine that proposed dividends to be paid and that are grounded on statutory obligations are to be recognized as current liabilities.

The Company’s articles of incorporation establish that at least 25% of annual net income be distributed as dividends. Furthermore, based on such articles of incorporation, it is incumbent upon the Board of Directors to approve payment of interest on equity capital and interim dividends, which must be substantiated on results reviewed by independent auditors, with projection of cash flows that show the feasibility of the proposal.

As such, at the year-end closing and after the due legal allocations, the Company records provision equivalent to the minimum mandatory dividends not yet paid during the year, whereas proposed dividends in excess of the minimum mandatory dividends are recognized as “Proposed payment of supplementary dividends”, in shareholders’ equity.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.17. Payment of dividends—Continued

The Company pays interest on equity capital pursuant to article 9, paragraph 7 of Law No. 9249, of December 26, 1995, which is deductible for tax purposes and considered part of the mandatory dividends.

Dividends and interest on equity capital not claimed within three years are reversed to the Company.

2.18. Private pension plan and other employee benefits

The Company has various employee benefit plans including private pension plans, profit sharing and health plans, among others.

Actuarial liabilities with private pension plans are accrued for based on actuarial calculation prepared annually by an independent actuary, in accordance with the projected unit credit method, net of plan guarantee assets, when applicable, with the corresponding costs recognized during the employees' vesting period, in accordance with CVM Rule No. 600, of October 7, 2009. Any surpluses in employee benefit plans may be recorded, and recognized up to the probable moment of recovery as sponsor's assets.

The projected unit credit method considers each period of service as a triggering event of an additional benefit unit, which are accumulated for calculation of the final liability. Furthermore, other actuarial assumptions are used, such as biological and economic hypotheses, in addition to historical data on expenses incurred and employee contributions.

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions of pension plans and actuarial commitments referring to the health plan are recognized in the statement of income for the year.

2.19. Provisions

The Company records provisions that require considerable judgment by management, regarding tax, labor and civil contingencies, which, as a result of a past event, are expected to result in an outflow of economic benefits for their settlement and the amounts may be reasonably estimated.

The Company is also subject to various civil and labor claims involving a wide range of matters, arising from the normal course of its activities. The Company's judgment is based on the opinion of its legal advisors. The provisions are reviewed and adjusted to consider changes in circumstances, such as applicable statute of limitations, conclusions from tax audits or additional exposures identified as a result of new matters or court rulings. Actual results could differ from such estimates.

2.20. Other rights and obligations

Other current and noncurrent assets and liabilities subject to monetary variation due to legislation or contractual arrangements are adjusted based on the rates defined in the related provisions, so as to reflect amounts restated to the balance sheet date. Other assets and liabilities are recorded at amounts incurred at the build-up date, and assets are reduced by provision for losses and/or present value adjustments, as applicable.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES—Continued

2.21. Purchase and sale operations in the Electric Energy Trade Chamber (CCEE)

Purchases and sales of electric energy in the CCEE are recognized on an accrual basis according to information disclosed by that entity or to the Company's management estimates, when such information is not timely available.

2.22. Environmental issues

The Company capitalizes expenses referring to environmental lawsuits substantiated on regulatory provisions of the electric energy sector, driven by "environmental conditioning" requirements set by the related public agencies to grant the respective permits that will enable fulfillment of the projects, namely the Brazilian Institute of the Environment and Renewable Natural Resources (IBAMA) and, at the state level, the Environment Institute (IMA).

"Environment conditioning" requirements are compensations that must be made in fulfilling the projects, with a view to repairing, minimizing or avoiding environmental damage in the project location.

In the event of expenses arising from agreements with NGOs and other entities that foster environmental preservation but that are not related to investment projects, these are posted to the statement of income as operating expenses.

Liabilities assumed are recognized on an accrual basis, from the moment the commitment is formally established, and are settled in accordance with the deadlines agreed-upon between the parties.

2.23. Operating segment

Operating segment is defined a business activity from which the entity may earn revenues and incur expenses, whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance and for which discrete financial information is available.

All decisions made by the Company are based on consolidated reports, the services are rendered through an integrated distribution network and the operations are managed on a consolidated basis. As such, the Company concludes that the electric energy distribution activity is the only segment to be reported.

3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS

Laws No. 11,638/07 and 11,941/09 established that publicly-held companies must begin the process of convergence to the international accounting standards, with issuance of various accounting pronouncements, interpretations and guidance by the Comitê de Pronunciamentos Contábeis ("CPC"), approved by the Brazilian accounting regulators, in two phases: the first phase, developed and applied in 2008 with adoption of CPC 01 to 14 (revoked as from 2010), and the second phase, with issuance of pronouncements CPC 15 to 43 (except for CPC 34 and 42), to be mandatorily adopted in 2010 with retrospective adoption to 2009 for comparative purposes.

The financial statements for the year ended December 31, 2010 will be the first financial information prepared in accordance with the new accounting pronouncements. The Company prepared its opening balance sheet with the transition date of January 1, 2009.

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

a) Exemptions

In preparing the financial statements on the transition date in accordance with CPC 43 – First-time adoption of CPCs 15 to 40, the Company adopted the mandatory exceptions and certain elective exemptions from retrospective application of the new accounting pronouncements.

a.1) Exemptions from full retrospective application elected by the Company

The Company elected to adopt the following exemptions from full retrospective application:

- Exemption referring to classification of financial instruments: the Company opted for the classification and valuation of its financial instruments in accordance with CPC 38 on the transition date of the new CPCs. No analyses were conducted retrospectively to the original date on which the financial instruments, effective on the transition date, were contracted. All financial instruments contracted after the transition date were analyzed and classified on the date of engagement of the operations.
- Exemption referring to retrospective adoption of ICPC 01: the Company considered that it is impracticable to individually re-measure the assets that comprise the infrastructure used to provide the public services on their acquisition dates, and therefore opted for the net book value method for such measurement: (i) intangible assets, corresponding to the estimated portion of the investments made, to be amortized until the end of the concession period and (ii) the indemnification asset, represented by the unconditional contractual right to receive cash or another financial asset from the granting power for the construction services provided and not amortized until the end of the concession period.
- Exemption referring to measurement of employee benefits: the Company elected to charge all actuarial gains and losses arising from employee pension plans on the date of adoption of the new CPCs against retained earnings. As from such date, recognition of actuarial gains and losses follows the corridor rule, i.e., they are only recognized when they exceed 10% of plan assets or 10% of the accumulated projected employee benefit liability.

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

a) Exemptions—Continued

a.2) Reconciliation of the balance sheet and the statement of income in accordance with the new accounting pronouncements

For a better presentation of the financial statements, the Company made certain reclassifications of the balance sheet balances published as of 12/31/2008 and 12/31/2009 and income for 2009, without impairing the quality of the information presented.

	<u>Ref.</u>	<u>Released 12/31/2008</u>	<u>Reclassifications</u>	<u>Adjustments</u>	<u>Restated 12/31/2008</u>
Assets					
Current assets					
Cash and cash equivalents		334,809	—	—	334,809
Accounts receivables and others receivables		633,450	—	(3,053)	630,397
Marketable securities		72,619	—	—	72,619
Regulatory assets (1)		8,147	—	(8,147)	—
Taxes and social contributions recoverable		67,312	—	—	67,312
Deferred taxes (8)		16,066	(16,066)	—	—
Tax benefit – merged goodwill from parent company (8)		20,115	(20,115)	—	—
Inventories		6,361	—	—	6,361
Prepaid expenses		1,852	—	—	1,852
Other assets		103,529	—	—	103,529
Total current assets		<u>1,264,260</u>	<u>(36,181)</u>	<u>(11,200)</u>	<u>1,216,879</u>
Noncurrent assets					
Accounts receivables and others receivables		191,428	—	—	191,428
Regulatory assets (1)		86,969	—	(86,969)	—
Taxes and social contributions recoverable		41,576	—	—	41,576
Affiliates and parent company . .		905	—	—	905
Deferred taxes (7)/(8)		45,196	16,066	29,846	91,108
Tax benefit – merged goodwill from parent company (8)		246,364	20,115	—	266,479
Judicial deposits (8)		66,635	33,913	—	100,548
Pension plan asset (6)		—	—	10,854	10,854
Other assets		16,516	—	—	16,516
Indemnification asset (concession) (2)/(4)		—	—	268,434	268,434
Other investments		13,201	—	—	13,201
Fixed assets (2)/(4)		2,147,225	—	(2,147,225)	—
Intangibles (2)/(4)		115,663	—	1,881,844	1,997,507
Total noncurrent assets		<u>2,971,678</u>	<u>70,094</u>	<u>(43,216)</u>	<u>2,998,556</u>
Total assets		<u><u>4,235,938</u></u>	<u><u>33,913</u></u>	<u><u>(54,416)</u></u>	<u><u>4,215,435</u></u>

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

a) Exemptions—Continued

a.2) Reconciliation of the balance sheet and the statement of income in accordance with the new accounting pronouncements—Continued

	<u>Ref.</u>	<u>Released 12/31/2008</u>	<u>Reclassifications</u>	<u>Adjustments</u>	<u>Restated 12/31/2008</u>
Liabilities and shareholders' equity					
Current liabilities					
Suppliers		241,936	—	—	241,936
Loans and financing		164,612	—	—	164,612
Debentures		67,910	—	—	67,910
Regulatory liabilities	(1)	4,727	—	(4,727)	—
Salaries and social charges payable		34,268	—	—	34,268
Regulatory liabilities		75,319	—	—	75,319
Taxes and social contribution payable		82,018	—	—	82,018
Deferred taxes	(8)	947	(947)	—	—
Dividends and interest on equity	(3)	318,212	—	(292,627)	25,585
Provisions		13,469	—	—	13,469
Other liabilities		74,901	—	—	74,901
Total current liabilities		<u>1,078,319</u>	<u>(947)</u>	<u>(297,354)</u>	<u>780,018</u>
Noncurrent liabilities					
Suppliers		1,417	—	—	1,417
Loans and financing		819,859	—	—	819,859
Debentures		550,940	—	—	550,940
Regulatory liabilities		—	—	25,432	25,432
Taxes and social contribution payable		16,365	—	—	16,365
Deferred taxes	(7)/(8)	9,794	947	20,060	30,801
Provisions	(8)	50,016	33,913	—	83,929
Pension plan liability	(6)	—	—	2,198	2,198
Regulatory liabilities	(1)	38,905	—	(38,905)	—
Other liabilities		37,424	—	—	37,424
Total noncurrent liabilities		<u>1,524,720</u>	<u>34,860</u>	<u>8,785</u>	<u>1,568,365</u>
Shareholders' equity					
Share capital		542,163	—	—	542,163
Capital reserves		698,050	—	—	698,050
Income reserves		390,992	—	(58,474)	332,518
Additional dividends proposal ..	(3)	—	—	292,627	292,627
Total shareholders' equity		<u>1,631,205</u>	<u>—</u>	<u>234,153</u>	<u>1,865,358</u>
Funds for capital increase		<u>1,694</u>	<u>—</u>	<u>—</u>	<u>1,694</u>
Total liabilities and shareholders' equity		<u>4,235,938</u>	<u>33,913</u>	<u>(54,416)</u>	<u>4,215,435</u>

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

a) Exemptions—Continued

a.2) Reconciliation of the balance sheet and the statement of income in accordance with the new accounting pronouncements—Continued

	<u>Ref.</u>	<u>Released 12/31/2009</u>	<u>Reclassifications</u>	<u>Adjustments</u>	<u>Restated 12/31/2009</u>
Assets					
Current assets					
Cash and cash equivalents . .		217,329	—	—	217,329
Accounts receivables and others receivables		798,367	—	(3,842)	794,525
Marketable securities		84,476	—	—	84,476
Regulatory assets (1)		38,482	—	(38,482)	—
Taxes and social contributions recoverable		55,536	—	—	55,536
Deferred taxes (8)		20,337	(20,337)	—	—
Tax benefit – merged goodwill from parent company (8)		18,895	(18,895)	—	—
Inventories		5,334	—	—	5,334
Prepaid expenses		2,176	—	—	2,176
Other assets		112,131	—	—	112,131
Total current assets		<u>1,353,063</u>	<u>(39,232)</u>	<u>(42,324)</u>	<u>1,271,507</u>
Noncurrent assets					
Accounts receivables and others receivables		218,840	—	—	218,840
Regulatory assets (1)		54,659	—	(54,659)	—
Taxes and social contributions recoverable		45,826	—	—	45,826
Affiliates and parent company		250	—	—	250
Deferred taxes (7)/(8)		33,531	20,337	30,743	84,611
Tax benefit – merged goodwill parent company (8)		227,469	18,895	—	246,364
Judicial deposits (8)		80,954	50,324	—	131,278
Pension plan asset (6)		—	—	23,269	23,269
Other assets		15,259	—	—	15,259
Indemnification asset (concession) (2)/(4)		—	—	308,170	308,170
Other investments		13,388	—	—	13,388
Fixed assets (2)/(4)		2,498,842	—	(2,498,842)	—
Intangibles (2)/(4)		172,989	—	2,226,129	2,399,118
Total noncurrent assets		<u>3,362,007</u>	<u>89,556</u>	<u>34,810</u>	<u>3,486,373</u>
Total assets		<u>4,715,070</u>	<u>50,324</u>	<u>(7,514)</u>	<u>4,757,880</u>

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

a) Exemptions—Continued

a.2) Reconciliation of the balance sheet and the statement of income in accordance with the new accounting pronouncements—Continued

<u>Liabilities and shareholder's equity</u>	<u>Ref.</u>	<u>Released 12/31/2009</u>	<u>Reclassifications</u>	<u>Adjustments</u>	<u>Restated 12/31/2009</u>
Current liabilities					
Suppliers		319,345	—	—	319,345
Loans and financing		233,592	—	—	233,592
Debentures		82,419	—	—	82,419
Payroll and related charges		38,205	—	—	38,205
Regulatory liabilities		50,551	—	—	50,551
Taxes and social contribution payable		117,770	—	—	117,770
Deferred taxes	(8)	1,104	(1,104)	—	—
Dividends and interest on equity	(3)	644,836	—	(324,215)	320,621
Provisions		14,171	—	—	14,171
Regulatory liabilities	(1)	35,043	—	(35,043)	—
Other current liabilities		69,303	—	—	69,303
Total current liabilities		<u>1,606,339</u>	<u>(1,104)</u>	<u>(359,258)</u>	<u>1,245,977</u>
Noncurrent liabilities					
Suppliers		5,480	—	—	5,480
Loans and financing		683,289	—	—	683,289
Debentures		469,438	—	—	469,438
Regulatory taxes		12,429	—	27,984	40,413
Taxes and social contribution payable		18,998	—	—	18,998
Deferred taxes	(7)/(8)	4,896	1,104	61,003	67,003
Provisions		33,357	50,324	—	83,681
Pension plan liability	(6)	—	—	1,996	1,996
Regulatory liabilities	(1)	80,163	—	(80,163)	—
Other noncurrent liabilities		19,444	—	—	19,444
Total noncurrent liabilities		<u>1,327,494</u>	<u>51,428</u>	<u>10,820</u>	<u>1,389,742</u>
Shareholder's equity					
Share capital		542,163	—	—	542,163
Capital reserves		698,050	—	—	698,050
Income reserves		539,330	—	(58,474)	480,856
Other comprehensive income ..	(4)	—	—	(3,046)	(3,046)
Additional dividends proposal ..	(3)	—	—	402,444	402,444
Total shareholder's equity		<u>1,779,543</u>	<u>—</u>	<u>340,924</u>	<u>2,120,467</u>
Funds for capital increase		<u>1,694</u>	<u>—</u>	<u>—</u>	<u>1,694</u>
Total liabilities and shareholder's equity		<u><u>4,715,070</u></u>	<u><u>50,324</u></u>	<u><u>(7,514)</u></u>	<u><u>4,757,880</u></u>

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

a) Exemptions—Continued

a.2) Reconciliation of the balance sheet and the statement of income in accordance with the new accounting pronouncements—Continued

	<u>Ref.</u>	<u>Released 12/31/2009</u>	<u>Adjustments</u>	<u>Restated 12/31/2009</u>
Gross operating revenues	(1)/(5)	4,932,524	644,960	5,577,484
(-) Deductions from gross income		(1,581,760)	402	(1,581,358)
Net operating revenues		3,350,764	645,361	3,996,125
Cost of service	(1)/(5)	(2,051,291)	(557,476)	(2,608,767)
Gross income		1,299,473	87,886	1,387,359
Operating expenses	(4)	(298,670)	5,598	(293,072)
Sales expenses		(173,495)	—	(173,495)
General and administrative expenses	(4)	(125,175)	5,598	(119,577)
Income before financial items and taxes		1,000,803	93,484	1,094,287
Financial income	(1)	317,232	(9,295)	307,937
Financial expenses	(1)/(2)	(370,800)	35,656	(335,144)
Income before taxes		947,235	119,845	1,067,080
Income and social contribution taxes		(137,840)	(41,615)	(179,455)
Current		(263,320)	—	(263,320)
Deferred	(7)	(2,653)	(41,615)	(44,268)
Incentive tax (Sudene)		148,248	—	148,248
Goodwill amortization and provision reversal		(20,115)	—	(20,115)
Net income for the year		<u>809,395</u>	<u>78,230</u>	<u>887,625</u>

Description of the major adjustments arising from the new accounting pronouncements that impacted the Company's financial statements:

- (1) Basic framework for preparation and presentation of the financial statements (CPC Basic Framework). The Companies must prepare their financial statements in accordance with this pronouncement, which, among other concepts, establishes the bases for recognition of assets, liabilities, revenues and expenses. Any differences between estimated amounts included in the calculation of the electric energy tariff and the amounts effectively incurred by the Company, recognized before adoption of the new CPCs as regulatory assets and liabilities, are not, according to this pronouncement, recognized in the balance sheet, as they do not meet the definition of assets and/or liabilities.

Consequently, regulatory assets and liabilities recorded before the date of first-time adoption of the new CPCs were charged against retained earnings and the statement of income for the current period, on an accrual basis.

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

a) Exemptions—Continued

a.2) Reconciliation of the balance sheet and the statement of income in accordance with the new accounting pronouncements—Continued

- (2) Borrowing Costs (CPC 20) – The accounting practice adopted by the Company was changed to reflect the requirement to capitalize borrowing costs attributed to acquisition, construction or production of qualifying assets as part of the asset cost.

The amount of borrowing costs eligible for capitalization was defined by the Company by applying the weighted average rate on expenses of intangible assets in progress.

The Company adopted this practice for the reporting periods beginning as from January 1, 2009.

- (3) Accounting for Proposed Dividend Distribution (ICPC 08) – This interpretation establishes that dividends declared in excess of the minimum mandatory figure, after the reporting period to which the financial statements refer, are not to be recognized as liabilities, as they do not meet the criteria of present obligation on the financial statements date, as defined in CPC 25 – Provisions, Contingent Liabilities and Contingent Assets.

Dividends declared and not paid in excess of the minimum mandatory figure, referring to 2008 and 2009, were recognized as adjustment in the statement of changes in shareholders' equity and reversed in the dividends payable account, in the balance sheet, where they were originally presented in accordance with former rules.

- (4) Service Concession Arrangements (ICPC 01 and OCPC 05) – These rules provide guidance to concession operators as to accounting for public service concessions by private entities, in addition to defining the general principles for recognition and measurement of service concession agreement rights and obligations.

As a result of adoption of such standards and based on the concession agreement for public electric energy services, whereby it has the right to charge for the use of the concession infrastructure, the Company recognized: (i) an intangible asset corresponding to use of the infrastructure necessary to provide the public services and (ii) a financial asset represented by the amount due, whether directly or indirectly, by the granting power.

The intangible asset recognized as payment for construction or improvement services provided is initially recognized at fair value and subsequently at cost, which includes the borrowing costs capitalized and deducted from accumulated amortization.

The financial asset is classified as financial instrument available for sale, considering the assumption that the indemnification value at the end of the concession agreement will be calculated by the granting power based on the Regulatory Interest Base (BRR).

The fair value of the financial asset is revised quarterly, considering the IGPM variation. Any differences between the fair value recorded and the new fair value are recorded directly to the statement of shareholders' equity. The financial asset's adjustment to present value is not calculated.

Considering that the financial asset accrues interest based on the regulatory WACC, and that such interest is recognized as revenue through the monthly billing of the tariff to the consumer, such financial asset is already stated at present value.

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

a) Exemptions—Continued

a.2) Reconciliation of the balance sheet and the statement of income in accordance with the new accounting pronouncements—Continued

- (5) Construction Contracts (CPC 17) – This pronouncement establishes the accounting treatment for revenues and costs relating to construction contracts, and uses the recognition criteria set out in the pronouncement on basic framework – Basic Framework for Preparation and Presentation of the Financial Statements – to determine the moment for recognition of the contract revenue and expense in the statement of income.

In compliance with the accounting pronouncement, the Company recorded revenues and costs relating to construction or improvement services. The construction margin adopted was set at zero, as described in Note 2, item 2.3 (b).

- (6) Employee Benefits (CPC 33) – This technical pronouncement provides guidance on recognition, measurement and disclosure of employee benefits.

The Company recognized surplus/deficit with the Private Pension Plan – Defined Benefit No. 002 up to the probable amount of reduction in the future contributions of the sponsor for such plan.

- (7) Income and social contribution taxes: deferred taxes were recognized on temporary differences referring to differences between the former accounting practices and the new pronouncements issued by the CPC, considering the criteria described in Note 2 (item 2.4).

- (8) Reclassifications: In line with the new accounting pronouncements, the following reclassifications were made in the Company's financial statements:

- Judicial deposits regarding contingencies with probable unfavorable outcome and previously recorded as reduction from the related provisions were reclassified to non-current assets;
- Deferred taxes and the tax benefit regarding goodwill, previously classified as current, were reclassified to non-current.

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3. FIRST-TIME ADOPTION OF THE NEW ACCOUNTING PRONOUNCEMENTS—Continued

b) Restatement of the Quarterly Information for 2010, in comparison with 2009, also adjusted to the 2010 standards

In compliance with CVM Rule No. 656, of January 25, 2011, the effects from the full adoption of the 2010 standards on the statement of income and shareholders' equity for the quarters ended 03/31/2009, 06/30/2009, 09/30/2009, 03/31/2010, 06/30/2010 and 09/30/2010 are shown hereunder:

Quarter ended:	2009			2010		
	3/31/2009	6/30/2009	9/30/2009	3/31/2010	6/30/2010	9/30/2010
Released shareholders' equity	1,804,379	1,929,576	1,874,241	1,934,623	2,135,398	2,096,767
Borrowing costs capitalization	6,820	15,071	23,390	34,406	33,779	32,917
Concession contract recognition	1,438	2,877	4,315	7,192	8,631	10,069
Gain/(loss) on available for sale assets	(2,457)	(3,319)	(4,324)	3,900	12,810	19,582
De-recognition of regulatory assets and liabilities	(53,405)	553	15,111	33,823	23,568	40,113
Surplus on pension plan	8,656	8,656	8,656	21,272	21,272	381
P&D and PEE provisions	(39,206)	(39,927)	(40,509)	(42,400)	(42,400)	(42,400)
ICMS CIAP adjustments	(4,581)	(4,581)	(4,581)	(4,581)	(4,581)	(4,581)
Tax effect over adjustments	26,572	5,470	(2,257)	(19,981)	(19,798)	(20,820)
Restated shareholders' equity	1,748,216	1,914,376	1,874,042	1,968,254	2,168,679	2,132,028
	2009			2010		
Net income for the period ended:	3/31/2009	6/30/2009	9/30/2009	3/31/2010	6/30/2010	9/30/2010
Released net income	173,174	349,395	555,383	181,636	409,130	678,686
Borrowing costs capitalization	6,820	15,071	23,390	3,930	3,302	2,440
Concession contract recognition	1,438	2,877	4,315	1,438	2,877	4,315
De-recognition of regulatory assets and liabilities	(1,625)	52,334	66,894	11,758	1,503	18,048
Deficit on pension plan	—	—	—	—	—	(20,891)
P&D and PEE provisions	(672)	(1,393)	(1,976)	—	—	—
Tax effect over adjustments	(2,027)	(23,422)	(31,492)	(5,822)	(2,611)	(1,330)
Restated net income	177,108	394,862	616,514	192,940	414,201	681,268
	2009			2010		
Net income for the quarter ended:	3/31/2009	6/30/2009	9/30/2009	3/31/2010	6/30/2010	9/30/2010
Released net income	173,174	176,221	205,988	181,636	227,494	269,556
Borrowing costs capitalization	6,820	8,251	8,319	3,930	(628)	(862)
Concession contract recognition	1,438	1,439	1,438	1,438	1,439	1,438
De-recognition of regulatory assets and liabilities	(1,625)	53,959	14,559	11,758	(10,255)	16,545
Deficit on pension plan	—	—	—	—	—	(20,891)
P&D and PEE provisions	(672)	(721)	(582)	—	—	—
Tax effect over adjustments	(2,027)	(21,395)	(8,070)	(5,822)	3,211	1,281
Restated net income	177,108	217,754	221,652	192,940	221,261	267,067

This quarterly information was subjected to the special review procedures applied by the Company's independent auditors, in accordance with the CVM requirements for Quarterly Information (Accounting Standard and Procedure (NPA) issued by the Brazilian Institute of Independent Auditors (IBRACON)), including adjustments arising from adoption of the new accounting practices, therefore not subjected to audit procedures.

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4. CASH AND CASH EQUIVALENTS

	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Cash and bank accounts	47,149	33,857	74,105
Investments			
Bank Deposit Certificates (CDB)	42,569	876	10,791
Funds	11,559	182,596	249,913
Total	<u>101,277</u>	<u>217,329</u>	<u>334,809</u>

Cash and cash equivalents include cash balances, bank cash deposits and highly liquid investments. These are recorded plus accrued interest until the financial statement closing dates, equivalent to their market or realizable values.

Cash equivalents investments correspond to transactions conducted with institutions that operate in the national financial market and are contracted under normal market rates and conditions, which are highly liquid, pose low credit risk and accrue interest based on the variation in the Interbank Deposit Rate (CDI) at percentages that vary between 90% and 106%.

5. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts receivable and other receivables are broken down as follows:

	<u>Ref.</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Consumers	(a)	1,116,018	963,224	763,051
Trade notes receivable	(b)	587	1,396	748
CCEE electricity trading	(c)	18,603	16,317	32,582
Distribution system availability		10,661	6,448	9,851
Services rendered to third parties		8,589	6,209	7,209
Other receivables		68,007	55,383	37,355
(-) Allowance for doubtful accounts	(d)	(28,388)	(35,612)	(28,971)
Total		<u>1,194,077</u>	<u>1,013,365</u>	<u>821,825</u>
Current		883,386	794,525	630,397
Noncurrent		310,691	218,840	191,428

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5. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES—Continued

(a) Consumers

	To due	Overdue		Total			Allowance for doubtful accounts		
		Up to 90 days	Over 90 days	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Private sector									
Residential	391,187	123,725	12,635	527,547	432,370	308,412	(16,340)	(17,186)	(12,934)
Industrial	116,256	6,521	2,856	125,633	117,583	101,071	(4,447)	(4,932)	(5,048)
Commercial, services and others	150,625	31,586	10,019	192,230	174,964	142,647	(3,196)	(6,797)	(4,505)
Rural	39,843	9,382	5,755	54,981	47,321	40,485	(1,191)	(1,905)	(1,324)
	<u>697,911</u>	<u>171,215</u>	<u>31,265</u>	<u>900,391</u>	<u>772,238</u>	<u>592,615</u>	<u>(25,174)</u>	<u>(30,820)</u>	<u>(23,811)</u>
Public sector									
Public sector									
Federal	4,604	538	327	5,469	4,219	3,324	(9)	(23)	(15)
State	8,012	4,075	355	12,442	11,462	7,016	—	—	—
Municipal	10,620	9,621	4,342	24,583	16,367	13,215	—	—	—
	<u>23,236</u>	<u>14,234</u>	<u>5,024</u>	<u>42,494</u>	<u>32,048</u>	<u>23,555</u>	<u>(9)</u>	<u>(23)</u>	<u>(15)</u>
Public lighting	13,842	10,344	4,587	28,772	22,380	22,678	—	—	(87)
Public service	35,887	2,332	748	38,967	45,428	33,713	(427)	(275)	(504)
Unbilled supply	105,394	—	—	105,394	91,130	90,490	—	—	—
Consumers	<u>876,270</u>	<u>198,124</u>	<u>41,624</u>	<u>1,116,018</u>	<u>963,224</u>	<u>763,051</u>	<u>(25,610)</u>	<u>(31,118)</u>	<u>(24,417)</u>

Non-current accounts receivable represent consolidated amounts from overdue energy supply bills from defaulting consumers with future maturity, charged on energy bill accounts. These include interest and penalties calculated on a pro-rata basis.

(b) Trade notes receivable

These refer to installment payments of financial debts from energy supply overdue by collecting agents, rentals, legal fees and others.

	Overdue		Total			Allowance for doubtful accounts		
	Up to 90 days	Over 90 days	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Public sector	—	—	—	593	19	—	—	—
Private sector	53	534	587	803	729	(119)	(569)	(502)
Total	<u>53</u>	<u>534</u>	<u>587</u>	<u>1,396</u>	<u>748</u>	<u>(119)</u>	<u>(569)</u>	<u>(502)</u>
Current			389	1,208	643	(119)	(569)	(502)
Noncurrent			198	188	105	—	—	—

The debt installment payments include interest and monetary variation at usual market rates, terms and indices, and the amounts, net of allowance for doubtful accounts, are considered recoverable by management.

(c) Sale of energy on the short-term market (CCEE)

Refers to credits stemming from the sale of energy on the short-term market within the Electric Energy Trade Chamber – CCEE (former Wholesale Energy Market – MAE) stated by the CCEE through the measurement and registration of energy supplied to the interconnected electric energy system.

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5. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES—Continued

(c) Sale of energy on the short-term market (CCEE)—Continued

Non-current amounts include operations carried out between September 2000 and December 2002 linked to ongoing legal proceedings brought by players in the sector that contest the CCEE recording for the period. The Company did not establish allowance for doubtful accounts referring to the cases under dispute as it understands that the amounts will be fully received whether from plaintiffs or from other companies that may be indicated by the CCEE.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts was established after detailed examination of past due accounts receivable, based on credit risk analysis, which includes historical losses and the individual situation of consumers and security interests for debts, and is considered sufficient by the Company's management to cover possible losses on realization of receivables.

For tax purposes, the excess allowance calculated in relation to the terms of articles 9 and 10 of Law No. 9430/96, is added back when calculating taxable profit and the Social Contribution Tax on Net Profit (CSLL) thereon.

	<u>Consumers</u>	<u>Trade notes receivable</u>	<u>Other receivables</u>	<u>Total</u>
Balances at January 1, 2009	(24,417)	(502)	(4,052)	(28,971)
Additions	(353,565)	(16,020)	(23,286)	(392,871)
Reversals	338,192	15,953	23,413	377,558
Write-offs	8,672	—	—	8,672
Balances at December 31, 2009	(31,118)	(569)	(3,925)	(35,612)
Additions	(370,427)	(12,200)	(46,605)	(429,232)
Reversals	363,054	12,650	47,871	423,575
Write-offs	12,881	—	—	12,881
Balances at December 31, 2010	<u>(25,610)</u>	<u>(119)</u>	<u>(2,659)</u>	<u>(28,388)</u>

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6. MARKETABLE SECURITIES

<u>Financial agent</u>	<u>Re</u>	<u>Type of security</u>	<u>Index rate</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Available for sale						
Banco Nordeste do Brasil	(1)	CDB	CDI	14,367	15,844	14,473
Banco Nordeste do Brasil	(1)	CDB	CDI	2,729	—	—
Banco Nordeste do Brasil	(1)	CDB	CDI	14,697	17,562	16,503
Bradesco		CDB	CDI	—	—	883
Bradesco	(2)	Recife Fund	CDI	—	2,621	4,040
Bradesco	(2)	LFT	CDI	1,066	—	—
Bradesco	(2)	CDB	CDI	1,510	1,889	1,799
Santander	(1)	CDB/CDI	CDI	—	12,281	11,168
Banco do Brasil	(1)	Investment fund	CDI	19,410	25,079	23,753
Itau	(2)	CDB	CDIC	895	—	—
Votorantim	(1)/(2)	CDB	CDI	7,564	9,200	—
Votorantim	(2)	CDB	CDI	6,753	—	—
Total				<u>68,991</u>	<u>84,476</u>	<u>72,619</u>

(1) This comprises actual reserves for loan guarantees obtained from financial institutions, amounting to R\$ 51,922 (see Note 15).

(2) This comprises a supplementary guarantee for payment of energy contracts.

CDBs are issued by prime line banks, having daily liquidity and guaranteed repurchase, with interest rate variation based on the DCI percentage, daily valuation and registration with the CETIP (OTC Clearing House) with total and immediate portability.

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7. TAXES AND SOCIAL CONTRIBUTIONS RECOVERABLE

	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Current			
Income tax – IR (a)	6,144	3,318	2,154
Social contribution – CSLL	3,855	3,459	2,685
State Value Added Tax – ICMS	45,499	45,392	45,472
Federal Value Added Tax – PIS (c)	12,839	8	2,456
Federal Value Added Tax – COFINS (c)	64,120	33	11,297
Tax over services – ISS	1,315	1,006	717
Others	47	2,320	2,531
	<u>133,819</u>	<u>55,536</u>	<u>67,312</u>
Noncurrent			
State Value Added Tax – ICMS (b)	54,559	43,413	39,163
Tax recovery program – REFIS (d)	2,413	2,413	2,413
	<u>56,972</u>	<u>45,826</u>	<u>41,576</u>
Total	<u>190,791</u>	<u>101,362</u>	<u>108,888</u>

- (a) Income Tax (IR) and Social Contribution Tax on Net Profit (CSLL) refer to tax amounts paid on a monthly basis, in accordance with article 2 of Law No. 9430, of December 27, 1996, in addition to tax prepayments in connection with investments, amounts withheld for government agencies and tax amounts withheld on services rendered.
- (b) The State Value Added Tax (ICMS) recorded under assets comprises:
- b.1) ICMS recoverable on permanent assets (CIAP) arising from capital expenditure, recorded pursuant to Supplementary Law No. 102, of July 11, 2000, amounting to R\$ 96,057 (R\$ 85,209 at December 31, 2009 and R\$ 81,408 on January 1, 2009).
- b.2) Sundry recoverable ICMS credits, amounting to R\$ 4,001 (R\$ 3,596 at December 31, 2009 and R\$ 3,216 on January 1, 2009).
- (c) PIS and COFINS recoverable comprise:
- c.1) PIS and COFINS carryforwards resulting from tax computations under the non-cumulative system established by Laws No. 10637/02 and No. 10833/03, respectively, in the amounts of R\$ 1,386.
- c.2) PIS/COFINS (Tax Base Broadening) – On July 21, 2004, the Company filed a petition for a Writ of Mandamus, currently under analysis by the Federal Regional Court (TRF), claiming the unconstitutionality of Law No. 9718/98, which included income from financial transactions in the calculation of PIS and COFINS tax base. The matter was eventually judged by Brazil’s Supreme Court (STF), resulting in a declaration of unconstitutionality of the tax base broadening. After all steps of the appeals process had been exhausted – without success to Brazil’s IRS, the Company was granted the right to recognize the referred to credit and, in compliance with CPC 25 requirements, recorded the debt paid in error in September 2010, to be offset against other federal taxes, after approval by the Brazilian IRS, in the amount of R\$ 75,573, matched against the statement of income for the year.

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7. TAXES AND SOCIAL CONTRIBUTIONS RECOVERABLE—Continued

- (d) Credit resulting from the payment of additional amounts under the Tax Recovery Program (REFIS), due to the fact that Brazil's IRS claimed there was a difference between the consolidated debt amount and the figure declared by the Company, resulting from late payment penalties calculated on IRPJ, CSLL and Social Security Funding Tax (FINSOCIAL). The Company did not agree with the claim and filed a bill of review, having obtained suspension of the tax credit liability. If the decision on the merits of the case is favorable, the Company shall recover overpaid amounts. See Note 21 – Provisions.

8. TAX BENEFIT – MERGED GOODWILL FROM PARENT COMPANY

The merged goodwill tax benefit relates to tax credit calculated on goodwill arising from a corporate acquisition and is recorded in accordance with the terms of CVM Rulings No. 319/99 and No. 349/01.

The Company's accounts that are being kept for corporate and tax purposes present specific accounts related to merged goodwill, provision for the maintenance of shareholders' equity integrity and amortization, corresponding reversal and tax credit, the balances of which at December 31, 2010 and 2009 and January 1, 2009 are as follows:

Merged goodwill	1,126,868
Provision recorded	(743,733)
Tax benefit	383,135
Accumulated amortization	(343,105)
Accumulated reversal	226,449
Balances at January 1, 2009	266,479
Accumulated amortization	(59,161)
Accumulated reversal	39,046
Balances at December 31, 2009	246,364
Amortization	(55,573)
Reversal	36,678
Balances at December 31, 2010	227,469

The goodwill is being amortized over the remaining concession period, since June 2000, in 319 monthly installments and according to annual projection of future profitability, as determined by ANEEL Resolution No. 195, of June 7, 2000 and Decision No. 2250, of December 20, 2005, as shown hereunder:

Goodwill amortization curve							
Year	Factors	Year	Factors	Year	Factors	Year	Factors
2010	0.04930	2015	0.04340	2020	0.03480	2024	0.02820
2011	0.04930	2016	0.04180	2021	0.03280	2025	0.02680
2012	0.04750	2017	0.04010	2022	0.03130	2026	0.02540
2013	0.04420	2018	0.03790	2023	0.02970		

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9. OTHER ASSETS

	<u>Re.</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Subvention to low income customers	(a)	51,460	52,887	46,356
Advances to employees		808	4,388	4,049
Advances to suppliers		1,737	4,092	6,420
Services rendered to third parties		204	4,729	2,616
CBEE charges		—	541	1,152
Recoverable RGR		—	2,475	3,693
FINSOCIAL title	(b)	10,845	12,986	11,718
Disposals in progress		3,344	3,636	5,559
Reimbursable expenditures in progress	(c)	12,751	8,397	5,639
Services in progress	(d)	32,666	22,888	19,331
Other receivables		8,587	10,371	13,512
Total		122,402	127,390	120,045
Current		110,549	112,131	103,529
Noncurrent		11,853	15,259	16,516

- (a) The Federal Government, through Law No. 10438 of April 26, 2002, established the application of the residential low-income consumers' tariff, which significantly affected the Company's operating revenue.

Presidential Decree No. 4538, of December 23, 2002, defined the sources for economic subsidy grants in order to contribute to reasonably priced electric energy tariffs for residential low income end consumers, considering the new criteria established by article 1 of Law No. 10438, of April 26, 2002, and article 5 of Law No. 10604, of December 17, 2002.

- (b) Federal government securities issued on behalf of the Company in July 2003 to cover court-ordered debts, amounting to R\$ 18,776. Subject to approval by the Annual Budget Act (LOA), the balance is expected to be realized in 10 (ten) annual equal consecutive installments, including statutory interest, with the first seven annual installments having been released.
- (c) Expenses incurred with construction/installation of service connection points and the low-income kit under the "Electricity for All" Program, to be repaid by means of Federal Government fund grants.
- (d) Expenses with personnel, materials and services to perform own and third-party services, while in progress, through the Service Order system (ODS).

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10. CURRENT AND DEFERRED TAXES AND SOCIAL CONTRIBUTIONS

The Company recorded deferred taxes and social contributions on temporary differences. The financial effects of these taxes and contributions will occur upon realization of the amounts that originated the tax bases. Income tax (IR) is calculated at the rate of 15%, considering a 10% surtax, and the social contribution tax (CSLL) is calculated at the rate of 9%.

	Assets						Liabilities					
	12/31/2010		12/31/2009		01/01/2009		12/31/2010		12/31/2009		01/01/2009	
	Calculation base	Deferred tax	Calculation base	Deferred tax	Calculation base	Deferred tax	Calculation base	Deferred tax	Calculation base	Deferred tax	Calculation base	Deferred tax
Income tax												
Temporary differences	<u>146,053</u>	<u>36,373</u>	<u>248,927</u>	<u>62,208</u>	<u>268,035</u>	<u>66,984</u>	<u>199,402</u>	<u>48,774</u>	<u>197,137</u>	<u>49,261</u>	<u>90,666</u>	<u>22,642</u>
	<u>146,053</u>	<u>36,373</u>	<u>248,927</u>	<u>62,208</u>	<u>268,035</u>	<u>66,984</u>	<u>199,402</u>	<u>48,774</u>	<u>197,137</u>	<u>49,261</u>	<u>90,666</u>	<u>22,642</u>
Social contribution												
Temporary differences	<u>146,053</u>	<u>13,144</u>	<u>248,927</u>	<u>22,403</u>	<u>268,035</u>	<u>24,124</u>	<u>199,402</u>	<u>17,946</u>	<u>197,137</u>	<u>17,742</u>	<u>90,666</u>	<u>8,159</u>
	<u>146,053</u>	<u>13,144</u>	<u>248,927</u>	<u>22,403</u>	<u>268,035</u>	<u>24,124</u>	<u>199,402</u>	<u>17,946</u>	<u>197,137</u>	<u>17,742</u>	<u>90,666</u>	<u>8,159</u>
		<u>49,517</u>		<u>84,611</u>		<u>91,108</u>		<u>66,720</u>		<u>67,003</u>		<u>30,801</u>

The tax base of temporary differences is as follows:

Asset	12/31/2010		12/31/2009		01/01/2009	
	Income tax	Social contribution	Income tax	Social contribution	Income tax	Social contribution
Allowance for doubtful accounts	<u>17,912</u>	<u>17,912</u>	21,947	21,947	15,170	15,170
Financial assets valuation allowance	<u>5,000</u>	<u>5,000</u>	5,000	5,000	5,000	5,000
Contingency provision	<u>109,100</u>	<u>109,100</u>	97,851	97,851	97,398	97,398
Profit sharing provision	<u>2,052</u>	<u>2,052</u>	15,128	15,128	12,295	12,295
Discount to present value of ICMS CIAP	—	—	7,076	7,076	14,130	14,130
“Hedge Accounting” adjustment	—	—	1,433	1,433	28,287	28,287
Difference between current year and transition date fair value	—	—	4,615	4,615	—	—
Defined contribution pension plan deficit	<u>1,996</u>	<u>1,996</u>	—	—	—	—
De-recognition of regulatory assets and liabilities	—	—	93,141	93,141	95,116	95,116
Others	<u>9,993</u>	<u>9,993</u>	<u>2,736</u>	<u>2,736</u>	<u>639</u>	<u>639</u>
Total asset	<u>146,053</u>	<u>146,053</u>	<u>248,927</u>	<u>248,927</u>	<u>268,035</u>	<u>268,035</u>

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10. CURRENT AND DEFERRED TAXES AND SOCIAL CONTRIBUTIONS—Continued

<u>Liability</u>	<u>12/31/2010</u>		<u>12/31/2009</u>		<u>01/01/2009</u>	
	<u>Income tax</u>	<u>Social contribution</u>	<u>Income tax</u>	<u>Social contribution</u>	<u>Income tax</u>	<u>Social contribution</u>
Finsocial title	10,847	10,847	12,986	12,986	11,718	11,718
“Hedge Accounting” adjustment	5,418	5,418	—	—	19,946	19,946
Difference between current year and transition date fair value	30,094	30,094	—	—	—	—
Intangible amortization adjustment	11,508	11,508	5,754	5,754	—	—
Borrowing costs capitalization	57,877	57,877	30,695	30,695	—	—
(-) Capitalized borrowing costs amortization	(3,885)	(3,885)	(218)	(218)	—	—
Defined contribution pension plan deficit	114	114	(1,996)	(1,996)	(2,198)	(2,198)
Defined benefit pension plan surplus	24,395	24,395	8,323	8,323	1,078	1,078
De-recognition of regulatory assets and liabilities	31,850	31,850	115,780	115,780	44,208	44,208
Temporary benefit	14,945	14,945	14,945	14,945	9,776	9,776
Others	16,239	16,239	10,868	10,868	6,138	6,138
Total liability	<u>199,402</u>	<u>199,402</u>	<u>197,137</u>	<u>197,137</u>	<u>90,666</u>	<u>90,666</u>

Technical feasibility studies approved by the Board of Directors and reviewed by the Supervisory Board of the Company indicate the full recovery of deferred taxes, and represent management’s best estimates as to the Company’s future development as well as the market in which it operates. The expected realization of tax credits is shown below:

<u>Reversal expectation</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-2018</u>	<u>Total</u>
Income tax	11,535	4,260	4,260	4,085	4,085	8,148	36,373
Social contribution	4,180	1,537	1,537	1,473	1,473	2,944	13,144
	<u>15,715</u>	<u>5,797</u>	<u>5,797</u>	<u>5,558</u>	<u>5,558</u>	<u>11,092</u>	<u>49,517</u>

As the IR and CSLL taxable base arises not only from the profits that may be generated, but also considers the existence of nontaxable income, nondeductible expenses, tax incentives and other variables, there is no immediate correlation between the Company’s net income and IR- and CSLL-based income. Therefore, the expected use of tax credits should not be determined as the only indication of the Company’s future results.

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10. CURRENT AND DEFERRED TAXES AND SOCIAL CONTRIBUTIONS—Continued

The reconciliation of IR and CSLL (revenue) expenses reported and the related amounts calculated at the statutory rates as of December 31, 2010 and 2009 is shown below:

	Re	12/31/2010		12/31/2009	
		Income tax	Social contribution	Income tax	Social contribution
Income before income and social contribution taxes . . .		1,114,903	1,114,903	1,067,080	1,067,080
Goodwill amortization and PMIPL reversal		(18,895)	(18,895)	(20,115)	(20,115)
Transition tax regime (RTT) adjustments (a)		(106,753)	(106,753)	(92,215)	(92,215)
Income before income and social contribution taxes after RTT adjustment		989,255	989,255	954,750	954,750
Income and social contribution taxes rates		25%	9%	25%	9%
Income and social contribution taxes at enacted rates		247,314	89,033	238,688	85,928
Adjustments to net income that affect taxable income in the year:					
(+) Additions					
Interest on work in progress		—	17	—	49
Contributions and donations		259	93	249	90
Non-deductible penalties		725	261	—	—
Executives vehicles depreciation		198	71	174	63
Other additions		573	184	1,320	—
Subtotal additions		1,755	626	1,743	202
(-) Exclusions					
PMIPL reversal		(9,170)	(3,301)	(9,762)	(3,514)
Incentive tax (SUDENE)		(166,364)	—	(148,248)	—
Audiovisual/Rouanet and PAT incentives		(2,747)	—	(4,501)	—
Other exclusions		(5,341)	(1,516)	—	(1,196)
Subtotal exclusions		(183,622)	(4,817)	(162,511)	(4,710)
Income and social contribution taxes expense		65,447	84,842	77,920	81,420
Current		48,666	78,810	45,370	69,702
Deferred		16,781	6,032	32,550	11,719
		65,447	84,842	77,920	81,421

(a) Transition tax regime (RTT)

Provisional Executive Order No. 449/2008, of December 3, 2008, later passed into Law No. 11941/09, introduced the Transition Taxation Regime (RTT) for the purpose of neutralizing the impacts of new accounting methods and criteria introduced by Law No. 11638/07 on the computation of the federal tax calculation bases.

Adoption of RTT was optional for 2008 and 2009, and mandatory as from 2010, for legal entities subject to Corporate Income Tax (IRPJ) computed based on taxable profits (“*lucro real*”) or as a presumed profits regime (“*lucro presumido*”).

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10. CURRENT AND DEFERRED TAXES AND SOCIAL CONTRIBUTIONS—Continued

The Company indicated its option for the RTT in its Corporate Income Tax Return for 2009 (DIPJ), calendar year 2008, and, on November 30, 2009, prepared the Transition Tax Accounting Control (FCONT) created by Brazil's IRS through Revenue Procedure No. 949/2009.

As determined by the RTT, the accounting adjustments arising from adoption of the following CPCs are no longer considered in the federal tax base calculations: Basic Framework (Recognition of regulatory assets and liabilities), 04 (Intangible assets), 08 (Transaction Costs and Premium upon Issue of Marketable Securities), 20 (Borrowing Benefits), 38 (Financial Instruments) and ICPC 01 (Service Concession Arrangements).

11. JUDICIAL DEPOSITS

This group includes court deposits to allow for filing appeals under the terms of applicable legislation.

	<u>Ref.</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Labor		77,980	64,102	50,894
Civil		26,683	18,709	15,888
Tax:				
PIS/COFINS		11,098	10,456	9,804
Withholding tax over Interest on equity	(a)	—	15,776	15,091
Incentive tax (SUDENE)		44,860	13,232	7,257
Others		9,731	9,003	1,614
Total		<u>170,352</u>	<u>131,278</u>	<u>100,548</u>

- (a) The Company received a court order, issued in connection with an individual writ of mandamus filed by Neoenergia S/A (then Guaraniana), proceeding No. 2002.5101000216/4, whereby it was notified to deposit Withholding Income Tax (IRRF) levied on interest on equity capital (JSCP) recorded in December 2001 on behalf of Neoenergia S/A, which should have been paid to Brazil's IRS. The Federal Regional Court – 2nd Region accepted the arguments of the Office of the Attorney-general of the Public Finances and determined that the Federal Savings and Loans Bank (“Caixa Econômica Federal”) release the deposit in favor of the IRS. As a result of such ruling, the Company reversed the book record in the amount of R\$ 16,327.

12. INDEMNIFICATION ASSET (CONCESSION)

The Electric Energy Public Service Concession Agreement No. 10, of August 7, 1997, and subsequent amendments, entered into between the Federal Government (Granting Power) and the Company (Concessionaire—Operator), regulates the exploration of public electric energy distribution services by the Company, as follows:

- The agreement establishes which services the operator may provide and to whom (consumer class);
- The agreement establishes performance standards for provision of the public service regarding maintenance and improvement of the quality of the consumer services, and, at the end of the concession period, the operator must return the infrastructure in the same state as they were received when the agreement was signed. To comply with such obligations, constant investments are made throughout the concession period. Therefore, concession-related items could be replaced until the end of such period;

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12. INDEMNIFICATION ASSET (CONCESSION)—Continued

- At the end of the concession period, infrastructure-related items must be returned to the granting power, through payment of an indemnity; and
- The price is regulated by a tariff mechanism established in the concession agreement, based on a parametric formula (Tranches A and B), and tariff review modalities are defined, which must be sufficient to cover costs, amortization of investments and interest on invested capital.

Considering the characteristics set forth in the concession agreements for distribution of electric energy by the Company, management understands that the Company meets the conditions for application of Accounting Interpretation ICPC 01 – Service Concession Arrangements, which provides guidance on accounting for concessions of public services to private operators, so as to reflect the electric energy distribution business, covering:

- (a) Estimated portion of investments realized and not amortized until the end of the concession period, classified as a financial asset as it refers to an unconditional right to receive cash or another financial asset directly from the granting power; and
- (b) Remaining portion to determine the financial asset (net book value) classified as intangible asset, once its recovery is conditional upon use of the public service, in this case, consumption of electric energy by consumers (see Note 13).

The received or constructed infrastructure of the distribution activity that was originally represented by the Company's fixed and intangible assets is recovered by means of two cash flows: (a) partly through consumption of electric energy by consumers (issue of monthly billing of the measurement of sold electric energy consumed/sold) over the concession period; and (b) partly as indemnification of reversible assets at the end of the concession period, to be received directly from the granting power or designated party.

Such indemnification will occur based on the investment portions tied to reversible assets, not yet amortized or depreciated, that have been realized with the objective of ensuring continuity and updating of the service provided, determined as follows:

	<u>Fixed assets</u>	<u>Intangibles</u>	<u>Indemnification asset (concession)</u>
Balances originally released at January 1, 2009	2,147,225	115,663	—
Reclassification of obligations outstanding receival to accounts receivable	3,053	—	—
Bifurcation of fixed assets and intangibles according to ICPC 10 and OCPC 05	(2,150,278)	1,988,772	161,506
Financial asset – concession mark-to-market	—	(106,928)	106,928
Balances restated according to ICPC 10 and OCPC 05	<u>—</u>	<u>1,997,507</u>	<u>268,434</u>

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12. INDEMNIFICATION ASSET (CONCESSION)—Continued

The changes in indemnification assets (concession) are as follows:

Balances at January 1, 2009	268,434
Additions	44,668
Disposals	(317)
Mark-to-market adjustment	(4,615)
Balances at December 31, 2009	308,170
Additions	101,665
Disposals	(579)
Mark-to-market adjustment	34,709
Balances at December 31, 2010	<u>443,965</u>

As the concession does not involve valuable consideration, there are no fixed financial obligations and payments to be made to the granting power.

13. INTANGIBLE ASSETS

The changes in intangible assets are as follows:

	In service				In progress			Total
	Cost	Accumulated amortization	Special obligations	Net book value	Cost	Accumulated amortization	Special obligations	
Balances at January 1, 2009	1,848,728	—	—	1,848,728	148,779	—	148,779	1,997,507
Additions	—	—	—	—	835,436	(203,712)	631,724	631,724
Disposals	(5,283)	—	—	(5,283)	(820)	—	(820)	(6,103)
Amortization	—	(250,151)	73,845	(176,306)	—	—	—	(176,306)
Transferences	560,533	(203)	(241,935)	318,395	(569,811)	203,712	(366,099)	(47,704)
Balances at December 31, 2009	2,403,978	(250,354)	(168,090)	1,985,534	413,584	—	413,584	2,399,118
Additions	—	—	—	—	980,503	(287,351)	693,152	693,152
Disposals	(4,121)	—	—	(4,121)	—	—	—	(4,121)
Amortization	—	(299,975)	89,191	(210,784)	—	—	—	(210,784)
Transferences	849,758	(1,259)	(262,635)	585,864	(1,005,144)	286,577	(718,567)	(132,703)
Balances at December 31, 2010	<u>3,249,615</u>	<u>(551,588)</u>	<u>(341,534)</u>	<u>2,356,493</u>	<u>388,943</u>	<u>(774)</u>	<u>388,169</u>	<u>2,744,662</u>

The regulatory agency ANEEL is responsible for establishing the estimated economic useful life of each asset of the distribution infrastructure in order to determine the tariff and calculate the indemnification of reversible assets at the end of the concession period. This estimate is revised periodically and accepted by the market as a reasonable/adequate estimate for accounting and regulatory effects, representing the best estimate of the useful lives of assets.

The Company management understands that amortization of intangible assets should consider the estimated useful life of each item of intangible assets of the distribution infrastructure. Accordingly, these items should undergo individual amortization, observing their useful lives, limited to the concession period. As the result of the use of this criterion, amortization of intangible assets will never take place on a straight-line basis.

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13. INTANGIBLE ASSETS—Continued

The net book value of each item that goes beyond the concession period is recognized as financial asset – indemnification asset (concession) (see Note 12).

(a) Obligations linked to the concession of electric energy public services

Special obligations (not subject to payment) refer to contributions from the Federal and State Governments and consumers, in addition to donations not conditional upon any sort of repayment to the donor, and investment grants intended for distribution of public electric energy services.

Such special obligations are amortized at the same amortization rates used for infrastructure assets, with an average rate used as from the second cycle of the periodic tariff review.

At the end of the concession period, the net book value of special obligations is deducted from the financial indemnification asset.

(b) Impairment of assets

The Company assessed the recoverable value of its assets based on the present value of estimated future cash flows.

The amounts assigned to the assumptions represent management's assessment of future trends in the electric energy sector and are based both on external sources of information and on historical data.

The cash flow was projected considering the Company's operating results and projections until the end of the concession period, and the main assumptions are as follows:

- Organic growth consistent with historical data and growth prospects of the Brazilian economy; and
- Average discount rate derived from the methodology usually adopted by the market, taking into account the weighted average cost of capital.

The recoverable value of these assets exceeds their book value, and therefore no impairment losses are to be recognized.

14. SUPPLIERS

The balance at December 31, 2010 and 2009 is broken down as follows:

<u>Suppliers</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Electricity			
Unrelated parties	159,950	138,049	106,960
Related parties	38,547	38,180	54,306
Subtotal	198,497	176,229	161,266
Network usage charges	29,308	27,623	18,258
Materials and services	97,036	105,475	56,135
Free energy	17,263	15,498	7,694
Total	342,104	324,825	243,353
Current	335,755	319,345	241,936
Noncurrent	6,349	5,480	1,417

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15. LOANS AND FINANCING

Loans composition	Ref.	Effective rate	Charges		Principal		Total		
			Current	Noncurrent	Current	Noncurrent	12/31/2010	12/31/2009	01/01/2009
Local currency									
BNB	(a.8)		711	—	28,975	144,159	173,845	153,167	173,248
(-) Transaction costs		10.00% p.a. to 13.20% p.a.	—	—	(1,128)	(3,752)	(4,880)	(1,114)	(1,391)
Subtotal – BNB			711	—	27,847	140,407	168,965	152,053	171,857
BNDES Emergency			—	—	—	—	—	—	4,963
BNDES FINEM	(a.1)/(a.3)	TJLP+ 4.30% p.a. /	952	—	77,203	200,431	278,586	210,766	248,156
(-) Transaction costs		TJLP+ 3.20% p.a. /8.06% p.a.	—	—	(53)	(81)	(134)	(198)	—
Subtotal – BNDES									
FINEM			952	—	77,150	200,350	278,452	210,568	248,156
Eletrobrás			—	—	38,270	174,927	213,197	222,215	218,712
(-) Transaction costs		5.00% p.a. to 5.45% p.a.	—	—	(114)	(552)	(666)	—	—
Subtotal – Eletrobrás			—	—	38,156	174,375	212,531	222,215	218,712
FINEP	(a.2)		107	—	4,462	44,703	49,272	8,109	5,853
(-) Transaction costs			—	—	(102)	(295)	(397)	(49)	—
Subtotal – FINEP			107	—	4,360	44,408	48,875	8,060	5,853
Banco do Brasil	(a.4)		9,534	8,238	—	490,448	508,220	—	—
(-) Transaction costs	(a.5)	13.76% p.a. /15.09% p.a.	—	—	(2,664)	(6,557)	(9,221)	—	—
Swaps	(a.7)	99.50% of CDI	—	—	—	(1,571)	(1,571)	—	—
Subtotal – Banco do									
Brasil			9,534	8,238	(2,664)	482,320	497,428	—	—
Total local currency			11,304	8,238	144,849	1,041,860	1,206,251	592,896	649,541
Foreign currency									
Banco Interamericano		Foreign exchange variation +							
Desenvolvimento – BID		3.00% p.a.	10	—	1,206	—	1,216	3,970	8,677
Swaps		CDI + 6% p.a.	—	—	1,168	—	1,168	3,146	2,234
Subtotal – Banco									
Interamericano Desenvol. –									
BID			10	—	2,374	—	2,384	7,116	10,911
External titles	(a.6)		—	—	5,749	228,703	234,452	256,044	332,980
(-) Transaction costs		Libor + 1.875% p.a.	—	—	—	—	—	(678)	(1,016)
		106.75% / 107.25% /101,61% /							
Swaps		101,72% / 103,27% do CDI	—	—	40,746	19,781	60,527	61,503	(7,945)
Subtotal – External									
titles			—	—	46,495	248,484	294,979	316,869	324,019
Total foreign currency			10	—	48,869	248,484	297,363	323,985	334,930
Total			11,314	8,238	193,718	1,290,344	1,503,614	916,881	984,471

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15. LOANS AND FINANCING—Continued

(a) Funds obtained and renegotiated in the period:

- a.1) Brazilian Development Bank – BNDES, in the amount of R\$ 10,374, to finance investments, under the Revolving Credit Facility Agreement executed in March 2009 and amended in November of that same year.
- a.2) Financiadora de Estudos e Projetos – FINEP (Financing Agency for Studies and Projects), in the amount of R\$ 43,882, to finance the Innovation Project, under the Financing Agreement executed in October 2009.
- a.3) Brazilian Development Bank – BNDES, in the amount of R\$ 138,000, to finance investments made in 2010, under the Revolving Credit Facility Agreement executed in March 2009 and amended in October 2010.
- a.4) Banco do Brasil, in the amount of R\$ 300,000, to finance the Company's working capital, under a five-year term Credit Note (NCC), to be repaid in a single installment on the maturity date, subject to CDI variation + 1% p.a. interest payable semiannually.
- a.5) Banco do Brasil, in the amount of R\$ 100,000, to finance the Company's working capital, under a four-year term Credit Note (NCC), to be repaid in a single installment on the maturity date, subject to interest of 12.149% p.a. payable together with the principal amount. The Company engaged in a swap transaction to hedge the interest rate on this operation, exchanging the fixed rate for 99.50% of the DI rate.
- a.6) Foreign Notes, in the amount of US\$ 150,000, renegotiated with a syndicate of banks led by Citibank and Banco do Brasil, with extension of the term to June 2015, to be repaid in 3 semiannual installments as from June 2014, subject to the Libor variation + 1.875% p.a. interest payable semiannually.

In connection with the renegotiation of Foreign Notes of US\$ 150 million in June 2010, the Company engaged in forward swap transactions for foreign exchange hedge with Citibank, Bank of América and BNP Paribas.
- a.7) Banco do Brasil, in the amount of R\$ 90,000, to finance the Company's working capital, under a two-year Credit Note, to be repaid in a single installment on the maturity date, subject to interest of 11.80% p.a. payable together with the principal amount.
- a.8) Banco do Nordeste do Brasil – BNB – the first installment of R\$ 40,590 to finance investments made in 2010, under a Credit Extension Agreement of R\$ 284,132, executed in September 2010, maturing in eight years, to be repaid in 72 monthly installments as from October 2012, subject to interest of 10% p.a. paid on a quarterly basis during the grace period and monthly thereafter. Collaterals for the financing include centralization of receivables, liquidity fund and Neoenergia surety.

(b) Covenants

The agreements entered into with BNDES (FINEM) and the Foreign Notes require compliance with certain financial indices with pre-determined parameters, as follows:

BNDES FINEM 2006—Debt/EBITDA ratio less than or equal to 2.5 up to 2010 and Net Debt / (Net Debt + Shareholders' Equity) less than or equal to 0.55.

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15. LOANS AND FINANCING—Continued

FINEM 2007—Debt/EBITDA less than or equal to 1.6 up to 2012 and Net Debt /(Net Debt + Shareholders' Equity) less than or equal to 0.6 up to 2012.

Foreign Notes—Net Debt/EBITDA less than or equal to 3 and EBITDA/Financial income more than or equal to 2.

For the financial statements ended December 31, 2010 and 2009 and January 1, 2009, the Company had met all the contractual ratio requirements.

Conditions of contracted Company loans at December 31, 2010:

Source	Date of signature	Currency	Objective	Interest	Swap	Maturity	Collateral
BID	03/23/86	US\$	Expansion and improvement program of the Bahia State – 2nd tranche	3.0% p.a.+ foreign exchange variation	CDI - 6% p.a.	2011	Guarantee State/Federal government and bank guarantee
BNB	11/29/04	R\$	Distribution investment program	10% p.a.	Not applicable	2012	Receivables centralization, liquidity fund and guarantee Neoenergia
BNB IV	06/27/08	R\$	Investment in lines and network systems	10% p.a.	Not applicable	2016	Receivables centralization, liquidity fund and guarantee Neoenergia
BNB V	08/22/08	R\$	Transmission and distribution networks improvement	10% p.a.	Not applicable	2016	Receivables centralization, liquidity fund and guarantee Neoenergia
BNDES/FINEM	10/04/06	R\$	Electricity Sub-Transmission and Distribution	TJLP + 4.30% p.a.	Not applicable	2011	Neoenergia guarantee and reserve account
BNDES/FINEM	12/12/07	R\$	Electricity Sub-Transmission and Distribution	TJLP + 3.30% p.a.	Not applicable	2012	Neoenergia guarantee and reserve account
BNDES/FINEM	03/16/09	R\$	Electricity Distribution	TJLP + 2.12 p.a. /TJLP + 3.12% p.a. / 4.50% p.a.	Not applicable	2015	Neoenergia guarantee
ELETROBRÁS	1999 to 2009	R\$	Distribution lines and network expansion and “Luz Para Todos”	5% p.a.	Not applicable	2022	Promissory note and own revenues
FINEP	12/23/04	R\$	Electricity distribution and efficiency investment	TJLP + 5% p. a.	Not applicable	2011	Neoenergia guarantee
FINEP	10/14/09	R\$	Innovation project	TJLP + 5% p.a.	Not applicable	2018	Neoenergia guarantee
TÍTULOS EXTERNOS ..	12/28/05	US\$	Electricity distribution investment	Libor + 1.875% p.a. + foreign exchange variation	106.75% / 107.25% / 101.61% / 101.72% / 103.27% of CDI	2015	No guarantee
BANCO DO BRASIL ..	03/23/10	R\$	Working capital	CDI + 1% p.a.	Not applicable	2015	No guarantee
BANCO DO BRASIL ..	05/06/10	R\$	Working capital	12.149% p.a.	99.5% do CDI	2014	No guarantee
BNB	09/09/10	R\$	Distribution networks expansion and modernization	10% p.a.	Not applicable	2018	Receivables centralization, liquidity fund and guarantee Neoenergia
BANCO DO BRASIL ..	12/09/10	R\$	Working capital	11.80% p.a.	Not applicable	2012	No guarantee

Some loans were guaranteed by own revenues, promissory notes, controlling shareholder, administrative buildings, bank guarantees or restricted short-term investments (reserve accounts).

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15. LOANS AND FINANCING—Continued

The total amount owed by the Company in local currency and foreign currency is as follows:

<u>Local currency</u>	<u>12/31/2010</u>		<u>12/31/2009</u>		<u>01/01/2009</u>	
	<u>R\$</u>	<u>%</u>	<u>R\$</u>	<u>%</u>	<u>R\$</u>	<u>%</u>
Fixed interest rate	467,078	38.7%	163,243	27.5%	171,856	26.5%
UFIR	212,531	17.6%	222,216	37.5%	218,713	33.7%
TJLP	223,051	18.5%	207,437	35.0%	254,010	39.1%
CDI	303,591	25.2%	—	0.0%	—	0.0%
SELIC	—	0.0%	—	0.0%	4,962	0.8%
Total	<u>1,206,251</u>	<u>100.0%</u>	<u>592,896</u>	<u>100.0%</u>	<u>649,541</u>	<u>100.0%</u>
Principal	1,186,709		591,442		647,690	
Interest	19,542		1,454		1,851	

<u>Foreign Currency</u>	<u>12/31/2010</u>			<u>12/31/2009</u>			<u>01/01/2009</u>		
	<u>Original currency</u>	<u>R\$</u>	<u>%</u>	<u>Original currency</u>	<u>R\$</u>	<u>%</u>	<u>Original currency</u>	<u>R\$</u>	<u>%</u>
US dollars	178,467	297,363	100.0%	186,072	323,985	100.0%	143,316	334,930	100.0%
Total		<u>297,363</u>			<u>323,985</u>			<u>334,930</u>	
Principal		297,353			323,945			334,835	
Interest		10			40			95	

Changes in the major currencies and indices used to calculate the monetary variation applicable to loans and financing arrangements for the years ended December 31, 2010 and 2009 were as follows.

<u>Currency/index</u>	<u>Variation %</u>		
	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
EURO			
US Dollar	(4.31)	(25.49)	31.94
IGP-M	11.32	(1.72)	9.81
FINEL	—	—	1.90
TJLP	6.00	6.12	6.25
CDI	9.74	9.90	12.37
SELIC	—	—	12.48

The aging list of long-term amounts is shown below:

	<u>12/31/2010</u>			<u>12/31/2009</u>			<u>01/01/2009</u>		
	<u>Debt</u>	<u>Transaction costs</u>	<u>Net amount</u>	<u>Debt</u>	<u>Transaction costs</u>	<u>Net amount</u>	<u>Debt</u>	<u>Transaction costs</u>	<u>Net amount</u>
2010				222,725	(550)	221,175	224,384	(592)	223,792
2011							209,620	(488)	209,132
2012	246,114	(4,051)	242,063	187,076	(392)	186,684	173,742	(343)	173,399
2013	100,649	(3,045)	97,604	100,285	(224)	100,061	84,755	(191)	84,564
2014	375,610	(2,431)	373,179	55,032	(131)	54,901	37,127	(113)	37,014
2015	450,271	(942)	449,329	45,655	(63)	45,592	34,750	(57)	34,693
After 2015	137,174	(767)	136,407	73,888	(12)	73,876	57,273	(8)	57,265
Total	<u>1,309,818</u>	<u>(11,236)</u>	<u>1,298,582</u>	<u>684,661</u>	<u>(1,372)</u>	<u>683,289</u>	<u>821,651</u>	<u>(1,792)</u>	<u>819,859</u>

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15. LOANS AND FINANCING—Continued

The changes in loans and financing arrangements are as follows:

	Local currency		Foreign currency		Total
	Current	Noncurrent	Current	Noncurrent	
Balances at January 1, 2009	164,643	484,898	(31)	334,961	984,471
Inflow	34,264	106,618	—	—	140,882
Charges					
Interests	45,868	—	7,712	—	53,580
Transaction costs	284	(254)	339	—	369
Monetary and foreign exchange variation ..	124	148	(5,920)	(85,740)	(91,388)
Swap	—	—	47,934	70,167	118,101
Mark-to-market cumulative effect	—	—	—	4,647	4,647
Transferences current/noncurrent	136,681	(136,681)	95,475	(95,475)	—
Amortizations and interest payments	(243,697)	—	(50,084)	—	(293,781)
Balances at December 31, 2009	138,167	454,729	95,425	228,560	916,881
Inflow	—	762,461	—	—	762,461
Charges					
Interests	69,341	8,238	5,469	—	83,048
Transaction costs	1,909	(15,847)	4,044	(3,368)	(13,262)
Monetary and foreign exchange variation ..	1	—	2,452	(13,806)	(11,353)
Swap	—	(1,177)	31,463	8,069	38,355
Mark-to-market cumulative effect	—	54	(1,782)	(4,542)	(6,270)
Transferences current/noncurrent	158,360	(158,360)	(33,571)	33,571	—
Amortizations and interest payments	(211,625)	—	(54,621)	—	(266,246)
Balances at December 31, 2010	<u>156,153</u>	<u>1,050,098</u>	<u>48,879</u>	<u>248,484</u>	<u>1,503,614</u>

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16. DEBENTURES AND CHARGES

Debentures	Serie	Number of issued titles	Remuneration	Effective	Swap rate	12/31/2010			12/31/2009		01/01/2009
						Charges	Principal		Total	Total	Total
						Current	Current	Non current			
3 rd issuance	Unique	3,000	V.C. +	11.62%	IGPM+	902	5,807	14,089	20,798	25,580	49,669
(-) Transaction costs			10.8% p.a.		13.95% a.a.	—	(138)	(145)	(283)	(466)	(695)
Swaps						—	14,737	33,880	48,617	49,471	51,580
Subtotal – 3rd issue						902	20,406	47,824	69,132	74,585	100,554
5 th issuance	1 st	8,608	CDI +	10.79%		—	—	—	—	17,355	52,256
(-) Transaction costs			1.4% p.a.			—	—	—	—	(29)	—
Subtotal—5^a Emissão						—	—	—	—	17,326	52,256
5 th issuance	2 nd	10,000	IGPM +	10.79%		12,793	100,000	—	112,793	105,598	111,487
(-) Transaction costs			10.8% p.a.			—	(77)	—	(77)	(254)	(630)
Subtotal—5^a Emissão						12,793	99,923	—	112,716	105,344	110,857
6 th issuance	Unique	35,392	CDI +	10.90%		2,955	78,641	235,958	317,554	356,544	357,849
(-) Transaction costs			0.6% p.a.			—	(542)	(705)	(1,247)	(1,942)	(2,666)
Subtotal – 6th issue						2,955	78,099	235,253	316,307	354,602	355,183
7 th issuance	Unique	80	106.7% CDI			309	—	80,000	80,309	—	—
Total						16,959	198,428	363,077	578,464	551,857	618,850

The Company's Board of Directors meeting held on December 17, 2010 approved the 7th issuance of non-convertible single debentures, for public offer with restricted placement efforts, according to CVM Instruction 476/09, in the amount of R\$80,000.

Funds obtained by means of debentures were used to strengthen the Company's cash.

(a) Covenants:

The debenture indentures require the maintenance of debt ratios and interest coverage at predetermined parameters, as follows: Net Debt/EBITDA less than or equal to 3 and EBITDA/Financial Income more than or equal to 2.

In the financial statements for the years ended December 31, 2010 and 2009, the Company met all of the contractually required ratios.

(b) Guarantees:

The third issuance of debentures of was guaranteed by own revenues and by the controlling shareholder.

The aging list of long-term amounts is shown below:

	12/31/2010			12/31/2009			01/01/2009		
	Debentures	Transaction costs	Net amount	Debentures	Transaction costs	Net amount	Debentures	Transaction costs	Net amount
2010	—	—	—	194,395	(758)	193,637	280,988	(1,353)	279,635
2012	96,322	(473)	95,849	92,946	(473)	92,473	91,801	(581)	91,220
2013	174,531	(281)	174,249	91,671	(281)	91,390	90,940	(581)	90,359
2014	93,075	(96)	92,979	92,034	(96)	91,938	90,176	(450)	89,726
Total	363,928	(850)	363,077	471,046	(1,608)	469,438	553,905	(2,965)	550,940

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16. DEBENTURES AND CHARGES—Continued

The changes in debentures are as follows:

	Local currency		
	Liabilities		
	Current	Non current	Total
Balances at January 1, 2009	67,910	550,940	618,850
Charges			
Interests	55,136	—	55,136
Amortization of Transaction costs	1,298	—	1,298
Monetary and foreign currency variation	(2,092)	(9,003)	(11,095)
Swap	4,057	11,527	15,584
Mark-to-market cumulative effect	—	(14,910)	(14,910)
Transfers	69,116	(69,116)	—
Amortization of principal and interest	(113,006)	—	(113,006)
Balances at December 31, 2009	82,419	469,438	551,857
Inflow	—	80,274	80,274
Charges			
Interest	49,560	—	49,560
Amortization of Transaction costs	1,084	—	1,084
Monetary and foreign currency variation	5,724	5,218	10,942
Swap	4,238	9,220	13,547
Mark-to-market cumulative effect	99	(677)	—
Transfers	200,396	(200,396)	—
Amortization of principal and interest	(128,221)	—	(128,221)
Balances at December 31, 2010	215,387	363,077	578,464

17. SALARIES AND SOCIAL CHARGES PAYABLE

	12/31/2010	12/31/2009	01/01/2009
Salaries	4,902	—	28
Social charges	5,989	5,588	5,103
Vacation provision	15,622	15,647	14,446
Charges over provisions	2,038	2,107	2,388
Profit sharing provision	2,052	14,801	12,295
Others	53	62	8
Total	30,656	38,205	34,268

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18. REGULATORY CHARGES

	<u>Re</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Reversion Global Reserve – RGR		14,952	3,906	3,496
Fuel Consumption Account – CCC		14,897	2,602	14,149
Energetic Development Account – CDE		2,495	2,296	1,951
Technological Development National Fund – FNDCT		1,702	1,260	9,649
Energy Research Company – EPE		343	327	3,398
Research and development – P&D	(a)	30,742	28,196	27,324
Energy efficiency program – PEE	(a)	17,919	51,729	40,023
Electricity service inspection charge – TFSEE		699	648	761
Total		<u>83,749</u>	<u>90,964</u>	<u>100,751</u>
Current		65,049	50,551	75,319
Noncurrent		18,700	40,413	25,432

- (a) The Company recognized liabilities in connection with amounts already billed in tariffs (1% of Net Operating Revenue), but not yet used in the Energetic Efficiency Program (PEE) and Research and Development Program (P&D), updated monthly, from the 2nd month subsequent to recognition until actual realization, based on the SELIC rate, in accordance with ANEEL Resolutions No. 300/2008 and No. 316/2008.

19. TAXES AND SOCIAL CONTRIBUTIONS PAYABLE

	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Current			
Income tax – IR	2,842	4,591	2,504
Social contribution – CSLL	4,236	—	5,258
State Value Added Tax – ICMS	60,164	63,107	36,894
Federal Value Added Tax – PIS	6,665	6,643	3,722
Federal Value Added Tax – COFINS	29,852	26,934	19,553
Social security contribution on payroll – INSS	4,951	4,015	3,575
Worker’s fund over employment period – FGTS	814	838	853
Tax over services – ISS	2,724	1,746	1,169
Others	3,555	9,898	8,490
	<u>115,803</u>	<u>117,770</u>	<u>82,018</u>
Noncurrent			
Income tax – IR	695	16,106	15,295
State Value Added Tax – ICMS	1,663	1,543	1,070
Federal Value Added Tax – PIS	1,026	978	—
Federal Value Added Tax – COFINS	391	371	—
	<u>3,775</u>	<u>18,998</u>	<u>16,365</u>
Total	<u>119,578</u>	<u>136,769</u>	<u>98,383</u>

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20. DIVIDENDS AND INTEREST ON EQUITY

Interim and proposed dividends and interest on equity capital were approved by the Board of Directors and/or at Shareholders' Meetings, as follows:

Resolution	Remuneration	Amount	Amount per share		
			ON	PNA	PNB
<u>2010</u>					
AGO of March 29, 2010	Dividends	324,215	1.6702745650	1.6702745650	1.8373020215
RCA of March 31, 2010	Interest on equity	26,718	0.1376444090	0.1376444090	0.1514088499
RCA of June 30, 2010	Interest on equity	26,719	0.1376495610	0.1376495610	0.1514145171
RCA of September 30, 2010 . . .	Dividends	281,653	1.4510057964	1.4510057964	1.5961063760
RCA of September 30, 2010 . . .	Interest on equity	26,719	0.1376444092	0.1376444092	0.1514088501
RCA of September 30, 2010 . . .	Interest on equity	26,718	0.1376495610	0.1376495610	0.1514145171
		<u>712,742</u>			
<u>2009</u>					
AGO of March 27, 2009	Dividends	292,627	1.50754062	1.50754062	1.6582946800
RCA of June 29, 2009	Interest on equity	51,025	0.2628628	0.2628628	0.2891490000
RCA of September 30, 2009 . . .	Dividends	236,920	1.2205521	1.2205521	1.3426074000
RCA of September 30, 2009 . . .	Interest on equity	24,494	0.1261869	0.1261869	0.1388056000
RCA of December 28, 2009 . . .	Interest on equity	24,494	0.1261869	0.1261869	0.1388056000
		629,560			

The payment of interest on equity capital is considered in the minimum mandatory dividend calculation.

Article 9 of Law No. 9249, of December 26, 1995, allows interest on equity capital paid to shareholders, calculated based on the Long-Term Interest Rate (TJLP) variation, to be deducted from the income and social contribution tax bases.

In accordance with the Company's articles of incorporation, the minimum mandatory dividends correspond to 25% of net income, adjusted pursuant to the Corporation Law. Preferred class "B" shares have priority in receiving minimum mandatory dividends at least 10% higher than those attributed to common shares.

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20. DIVIDENDS AND INTEREST ON EQUITY CAPITAL—Continued

The calculation base of minimum mandatory dividends is as follows:

<u>Minimal dividends over net income</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Ordinary shares	109,716	104,087	92,320
Preferred “A” shares	19,631	18,624	16,519
Preferred “B” shares	65,492	62,133	55,108
Total	194,839	184,844	163,947
<u>Minimal dividends over adjusted net income</u>			
Net income for the year	945,719	887,625	814,805
Incentive tax (SUDENE)	(166,364)	(148,248)	(159,016)
Merged goodwill amortization	55,573	59,161	55,349
Reversal of provision for integrity of equity	(36,678)	(39,046)	(36,530)
Tax benefit from goodwill amortization	(18,896)	(20,115)	(18,819)
Dividend calculation base	779,354	739,377	655,789
<u>Mandatory minimal dividends</u>	194,839	184,844	163,947
<u>Dividends and interest on equity paid and proposed</u>			
Intermediate dividends—R\$ 0.2297757 per ON share and R\$ 0.2527532 per PN share	281,653	236,920	269,301
Interest on equity—R\$ 0.0835569 per ON share and R\$ 0.0919126 per PNA and PNB shares (14,364); R\$ 0.0648491 per ON share and R\$ 0.0713340 per PNA and PNB shares (11,148) and R\$ 0.0481307 per ON share and R\$ 0.0529438 per PNA and PNB shares (8,274)	106,874	100,012	93,861
Gross total	388,527	336,932	655,789
Withheld income tax over Interest on Equity 15% (*)	(1,461)	(1,366)	(1,288)

(*) Income tax is not levied on the portion intended to immune shareholders.

The balance changes are shown below:

Balances at January 1, 2009	25,585
Dividends and Interest on Equity	
Declared	629,560
Withheld income tax	(1,366)
Paid in the period	(333,068)
Prescribed	(90)
Balances at December 31, 2009	320,621
Dividends and Interest on Equity	
Declared	712,742
Withheld income tax	(1,503)
Paid in the period	(1,002,364)
Prescribed	(319)
Balances at December 31, 2010	29,177

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21. PROVISIONS

The provisions recorded for contingent liabilities, where R\$ 15,879 was classified as current (R\$ 14,171 at December 31, 2009 and R\$ 13,469 at January 1, 2009) and R\$ 93,221 as non-current (R\$ 83,681 at December 31, 2009 and R\$ 83,929 at January 1, 2009) are broken down as follows:

	Contingencies			
	Labor	Civil	Tax	Total
Balances at January 1, 2009	33,807	53,293	10,298	97,398
Constitution	22,485	16,202	158	38,845
Reversals	(11,446)	(31,888)	(4,737)	(48,071)
Monetary variation	3,766	5,145	769	9,680
Balances at December 31, 2009	48,612	42,752	6,488	97,852
Constitution	22,804	10,576	—	33,380
Reversals	(14,527)	(18,055)	(259)	(32,842)
Monetary variation	5,084	5,039	587	10,710
Balances at December 31, 2010	61,973	40,312	6,816	109,100

The Company's management, based on the legal counsel's opinion regarding the possibility of successful outcomes on several lawsuits, believes that the provisions recorded in the balance sheet are sufficient to cover probable losses arising therefore.

Labor contingencies

This refers to suits filed by former employees against the Company, seeking payment of overtime, risk exposure premium, equitable/adjusted salary scale, disputes involving career plans and salaries, among other proceedings, as well as lawsuits filed by former employees of the Company's subcontractors (joint and/or several liability) seeking compensation, among others.

Labor contingencies	Updated amount	Instance	Loss expectation	Amount accrued		
				12/31/2010	12/31/2009	01/01/2009
Company's ex-employees ..	27,390	1 st , 2 nd and 3 rd	Probable	27,390	23,024	16,689
	152,818	1 st , 2 nd and 3 rd	Possible	—	—	—
	20,432	1 st , 2 nd and 3 rd	Remote	—	—	—
Service providers ex-employees	25,435	1 st , 2 nd and 3 rd	Probable	25,436	21,733	16,403
	60,508	1 st , 2 nd and 3 rd	Possible	—	—	—
	73,042	1 st , 2 nd and 3 rd	Remote	—	—	—
Employees	9,147	1 st , 2 nd and 3 rd	Probable	9,147	3,855	715
	55,792	1 st , 2 nd and 3 rd	Possible	—	—	—
	672	1 st , 2 nd and 3 rd	Remote	—	—	—
Total	425,236			61,973	48,612	33,807

The amounts were adjusted by the monetary variation based on the Reference Rate (TR), the rate used to adjust labor cases, as informed by Brazil's National Labor Justice Council, plus interest of 1% per month.

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21. PROVISIONS—Continued

Civil contingencies

These refer to business and compensation claims filed by individuals and legal entities, involving claims for refund of undue payments, damages and/or pain and suffering.

Civil contingency	Updated amount	Instance	Loss expectation	Accrued amount		
				12/31/2010	12/31/2009	01/01/2009
“Cruzado Plan” tariffs	11,752	1 st , 2 nd and 3 rd	Probable	11,752	11,673	22,593
Indemnity for losses	25,031	1 st , 2 nd and 3 rd	Probable	25,031	27,609	27,898
	285,777	1 st , 2 nd and 3 rd	Possible	—	—	—
	6,708	1 st , 2 nd and 3 rd	Remote	—	—	—
Accidents third parties/ workers	1,111	1 st , 2 nd and 3 rd	Probable	1,111	1,095	893
	637	1 st , 2 nd and 3 rd	Possible	—	—	—
Electricity and product trading		1 st , 2 nd and 3 rd	Probable	—	—	—
	14,647	1 st , 2 nd and 3 rd	Possible	—	—	—
Consumption irregularity	427	1 st , 2 nd and 3 rd	Probable	427	406	253
Compulsory loan	32,194	1 st , 2 nd and 3 rd	Probable	—	—	—
	1,777	1 st , 2 nd and 3 rd	Possible	—	—	—
Public lighting		1 st , 2 nd and 3 rd	Probable	—	—	—
	192	1 st , 2 nd and 3 rd	Possible	—	—	—
	71	1 st , 2 nd and 3 rd	Remote	—	—	—
Corporate/shares	1,757	1 st , 2 nd and 3 rd	Probable	1,757	1,560	1,384
Electricity rationing	55	1 st , 2 nd and 3 rd	Possible	—	—	—
Others	234	1 st , 2 nd and 3 rd	Probable	234	409	272
	4,613	1 st , 2 nd and 3 rd	Possible	—	—	—
	77	1 st , 2 nd and 3 rd	Remote	—	—	—
Total	<u>390,144</u>			<u>40,312</u>	<u>42,752</u>	<u>53,293</u>

The amounts were adjusted by monetary variation based on the INPC, plus interest of 1% per month.

- Consumers – “Cruzado Plan” – Suits filed by some industrial and commercial consumers questioning the legality of the electric energy tariff increase during the Cruzado Plan, in accordance with DNAEE Ordinances No. 38 and No. 45, of January 27 and March 4, 1986, respectively, and claiming the refund of amounts involved.
- Compensation for Losses – Suits filed by individuals and legal entities against the Company, seeking compensation for death, damages, pain and suffering and electrical damage.
- Other – Various lawsuits filed by individuals and legal entities involving claims for refund of undue payments, review of debts relating to measured and unmeasured consumption (irregular consumption), writing off debts, reconnection of electricity supply, cancellation of debts, litigation with electricity bill collecting agents, demands regarding contractual fine with electricity and service suppliers and others.

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21. PROVISIONS—Continued

Tax contingencies

These refer to tax claims and appeals against collections, notices and tax assessments.

Tax contingency	Re	Updated amount	Instance	Loss expectation	Accrued amount		
					12/31/2010	12/31/2009	01/01/2009
ICMS	(1.1)	125	1 st , 2 nd and 3 rd	Probable	125	116	106
	(1.2)/(1.3)	33,311	1 st , 2 nd and 3 rd	Possible	—	—	—
			1 st , 2 nd and 3 rd	Remote	—	—	—
ISS	(2)	1,883	1 st , 2 nd and 3 rd	Probable	1,883	1,749	4,226
		11,583	1 st , 2 nd and 3 rd	Possible	—	—	—
		626	1 st , 2 nd and 3 rd	Remote	—	—	—
CPMF	(3)		1 st , 2 nd and 3 rd	Probable	—	—	—
			1 st , 2 nd and 3 rd	Possible	—	—	—
		4,130	1 st , 2 nd and 3 rd	Remote	—	—	—
CSLL	(4)		1 st , 2 nd and 3 rd	Probable	—	—	—
		9,390	1 st , 2 nd and 3 rd	Possible	—	—	—
			1 st , 2 nd and 3 rd	Remote	—	—	—
TLF/IPTU	(5)	3	1 st , 2 nd and 3 rd	Probable	3	—	—
		515	1 st , 2 nd and 3 rd	Possible	—	—	—
		1,211	1 st , 2 nd and 3 rd	Remote	—	—	—
REFIS	(6)		1 st , 2 nd and 3 rd	Probable	—	—	—
		15,508	1 st , 2 nd and 3 rd	Possible	—	—	—
			1 st , 2 nd and 3 rd	Remote	—	—	—
PIS/COFINS	(7)		1 st , 2 nd and 3 rd	Probable	—	—	—
		54,967	1 st , 2 nd and 3 rd	Possible	—	—	—
			1 st , 2 nd and 3 rd	Remote	—	—	—
COFINS	(8)		1 st , 2 nd and 3 rd	Probable	—	—	—
		15,060	1 st , 2 nd and 3 rd	Possible	—	—	—
			1 st , 2 nd and 3 rd	Remote	—	—	—
IRPJ	(9)		1 st , 2 nd and 3 rd	Probable	—	—	—
		13,279	1 st , 2 nd and 3 rd	Possible	—	—	—
			1 st , 2 nd and 3 rd	Remote	—	—	—
INSS	(10)	4,399	1 st , 2 nd and 3 rd	Probable	4,399	4,273	5,668
			1 st , 2 nd and 3 rd	Possible	—	—	—
			1 st , 2 nd and 3 rd	Remote	—	—	—
ITD OVER RECEIVED DONATIONS	(11)	—	1 st , 2 nd and 3 rd	Probable	—	3	—
		1,503	1 st , 2 nd and 3 rd	Possible	—	—	—
		241	1 st , 2 nd and 3 rd	Remote	—	—	—
CIDE	(12)		1 st , 2 nd and 3 rd	Probable	—	—	—
		4,361	1 st , 2 nd and 3 rd	Possible	—	—	—
		391	1 st , 2 nd and 3 rd	Remote	—	—	—
Other taxes	(13)	1,577	Administrative	Possible	—	—	—
SUDENE tax incentive	(14)	62,128	Judicial	Possible	—	—	—
Other	(15)	407	1 st , 2 nd and 3 rd	Probable	407	347	298
		265	1 st , 2 nd and 3 rd	Possible	—	—	—
			1 st , 2 nd and 3 rd	Remote	—	—	—
Total		<u>236,863</u>			<u>6,816</u>	<u>6,488</u>	<u>10,298</u>

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21. PROVISIONS—Continued

The amounts were adjusted by the monetary variation based on the SELIC rate.

(1) ICMS

- (1.1) Tax delinquency notices served by the State Finance Office (SEFAZ) questioning the use of ICMS credits arising from capital expenditures for the Company's activities, in light of the Bahia State ICMS Regulations (RICMS/BA). The Company does not agree with the assessment imposed by the state tax authorities as it construes that the use of such credits is in compliance with Supplementary Law No. 87/96. As such, the means of defense required to annul the assessment are being carried out by the Company.
 - (1.2) Tax delinquency notice served against the Company questioning the reduction in the ICMS tax base granted to consumers classified under article 80, items I, II and III of RICMS/BA. The Company filed administrative protest against the assessment notice, claiming that the definition of the consumption classes follows regulatory legislation and that such procedures have already been confirmed by SEFAZ/BA itself, by means of letter rulings on the subject matter of the assessment.
 - (1.3) Tax delinquency notices served by SEFAZ/BA questioning alleged differences between the tax declared in the file of the National Finance Policy Council (CONFAZ) Agreement No. 115/03 and the amount paid informed in the statement of ICMS calculation. The Company filed administrative protest claiming that no underpayment was made and that the causes for such differences lie in the layout of the Agreement 115/03 program generator itself, which does not capture all operations conducted by the Company. All evidence that assists in removing any doubts as to the integrity of the ICMS payments made by the Company were attached to the administrative protest court records.
- (2) ISS – Tax delinquency notices questioning the non-payment of ISS amounts due under the regular system and under the taxpayer substitution system involving several cities. The Company understands that there are no grounds for the assessment notices and filed administrative protests to annul their effects. Nevertheless, the Company opted to set up provision for cases not backed by case laws favoring its arguments.
 - (3) CPMF – Tax delinquency notices served by the Brazilian IRS questioning non-payment of the Provisional Contribution Tax on Financial Transactions (CPMF) during the period in which the Company paid federal taxes through the Federal Government's Integrated Financial Administration System (SIAFI). The Company filed administrative protest against the assessment notices and attached the bank statements that evidence the levy of CPMF on the financial transactions in the single SIAFI account, still pending judgment by the Administrative Board of Tax Appeals (CARF).
 - (4) CSLL – Tax delinquency notice served by the Brazilian IRS questioning the exclusion of depreciation calculated on supplementary monetary restatement (IPC/BTNF) from the CSLL calculation. The Company filed administrative protest claiming that the procedure adopted is correct. Rulings handed down in this regard have been favorable to taxpayers.
 - (5) IPTU – Administrative claims involving the payment of Real Property Tax (IPTU) in the cities of Salvador and Itabuna.

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21. PROVISIONS—Continued

- (6) Refers to difference in the consolidated amount of debts declared in the alternative REFIS installment program, fully settled in March 2005. The IRS, however, claims that the Company records an outstanding debt. With a view to avoiding impact on the Company's operations resulting from restricted issue of tax clearance certificates, applicable legal instruments were used to suspend the requirement to pay the tax credit.
- (7) PIS/COFINS – Tax delinquency notice served by the Brazilian IRS, alleging lack of payment of PIS and COFINS on financial income. The Company filed administrative protest against the referred to collections and awaits decision by the Administrative Board of Tax Appeals (CARF). We point out that PIS and COFINS levied on financial income, established by Law No. 9718/98, was declared unconstitutional by Brazil's Supreme Court.
- (8) COFINS – Tax delinquency notice served in August 2003, alleging that the Company did not observe the legal formalities to offset tax credits. The Company a filed legal defense to ensure the fairness of the offset made.
- (9) IRPJ – Tax deficiency notice for calendar year 2003 as a result of non-withholding of IRRF on payment of interest on equity capital. The Company filed administrative protest alleging that the procedure adopted is backed by Regulatory Opinion COSIT No. 01/2002.
- (10) INSS – Tax Debt Notices (NFLD) issued by Brazil's National Institute for Social Security (INSS) on the grounds that the Company failed to present proof of payment of social security contributions owed by the companies that provided services to it. The Company filed appeal arguing that a debt can only be imputed after the principal debtor is found to have breached its obligation. However, as in some cases it does not have the supporting documentation required by INSS in its files, the Company established a provision for the related amounts.
- (11) Estate and Gift Tax (ITD) – Tax delinquency notices issued by SEFAZ-BA demanding payment of tax on transfer of assets from private owners for the concession. The Company filed administrative protest and attached the opinion issued by the High Court of Justice against the levy of said tax on the referred to operations.
- (12) Social Contribution Tax for Intervention in the Economic Order (CIDE)—Tax delinquency notices issued by the Brazilian IRS for non-payment of the CIDE. The Company filed administrative protest alleging non-existence of legal grounds when the tax triggering events took place. The suit is pending judgment by the CARF.
- (13) This refers to tax notices involving license fees for occupation of areas in public roads and streets, and lawsuits filed against public lighting charge.
- (14) Petition for a writ of mandamus filed by the Company against a private letter ruling issued by the IRS opposing the procedure adopted for excluding the provision for preserving the integrity of shareholders' equity from the calculation of profits from activities under favorable tax treatment ("*lucro da exploração*"). In order to maintain the suspended liability for tax credit, the Company made a judicial deposit at an amount equivalent to the full amount under dispute.
- (15) Various tax claims filed by consumers questioning the levy of PIS and COFINS on energy bills.

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22. OTHER LIABILITIES

	<u>Re</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>01/01/2009</u>
Consumers	(1)	29,594	14,441	47,208
Health plan fund	(2)	11,580	14,725	22,462
Public lighting service contribution – COSIP		9,393	5,476	5,487
Compulsory loans – ELETROBRÁS		11	372	600
Associations		1,721	1,202	977
Advances from State		—	736	—
Guarantee deposits	(3)	49,000	28,428	19,655
FGTS Company account		207	207	776
CBEE charges		299	550	1,175
Advances received		16,902	15,941	7,657
Other		11,976	6,669	6,328
Total		<u>130,683</u>	<u>88,747</u>	<u>112,325</u>
Current		122,002	69,303	74,901
Noncurrent		8,681	19,444	37,424

- (1) Obligations to electric energy consumers resulting from advanced funds for construction works in cities not yet covered by the universal access system, accounts payable in duplicity, other billing adjustments etc.
- (2) Reserve Fund comprising contributions in the form of prepayment for the Bradesco Health Plan, by the Company and active members (active employees, FAELBA employees and inherited members— inactive employees, retirees and pensioners), to meet future expenses on medical care (outpatient and inpatient) and dental care incurred by beneficiaries (members and dependents). The balance is updated monthly based on 100% of CDI variation.
- (3) Guarantee in kind made to ensure the enforcement of contracts, with regard not only to their operational clauses, but also to the compulsory payment of charges on behalf of third parties' employees.

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23. SHAREHOLDERS' EQUITY

Capital

The Company's authorized capital at December 31, 2010 and 2009 and January 1, 2009 is R\$ 1,300,000 and its paid-up capital is R\$ 542,163 through to the balance sheet date.

Paid-up capital is broken down by class of shares, without par value, and the major shareholders are as follows:

Shareholder	Number of shares (units)							
	Ordinary shares		Preferred shares				Total	%
	Sole	%	A	%	B	%		
Neoenergia S.A	98,122,073	89.8	7,863,541	40.2	59,315,266	100.0	165,300,880	87.8
	5,597,908	5.1	10,394,196	53.1	—	0.0	15,992,104	8.5
	3,317,800	3.0	994,400	5.1	—	0.0	4,312,200	2.3
Others	2,266,735	2.1	305,419	1.6	—	0.0	2,572,154	1.4
Total	109,304,516	100.0	19,557,556	100.0	59,315,266	100.0	188,177,338	100.0

Shareholder	R\$ (in Reais)							
	Ordinary shares		Preferred shares				Total	%
	Sole	%	A	%	B	%		
Neoenergia S.A	282,702,384	89.8	22,655,879	40.2	170,894,953	1000.0	476,253,216	87.88
	16,128,297	5.1	29,947,023	53.1	—	0.0	46,075,320	8.5
	9,559,011	3.0	2,864,995	5.1	—	0.0	12,424,006	2.3
		0.0		0.0		0.0	—	0.0
Others	6,530,757	2.1	879,952	1.6	—	0.0	7,410,708	1.4
Total	314,920,449	100.0	56,347,849	100.0	170,894,953	100.0	542,163,251	100.0

Each common share entitles the owner to one vote at the General Meeting. Preferred shares of either class have no voting rights, and the following is ensured: (i) preferred "Class A" shares have priority in the payment of dividends, which will be at least 10% (ten percent) of capital represented by preferred "Class A" shares; (ii) preferred "Class B" shares have priority in the distribution of dividends only after the payment of dividends to holders of preferred "Class A" shares, and such dividends shall be at least 10% (ten percent) higher than those assigned to common shares.

Tax incentive reserve

The income tax legislation allows legal entities located in the Northeast operating in the infrastructure sector to reduce the amount of income tax payable for purposes of investing in capacity expansion projects, as defined in article 551, paragraph 3 of Decree No. 3000, of March 26, 1999.

The tax incentive reserve balance until December 31, 2007, in the amount of R\$ 340,429 was recorded as capital reserve and may only be used as provided for by law.

In compliance with Law No. 11638/07 and CPC 07, the SUDENE tax incentive amount computed since the effectiveness of the Law had been recorded in income for the year, and then transferred to the income reserve. This amount can only be used to increase capital or to possibly offset accounting losses, as defined in article 545 of the Income Tax Regulation.

For the year ended December 31, 2010, the Company computed the amount of R\$ 166,364 (R\$ 148,248 at December 31, 2009) in the form of SUDENE tax incentive, calculated on profits from activities under

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23. SHAREHOLDERS' EQUITY—Continued

favorable tax treatment (“*lucro da exploração*”), by applying a 75% decrease in corporate income tax based on accounting records (“*lucro real*”).

Special goodwill reserve

This reserve in the amount of R\$ 339,052 results from the corporate reorganization, which led to recognition of the tax benefit directly in shareholders' equity upon transfer of the goodwill to the Company due to merger (see Note 8).

Legal reserve

The legal reserve is calculated at 5% of net income as defined in current legislation, limited to 20% of total capital. The Company did not set up legal reserve in the period as such limit was attained.

Profit retention reserve

Brazil's Corporation Law allows companies to retain part of their net income for the year, as established in the capital budget previously approved at the General Meeting.

At December 31, 2010, the Company records under shareholders' equity Retained profits reserve amounting to R\$ 65,478 (R\$ 65,159 at December 31, 2009 and R\$ 65,069 at January 1, 2009), which was formed in accordance with article 196 of the Brazilian Corporate Law.

Other comprehensive income

In compliance with CPC 26, the statement of other comprehensive income, in shareholders' equity, includes gains and losses from measurement of indemnification assets (concession) at fair value, net of tax effects.

24. GROSS REVENUE

	<u>Re.</u>	<u>2010</u>	<u>2009</u>
Electricity supply	(a)	2,061,618	1,940,476
Maintenance and operation revenues		1,982,207	1,883,249
Financial income – WACC		79,411	57,227
Electricity Trading Chamber – CCEE	(b)	50,034	13,249
Availability of distribution system	(c)	3,359,963	2,929,285
Maintenance and operation revenues		3,358,472	2,928,559
Financial income – WACC		1,491	726
Construction revenues (see note 3, item 5)		693,153	631,724
Other income	(d)	74,708	62,750
Total		<u>6,239,476</u>	<u>5,577,484</u>

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24. GROSS REVENUE—Continued

(a) Supply of electric energy

The breakdown of electric energy supply, by consumer class, is as follows:

	Number of invoiced customers (1)		MWh (1)		R\$	
	2010	2009	2010	2009	2010	2009
Consumers						
Residential	4,290,998	4,059,661	5,200,269	4,836,676	2,078,339	1,806,361
Industrial	21,565	20,942	3,459,558	3,564,156	939,033	910,476
Commercial	307,476	296,826	2,767,009	2,643,569	1,235,749	1,109,506
Rural	195,504	192,463	1,090,159	1,009,854	217,618	189,049
Public power	45,923	43,050	600,767	572,881	239,829	199,990
Public lighting	15,970	15,904	706,099	700,360	132,161	122,565
Public service	8,243	7,298	748,480	741,020	160,811	163,156
Own consumption	347	361	14,334	14,876	—	—
Supply	1	1	—	—	—	—
Unbilled revenue	—	—	—	—	14,262	640
Transfer to distribution activity (2)	—	—	—	—	(3,260,057)	(2,873,577)
Subtotal	4,886,027	4,636,506	14,586,675	14,083,392	1,757,745	1,628,166
Energy Sector General Agreement	—	—	—	—	(521)	—
Subvention to low income consumers	—	—	—	—	304,394	312,310
Total	4,886,027	4,636,506	14,586,675	14,083,392	2,061,618	1,940,476

(1) Information not audited by the independent auditors.

(2) See comments in Note (c) below.

(b) Electric Energy Trade Chamber – CCEE

The revenue/expense amounts billed and/or paid by the concessionaires that had energy surplus/deficit, traded within CCEE, were informed by CCEE and confirmed by the Company.

	2010		2009	
	MWh (1)	R\$	MWh (1)	R\$
Purchases				
CCEE	—	—	54,952	876
Adjustments (2)	—	27,516	—	8,078
Total	—	27,516	54,952	8,954
	2010		2009	
	MWh (1)	R\$	MWh (1)	R\$
Sales				
CCEE (3)	468,965	50,034	438,772	13,249

(1) Information not audited by the independent auditors.

(2) Adjustments from the effects of contracting based on availability within the Regulating Contracting Environment (ACR) (difference between the Difference Settlement Price (PLD) and the minimum price).

(3) Estimated sale referring to December 2010.

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24. GROSS REVENUE—Continued

(c) Availability of distribution system

Revenue from Distribution System Usage Charge (TUSD) basically refers to sale of energy to free and captive consumers including the fee for using the distribution network.

	<u>Re.</u>	<u>2010</u>	<u>2009</u>
Basic network usage revenues / connection system		99,906	55,708
Transfer trading activities (captive customers) (1)		3,260,057	2,873,577
Total		<u>3,359,963</u>	<u>2,929,285</u>

(1) In compliance with ANEEL Order No. 1618, of April 23, 2008, the Company segregated revenues from sales and distribution activities using an “average TUSD” calculated based on the TUSD approved for captive consumers.

(d) Other revenues

	<u>2010</u>	<u>2009</u>
Service revenue	31,785	33,049
Leasing	19,582	18,773
Taxed services	4,073	5,406
Public lighting tax	2,902	—
Fraud invoice administration costs	11,091	5,489
Other revenues	5,275	33
Total	<u>74,708</u>	<u>62,750</u>

25. GROSS REVENUE DEDUCTIONS

	<u>2010</u>	<u>2009</u>
Taxes		
ICMS	(1,037,019)	(914,781)
PIS	(91,523)	(79,938)
COFINS	(421,713)	(368,385)
ISS	(3,493)	(2,816)
Sector charges:		
Reversion Global Reserve – RGR	(52,373)	(43,748)
Energetic Development Account – CDE	(29,940)	(27,639)
Fuel Consumption Account – CCC	(159,940)	(108,106)
Energy Efficiency Program – PEE	(18,678)	(16,789)
Technological Development National Fund – FNDCT	(7,441)	(6,674)
Energy Research Company – EPE	(3,720)	(3,804)
Research and development – P&D	(7,441)	(6,674)
Consumer charges – PROINFA	—	(2,029)
Consumer charges – National Treasury	(11,161)	—
Charges – CBEE	1	25
Others	(711)	—
Total	<u>(1,845,152)</u>	<u>(1,581,358)</u>

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26. OPERATING COSTS AND EXPENSES

Operating costs and expenses are broken down by nature as follows:

	2010			2009	
	Cost of sale of goods and services rendered	Sales expenses	General and administrative expenses	Total	Total
Personal	(48,584)	(61,442)	(55,208)	(165,234)	(164,904)
Management fees	—	—	(3,308)	(3,308)	(2,964)
Private pension plan	(3,415)	(2,100)	11,272	5,756	4,596
Materials	(11,336)	(1,505)	(890)	(13,731)	(13,741)
Third parties services	(72,173)	(100,016)	(61,791)	(233,980)	(183,727)
Electricity revision tax–TFSEE	(5,172)	(3,078)	—	(8,250)	(8,112)
Electricity purchased for resale	(1,653,373)	—	—	(1,653,373)	(1,478,277)
Transmission charges	(227,317)	—	—	(227,317)	(197,756)
Amortization	(166,346)	(22,835)	(16,861)	(206,042)	(172,517)
Leasing	(1,225)	(195)	(1,771)	(3,191)	(3,130)
Taxes	(49)	(1,534)	(463)	(2,047)	(1,996)
Allowances for doubtful accounts, net	(18,020)	(12,911)	—	(30,932)	(24,297)
Contingencies provisions, net	—	—	(538)	(538)	9,227
Construction expenses (see note 3, item 5) ...	(693,153)	—	—	(693,153)	(631,724)
Others	(2,687)	(3,808)	(18,918)	(25,414)	(32,517)
Total costs / operating expenses	<u>(2,902,851)</u>	<u>(209,425)</u>	<u>(148,477)</u>	<u>(3,260,754)</u>	<u>(2,901,839)</u>

(a) Personnel costs and expenses

	2010	2009
Salaries	115,291	112,301
Social charges	48,336	49,719
Meal assistance	9,863	9,215
Assistance covenant and other benefits	3,583	3,473
Vacation and 13 th salary	32,090	24,579
Health plan	10,200	9,475
Labor indemnities	9,554	8,050
Profit sharing	13,296	33,631
Service order closure	2,254	1,588
(-) Transfers to service orders	(79,233)	(87,127)
Total	<u>165,234</u>	<u>164,904</u>

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26. OPERATING COSTS AND EXPENSES—Continued

(b) Electric energy purchased for resale

	2010		2009	
	R\$	MWh (1)	R\$	MWh (1)
Unrelated parties	1,294,835	14,855,392	1,145,003	13,766,045
Related parties	392,644	2,486,850	393,766	2,768,155
CCEE	27,516	—	8,954	54,952
Proinfa	56,621	390,519	50,717	339,363
System Service Charges—ESS	29,898	—	23,028	—
PIS and COFINS credits	(153,582)	—	(143,191)	—
Others	5,441	—	52,323	396,301
Total	<u>1,653,373</u>	<u>17,732,761</u>	<u>1,478,277</u>	<u>16,928,515</u>

(1) Information not audited by the independent auditors.

(c) Costs with transmission system use charges

	2010	2009
Unrelated parties	242,737	206,385
Related parties	7,936	16,317
PIS / COFINS credits	(23,356)	(22,506)
Others	—	(2,440)
Total	<u>227,317</u>	<u>197,756</u>

(d) Amortization

	2010	2009
Amortization quota for the year	215,260	181,951
(-) Amortization transferred to orders in progress	(478)	(2,369)
(-) PIS/COFINS credits	(8,740)	(7,065)
Residual amortization in the statement of income	<u>206,042</u>	<u>172,517</u>

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26. OPERATING COSTS AND EXPENSES—Continued

(e) Other operating costs and expenses

	<u>2010</u>	<u>2009</u>
Insurance	1,320	932
Donations and contributions	1,603	1,867
Expenditure recovery	(4,828)	(6,466)
Publications and disconnection advice	—	747
Energy sector associations	1,966	1,826
Travel expenses	2,629	2,405
Electricity self consumption	5,647	5,632
Advertisement	4,725	2,668
Civil processes	7,579	11,370
Tax processes	62	1,033
Meals	163	—
ANEEL penalties	—	4,807
Order in progress closure	1,458	843
Others	3,088	4,853
Total	<u>25,412</u>	<u>32,517</u>

27. FINANCIAL INCOME AND EXPENSES

<u>Financial income</u>	<u>2010</u>	<u>2009</u>
Interest on investments	37,191	27,951
Interest, commissions and fines on late payments	36,185	35,050
Monetary variation	77,259	29,406
Foreign exchange variation	51,978	115,084
Swaps	53,589	42,278
Other financial income	80,485	58,168
Total	<u>336,687</u>	<u>307,937</u>
<u>Financial expenses</u>	<u>2010</u>	<u>2009</u>
Debt charges	(112,391)	(78,629)
Financial charges on regulatory liability	(2,895)	—
Monetary variation	(51,065)	(41,960)
Foreign exchange variation	(40,040)	(14,198)
Swap	(107,493)	(160,726)
Other financial expenses	(41,471)	(39,631)
Total	<u>(355,355)</u>	<u>(335,144)</u>
Financial income (expenses)	<u>(18,668)</u>	<u>(27,207)</u>

28. PROFIT SHARING PROGRAM

The Company has an employee profit sharing program, pursuant to the terms of Law No. 10101/00 and article 189 of Law No. 6404/76, based on agreed operating and financial targets previously established by the parties. For 2010, profit sharing paid totaled R\$ 13,296 (R\$ 33,631 in 2009).

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29. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Company carries out business transactions with related parties within the same economic group. The balances and nature of these transactions are detailed below:

Entities	Ref.	Type of transaction	12/31/2010			12/31/2009		
			Assets	Liabilities	Profit and loss	Assets	Liabilities	Profit and loss
Faelba		Employer's contribution	—	—	751	—	—	(689)
Amara Brasil	(f)	Services rendered (storeroom)	—	135	—	—	190	—
		Refunded expenses	—	—	(53)	—	—	65
			—	135	(53)	—	190	65
Neoenergia		Advances for future capital increase	—	1,694	—	—	1,694	—
		Dividends	—	—	—	—	513,143	—
		Interest on own equity	—	23,570	—	—	88,225	—
		Refunded expenses	—	—	—	49	—	—
			—	25,264	—	49	603,062	—
Iberdrola Energia S.A.		Dividends	—	—	—	—	26,711	—
		Interest on equity	—	1,871	—	—	1,715	—
			—	1,871	—	—	28,426	—
Previ – caixa de Previdência dos Funcionários do Banco do Brasil S.A.		Rent/free lease	—	—	(189)	—	—	—
		Dividends	—	—	—	—	7,203	—
		Interest on equity	—	594	—	—	544	—
			—	594	(189)	—	7,747	—
Celpe	(b)	Network use	—	246	(3,320)	—	241	(3,321)
Termopernambuco	(a.1)	Electric energy purchased	—	10,233	(75,670)	—	11,398	(77,745)
Termoaçu		Electric energy purchased	—	—	—	—	—	(14,616)
Itapebi	(a.1)	Electric energy purchased	—	24,203	(283,322)	—	23,742	(274,521)
		Electric energy sold	27	—	238	25	—	147
		Refunded expenses	—	—	19	3	—	35
			27	24,203	(283,065)	28	23,742	(274,339)
NC Energia	(a.1)	Electric energy purchased	—	1,683	(7,995)	—	1,140	(6,399)
		Refunded expenses	2	4	—	2	—	—
			2	1,687	(7,995)	2	1,140	(6,399)-
Baguari I	(a.2)	Electric energy purchased	—	378	(3,114)	—	—	—
Rio PCH I	(a.2)	Electric energy purchased	—	127	(1,054)	—	119	—
Neoenergia Investimentos		Refunded expenses	—	—	—	77	—	—
Goiás Sul	(a.2)	Electric energy purchased	—	170	(1,016)	—	—	—
Afluentes Geração	(a.1)	Electric energy purchased	—	1,762	(20,816)	—	1,781	(20,249)
	(b)	Network use	109	—	1,272	95	983	(11,955)
			109	1,762	(19,544)	95	2,764	(32,204)
Afluentes Transmissão	(e)	Rent/free lease	—	2	(24)	—	4	(23)
	(c)/(d)	Network use	—	916	(8,334)	—	—	—
			—	918	(8,358)	—	4	(23)

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29. BALANCES AND TRANSACTIONS WITH RELATED PARTIES—Continued

The main conditions referring to related party transactions are described below:

(a) Electric Energy Supply Contracts in the following markets:

a.1) Bilateral contracts (Power Purchase Agreements), as approved by ANEEL

Itapebi – Contracts No. 4600010159 and No. 4600007239, effective until November 1, 2016 and April 15, 2017, respectively, annually adjusted based on the IGPM variation.

NC Energia – Contract No. 4600007278, effective until April 30, 2017, annually adjusted based on the IGPM variation.

Termopernambuco – Contract No. 4600007277, effective until December 31, 2023, annually adjusted based on the IGPM variation.

Afluentes Geração – Contract No. 4600009536, effective until August 1, 2027, annually adjusted based on the IGPM variation.

a.2) Contracts in the Regulated Market (CCEAR), through Energy Auctions held and regulated by ANEEL

Rio PCHI – Contracts No. 4600015317 and No. 4600015318, effective until January 31, 2039, annually adjusted based on the IPCA variation.

Goiás Sul – Contract No. 4600017695 effective up to December 31, 2039, annually adjusted by the IPCA variation.

Baguari – Contract No. 4600017675 effective up to December 31, 2039, annually adjusted by the IPCA variation.

(b) Distribution System Use Agreements (CUSD)

Afluentes – Contract No. 0220928845, effective until August 2027, annually adjusted based on ANEEL tariff adjustment.

Celpe – Contract de No. 4600013697, effective until January 31, 2010, annually adjusted based on the IGPM variation.

(c) Transmission System Use Agreements (CUST)

Afluentes Transmissão – Contract No. 4600007292, by and between Afluentes, COELBA and the National Electricity System Operator (ONS), effective until August 2027, annually adjusted based on the IGPM variation.

(d) Contracts for the Transmission System Connection (CCT)

Afluentes Transmissão – Contract No. 4600019786 for the use/connection of Afluentes' transmission system, effective until August 2027, annually adjusted based on the IGPM variation.

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29. BALANCES AND TRANSACTIONS WITH RELATED PARTIES—Continued

(e) Property lease contracts

Afluenta Transmissão – Contracts No. 4600016054 and No. 4600016280 for the lease of real estate at SE Tomba and SE Brumado, respectively, effective until December 31, 2011, annually adjusted based on the IGPM variation.

(f) Service agreements

Amara Brasil – Contract No. 4600014414 for warehouse administration and logistics, effective until May 16, 2011, annually adjusted based on the IPCA variation.

Additionally, the Company sells energy to related parties located in its concession area (captive consumers), for amounts defined by ANEEL regulated tariffs.

The Company's management believes that the business operations with related parties are carried out under usual market conditions.

Total management fees for the year ended December 31, 2010 was of R\$ 3,054 (R\$ 3,419 at December 31, 2009), which was considered a short-term benefit. The Company also uses severance packages generally adopted by the market.

30. FINANCIAL INSTRUMENTS

Pursuant to CVM Rule No. 604, of November 19, 2009, which approved Accounting Pronouncements CPC 38, 39 and 40 and CVM Ruling No. 604, of November 19, 2009, the Company measured its financial instruments, including derivatives.

General considerations:

At December 31, 2010, the main financial instruments are as follows:

- Cash and cash equivalents – these are classified as held for trading. Their fair value is reflected on balance sheet figures.
- Marketable securities – these are classified as held to maturity and are recorded at their amortized cost. Amounts recorded are equivalent to their fair values at the balance sheet date.
- Accounts receivable and other receivables – these result directly from the Company's operations, are classified as loans and receivables and are recorded at their original values, subject to allowance for doubtful accounts and adjustment to present value, when applicable.
- Accounts payable – these result directly from the Company's operations, are classified as financial liabilities and are not measured at fair value.
- Loans, financing and debentures:

This financial instrument mostly aims to generate funds to finance the Company's expansion programs, and possibly manage its cash flow requirements in the short term.

- Banco do Brasil (NCC) loan in local currency of R\$ 100,000 thousand – is considered a hedged item in accordance with hedge accounting and is recorded at its fair value. Fair value is calculated projecting future operating cash flows (assets and liabilities) using the short position cost of its swaps.

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30. FINANCIAL INSTRUMENTS—Continued

- Other loans and financing in local currency – these are classified as financial liabilities not measured at fair value, and are recorded at their contract values, updated by the effective interest rate of the operation. The market values of these loans are equivalent to their book values. They concern financial instruments characterizing solely as specific funding sources to finance investments in energy distribution, at subsidized costs, associated with the Long Term Interest Rate (TJLP) or fixed rates and the Company's working capital, with costs linked to the Interbank Deposit Certificate (CDI) rate.
- Debentures in local currency – these are classified as financial liabilities not measured at fair value, and are recorded at their contract values, updated by the effective interest rate of the operation. For disclosure purposes, the fair values of debentures was calculated based on secondary market rates for the debt itself or an equivalent debt, as informed by the Brazilian Association of Open Market Institutions (ANDIMA), with use of the Commodities & Futures Exchange (BM&F) yield curves in force at the balance sheet date to project its indicators.
- Loans and financing in foreign currency and debentures in local currency indexed to foreign exchange variation – in line with the financial policy adopted by Neoenergia Group and by the Company, these are considered hedged items, in accordance with the hedge accounting methodology, and are recorded at their market values. The fair values are calculated by projecting future flows from operations (assets and liabilities) using the short position cost of its swaps.
- Derivative financial instruments
 - Operations with derivatives for protection against foreign exchange variation – the objective is hedge against foreign exchange variations on funds obtained in foreign currency and in local currency indexed to foreign currencies, not for purposes of speculation.
 - Interest swap transactions – Consists of swapping a financial result calculated by the application of a fixed rate which is equivalent to the interest on a loan, with the financial result obtained from the application, to the same amount, of a percentage of the DI rate. These transactions are not of a speculative nature.

Accordingly, these are considered to be hedge instruments in accordance with hedge accounting and are recorded at fair values. Fair value is calculated projecting future operational flows (assets and liabilities) using Bovespa BM&F yield curves and recording these flows at present value using the short position cost of its swaps.

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30. FINANCIAL INSTRUMENTS—Continued

The book and fair values of the Company's derivative financial instruments at December 31, 2010 and 2009 are as follows:

		Assets (liabilities)					
		12/31/2010		12/31/2009		01/01/2009	
		Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Category							
Assets							
Cash and cash equivalents	Held for trading	101,277	101,277	217,329	217,329	334,809	334,809
Marketable securities	Held to maturity	68,991	68,991	84,476	84,476	72,619	72,619
Receivable from clients and others (a)	Loans and receivables	1,194,077	1,194,077	1,013,365	1,013,365	821,825	821,825
Liabilities							
Suppliers	Not carried at fair value	(342,104)	(342,104)	(324,825)	(324,825)	(243,353)	(243,353)
Banco do Brasil local currency loan(NCC)	Hedging object	(106,621)	(106,621)	—	—	—	—
Remaining local currency loans and financing	Not carried at fair value	(1,101,201)	(1,101,201)	(592,896)	(592,896)	(649,541)	(649,541)
Local currency debentures	No carried at fair value	(509,333)	(508,503)	(477,272)	(473,329)	(518,297)	(518,297)
Foreign currency loan, financing and debentures	Hedged item	(256,181)	(256,181)	(284,450)	(284,450)	(289,615)	(289,615)
Derivatives	Hedging instrument	(108,742)	(108,742)	(114,120)	(114,120)	(45,868)	(45,868)

The Company has derivative instruments for the sole purpose of economic and financial protection against exchange fluctuations by swapping U.S. dollars for CDI and IGP-M and interest rate swaps, swapping the fixed rate for CDI, as described below:

- Hedge transactions were contracted for the totality of indebtedness with foreign exchange exposure, so that gains and losses from such transactions arising from foreign exchange variations are offset against equivalent gains and losses from foreign currency debts.
- Hedge transactions were contracted for the Banco do Brasil loan (NCC) in local currency of R\$ 100,000, so that the financial result obtained by applying the fixed rate is swapped for the financial result obtained by applying 99.5% of the DI rate on the same value.

The Company's policy does not allow the use of exotic derivatives or derivative financial instruments for speculative purposes.

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30. FINANCIAL INSTRUMENTS—Continued

Derivative contracts considered hedge instruments effective at December 30, 2010 and 2009 are as follows:

Description	Contra part	Contract dates	Due dates	Position	Notional values						Fair value			Accumulated effect
					Foreign currency			Local currency						12/31/2010
					12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009	Amount received/ receivable/ paid/payable
Swap contracts														
Swap														
Asset	Banco			USD + 3,446% p.a,							1,215	3,969	8,677	
Liability . .	Votorantim	01/12/01	03/22/11	CDI -6% p.a,	USD 535	USD 1,649	USD 2,827	R\$ 1,040	R\$ 3,209	R\$ 5,501	2,384	7,116	10,910	
											(1,168)	(3,147)	(2,233)	(279)
Swap														
Asset	Bancos ABN AMRO e Citibank	07/11/06 / 06/15/09 / 06/22/10 /		USD 6M LIBOR + 1%p.a./ USD 6M LIBOR + 1,875 %p.a,							240,871	256,142	340,515	—
Liability . .	Merrill Lynch e BNP Paribas	08/26/10 / 12/10/10	06/26/2013 / 06/26/2015	106,75% / 107,25% / 101,61% / 101,72% / 103,27% / 100,40% and 102,87% of CDI	USD 150,000	USD 150,000	USD 150,000	R\$ 301,017	R\$ 317,315	R\$ 328,500	301,398	317,644	332,570	—
											(60,527)	(61,502)	7,945	(43,451)
Swap														
Asset	Banco			USD + 13,4853% p.a,	USD 7,012	USD 9,523	USD 12,434	R\$ 21,191	R\$ 28,779	R\$ 37,575	20,804	25,588	49,659	—
Liability . .	Votorantim	07/30/04	01/27/14	IGPM + 13,95% p.a							69,422	75,059	101,239	—
											(48,618)	(49,471)	(51,580)	(11,352)
Swap														
Asset	Banco do Brasil	05/06/10	04/14/14	12,16 p.a	—	—	—	R\$100,000	—	—	108,246	—	—	—
Liability . .				99,5% of CDI							106,675	—	—	—
Total											(108,742)	(114,120)	(45,868)	(53,511)

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30. FINANCIAL INSTRUMENTS—Continued

Pursuant to CVM Rule No. 604, of November 19, 2009, which approved Accounting Pronouncements CPC 38, 39 and 40 and CVM Ruling No. 604, of November 19, 2009, the Company accounted for its derivative instruments based on hedge accounting methodology. Under this method, the impacts of changes in the fair value of derivatives used for hedging purposes are recognized in the statement of income as the hedged items are recognized. The Company's hedge transactions were considered to be effective.

The Company's derivatives (hedging instruments) and foreign currency denominated debts and the Banco do Brasil (NCC) loan (the related hedged items) were adjusted to their fair value. Appreciation or devaluation in the fair value of hedging derivative instruments and hedged items were recorded against the financial income or expense account, in the statement of income for the year.

Risk factors:

- Financial risks

- Exchange rate variation risk

This risk arises from possible losses deriving from a hike in exchange rates, increasing the liabilities for loans and financing denominated in foreign currency and debentures in local currency indexed to foreign exchange variation obtained in the market. Aiming to ensure that significant fluctuations in currency prices to which the liability with foreign exchange exposure is subject do not affect its results and cash flows, the Company has, at December 31, 2010, foreign exchange hedge transactions, representing 100% of its debt subject to foreign exchange exposure.

In the year ended December 31, 2010, the Company calculated a loss in foreign exchange hedge transactions amounting to R\$ 53,511 (loss of R\$ 118,448 at December 31, 2009).

The sensitivity analysis of foreign exchange risk of the US\$, where all other variables remain constant, on the Company's profit (due to variations in the fair value of monetary assets and liabilities) and shareholders' equity is set out below:

	<u>USD rate change</u>	<u>Effects in</u>	
		<u>Profit and loss</u>	<u>Shareholders' equity</u>
2010	8.63%	555	555
2009	3.38%	4	4

- Risk of debt charges

This risk arises from the likelihood of the Company incurring losses on account of fluctuations in interest rates or other debt indices, increasing financial expenses on loans and financing obtained in the market. With a view to monitoring the market interest rate reflected in the CDI and reducing exposure to fixed rates, the Company contracted derivatives using fixed rate swap for the CDI. Still, the Company continuously monitors market interest rates in order to consider the need to enter into derivative contracts to protect against the risk of rate fluctuations.

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30. FINANCIAL INSTRUMENTS—Continued

The table below shows the sensitivity analysis of a possible change in the interest rates, where all other constants are maintained in the Company's statement of income.

2010	Increase/decrease in base points	Effects in	
		Profit and loss	Shareholders' equity
Financial assets			
CDI	0.99	1,219	1,219
Financial liabilities			
CDI	0.99	(11,071)	(11,071)
IGPM	(6.32)	11,521	11,521
<hr/>			
2009			
Financial assets			
CDI	0.66	1,768	1,768
Financial liabilities			
CDI	0.66	(4,611)	(4,611)
IGPM	6.21	(11,219)	(11,219)

These sensitivity analyses are intended to illustrate the sensitivity of financial instruments of the Company to changes in market variables. The sensitivity analyses shown above are established with the use of premises and assumptions regarding future events. The Company management regularly reviews these estimates and assumptions used in the calculations. However, the settlement of transactions involving these estimates may result in different amounts due to the subjectivity inherent to the process used for preparation of such analyses.

- Operating risks

- Credit risk

The risk arises from the possibility of the Company and subsidiaries incurring losses due to the difficulty in collecting amounts billed to customers. In order to reduce this risk and help manage the risk of default, the Company monitors accounts receivable from consumers by implementing various collection efforts, including interrupted supply if consumers fail to make payments. In the case of consumers, the credit risk is low due to the large risk spread.

- Debt acceleration risk

The subsidiaries have loan, financing and debenture agreements with financial covenants that generally require compliance with economic and financial indices at certain levels. Failure to comply with these covenants may result in debt acceleration (see Notes 15 and 16).

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30. FINANCIAL INSTRUMENTS—Continued

- Risk related to energy shortage

The Brazilian electric energy system is supplied mainly by hydroelectric generation. A long period of low rainfall during the wet season will reduce the level of these power plants' water reservoirs, resulting in an increase in the cost of acquiring energy in the spot market and a hike in System Charges due the dispatch in thermoelectric power plants. A rationing program may ultimately be adopted, implying in reduced revenues. However, given current reservoir levels and the latest simulations performed, the National Electricity System Operator (ONS) does not expect a new rationing program over the coming years.

- Capital management

The Company manages its capital by means of policies that establish qualitative guidelines and quantitative parameters, aiming at verifying that they be effectively met.

Capital management involves establishment of levels of leverage that maximize value to the Company, considering the tax benefit of debts, cost of indebtedness and all the different aspects surrounding the definition of an optimum capital structure.

The objective of the financial policy of the Group to which we belong is to remain in the first quartile of privately-held companies in the Brazilian electric energy segment with the highest rating, by maintaining the following indicators:

<u>Indicator</u>	<u>Definition</u>	<u>Limit</u>
Net debt/EBITDA	Reflects the capacity of debt payment through operating cash generation measured by the EBITDA in 1-year period	≤ 2.0 distribution segment
Short term debt / Total debt	Reflects the debt proportion which matures within the short term (1 year).	≤ 2.0 distribution segment
EBITDA/ net financial expense	Reflects the capacity of paying the Company's debt service	≤ 3.5 distribution segment

There were no changes in the objectives, policies or processes in the years ended December 31, 2010 and 2009.

31. COMMITMENTS

The commitments relating to long-term contracts for purchase of electric energy are as follows:

<u>Period</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>After 2015</u>
2011 a 2030	1,928,433	2,192,175	2,666,119	3,003,799	3,256,380	101,788,833

Amounts relating to energy purchase contracts, effective from 6 to 30 years, represent the total volume contracted for the current price at the end of 2010, as approved by ANEEL.

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32. PRIVATE PENSION PLAN AND OTHER EMPLOYEE BENEFITS

Pension plans

The Company sponsors Fundação COELBA de Previdência Complementar – FAELBA, a private not-for-profit entity responsible for the following pension plans: Mixed Benefit Plan No. 1 – (DC Plan – FAELFLEX) and Pension Plan No. 2 – (DB Plan). The main purpose of these plans is to provide its members and beneficiaries with supplementary post-retirement and pension amounts, based on the plans to which they belong.

Plan No. 1 – FAELFLEX, with defined contribution features, including programmed retirement income and death and disability annuity benefits, was implemented in 1998, having been joined by over 98% of active participants (who migrated from the DB Plan). The DC plan, considering its individual savings feature, has no deficit or surplus, as the results of investments are fully passed on to participants. However, in addition to the individual savings, FAELFLEX provides its participants with the benefit of supplementing the reserve in the case of death or permanent disability during the working activity up to 60 years of age. With such characteristic, the FAELFLEX falls under the scope of CPC 33, as regards actuarial calculations.

Plan No. 2 – DB is a mature plan and has been closed to new participants since 1998. Any deficits are the responsibility of the sponsor and participants.

Current contributions (by the sponsor and participants, at a parity of one to one) are intended to cover the benefits payable to participants, accumulated since their admission to the plan.

Contributions paid or accrued for during the year were as follows:

	<u>2010</u>	<u>2009</u>
Intangible	2,845	778
Operating costs	5,094	5,664
Total	<u>7,939</u>	<u>6,442</u>

Actuarial valuation of pension plans

For actuarial valuation of pension plans, the projected unit credit method was adopted. Actuarial opinions issued by independent actuaries, considering the economic and financial status of pension plans maintained by FAELBA, at December 31, 2010 and 2009 and January 1, 2009 are summarized below, together with other information required by CVM Rule No. 600, of October 7, 2009, and CPC 33.

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32. PRIVATE PENSION PLAN AND OTHER EMPLOYEE BENEFITS—Continued

The amounts stated in the balance sheets are as follows:

	No. 1 – Defined contributions			No. 2 – Defined benefits		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Present value of actuarial obligations	4,237	4,582	4,953	234,587	244,706	239,463
Fair value of plan assets	(1,832)	1,861	2,755	365,643	344,865	329,009
Deficit/(Surpluses) the plans	2,405	2,721	2,198	(131,056)	(100,159)	(89,546)
Unrecognized actuarial gains / (losses)	(523)	(725)	—	18,400	2,328	—
Effect of the limit from paragraph 58B – (1)	—	—	—	73,316	74,562	78,692
Total net actuarial liability / (asset) . . .	1,882	1,996	2,198	(39,340)	(23,269)	(10,854)

- (1) Refers to part of the accumulated surplus of Plan DB not attributable to the Company in observance of the contribution proportion (50%) in the period in which the surplus was formed. The calculated amount is in compliance with paragraph 58B of CVM Rule No. 600/09.

The amounts recognized in statement of income are shown below:

	No. 1 - CD		No. 2 - BD	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Current service cost (including interest, net from participant's contribution)	297	326	31	6
Interest over actuarial obligations	474	456	22,652	21,025
Gains from asset plans	(258)	(344)	(32,390)	(29,263)
Amortization of actuarial (gains) or losses	27	—	(5,068)	—
Effect of paragraph 58B (1)	—	—	(1,247)	(4,130)
Total income (expense) to be recognized	540	438	(16,022)	(12,362)
Effective interest gain	(695)	(1,533)	44,418	38,119

As provided for in CVM Rule No. 600/09, the portion of actuarial gains or losses to be recognized as revenue or expense in a defined benefit plan is the amount of unrecognized gains and losses that exceeds, in each period, the higher of the following limits:

- 10% of the present value of the total actuarial liability of the defined benefit; and
- 10% of the fair value of plan assets.

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32. PRIVATE PENSION PLAN AND OTHER EMPLOYEE BENEFITS—Continued

Changes in the present value of defined pension liabilities are as follows:

	No. 1 - CD		No. 2 - BD	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Obligations at beginning of year	4,582	4,953	244,706	239,463
Gross cost of present service	297	326	31	6
Interest over actuarial obligation	474	456	22,652	21,025
Participant contributions in the year	10	—	49	26
Actuarial (gain) losses	(1,126)	(1,153)	(9,113)	6,528
Benefits paid during the year	—	—	(23,738)	(22,342)
Obligations calculated year-end	<u>4,237</u>	<u>4,582</u>	<u>234,587</u>	<u>244,706</u>

(1) With interest, net of participant contribution.

Changes in the fair value of plan assets are as follows:

	No. 1 - CD		No. 2 - BD	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Fair value of plan assets at beginning of year	1,861	2,755	344,865	329,009
Expected interest in the year	258	344	32,391	29,263
Actuarial gain /(loss) in the plans assets	(953)	(1,877)	12,027	8,856
Parent company contribution	654	639	50	53
Participant contributions	11	—	49	26
Benefits paid by the plan	—	—	(23,738)	(22,342)
Fair value of assets at year-end	<u>1,831</u>	<u>1,861</u>	<u>365,644</u>	<u>344,865</u>

CVM Rule No. 600/09, in line with the accounting procedures established in CPC 33 – Employee benefits, determines that a pension liability be recorded when the obligations exceed the pension assets and, conversely, that a pension asset be recognized when the assets exceed the pension liabilities. For the latter, the asset may only be recorded when there is evidence that it may effectively reduce sponsor contributions or that it will be refundable in the future.

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32. PRIVATE PENSION PLAN AND OTHER EMPLOYEE BENEFITS—Continued

Below you will find the major economic assumptions adopted in the actuarial calculations for the years ended 2010 and 2009:

	No. 1 - CD		No. 2 - BD	
	2010	2009	2010	2009
Nominal discount rate for the actuarial obligation . . .	10.77%	9.73%	10.77%	9.73%
Expected return rate over plan assets	11.84%	11.84%	9.73%	9.73%
Estimated salary increase rate	6.59%	6.59%	4.50%	4.50%
Benefit increase estimated rate	4.50%	Not applicable	4.50%	4.50%
Estimated inflation rate . . .	4.50%	4.50%	4.50%	4.50%
Expected rotation rate	0.15 / (employment time + 1)	0.15 / (employment time + 1)	None	None
Capacity factor	Not applicable	Not applicable	0.98	0.98
General mortality table . . .	AT-2000	AT-2000	AT-2000	AT-2000
Invalids mortality table . . .	Not applicable	Not applicable	AT-83	AT-83
Invalid table	Light-medium	Light-medium	Light-medium	Light-medium
Retirement probability	100% on the normal retirement date	100% at the eligibility date for the programmed benefit (retirement)	Not applicable	Not applicable

Other benefits

In addition to the supplementary pension plan benefits, the Company also offers other benefits, such as health plan, subsidized meals, transportation, funeral and child care, professional training and development, all of which are periodically negotiated in the collective bargaining agreements. For the year ended December 31, 2010, expenses relating to such accounts totaled R\$ 22,608 (R\$ 21,378 in 2009).

33. INSURANCE

The table below specifies the type of risk covered and the effectiveness of the major insurance taken out, according to insurance brokers engaged by the Company:

<u>Riscos</u>	<u>Period</u>	<u>Amount insured</u>	<u>Cost</u>
Nominated risks – substations and Power plants	10/08/10 a 10/08/11	245,628	524
Nominated risks – proper and rented property	10/08/10 a 10/08/11	118,904	254
General civil responsibility – operations	10/08/10 a 10/08/11	—	498
Vehicles	10/08/10 a 10/08/11	—	50

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
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33. INSURANCE—Continued

The Company takes out insurance based on the respective risk management policies and insurance policies in force, listed below:

Named perils – own and leased properties (from or to third parties), supplies, substations and plants—the policy taken out covers the major substation and plan equipment, by their respective values and maximum limits. Items have basic insurance against fire, lightning and explosions of any nature, and substations and plants are additionally covered against electrical damage.

General civil liability – coverage against involuntary damage, personal and/or material, caused to third parties, as a result of the Company's operations. The maximum limit contracted for the General Civil Liability policy of COELBA is of R\$ 8,000, applied by loss or series of losses resulting from one same event.

The sum of all indemnities and expenses paid under this Civil Liability policy for all damages claimed during its effectiveness may under no circumstances exceed the aggregate limit of one and a half times the amount insured, i.e., the amount of R\$ 12,000.

Transportation (domestic and international) – this insurance provides payment of indemnity to the insured party should the items (new or used) in transit, transported by either sea, river, lake, air, land or rail, duly approved, be damaged (loss), in any location of the Brazilian territory (local transportation) or abroad (international transportation).

Vehicles – basic optional third-party liability insurance for vehicles, hull and collective personal accidents; and additional coverage against glass breakage, 24-hour assistance and courtesy car for seven days in the event of loss or theft. Vehicles are insured at market value, considering the FIPE table, and the amount insured does not have a fixed value.

34. ENVIRONMENTAL ISSUES

The Company's activities observe environmental conservation principles and legislation, resulting in improvements to the Environmental Management System (SGA), created in 2005, with diverse sustainability efforts increasingly embedded in the Company's business practices.

In 2010, the major environment conservation efforts were as follows:

Vegetation Management – Implemented in partnership with the local governments, this project is designed to improve urban and rural forestry, by training teams in tree pruning activities with proper techniques and tools, urban forestry planning, planting of species that are adequate in urban areas and compliance with environmental legislation. COELBA has prepared the second edition of its Urban Vegetation Handling Guide.

Substation noise maps – The SGA made an environmental noise mapping with specific assessments for the internal and external areas of the COELBA substations in the entire state of Bahia. The results of such measurements showed that all of COELBA's substations in this state comply with the assessment parameters defined by NBR standard 10151: 2000 – Assessment of noise in inhabited areas, providing comfort to the community and the ensuring the continuous improvement of the SGA.

Compact network/green line – Use of protected electric cables to avoid accidents caused by contact with trees, reducing the need for pruning trees and improving the performance of the electrical system.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010, 2009 and JANUARY 1, 2009
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34. ENVIRONMENTAL ISSUES—Continued

Environmental Education Project (PEA) – In partnership with Área 1 University and Oderbrecht, the Ecotrilha Project is directed to children, youngsters and adults from public and private schools and institutions, with the objective of disseminating the importance of environmental issues in our daily routines, aiming at preservation of the fauna, flora, water springs, biodiversity and the remaining Atlantic Forest.

Taboarte Project – This project aims at the sustainable development of the *taboa* fiber craftsmanship in Maracangalha, municipality of São Sebastião do Passé, in partnership with the Brazilian Mini and Small Business Support Agency (SEBRAE), the Bahia State Agency and the Municipal Government of São Sebastião do Passé.

Despertar Project – developed in partnership with the Brazilian Rural Training Service with the objective of developing the Social-environmental Program for the rural area school network of 50 municipalities in the state of Bahia.

Sustainable waste management – Several efforts that contribute to improving the management of waste generated in the Company’s production process, such as:

- Logisverde Project – reuse of wooden reels from used conductors purchased for COELBA’s networks and lines;
- Disposal of fluorescent lamps – collection and decontamination of burnt fluorescent lamps from its facilities, with extension of this service to employees, low-income communities that are part of the Company’s energy efficiency program and to the Administrative Center of the state of Bahia, through an agreement entered into between the concessionaire and the state government.
- Collection of waste oil – together with Comanche Clean Energy, consisting in the collection of waste oil produced in the homes of employees and in the two Company restaurants to be recycled and reused in the biodiesel production process.

The Company also makes environmental conservation investments, included in the Investment Projects and Programs, driven by “environmental conditioning requirements”, which are compensations that must be made in fulfilling the projects, with a view to repairing, minimizing or avoiding environmental damage in the project location.

The funds invested to meet environment commitments are as follows:

	Asset		Profit and loss	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Resources applied	55,140	42,939	8,857	9,693

**A free translation from Portuguese into English of Report of Independent Auditors on
financial statements prepared in accordance with the accounting practices adopted in Brazil**

REPORT OF INDEPENDENT AUDITORS

Shareholders, Management and Executive Officers
Companhia de Eletricidade do Estado da Bahia – COELBA
Salvador – BA

We have audited the accompanying balance sheets of Companhia de Eletricidade do Estado da Bahia – COELBA as of December 31, 2009 and 2008, and the related statements of income, of changes in shareholders' equity, of cash flows and of value added for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits in accordance with generally accepted auditing standards in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company; (b) the examination, on a test basis, of documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and (c) an assessment of the accounting practices used and significant estimates made by the Company's management, as well as an evaluation of the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Companhia de Eletricidade do Estado da Bahia – COELBA at December 31, 2009 and 2008, and the results of its operations, the changes in its shareholders' equity, its cash flows and value added for the years then ended, in accordance with the accounting practices adopted in Brazil.

Salvador, January 21, 2010.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6-F-BA

Paulo José Machado
Accountant CRC-1RJ 061.469/O-4-S-BA

Shirley Nara Silva
Accountant CRC-1BA 022.650/O-0

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA

BALANCE SHEETS AT DECEMBER 31, 2009 AND 2008

(In thousands of reais)

ASSETS	Notes	2009	2008
			Reclassified
CURRENT ASSETS			
Cash and cash equivalents	6	217,329	334,809
Consumers, concessionaires and permissionaires	7	828,258	657,487
Accounts receivable	8	4,775	3,305
(-) Allowance for doubtful accounts – PCLD	9	(34,666)	(27,342)
Regulatory assets	10	38,482	8,147
Services in progress		22,888	19,331
Marketable securities	11	84,476	72,619
Taxes and social contributions	12	55,536	67,312
Deferred taxes and social contributions	13	20,337	16,066
Tax benefit – goodwill incorporated of parent company	14	18,895	20,115
Inventory	15	5,334	6,361
Prepaid expenses	17	2,176	1,852
Other credits	18	89,243	84,198
TOTAL CURRENT ASSETS		1,353,063	1,264,260
NONCURRENT ASSETS			
Long-term receivables			
Consumers, concessionaires and licensees	7	207,208	180,679
Accounts receivable	8	12,578	12,378
(-) Allowance for doubtful accounts – PCLD	9	(946)	(1,629)
Regulatory assets	10	54,659	86,969
Judicial deposits	16	80,954	66,635
Taxes and social contributions	12	45,826	41,576
Deferred taxes and contributions	13	33,531	45,196
Tax benefit – goodwill incorporated of parent company	14	227,469	246,364
Affiliates, subsidiaries and parent company	38	250	905
Assets and rights for disposal		2,895	2,294
Other credits	18	12,364	14,222
Total noncurrent assets		676,788	695,589
Investments			
Investments		13,388	13,201
Total of investments		13,388	13,201
Property, plant and equipment			
Property, plant and equipment – net	19	2,498,842	2,147,225
Total property, plant and equipment		2,498,842	2,147,225
Intangible assets			
Intangible assets – net	20	172,989	115,663
Total intangible assets		172,989	115,663
TOTAL NONCURRENT ASSETS		3,362,007	2,971,678
TOTAL ASSETS		4,715,070	4,235,938

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA

BALANCE SHEETS AT DECEMBER 31, 2009 AND 2008

(In thousands of reais)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2009	2008
			Reclassified
CURRENT LIABILITIES			
Suppliers	23	303,847	234,242
Loans, financing and charges	24	233,592	164,612
Debentures and charges	25	82,419	67,910
Regulatory liabilities	10	50,541	12,421
Payroll		2,422	2,634
Regulatory charges	26	50,551	75,319
Taxes and social contributions	12	117,770	82,018
Deferred taxes and social contributions	13	1,104	947
Dividends and interest on equity capital	27	644,836	318,212
Estimated liabilities	28	35,783	31,634
Provision for contingencies	29	14,171	13,469
Advances received		15,941	7,657
Low income consumers – repayment		767	776
Other accounts payable	30	52,595	66,468
TOTAL CURRENT LIABILITIES		1,606,339	1,078,319
NONCURRENT LIABILITIES			
Suppliers	23	5,480	1,417
Loans and financing	24	683,289	819,859
Debentures	25	469,438	550,940
Regulatory liabilities	10	80,163	38,905
Regulatory charges	26	12,429	—
Taxes and social contributions	12	18,998	16,365
Deferred taxes and social contributions	13	4,896	9,794
Provision for contingencies	29	33,357	50,016
Other accounts payable	30	19,444	37,424
TOTAL NONCURRENT LIABILITIES		1,327,494	1,524,720
SHAREHOLDERS' EQUITY	31		
Capital		542,163	542,163
Capital reserves		698,050	698,050
Income reserves		539,330	390,992
Total shareholders' equity		1,779,543	1,631,205
Funds for capital increase		1,694	1,694
TOTAL SHAREHOLDERS' EQUITY AND FUNDS FOR CAPITAL INCREASE		1,781,237	1,632,899
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,715,070	4,235,938

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA

STATEMENTS OF INCOME – YEARS ENDED DECEMBER 31, 2009 AND 2008

(In thousands of reais)

	Notes	2009	2008
			Reclassified
Electric energy supply	32	1,921,543	1,845,556
Short-term electric energy – CCEE	35	13,249	36,118
Distribution system availability	33	2,934,983	2,697,550
Other operating revenues	34	62,749	76,633
Operating revenue		<u>4,932,524</u>	<u>4,655,857</u>
ICMS		(914,781)	(888,765)
PIS		(79,938)	(79,486)
COFINS		(368,385)	(361,659)
ISS		(2,816)	(3,116)
Global reversal reserve – RGR		(43,672)	(44,286)
Energetic development account – CDE		(26,978)	(23,818)
Subvention – fuel consumption account – CCC		(109,246)	(108,138)
Energetic Efficiency Program – PEE		(16,789)	(15,547)
National Fund for Scientific and Technological Development-FNDCT		(6,674)	(6,170)
Energetic Research Company – EPE		(3,804)	(3,085)
Research and Development – P&D		(6,674)	(6,170)
Consumer Charges – PROINFA		(2,028)	(662)
Charges – CBEE		<u>25</u>	<u>149</u>
Deductions from operating revenue		<u>(1,581,760)</u>	<u>(1,540,753)</u>
NET OPERATING REVENUE		<u>3,350,764</u>	<u>3,115,104</u>
Electric energy service cost		<u>(2,051,291)</u>	<u>(1,817,351)</u>
Electric energy cost		<u>(1,739,002)</u>	<u>(1,506,203)</u>
Electric energy purchased for resale	36	(1,516,697)	(1,325,550)
Transmission system use charges	36	(222,305)	(180,653)
Operation cost	36	<u>(299,344)</u>	<u>(288,104)</u>
Payroll		(52,059)	(47,265)
Private pension plan		(3,256)	(3,213)
Materials		(7,440)	(7,904)
Fuels for electric energy generation		(2)	(80)
Outsources services		(49,932)	(47,793)
Electric energy service inspection charge – TFSEE		(4,902)	(5,508)
Depreciation and amortization		(162,296)	(173,095)
Leasing and rents		(1,097)	(1,190)
Taxes		(46)	(84)
Net provisions – PCLD		(13,543)	(9,569)
Provision for RTE loss		—	703
Provision for free energy loss		—	9,636
Other costs		(4,771)	(2,742)
Cost of services rendered to third parties		<u>(12,945)</u>	<u>(23,044)</u>
GROSS PROFIT		<u>1,299,473</u>	<u>1,297,753</u>

– continued –

	Notes	2009	2008 Reclassified
Operating expenses		(288,896)	(265,150)
Selling expenses	36	(173,495)	(165,135)
General and administrative expenses	36	(115,401)	(100,015)
Result from services		1,010,577	1,032,603
Financial result		(53,568)	(79,093)
Revenue		317,232	368,200
Financial investments yield		27,951	49,935
Interest, commissions and arrears charges on electricity bills		35,050	39,301
Financial remuneration of regulatory assets		8,323	11,065
Monetary variation		29,406	—
Exchange variation		115,084	73,201
Swap operations		42,278	139,796
Other financial income		59,140	54,902
Expenses		(370,800)	(447,293)
Debt charges (net of R\$ 1,289 transferred to construction cost – Note 19) ..		(109,324)	(141,330)
Financial remuneration of regulatory liabilities		(25,094)	(7,484)
Monetary variation		(41,960)	(30,253)
Exchange variation		(14,198)	(145,399)
Swap operations		(160,726)	(96,129)
Other financial expenses		(19,498)	(26,698)
Interest on equity capital payable		(100,012)	(93,861)
Result from disposal/decommissioning of assets and rights	36	(9,774)	(5,242)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	36	847,223	854,407
INCOME TAX AND SOCIAL CONTRIBUTION		(137,840)	(133,463)
Income tax and social contribution – current		(263,320)	(295,089)
Income tax and social contribution – deferred charges		(2,653)	21,429
Income tax – Sudene		148,248	159,016
Amortization of goodwill and reversal of PMIPL		(20,115)	(18,819)
INCOME BEFORE REVERSAL OF INTEREST ON EQUITY CAPITAL		709,383	720,944
Reversal of interest on equity capital		100,012	93,861
NET INCOME FOR THE YEAR		809,395	814,805
EARNINGS PER SHARE			
-R\$		4.30	4.33

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND FUNDS FOR CAPITAL INCREASE

YEARS ENDED DECEMBER 31, 2009 AND 2008

(In thousands of reais)

	Capital Reserves				Income Reserves			Retained earnings	Subtotal	Funds for capital increase	Total
	Realized capital	Remuneration of assets and rights constituted with own capital	Special goodwill reserve	Tax incentive reserve	Tax incentive reserve	Legal reserve	Profit retention reserve				
Balances at January 1, 2008	542,163	18,569	339,052	340,429		108,433	151,538		1,500,184	1,694	1,501,878
Capital reserve											
Net income for the year								814,805	814,805		814,805
Effect from adjustments from											
Law No. 11638/07							(27,995)		(27,995)		(27,995)
Allocations:											
Tax incentive reserve –											
SUDENE					159,016			(159,016)			
Interest on equity capital								(93,861)	(93,861)		(93,861)
Interim dividends								(269,301)	(269,301)		(269,301)
Proposed dividends								(292,627)	(292,627)		(292,627)
Balances at December 31, 2008	542,163	18,569	339,052	340,429	159,016	108,433	123,543		1,631,205	1,694	1,632,899
Capital reserve											
Net income for the year								809,395	809,395		809,395
Unclaimed dividends for											
2006							90		90		90
Allocations:											
Tax incentive reserve—											
SUDENE					148,248			(148,248)			
Interest on equity capital								(100,012)	(100,012)		(100,012)
Interim dividends								(236,920)	(236,920)		(236,920)
Proposed dividends								(324,215)	(324,215)		(324,215)
Balances at December 31, 2009	542,163	18,569	339,052	340,429	307,264	108,433	123,633	—	1,779,543	1,694	1,781,237

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA

STATEMENTS OF CASH FLOWS – YEARS ENDED

DECEMBER 31, 2009 AND 2008

(In thousands of reais)

	2009	2008
Cash flow from operations		
Operations		
Net income for the year	809,395	814,805
Adjustments to reconcile net income for the year with cash from operating activities		
Depreciation and amortization	172,772	184,582
Regulatory assets	7,667	143,547
Regulatory liabilities	54,597	(880)
Monetary, exchange variations and interest – long-term, net	(29,972)	152,603
Monetary, exchange variations and interest – short-term, net	134,702	68,859
Residual value of permanent asset disposals	6,426	35,203
Deferred income and social contribution taxes	22,534	(2,610)
Tax incentive reserve – SUDENE	—	(159,016)
Provision for civil, tax and labor contingencies	(9,223)	(8,371)
Allowance for doubtful accounts	6,640	16,434
Total	1,175,538	1,245,156
(Increase) decrease in assets		
Consumers, concessionaires and licensees	(197,368)	39,106
Accounts receivable	(1,671)	(255)
Judicial deposits	(26,954)	(15,815)
Taxes and social contributions	7,527	(2,523)
Marketable securities	(6,099)	(16,242)
Services in progress	(3,557)	10,354
Prepaid expenses	(327)	6,506
Inventories	902	379
Other assets	1,365	29,192
Total	(226,182)	50,702
Increase (decrease) in liabilities		
Suppliers	73,668	(36,250)
Payroll	(212)	426
Debt charges and swap	53,578	75,994
Regulatory charges	(14,938)	12,878
Taxes and social contributions	38,385	(959)
Estimated liabilities	4,149	(11,398)
Low income consumers – repayment	(9)	(38)
Advances received	8,284	694
Other accounts payable	(32,109)	(30,442)
Total	130,796	10,905
NET CASH FROM OPERATIONS	1,080,152	1,306,763
FINANCING ACTIVITIES		
Loans and financing raised	140,882	150,956
Payment of loans, financing and swap	(293,783)	(349,134)
Payment of debentures	(113,006)	(131,451)
Linked liabilities	207,296	264,747
Payment of dividends	(302,183)	(766,447)
Payment of interest on equity capital	(32,340)	(106,596)
Affiliates, subsidiaries and parent company	735	3,067
Total	(392,399)	(934,858)
TOTAL FROM FINANCING ACTIVITIES	687,753	371,905
INVESTING ACTIVITIES		
In investments	(491)	(3,708)
In property, plant and equipment	(741,587)	(584,084)
In intangible assets	(63,155)	(46,935)
Assets and rights for disposal	—	(42)
	(805,233)	(634,769)
CHANGES IN CASH AND CASH EQUIVALENTS, NET	(117,480)	(262,864)
Cash and cash equivalents at beginning of the year	334,809	597,673
Cash and cash equivalents at the end of the year	217,329	334,809
CHANGES IN CASH AND CASH EQUIVALENTS, NET	(117,480)	(262,864)

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA

STATEMENTS OF VALUE ADDED

YEARS ENDED DECEMBER 31, 2009 AND 2008

(In thousands of reais)

	2009	2008
REVENUES		
Sales of electric energy and services	4,932,524	4,655,857
Allowance for doubtful accounts	(24,298)	(16,434)
Result from disposal/decommissioning of assets and rights	(9,774)	(5,242)
	<u>4,898,452</u>	<u>4,634,181</u>
INPUTS ACQUIRED FROM THIRD PARTIES		
Raw materials consumed	(1,739,002)	(1,506,283)
Materials, outsourced services and others	(218,555)	(193,956)
	<u>(1,957,557)</u>	<u>(1,700,239)</u>
GROSS VALUE ADDED	<u>2,940,895</u>	<u>2,933,942</u>
DEPRECIATION AND AMORTIZATION	<u>(172,772)</u>	<u>(184,582)</u>
NET VALUE ADDED	<u>2,768,123</u>	<u>2,749,360</u>
TRANSFERRED VALUE ADDED		
Financial income	317,232	368,200
	<u>317,232</u>	<u>368,200</u>
TOTAL VALUE ADDED TO BE DISTRIBUTED	<u>3,085,355</u>	<u>3,117,560</u>
VALUE ADDED DISTRIBUTION		
• Personnel		
Remunerations	106,767	98,035
Social charges (except INSS)	16,092	15,124
Private pension plan	6,442	7,347
Meal grants	9,215	8,385
Assistential covenant and other benefits	3,473	3,401
Voluntary retirement incentive	5,534	3,528
Provision for vacation pay and 13th monthly salary	24,579	25,405
Health plan	9,475	8,695
Labor indemnification	8,050	3,581
Profit sharing	33,631	29,975
Management fees	2,964	2,097
Order completion in progress	1,588	2,353
(-) Transfer to orders	(87,127)	(71,685)
Subtotal	<u>140,683</u>	<u>136,241</u>
• Government		
INSS (on payroll)	33,627	32,190
ICMS	914,781	888,765
PIS/COFINS on billing	448,323	441,145
Income and social contribution taxes	137,840	133,463
Intra-sectorial liabilities	223,963	217,185
Others	2,816	3,116
Subtotal	<u>1,761,350</u>	<u>1,715,864</u>
• Financing and debentures		
Interest and exchange variation	370,800	447,293
Rents	3,127	3,357
Subtotal	<u>373,927</u>	<u>450,650</u>
• Shareholders		
Interest on equity capital	100,012	93,861
Dividends	561,135	561,928
Tax incentive reserve – SUDENE	148,248	159,016
Subtotal	<u>809,395</u>	<u>814,805</u>
TOTAL DISTRIBUTED VALUE ADDED	<u>3,085,355</u>	<u>3,117,560</u>

See accompanying notes.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA – COELBA AND SUBSIDIARIES

SOCIAL BALANCES – COMPANY

YEARS ENDED DECEMBER 31, 2009 AND 2008 (ADDITIONAL INFORMATION)

	2009				2008			
	R\$ thousand				R\$ thousand			
1 – CALCULATION BASE								
Net revenue (RL)					Reclassified			
Operating result (RO)					3,115,104			
Gross payroll (FPB)					859,649			
Total value added (VAT)					165,571			
					3,117,560			
2 – INTERNAL SOCIAL INDICATORS (1)	R\$ thousand	% on FPB	% on RL	% on VAT	R\$ thousand	% on FPB	% on RL	% on VAT
Meals	8,964	4.82	0.27	0.29	8,385	5.06	0.27	0.27
Compulsory social charges	45,908	24.68	1.37	1.49	43,610	26.34	1.40	1.40
Private pension plan	8,474	4.55	0.25	0.27	6,706	4.05	0.22	0.22
Health	10,495	5.64	0.31	0.34	9,749	5.89	0.31	0.31
Occupational safety and health	1,873	1.01	0.06	0.06	1,960	1.18	0.06	0.06
Education	349	0.19	0.01	0.01	347	0.21	0.01	0.01
Culture	—	0.00	0.00	0.00	—	0.00	0.00	0.00
Professional training and development	1,931	1.04	0.06	0.06	2,064	1.25	0.07	0.07
Day-care-center allowance	748	0.40	0.02	0.02	578	0.35	0.02	0.02
Sports	33	0.02	0.00	0.00	35	0.02	0.00	0.00
Transportation	816	0.44	0.02	0.03	1,029	0.62	0.03	0.03
Profit sharing	33,631	18.08	1.00	1.09	29,975	18.10	0.96	0.96
Others	461	0.25	0.01	0.01	257	0.16	0.01	0.01
Total – Internal social indicators	113,683	61.11	3.39	3.68	106,488	64.32	3.42	3.42
3 – EXTERNAL SOCIAL INDICATORS	R\$ thousand	% on RO	% on RL	% on VAT	R\$ thousand	% on RO	% on RL	% on VAT
Education	1,390	0.16	0.04	0.05	824	0.10	0.03	0.03
Culture	20,327	2.37	0.61	0.66	23,373	2.72	0.75	0.75
Faz Cultura project	250	0.03	0.01	0.01	869	0.10	0.03	0.03
Rouanet Law	828	0.10	0.02	0.03	344	0.04	0.01	0.01
Audiovisual Law	2,153	0.25	0.06	0.07	4,150	0.48	0.13	0.13
Culture Fund	17,000	1.98	0.51	0.55	18,000	2.09	0.58	0.58
Coelba Cinema	96	0.01	0.00	0.00	10	0.00	0.00	0.00
Health and Sanitation	188	0.02	0.01	0.01	120	0.01	0.00	0.00
Sports	90	0.01	0.00	0.00	90	0.01	0.00	0.00
Hunger combat and safe food	—	0.00	0.00	0.00	—	0.00	0.00	0.00
Social Development	366,688	42.79	10.94	11.88	194,164	22.59	6.23	6.23
Electricity for all	262,668	30.65	7.84	8.51	104,496	12.16	3.35	3.35
Universalization	104,020	12.14	3.10	3.37	89,665	10.43	2.88	2.88
Others	—	0.00	0.00	0.00	3	0.00	0.00	0.00
Technological Research and Development	26,995	3.15	0.81	0.87	13,733	1.60	0.44	0.44
Others	756	0.09	0.02	0.02	1,363	0.16	0.04	0.04
Total Contributions to Society	416,433	48.59	12.43	13.50	233,666	27.18	7.50	7.50
Taxes (Except social charges)	1,631,893	190.42	48.70	52.89	1,606,686	186.90	51.58	51.54
Total – External social indicators	2,048,326	239.01	61.13	66.39	1,840,352	214.08	59.08	59.03
4 – ENVIRONMENTAL INDICATORS	R\$ thousand	% on RO	% on RL	% on VAT	R\$ thousand	% on RO	% on RL	% on VAT
Investments related to Company operations								
Vegetation handling	9,099	1.06	0.27	0.29	6,990	0.81	0.22	0.22
Replacement of equipment	5,497	0.64	0.16	0.18	932	0.11	0.03	0.03
Oil recycling	301	0.04	0.01	0.01	376	0.04	0.01	0.01
Environmental licenses	2,953	0.34	0.09	0.10	921	0.11	0.03	0.03
Compact or isolated network	21,966	2.56	0.66	0.71	11,328	1.32	0.36	0.36
Environmental education	91	0.01	0.00	0.00	68	0.01	0.00	0.00
Photovoltaic solar energy	12,175	1.42	0.36	0.39	17,091	1.99	0.55	0.55
Environment management system	269	0.03	0.01	0.01	64	0.01	0.00	0.00
Other environmental projects	90	0.17	0.00	0.00	801	0.09	0.03	0.03
						0.00	0.00	0.00
Total investments related to Company operations	52,442	6.12	1.57	1.70	38,573	4.49	1.24	1.24

	2009				2008			
	R\$ thousand				R\$ thousand			
	Reclassified				Reclassified			
	R\$ thousand	% on RO	% on RL	% on VAT	R\$ thousand	% on RO	% on RL	% on VAT
4 – ENVIRONMENTAL INDICATORS								
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Compact or isolated network	21,966	2.56	0.66	0.71	11,328	1.32	0.36	0.36
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Other environmental projects	90	0.17	0.00	0.00	801	0.09	0.03	0.03
						0.00	0.00	0.00
Total investments related to Company operations	52,442	6.12	1.57	1.70	38,573	4.49	1.24	1.24
Investment in external programs and/or projects								
Research and development	471	0.05	0.01	0.02	580	0.07	0.02	0.02
Energetic efficiency	11,727	1.37	0.35	0.38	18,418	2.14	0.59	0.59
Environmental education for the community	590	0.07	0.02	0.02	913	0.11	0.03	0.03
Degraded environment recovery and/or preservation	920	0.11	0.03	0.03	292	0.03	0.01	0.01
Others	0	0.00	0.00	0.00	13	0.00	0.00	0.00
Total investment in external programs and/or projects	13,707	1.60	0.41	0.44	20,216	2.35	0.65	0.65
Total investment in environment	66,149	7.72	1.97	2.14	58,788	6.84	1.89	1.89
Number of environmental, administrative, and judicial proceedings against the entity		0				4		
Amount of administrative and/or judicial penalties and indemnification related to environmental matters		—				120		
Environmental liabilities and contingencies		—				—		
In relation to establishment of annual targets to minimize residues, consumption in general in production/operations and increase effectiveness in using natural resources, the Company:								
		() Does not have targets, () Meets 0 to 50%, () Does not have targets, () Meets 0 to 50%, () Meets 51 to 75%, (x) Meets 76 to 100%						
		() Meets 51 to 75%, (x) Meets 76 to 100%						
5 –FUNCTIONAL BODY INDICATORS	2009				2008			
Nº of employees at period end	2,550				2,646			
Nº of admissions in the period	71				92			
Nº of dismissals in the period	167				166			
Nº of outsourced employees (1)	9,305				9,427			
Nº of trainees (1)	120				146			
Nº of employees above 45 years of age	1,578				1,703			
Nº of employees by age bracket:								
under 18	0				0			
18 to 35	657				654			
36 to 60	1,877				1,978			
above 60	16				14			
Nº of employees by school level, segregated into:								
illiterate	—				0			
elementary school	87				93			
high school	202				225			
technical school	1,323				1,438			
university undergraduate	755				748			
university graduate	183				142			
Nº of employees by gender:								
male	2,000				2,055			
female	550				591			
% of head positions by gender:								
male	78				80			
female	22				20			
Nº of black employees working at the Company	2,026				2,094			
% of head positions held by black employees	72%				69.54%			
Nº of handicapped employees (1)	73				77			
Gross remuneration segregated into:								
Employees	116,598				96,676			
Management	3,163				2,101			
Outsourced	N/D							
Independent workers	N/D							

6 - SIGNIFICANT INFORMATION ABOUT CORPORATE CITIZENSHIP EXERCISE

6 - SIGNIFICANT INFORMATION ABOUT CORPORATE CITIZENSHIP EXERCIZE				2009			Targets 2010		
Ratio between higher and lower remuneration				32			32		
Nº of total occupational accidents				21			18		
Social and environmental projects developed by the Company were defined by:	() directors	(X) directors and managers	() all employees	() directors	(X) directors and managers	() all employees			
The occupational safety and health standards were defined by:	(X) directors and managers	() all employees	() all (+) Cipa	(X) directors and managers	() all employees	() all (+) Cipa			
In relation to Union freedom, collective bargaining right and internal representation of employees, the Company:	() does not get involved	(X) follows OIT rules	() encourages and uses OIT	() does not get involved	(X) follows OIT rules	() encourages and uses OIT			
Private pension is granted to:	() directors	() directors and managers	(X) all employees	() directors	() directors and managers	(X) all employees			
Profit sharing is granted to:	() directors	() directors and managers	(X) all employees	() directors	() directors and managers	(X) all employees			
In the selection of suppliers, the same ethical, social responsibility and environmental standards adopted by the Company:	() are not considered	() are suggested	(X) are required	() are not considered	() are suggested	(X) are required			
In relation to employees participation in the volunteer work project, the Company:	() does not get involved	() supports	(X) organizes and encourages	() does not get involved	() supports	(X) organizes and encourages			
				2009			2008		
Civil litigation:									
Nº of total claims and complaints from consumers:									
at the Company				71,188			61,428		
at Procon				286			357		
in court				7,276			7,329		
% of claims and complaints resolved:									
at the Company				95%			95%		
at Procon				95%			92%		
in court				65%			50%		
Amount of penalties and indemnification to customers, determined by consumer protection and defense bodies or the courts (2)				6,946			5,069		
Initiatives carried out by the entity to clear or minimize the cause of complaints:									
1 – Compliance of SRT letter with ANEEL Resolution No. 505/01.									
2 – Change in the procedure to change titleholder to meet the statement of ANEEL's Prosecution Unit.									
3 – Early universalization budget for rural area.									
4 – Change in the procedure for electric damage complaints that require inspection within 24h.									

Observations:

1 – The amounts composing internal social indicators include employees and management. We do not have amounts related to outsourced and independent workers.

2 – The increase in penalties and indemnifications to customers is due to the increase in the number of terminated civil proceedings through agreements or rulings. In 2008, 5,731 proceedings were terminated. In 2009, 7,819 proceedings were terminated.

3 – The increase in expenses with labor contingencies and liabilities is due to the increase in the number of terminated proceedings. In 2008, 728 labor proceedings were terminated. In 2009, 985 proceedings were terminated processes.

Labor contingencies and liabilities:

Number of labor claims:

filed against the entity	951	1,147
considered groundful	280	162
considered not groundful	67	486

Total amount of indemnification and penalties

paid under court order (3)	8,311	3,581
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Total value added to be distributed

(R\$ thousand)	In 2009: 3.085.355	In 2008: 3.117.560 - Reclassified
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57,09% government	4,56% employees	55,04% government	4,37% employees
21,43% shareholders	12,12% third parties	21,04% shareholders	14,45% third parties
4,80% Reserve SUDENE	Retained 0%	5,10% Reserve SUDENE	Retained 0%

Distribution of Value Added (DVA):

7 – OTHER INFORMATION

CNPJ:15.139.629/0001-94, energetic sector – BA.

For clarification about declared information: André Luiz Margalhão Gondim, tel:(71) 3370-5141, e-mail: agondim@coelba.com.br

This Company does not use child or slave labor, is not involved with prostitution or sexual exploration of children and adolescents and is not involved in corruption. Our Company values and respects diversity internally and externally.

COMPANHIA DE ELETRICIDADE DO ESTADO DA BAHIA—COELBA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

(In thousands of reais – R\$, except where otherwise stated).

1 OPERATIONS

Companhia de Eletricidade do Estado da Bahia – COELBA, a publicly-held corporation, subsidiary of NEOENERGIA S/A (“NEOENERGIA”), is a public utility electric energy concessionaire, incorporated for the purpose of designing, building and operating systems for sub-transmission, processing, distribution and sale of electric power and related services that may be granted or allowed, and performing activities associated with electric energy services. The Company may also provide technical services in its area of expertise, carry out export and import operations, and perform other acts necessary to accomplish its goals. The Company’s activities are regulated and supervised by the National Agency of Electric Energy (ANEEL), an agency reporting to the Ministry of Mines and Energy.

2 CONCESSIONS

The Company holds a concession for electric power distribution in 415 of 417 cities in the state of Bahia, and in the cities of Delmiro Gouveia, in the state of Alagoas, and Dianópolis in the state of Tocantins, extending over a 563 thousand km² concession area granted by the Decree issued on August 6, 1997 and regulated by Concession Agreement No. 010, executed on August 8, 1997, effective for 30 years until August 7, 2027.

Additionally, pursuant to the current regulation of the electric energy sector, the Company has been serving free consumers in Bahia state since 2002.

3 ACTIVITIES UNRELATED TO THE ELECTRIC ENERGY UTILITY CONCESSION

The Company has fixed asset items classified as other investments, which are used to derive income despite their immateriality.

4 PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements are presented in accordance with the accounting practices adopted in Brazil, which include the provisions of the Corporations Act, coupled with specific legislation applicable to the concessionaires of electric energy utility services issued by the National Agency of Electric Energy (ANEEL), and the accounting standards and procedures issued by the Brazilian Securities Commission (CVM) and the Brazilian FASB (CPC).

As permitted by CVM Rule No. 565, of December 17, 2008, which approves Technical Pronouncement CPC No. 13, as of the year ended December 31, 2008 the Company has adopted Law No. 11638/07 and Provisional Executive Act No. 449/08 (passed into Law No. 11941, of May 27, 2009). The Company adopted January 1, 2008 as its transition date.

The effects of the first-time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08 on equity for December 31, 2008, net of tax effects, are shown below:

Application of “hedge accounting”	(18,670)
Present value adjustment (fixed assets)	<u>(9,325)</u>
Total	<u><u>(27,995)</u></u>

In the course of 2009, the Brazilian FASB (CPC) issued and the Brazilian Securities Commission (CVM) approved several accounting pronouncements in line with the International Reporting Financial Standards (IFRS) issued by the IASB – International Accounting Standards Board. These pronouncements are

effective for fiscal years beginning on or after January 1, 2010, with retrospective application to 2009 for comparison purposes.

The Company evaluated the technical pronouncements issued and concluded that, except for Technical Interpretations ICPC 01 – Concession Agreements and ICPC 08 – Accounting for Proposed Dividend Distribution, the new pronouncements will have no significant impact on its financial statements.

Technical Interpretation ICPC 01 establishes the general principles on recognition and measurement of rights and duties under the concession agreements. According to ICPC 01, the compensation received or receivable by the concession holder must be recorded at fair value, corresponding to rights over a financial and/or intangible asset.

Considering the complex extent of changes required by this technical interpretation, the Company is evaluating its impact on the financial statements, and following market discussions and debates, especially those held by accounting agencies and associations and regulatory bodies, which may express themselves regarding the application of the technical interpretation.

At this point, until there is further clarification on the practical application of this technical interpretation, the Company believes that it is not possible to reasonably evaluate and measure the potential effects on its financial statements.

Technical Interpretation ICPC 08 establishes that the amount of dividends (above the minimum compulsory dividends established by law) not approved by the General Meeting should not be recorded as a provision, but rather, shown separately under shareholders' equity. If this technical interpretation had been adopted for the year ended December 31, 2009, current liabilities would have been understated and shareholders' equity would have been overstated by the amount in excess of minimum compulsory dividends disclosed in Note 27.

Additionally, the financial statements for the year ended December 31, 2008 have been reclassified, where applicable, for better presentation and consistency for purposes of comparability. The comparison between the balances shown in the December 31, 2008 financial statements and the balances reclassified for comparability purposes is shown below:

	2008	
	<u>Published</u>	<u>Reclassified</u>
Balance sheet		
Current assets	1,264,260	1,264,260
Cash and cash equivalents	—	334,809
Cash available	74,105	—
Short-term investments	260,704	—

	2008	
	Published	Reclassified
Statement of Income		
Gross revenue from sales and/or services	4,655,857	4,655,857
Electric energy supply	1,712,648	1,845,556
Short-term electric energy – CCEE	36,118	36,118
Distribution system availability	2,701,063	2,697,550
Tariff subvention- low income consumers	269,343	—
Reversal of rationing tariff recomposition	(20,631)	—
Revenue from (reversal of) rationing free energy	(22,431)	—
Tariff review revenue (reversal)	(93,373)	—
Transmission adjustment portion	(3,513)	—
Charges – CBEE	(149)	—
Others	76,782	76,633
Deductions from gross revenue	(1,540,753)	(1,540,753)
PIS	(79,486)	(79,486)
COFINS	(361,659)	(361,659)
ICMS	(888,765)	(888,765)
Others	(210,843)	(210,843)
Net revenue from sales and/or services	3,115,104	3,115,104
Operating costs and expenses	(2,082,501)	(2,082,501)
Operating cost	(1,817,351)	(1,817,351)
Selling	(165,135)	(165,135)
General and administrative	(100,015)	(100,015)
Financial result	(172,954)	(172,954)
Result from disposal/decommissioning of assets and rights	(5,242)	—
Other operating income (expenses)	—	(5,242)
Operating result	854,407	854,407
Income tax and social contribution	(133,463)	(133,463)
Reversal of interest on equity capital	93,861	93,861
Net income for the period	814,805	814,805

Additional information is disclosed in the footnotes and supplementary tables in compliance with the instructions of SFF / ANEEL Closing Order No. 4722 of December 18, 2009.

Authorization to conclude the preparation of these financial statements was given by the Company's management on January 21, 2010.

5 SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

5.1 GENERAL ACCOUNTING PRACTICES

Financial instruments

The Company's financial instruments are classified as: held for trading, held to maturity, loans and receivables and financial liabilities not measured at fair value. Financial assets classified as held for trading are marked to market, having a matching entry in the income statement. Financial assets classified as held to maturity or loans and receivables are recorded at amortized cost plus earnings, adjusted for the estimated realizable value, whichever is less. Financial liabilities not measured at fair value are valued at amortized cost, plus financial charges calculated on a *pro-rata temporis* basis.

The main financial assets recognized by the Company are: cash and cash equivalents, consumers, concessionaires and licensees, trade notes receivable, marketable securities and derivatives.

The main financial liabilities recognized by the Company are: trade accounts payable, loans, financing and debentures, and derivatives.

Cash and cash equivalents

Cash and cash equivalents include cash balance, bank cash deposits and readily liquid short-term investments. These are classified as financial assets available for trading and are recorded at their original amount plus accrued interest until the financial statement closing dates, calculated on a pro-rata basis, equivalent to their market values.

Consumers, concessionaires and licensees

This item includes billed and unbilled (estimated) accounts receivable from supply, electric energy supply and network use, services provided, late payment and other charges, to the balance sheet closing date, recorded on an accrual basis. These are considered to be financial assets classified as loans and receivables.

Marketable securities

These are classified as financial assets held to maturity and are recorded at their amortized cost plus contractual interest, recognized on a pro-rata basis to the financial statement closing dates, equivalent to their market values.

Inventories (including fixed assets)

Materials and equipment in stock, classified as current assets (maintenance and administrative supplies) and those intended for investment, classified as noncurrent assets—fixed assets (construction warehouse), are recorded at average acquisition cost and do not exceed replacement cost or realizable value, less provisions for losses, where applicable.

Investments

These represent investments in real estate, shares and marketing rights to audiovisual works, not connected with the purpose of the concession, and are recorded at acquisition cost, net of provisions for losses, where applicable.

Fixed assets

Fixed assets are recorded at acquisition or construction cost, adjusted for inflation until 1995, less accumulated depreciation and impairment losses. Depreciation is calculated at rates that take into account the actual life of the assets.

Intangible assets

In accordance with the provisions of CVM Rule No. 553, of November 12, 2008, these are recorded at the cost of acquisition of permanent easements and corporate system maintenance software, with the latter being recorded net of accumulated amortization and impairment losses.

Impairment of assets

The Company believes there is no indication that the book value of its fixed assets and intangible assets exceeds their recoverable amount. This conclusion is supported by the methodology for valuing the infrastructure base utilized to calculate the depreciation included in the tariff. While the fixed assets are recorded at historical cost, the basis for calculating the regulatory depreciation is set based on the replacement value of the assets.

However, in order to support its understanding, the Company performs annual impairment tests using the method of the present value of future cash flows generated by the assets resulting in an amount in excess of the amount booked (see Note 22).

Loans, financing and debentures

Liabilities denominated in local currency are updated by monetary variation and effective interest rates incurred through the balance sheet dates, according to the terms of financing agreements, net of transaction costs incurred in obtaining the funds.

According to CPC 14, foreign currency-denominated liabilities are regarded as hedge items (hedge accounting), and recorded at market value.

Derivatives

The Company enters into derivative swap contracts for the purpose of managing its exposure to foreign currency risks. According to CPC in 14, these derivatives were accounted for as hedge financial instruments (hedge accounting).

The Company has no derivative contracts for trading and speculative purposes (see Note 39).

Current and deferred income and social contribution taxes

Current income and social contribution taxes are calculated based on effective rates at the date of the financial statements, and the deferred amount is recognized based on temporary differences.

In calculating income tax and social contribution on net profits, the Company opted for the Transitional Taxation Regime (RTT), which allows excluding the effects of changes introduced by Laws No. 11638/2007 and No. 11941/2009 from these tax bases.

The Company is entitled to an income tax reduction (“Sudene” tax incentive), calculated based on profits from activities under favorable tax treatment (“lucro da exploração”) (see Note 13).

Pension and other employee benefits

The costs associated with post-employment benefits and pension plans are recognized on an accrual basis in accordance with CVM Rule No. 371/2000, based on actuarial calculations prepared by independent actuaries.

Determination of profit and loss

Revenues and expenses are recognized on an accrual basis. Revenues from all services rendered are recognized as earned. Sales of electric energy to all consumers are billed monthly according to the meter reading schedule. Unbilled revenues, representing the period between the last reading date and the end of the month, are estimated and recognized as revenue for the month in which the energy was consumed. Historically, the difference between the estimated unbilled revenue and actual consumption, which is recognized in the following month, has not been relevant.

Interest income and expenses are recognized using the effective interest rate as financial income/expenses.

Foreign currency translation

- Functional and reporting currency

The Company’s functional currency is the Brazilian Real, the same currency used in the preparation and presentation of financial statements.

- Foreign currency transactions

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency (Brazilian real) at the exchange rate in force at the balance sheet date. Exchange gains and losses deriving from these assets and liabilities restatements between the transaction and the year-end dates are recognized as financial income or expenses in the income statement.

Use of estimates

The preparation of financial statements in conformity with accounting practices adopted in Brazil requires management, based on estimates and assumptions, to record certain transactions that impact assets, liabilities, income and expenses and to disclose such information in its financial statements. Final results from these transactions and information, upon actual realization in subsequent periods, may differ from these estimates.

The main estimates related to financial statements refer to accounting for the effects arising from: unbilled electric energy supply, unbilled use of distribution network, energy trading within the Electric Energy Trade Chamber (CCEE), allowance for doubtful accounts, provision for contingencies, realization of deferred income and social contribution taxes and goodwill

Other assets and liabilities

Other current and noncurrent assets and liabilities subject to monetary restatement due to legislation or contractual arrangements are adjusted based on the rates defined in the related provisions, so as to reflect amounts restated to the balance sheet date. Other assets and liabilities are recorded at amounts incurred at the date of buildup, less asset impairment losses and/or present value adjustments, as applicable.

5.2 REGULATORY ACCOUNTING PRACTICES SPECIFIC TO THE ELECTRIC POWER SECTOR

Chart of accounts

The Company adopts the chart of accounts defined in the Accounting Manual for Electric Energy Public Services, introduced by ANEEL Resolution No. 444, of October 26, 2001 and subsequent amendments defined in ANEEL Resolutions No. 473, of March 6, 2006, No. 219, of April 11, 2006, No. 4815, of December 26, 2008, and No. 370, of June 30, 2009.

Regulatory assets and liabilities

Amounts receivable or payable as a result of the concession agreement, for the purpose of ensuring the concession' economic and financial balance, among others (see Note 10).

The agreement stipulates that “the tariffs should cover the costs required for developing the activities, provided that an adequate efficiency level of the concessionaires or licensees and the accuracy of accounting information are ensured”.

Allowance for doubtful accounts

This is recognized in an amount considered sufficient by management to cover probable losses on accounts receivable from consumers and notes receivable whose recovery is considered unlikely.

The allowance for doubtful accounts is established considering receivables from residential consumers in default for more than 90 days, commercial consumers in default for more than 180 days, and industrial, rural, public sector, public lighting, public services and other consumers in default for more than 360 days, as defined in the Accounting Manual for Electric Energy Public Services. It also considers an individual analysis of notes receivable and the balance overdue for each customer in order to obtain an adequate judgment of unlikely receivables, based on management's experience of actual losses, collaterals in place, etc.

This includes billed amounts receivable to the balance sheet closing date, recorded under the accrual method of accounting.

Fixed Assets in Service (AIS)

- Assets and facilities in connection with the service concession

The assets and rights in relation to the service concession are registered and controlled by the concessionaire and licensee in auxiliary systems or supplementary records, via Registration Unit (UC) and Addition and Write-off Unit (UAR), per Order of Inclusion in Fixed Assets (ODI), accounting record and date of transfer (capitalization) to Fixed Assets in Service.

- Fixed assets technical reserve

This comprises an asset, or a set of assets, which, by technical reasons relating to the security and reliability of the electrical system, while not in use, is available and may become immediately operational. It is accounted for according to the provisions applicable to fixed assets in service.

- Depreciation

Depreciation is calculated on a straight-line basis, considering the carrying amounts recorded in the related Registration Units (UC), as determined by ANEEL Resolution No. 015, of December 24, 1997, and DNAEE Ordinance No. 815, of November 30, 1994. Annual rates are determined on the tables attached to ANEEL Resolutions No. 02, of December 24, 1997, and No. 44, of March 17, 1999, and to article 9 of ANEEL Resolution No. 367, of June 2, 2009 (see Note 19). The Company's management reviewed those rates, and concluded that they reflect the effective life of its fixed assets.

Fixed Assets in Progress (AIC)

Assets and facilities under construction being built up.

- General Administration Allocation (RAG):

Indirect costs allocated to works and services (buildup of assets and facilities) calculated in an amount up to 10% of direct labor used in orders in progress, representing general superior administration, construction and supply activities (central activities), matched with costs recorded as administrative expenses.

- Financial Charges:

Pursuant to the provisions of Accounting Instruction No. 6.3.10 of the Accounting Manual for Electric Energy Public Services, established by ANEEL Resolution No. 444, of October 26, 2001 and subsequent amendments introduced by ANEEL Resolution No. 370, of June 30, 2009, and by CVM Rule No. 577, of June 5, 2009, interest, monetary variation and financial charges related to financing obtained from third parties actually applied to construction in progress are allocated to the orders in progress as cost.

Obligations linked to the Concession of Electric Energy Public Services

These represent funds and/or assets provided by the Cities, States, the Federal Government and consumers in general, in the form of donations and investment subsidies for the expansion of electric energy public services, which are amortized at the same rates used for depreciation of fixed assets in service (see Note 19).

As provided in Accounting Instruction No. 6.3.23 of the Accounting Manual for Electric Energy Public Services, obligations linked to the Concession of Electric Energy Public Services, accounted for under a specific caption in noncurrent liabilities, are recorded as a reduction of noncurrent assets—fixed assets, considering they represent financing obtained for specific construction work purposes.

Regulatory Charges

- Global Reversal Reserve (RGR)

Electric energy sector charge payable monthly by electric energy concessionaires in order to provide resources for the reversal, expansion and improvement of electric energy public services. Its annual value amounts to 2.5% of investments made by the concessionaire in assets linked to the provision of electric energy services, limited to 3.0% of its annual revenue.

- **Fuel Consumption Account (CCC)**
This represents part of the tariff revenue payable by distributors for interconnected systems for two purposes: support the cost of fuel used in thermal plants that are activated to ensure hydrologic uncertainties; subsidize part of the cost of fuel in separate systems to allow for electric energy tariffs in those sites to be similar to those adopted in interconnected systems.
- **Energetic Development Account (CDE)**
This aims at fostering energy development of the States and competitiveness of energy produced from alternative sources, in areas served by the interconnected systems, allowing the universal electric service. The amounts to be paid are also defined by ANEEL.
- **Energetic Efficiency Programs (PEE) – Research and Development (P&D) – National Fund for Scientific and Technological Development (FNDCT) and Energetic Research Company (EPE)**
These are reinvestment programs required by ANEEL from electric energy distributors, which must allocate 1% of their net operating revenue to these programs.
- **Electric Energy Service Inspection Charge (TFSEE)**
The inspection fee amounts levied on electric energy distribution are different and proportionate to the size of the service provided, calculated annually by ANEEL, considering the economic value added by the concessionaire.
- **System Service Charge (ESS)**
This represents the cost incurred to maintain the reliability and stability of the National Interconnected System to meet the demand for electric power in Brazil. This cost is calculated monthly by the CCEE and is paid by consumption agents to generation agents.

Unbilled Revenue

This corresponds to the revenue from electric energy supply, delivered but not billed to consumers, and to unbilled revenue from use of the distribution network, calculated on an estimated basis, for the period from the date of monthly reading to the last day of the month.

Purchase and Sale Operations in the Electric Energy Trade Chamber (CCEE)

Purchases and sales of electric energy in the CCEE are recognized on an accrual basis according to information disclosed by that entity or to the Company's management estimates, when such information is not timely available.

Environmental Issues

The capitalization of costs relating to environmental issues is based on the regulatory provisions of the Accounting Manual for Electric Energy Public Services and is driven by the "environmental conditions" required by applicable government agencies for granting the concessions that will allow the implementation of projects. In particular, these refer to the Brazilian Environmental Institute (IBAMA) at the federal level, and the Environmental Institute (IMA) at the state level.

The "environmental conditions" refer to compensations that should be made in connection with the project with a view to repairing, mitigating or preventing environmental damage to the project's site.

If the expenses arise from agreements with NGOs and other entities that foster environmental conservation, without, however, referring to investment projects, the expenses will be appropriated to the income statement as operating expenses.

Obligations assumed are recognized on the accrual basis, from the moment the commitment is formally documented, and are settled over the periods agreed upon by and between the parties.

6 CASH AND CASH EQUIVALENTS

	Balance	
	2009	2008
Cash and bank demand deposits	33,857	74,105
Short-term investments:		
Bank Deposit Certificate (CDB)	876	10,791
Investment funds	182,596	249,913
	<u>217,329</u>	<u>334,809</u>

Short-term investments comprise transactions carried out with institutions operating in the domestic financial market under usual market rates and conditions, characterized by high liquidity, low credit risk and interest based on the variation of the Interbank Deposit Certificate (CDI), at rates that range from 96% to 102%.

7 CONSUMERS, CONCESSIONAIRES AND LICENSEES

	Falling due	Overdue		Total		Allowance for doubtful accounts	
		up to 90 days	more than 90 days	2009	2008	2009	2008
Private Sector							
Residential	317,051	98,594	16,725	432,370	308,412	(17,186)	(12,934)
Industrial	99,606	8,820	5,856	114,282	97,426	(4,194)	(4,089)
Commercial, services and others	128,770	36,906	9,288	174,964	142,647	(6,797)	(4,505)
Rural	34,988	8,549	3,784	47,321	40,485	(1,905)	(1,324)
	<u>580,415</u>	<u>152,869</u>	<u>35,653</u>	<u>768,937</u>	<u>588,970</u>	<u>(30,082)</u>	<u>(22,852)</u>
Public Sector							
Public Sector							
Federal	3,971	175	73	4,219	3,324	(23)	(15)
State	7,253	4,132	77	11,462	7,016	—	—
Municipal	11,282	4,935	150	16,367	13,215	—	—
	<u>22,506</u>	<u>9,242</u>	<u>300</u>	<u>32,048</u>	<u>23,555</u>	<u>(23)</u>	<u>(15)</u>
Public lighting	16,971	5,350	59	22,380	22,678	—	(87)
Public service	16,602	14,370	1,800	32,772	22,423	(275)	(43)
Unbilled supply	91,130	—	—	91,130	90,490	—	—
Subtotal – Consumers	<u>727,624</u>	<u>181,831</u>	<u>37,812</u>	<u>947,267</u>	<u>748,116</u>	<u>(30,380)</u>	<u>(22,997)</u>
Electric Energy Trading Chamber – CCEE	—	—	16,317	16,317	32,582	—	—
Arrears charges	10,884	18,603	18,508	47,995	34,934	(1,466)	(1,300)
Services rendered to third parties	2,092	1,451	2,666	6,209	7,209	—	—
Distribution system availability	4,468	701	1,279	6,448	9,851	—	—
Other credits	7,002	1,491	2,737	11,230	5,474	(639)	(725)
Total	<u>752,070</u>	<u>204,077</u>	<u>79,319</u>	<u>1,035,466</u>	<u>838,166</u>	<u>(32,485)</u>	<u>(25,022)</u>
Current assets				828,258	657,487	(32,485)	(24,813)
Noncurrent assets				207,208	180,679	—	(209)

Noncurrent receivables represent amounts resulting from the consolidation of installment payments of consumers' debts in electric energy bills overdue and not yet due. These include interest and penalty calculated on a *pro-rata temporis* basis.

Electric Energy Trade Chamber (CCEE)

The amounts corresponding to operations with the Electric Energy Trade Chamber (CCEE) were recorded based on information disclosed by CCEE.

Transactions involving the sale of “short-term energy” within the CCEE (Wholesale Energy Market—MAE at the time) for the period September 2000 to December 2002, settled in July 2003 after completion of the financial audit of MAE accounts and other audits performed thereafter, generated a credit right to the Company, as shown below:

	<u>2009</u>	<u>2008</u>
Amounts receivable—September /2000 to December/2002		
Amount disputed in court	16,317	14,523
Amount negotiated with agents	—	1,886
Amounts receivable for the period	<u> </u>	<u>16,173</u>
Total	<u>16,317</u>	<u>32,582</u>
Current assets	—	16,173
Noncurrent assets	16,317	16,409

“Short-term energy” amounts may be subject to change depending on the outcome of legal proceedings in progress, brought by some energy companies against ANEEL regarding the interpretation of market rules in force. These cases are under review by the courts of 1st and 2nd instances. The Company is not a party to the proceedings, but considering its interest in the outcome thereof, it is a litigation assistant.

The Company did not establish an allowance for doubtful accounts referring to the cases under dispute as it understands that the amounts will be fully received whether from plaintiffs or from other companies that may be indicated by the CCEE.

8 TRADE NOTES RECEIVABLE

These refer to installment payments of financial debts from energy supply payable by government agencies and sundry debts (collecting agents, rentals, legal fees, etc.).

		<u>Overdue</u>		<u>Total</u>		<u>Allowance for doubtful accounts</u>	
	<u>Falling due</u>	<u>up to 90 days</u>	<u>More than 90 days</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Public Sector	13,057	193	13	13,263	11,321	—	(461)
Private Sector	2,936	138	1,016	4,090	4,362	(1,307)	(1,461)
Total	<u>15,993</u>	<u>331</u>	<u>1,029</u>	<u>17,353</u>	<u>15,683</u>	<u>(1,307)</u>	<u>(1,922)</u>
Current Assets				4,775	3,305	(569)	(502)
Noncurrent Assets				12,578	12,378	(738)	(1,420)

The debt installment payments include interest and monetary restatement at usual market rates, terms and indices, and the amounts, net of the allowance for doubtful accounts, are considered recoverable by management.

9 ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts was established pursuant to the guidelines of ANEEL Accounting Manual for Electric Energy Public Services, and after a detailed analysis of past due accounts receivable, the Company’s management considered it to be sufficient to cover possible losses on realization of receivables, including trade notes receivable.

For tax purposes, the excess allowance calculated in relation to the terms of articles 9 and 10 of Law No. 9430/96, is added to taxable income and the calculation basis of social contribution on net profit (CSSL).

	<u>2009</u>	<u>2008</u>
Consumers, concessionaires and licensees	(32,485)	(25,022)
Accounts receivable	(1,307)	(1,922)
Other credits	(1,820)	(2,027)
Total	<u>(35,612)</u>	<u>(28,971)</u>
Current Assets	(34,666)	(27,342)
Noncurrent Assets	(946)	(1,629)

	<u>Balance 2008</u>	<u>Additions</u>	<u>Reversals</u>	<u>Written Off Reserve</u>	<u>Balance 2009</u>
Consumers, concessionaires and licensees	(25,022)	(354,327)	338,192	8,672	(32,485)
Accounts receivable	(1,922)	(15,338)	15,953	—	(1,307)
Other credits	(2,027)	(23,206)	23,413	—	(1,820)
Total	<u>(28,971)</u>	<u>(392,871)</u>	<u>377,558</u>	<u>8,672</u>	<u>(35,612)</u>
Current Assets	(27,342)				(34,666)
Noncurrent Assets	(1,629)				(946)

10 REGULATORY ASSETS AND LIABILITIES

		<u>Assets</u>			
		<u>2009</u>		<u>2008</u>	
		<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Tariff Review and Adjustment:	(b)				
Non-controlled Tariff Amounts for Offset of “Tranche A” – CVA	(b.3)	29,644	31,576	2,238	81,080
Financial Components	(c)				
Overcontracting	(c.1)	—	15,133	—	—
Subsidy to irrigators and farmers	(c.2)	—	3,364	1,077	3,131
Financial exposure	(c.3)	—	536	—	—
Electricity for all program		6,631	—	531	—
Connection adjustment		1,024	—	—	2,169
Basic network adjustment		857	—	1,671	—
Other financial components		326	4,050	2,630	589
Total		<u>38,482</u>	<u>54,659</u>	<u>8,147</u>	<u>86,969</u>

	Re.	Liabilities			
		2009		2008	
		Current	Noncurrent	Current	Noncurrent
Electric Sector General Agreement:	(a)				
Free energy	(a.1)	15,498	—	7,694	—
Uncontrolled Tariff Amounts for Offset of “Tranche A”	(a.2)	625	—	—	2,276
Tariff Review and Adjustment:	(b)				
Tariff adjustment	(b.1)	16,548	—	—	—
Uncontrolled Tariff Amounts for Offset of “Tranche A” – CVA	(b.3)	9,783	80,163	—	26,007
Financial Components	(c)				
Overcontracting	(c.1)	992	—	1,213	2,646
Subsidy to Irrigators and Farmers		1,813	—	—	—
Financial exposure	(c.2)	1,953	—	1,205	6,477
Connection adjustment		334	—	334	1,084
Basic network adjustment		—	—	882	—
Other financial components		2,995	—	1,093	415
Total		<u>50,541</u>	<u>80,163</u>	<u>12,421</u>	<u>38,905</u>

(a) General Agreement for the Electric Energy Sector

Through the Energy Crisis Management Chamber (GCE), the Federal Government and the electric energy distributors and generators executed in 2001 the “General Agreement for the Electric Energy Sector”, defining the criteria for recovery of revenues and extraordinary losses for the period of the Emergency Energy Rationing Plan, which charged an additional tariff on electric energy bills.

(a.1) Free Energy

ANEEL Resolution No. 001, of January 12, 2004, established that the RTE (Loss of Revenues and Free Energy) should be included in electric energy supply tariffs for a maximum period of 74 months, which ended in February 2008 for Coelba, but was insufficient for full asset recovery.

In February 2008, the Company recognized losses on Free Energy by writing off assets in the amount of R\$ 59,935 and liabilities in the amount of R\$ 66,395, with the amounts to be passed on to the generators remaining recorded as liabilities. Such amounts were billed but not collected until the end of the period, as this depended on conclusive guidance by ANEEL in order to ensure the balance of the amortization of the two regulatory assets (RTE and Free Energy).

With the publication of its Regulatory Resolution No. 387, of December 15, 2009, ANEEL established a new calculation methodology to check whether the amounts passed on by distributors actually represent the amount of Free Energy to which generators would be entitled.

After recalculation, the amounts recorded as Free Energy at December 31, 2009 and 2008 are as follows:

	<u>Current liabilities</u>
Write-off of assets /liabilities (recognition of loss)	(7,694)
Financial remuneration	19,816
Adjustment	(4,318)
Balances at December 31, 2009	<u>15,498</u>

Please find below a breakdown of Free Energy amounts payable, per Generator:

	<u>2009</u>	<u>2008</u>
AES Tiete S/A	778	3,531
Centrais Elétricas Cahoeira Dourada S/A – CDSA	263	1,337
Companhia Estadual de Energia Elétrica – CEEE	423	1,529
Companhia Energética de São Paulo – CESP	2,352	10,940
Companhia Energética de Minas Gerais – CEMIG	3,088	15,272
Companhia Hidrelétrica do São Francisco – CHESF	3,284	16,357
Duke Energy Internacional -Geração Paranapanema S/A – DUKE	609	3,032
Centrais Elétricas do Norte do Brasil S/A – ELETRONORTE	960	4,807
Furnas Centrais Elétricas S/A – FURNAS	2,515	11,758
Other	1,226	5,177
Subtotal	15,498	73,740
(-) Provision for adjustment to realizable value		
Write-off of liabilities (recognition of loss)	—	(66,046)
Total	<u>15,498</u>	<u>7,694</u>
Current Liabilities	15,498	7,694

(a.2) Unmanageable Tariff Costs of “Tranche A” for Offset:

ANEEL Resolution No. 90, of February 18, 2002, defined the items of “Tranche A”, for the period between January 1 and October 25, 2001, as well as the economic yield, by incorporating the financial effects, and the period for tariff recovery.

“Tranche A” amounts were fully recovered in the period from March to August 2008 and the liability balance represents the amount being returned to consumers since the tariff increase of April 22, 2009.

	<u>Current liabilities</u>
Balances at December 31, 2008	2,276
Financial remuneration	66
(-) Amortization	(1,717)
Balances at December 31, 2009	<u>625</u>

	<u>Current liabilities</u>	<u>Noncurrent liabilities</u>
Subvention for fuel consumption account – CCC	47	—
Global reversal reserve – RGR	29	—
Electric energy service inspection charge – TFSEE	5	—
Transmission system connection charges	6	—
Transmission system use tariff – TUST	160	—
Electric energy purchased for resale	<u>378</u>	—
Balances at December 31, 2009	<u>625</u>	—
Balances at December 31, 2008		<u>2,276</u>

(b) Tariff Review and Adjustment

(b.1) Periodic Tariff Review (Tariff Realignment)

By means of Ratifying Resolution No. 799, of April 7, 2009, ANEEL established the final result of COELBA’s 2nd Periodic Tariff Review, in which the Tariff Realignment rate is -13.51% (minus thirteen point fifty-one percent), a decrease of -1.39% (minus one point thirty-nine per cent) over the rate

provisionally informed in April 2008. The adjustment results from a review of the methodologies used in regulatory losses (technical / commercial), of the Benchmark Company, of the Return on Capital and of the X-Factor calculation.

The change in revenue resulting from the difference between the provisional realignment, as established in ANEEL Ratifying Resolution No. 638/2008, and the final realignment, in the amount of R\$ 60,231, was considered in the Annual Tariff Adjustment for April 22, 2009 and is being reimbursed to consumers.

The change for the period is as follows:

	<u>Liabilities</u>
Balances at December 31, 2008	
Constitution	60,231
(-) Amortization	(43,683)
Balances at December 31, 2009	<u>16,548</u>

The review authorized by ANEEL comprises the following items:

	<u>Re.</u>	
Verified Revenue	(1)	<u>3,544,098</u>
Sectorial Charges		261,584
Electric Energy Purchase		1,332,010
Electric Energy Transportation		<u>190,832</u>
Tranche A		1,784,426
Gross Capital Remuneration		410,309
Regulatory Reintegration		237,139
Benchmark Company		608,101
Default		<u>37,102</u>
Tranche B		1,292,650
Required Revenue (Tranche A +B)		3,077,076
(-) Other Revenues		(11,666)
Net Required Revenue	(2)	<u>3,065,410</u>
Tariff Adjustment [(2) + (1)]		-13.51%

(b.2) Annual Tariff Adjustment:

Through Ratifying Resolution No. 806, of April 14, 2009, ANEEL fixed the Company's average tariff increase at 9.86%, with 8.44% referring to the annual tariff adjustment and 1.42% to financial items. The average effect to be perceived by consumers is 6.03%, with 5.58% by low voltage customers (households and others) and 6.49% by high voltage customers (industries and medium- and large-sized businesses), and will be valid from April 22, 2009 to April 21, 2010.

The adjustment authorized by ANEEL comprises the following items:

	<u>Re.</u>	
Annual Revenue (RA0)	(1)	3,232,429
Sector Charges		292,098
Electric energy purchase		1,550,522
Electric energy transportation		220,155
Tranche A		2,062,775
Gross capital remuneration – Tranche B		1,442,331
Net Required Revenue (Tranche A +B)	(2)	3,505,106
Financial Components	(3)	49,885
Tariff Review Recalculation 2008		(51,879)
Recalculation of Financial Items of Tariff Review 2008		(8,353)
Reversal of overcharged RTE		(2,334)
CVA		75,205
Over contracting		(3,705)
Financial exposure		(7,110)
Lightening for All program		24,133
Connection adjustment		1,683
Basic network adjustment		3,117
Subsidy to irrigators and farmers		17,056
Subsidy to low income consumers		4,011
Other components		(1,940)
Economic adjustment [(2) / (1)]	(4)	8.44%
Financial components [(3) / (2)]	(5)	1.42%
Tariff adjustment [(4) + (5)]		9.86%

(b.3) Unmanageable Tariff Costs of “Tranche A” for Offset – CVA

Administrative Rule No. 25, of January 24, 2002, of the Ministries of Finance and of Mines and Energy introduced the Memorandum Account for “Tranche A” Variations (CVA), for the purpose of recording positive or negative cost variations occurred in the period between annual tariff adjustments, in connection with items under the concession for electric energy distribution.

CVA asset and liability balances, per accrual period, are as follows:

	Assets			Liabilities		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
CVA March 23, 2008 to March 22, 2009 ...	29,644	—	29,644	9,783	—	9,783
CVA March 23, 2009 to March 22, 2010 ...	—	31,576	31,576	—	80,163	80,163
Balances at December 31, 2009	<u>29,644</u>	<u>31,576</u>	<u>61,220</u>	<u>9,783</u>	<u>80,163</u>	<u>89,946</u>
Balances at December 31, 2008	<u>2,238</u>	<u>81,080</u>	<u>83,318</u>	<u>—</u>	<u>26,007</u>	<u>26,007</u>

The change in CVA asset and liability balances, per type, is as follows:

ASSETS					
CVA	Balance 2008	Remuneration	Constitution	Amortization	Balance 2009
CCC	23,254	1,670	14,286	(17,220)	21,990
CDE	166	85	1,278	(702)	827
ESS	42,312	3,885	13,173	(43,400)	15,970
Transportation	17,238	2,049	18,069	(16,881)	20,475
Electric energy purchased	35	84	335	(454)	—
PROINFA	313	466	7,459	(6,280)	1,958
	<u>83,318</u>	<u>8,239</u>	<u>54,600</u>	<u>(84,937)</u>	<u>61,220</u>
LIABILITIES					
CVA	Balance 2008	Remuneration	Constitution	Amortization	Balance 2009
CCC	—	456	—	(456)	—
CDE	—	26	67	(93)	—
ESS	—	(228)	24,810	(9)	24,573
Transportation	—	230	716	(946)	—
Electric energy purchased	26,007	3,218	63,052	(26,904)	65,373
PROINFA	—	143	456	(599)	—
	<u>26,007</u>	<u>3,845</u>	<u>89,101</u>	<u>(29,007)</u>	<u>89,946</u>

(c) Financial Components

(c.1) Overcontracting

Article 38 of Decree No. 5163, of July 30, 2004, determines that in passing the purchase cost of electric energy on to final consumers tariffs, ANEEL should consider up to 103% of the total amount of electric energy contracted in relation to the annual supply by the distribution agent. This transfer was regulated by ANEEL Resolution No. 255 of March 6, 2007

The change in balances is as follows:

	Assets	Liabilities
Balances at December 31, 2008	—	3,859
Constitution	17,427	1,073
Remuneration	430	(14)
Amortization	(2,724)	(3,926)
Balances at December 31, 2009	<u>15,133</u>	<u>992</u>
Current	—	992
Noncurrent	15,133	—

(c.2) Financial Exposure

Article 38 of Decree No. 5163, of July 30, 2004, establishes that any differences in short-term market prices of the Electric Energy Trade Chamber (CCEE) will be passed on to consumers by the distribution agents.

The change in balances is as follows:

	<u>Assets</u>	<u>Liabilities</u>
Balances at December 31, 2008	—	7,682
Addition	3,279	601
Financial remuneration	137	213
(-) Amortization	(2,880)	(6,543)
Balances at December 31, 2009	<u>536</u>	<u>1,953</u>
Current	—	1,953
Noncurrent	536	—

(c.3) “Electricity for All” Program

Regulatory Resolution ANEEL No. 294, of December 11, 2007, established the applicable methodology and procedures for passing on to the electric energy tariff the deficits incurred by concessionaires as a result of implementing the “Electricity for All” Program.

The change in balances is as follows:

	<u>Current assets</u>
Balances at December 31, 2008	531
Constitution	24,133
(-) Amortization	(18,033)
Balances at December 31, 2009	<u>6,631</u>

11 MARKETABLE SECURITIES

<u>Bank</u>	<u>Re.</u>	<u>Type of investment</u>	<u>Maturity</u>	<u>Index (%)</u>	<u>2009</u>	<u>2008</u>
Banco Nordeste do Brasil	(1)	CDB	Aug-10	CDI	17,562	14,473
Banco Nordeste do Brasil	(1)	CDB	(*)	CDI	15,844	16,503
Bradesco	(2)	CDB	(*)	CDI	1,889	1,799
Bradesco	(2)	CDB	Dec-09	CDI	—	883
Bradesco	(2)	Recife Fund	(*)	CDI	2,621	4,040
Santander	(1)	CDB/CDI	Jan-10	CDI	12,281	11,168
Banco do Brasil	(1)	Investment Fund	Jul-10	CDI	25,079	23,753
Votorantim	(2)	CDB	Dec-10	CDI	9,200	—
Total					<u>84,476</u>	<u>72,619</u>
Current					84,476	72,619

(1) This comprises actual reserves in guarantee of loans obtained from financial institutions, in the amount of R\$ 70,766 (see Note 24).

(2) This comprises a supplementary guarantee for payment of energy contracts.

(*) Readily liquid investments with no fixed maturity.

12 TAXES AND SOCIAL CONTRIBUTIONS

	Re.	Assets		Liabilities	
		2009	2008	2009	2008
Income Tax – IR	(1)	3,318	2,154	20,696	18,581
Social Contribution – CSLL	(1)	3,459	2,685	—	5,258
ICMS	(2)	88,805	84,624	64,650	37,964
PIS	(3)	7	2,456	7,620	6,691
COFINS	(3)	33	11,297	27,305	20,561
INSS		1,006	717	4,015	3,575
FGTS		—	—	838	853
ISS		—	11	1,746	1,169
REFIS	(4)	2,413	2,413	—	—
Others		2,321	2,531	9,898	3,731
Total		<u>101,362</u>	<u>108,888</u>	<u>136,768</u>	<u>98,383</u>
Current		55,536	67,312	117,770	82,018
Noncurrent		45,826	41,576	18,998	16,365

- (1) Prepaid Income Tax (IR) and Social Contribution Tax (CSLL) assets refers to tax amounts paid on a monthly basis, in accordance with Article 2 of Law No. 9430, of December 27, 1996, in addition to tax prepayments in connection with short-term investments, amounts withheld for government agencies and amounts withheld at source for services rendered. The liability amount corresponds to Withholding Income Tax (IRRF) levied on invoices payable to suppliers and on interest on equity capital, on behalf of Neoenergia, deposited with the courts, as mentioned in Note 29.1.
- (2) The State Value Added Tax (ICMS) recorded as an asset comprises:
 - (a) ICMS recoverable on Permanent Assets (CIAP) arising from capital expenditures, recorded pursuant to Supplementary Law No. 102, of July 11, 2000, and adjusted to present value in conformity with CVM Rule No. 564, of December 17, 2008, which approves Technical Pronouncement CPC No. 12, in the amount of R\$ 85,209 (R\$ 81,408 at December 31, 2008).
 - (b) Sundry recoverable ICMS credits, in the amount of R\$ 3,596 (R\$ 3,216 at December 31, 2008).
- (3) PIS and COFINS carryforwards resulting from tax computations under the non-cumulative system established by Laws No. 10637/02 and No. 10833/03, respectively, for amounts withheld for government agencies and adjustment of credits arising from depreciation expenses of machinery and equipment and costs on materials used in service activities, as defined in Opinion SRFB COSIT No. 27/2008.
- (4) Credit resulting from the payment of additional amounts under the Tax Recovery Program (REFIS), due to the fact that Brazil's IRS claimed there was a difference between the consolidated debt amount payable in installments and the figure declared by the Company, resulting from late payment fines calculated on IRPJ, and CSSL and FINSOCIAL. The Company did not agree with the claim and filed a bill of review, having obtained suspension of the tax credit liability. If the decision on the merits of the case is favorable, the Company shall recover overpaid amounts. See Note 29.1 – Contingent Liabilities Tax, item 6.

13 DEFERRED TAXES AND SOCIAL CONTRIBUTIONS

The Company recorded all of the deferred taxes and social contributions on temporary differences.

The financial effects of these taxes and contributions will occur upon their realization. IRPJ is calculated at the rate of 15%, considering a 10% surtax, and the social contribution tax is calculated at the rate of 9%.

	Assets				Liabilities			
	2009		2008		2009		2008	
	Calculation base	Deferred tax	Calculation base	Deferred tax	Calculation base	Deferred tax	Calculation base	Deferred tax
Income tax								
Temporary differences	158,506	39,602	180,254	45,039	17,716	4,406	31,664	7,891
Social contribution								
Temporary differences	158,506	14,266	180,254	16,223	17,716	1,594	31,664	2,850
Total		53,868		61,262		6,000		10,741
Current		20,337		16,066		1,104		947
Noncurrent		33,531		45,196		4,896		9,794

The calculation base of temporary differences is as follows:

	2009		2008	
	IR	CSLL	IR	CSLL
Assets				
Allowance doubtful accounts	21,947	21,947	15,710	15,710
Application of “Hedge Accounting”	1,433	1,433	28,287	28,287
Present value adjustment – ICMS recoverable (CIAP)	7,076	7,076	14,130	14,130
Financial assets valuation allowance	5,000	5,000	5,000	5,000
Provision for contingencies	97,851	97,851	97,398	97,398
Provision for profit sharing	15,128	15,128	12,295	12,295
Others	10,071	10,071	7,434	7,434
Total assets	158,506	158,506	180,254	180,254
Liabilities				
Security issued to cover court ordered debt – Finsocial	12,986	12,986	11,718	11,718
Application of “Hedge Accounting”	—	—	19,946	19,946
Others	4,730	4,730	—	—
Total liabilities	17,716	17,716	31,664	31,664

Technical feasibility studies approved by the Board of Directors and reviewed by the Supervisory Board of the Company indicate the full recovery of deferred taxes recognized in accordance with CVM Instruction 371, of June 27, 2002, and represent management’s best estimates as to the Company’s future development as well as of the market in which it operates. The expected realization of tax credits is shown below:

Expected realization	2010	2011	2012	2013	2014	2015-2017	Total
Income tax	14,940	4,436	4,436	4,269	3,687	7,834	39,602
Social contribution	5,397	1,594	1,594	1,533	1,321	2,827	14,266
	20,337	6,030	6,030	5,802	5,008	10,661	53,868

As the IR and CSLL taxable base arises not only from the profits that may be generated, but also considers the existence of nontaxable income, nondeductible expenses, tax incentives and other variables, there is no immediate correlation between the Company’s net profits and IR- and CSLL-based income. Therefore, the expected use of tax credits should not be construed as the only indication of the Company’s future results.

The reconciliation of income tax (revenue) expense amounts reported and the amounts calculated by applying the statutory rates at December 31, 2009 and 2008 is shown below.

	2009		2008	
	IR	CSLL	IR	CSLL
Income before income tax and social contribution	847,223	847,223	854,407	854,407
Goodwill amortization and PMIPL reversal	(20,115)	(20,115)	(18,819)	(18,819)
Income before income tax and social contribution	827,108	827,108	835,588	835,588
Income tax and social contribution rate	25%	9%	25%	9%
Income tax and social contribution at statutory rates	206,777	74,440	208,897	75,203
Adjustment to net income that affect the tax result for the period:				
(+) Additions				
Interest on construction in progress – JOA	—	49	—	116
Contributions and donations	249	90	151	54
Nondeductible penalties	709	255	224	81
Depreciation of officer vehicles	174	63	171	61
Other additions	698	246	2,517	3,066
Subtotal of additions	1,830	703	3,063	3,378
(-) Exclusions				
Reversal of PMIPL	(9,762)	(3,514)	(9,133)	(3,288)
Tax incentive SUDENE	(148,248)	—	(159,016)	—
Audiovisual/Rouanet and PAT incentives	(4,501)	—	(4,460)	—
Subtotal of exclusions	(162,511)	(3,514)	(172,609)	(3,288)
Income tax and social contribution for the period	46,096	71,629	39,351	75,293

Transitional Taxation Regime

Provisional Executive Act No. 449/2008, of December 3, 2008, later passed into Law No. 11941/09, introduced the Transitional Taxation Regime (RTT) for the purpose of neutralizing the impacts of new accounting methods and criteria introduced by Law No. 11638/07 on the computation of the calculation bases of federal taxes.

Adoption of RTT is optional for 2008 and 2009 and compulsory as of 2010 for legal entities subject to Corporate Income Tax (IRPJ) computed based on accounting records (*lucro real*) or as a percentage of gross sales (*lucro presumido*).

The Company indicated its option for the RTT in its Corporate Income Tax Return for 2009 (DIPJ), calendar year 2008, and, on November 30, 2009, prepared its Transitional Income Tax Control Book (FCONT) created by Brazil's IRS through Revenue Procedure No. 949/2009.

14 TAX BENEFIT – INCORPORATED GOODWILL OF PARENT COMPANY

The incorporated goodwill tax benefit relates to the tax credit calculated on the goodwill arising from a corporate acquisition and is recorded in accordance with the terms of CVM Instructions No. 319/99 and No. 349/01.

For a better presentation of the Company's financial position in the financial statements, the total net amount of R\$ 246,364 (R\$ 266,479 in 2008) was classified in the balance sheet as tax benefit—incorporated goodwill, based on its expected realization, under current assets and noncurrent assets—long-term receivables.

The Company's accounting records kept for corporate and tax purposes have specific accounts related to goodwill, provision for preserving integrity of shareholders' equity, and related amortization, reversal and tax credits, which are as follows at December 31, 2009 and 2008:

Goodwill – incorporated	1,126,868
Set up provision	(743,733)
Tax benefit	383,135
Accumulated amortization	(343,105)
Accumulated reversal	226,449
Balances at December 31, 2008	266,479
Amortization	(59,161)
Reversal	39,046
Balances at December 31, 2009	246,364
Current assets	18,895
Noncurrent assets	227,469

Goodwill has been amortized over the remaining period of operation of the concession, since June 2000, in 319 monthly installments according to the annual projection of future profits, as determined by ANEEL Resolution No. 195, of June 7, 2000 and Order No. 2250, of December 20, 2005, pursuant to the curve below:

Goodwill Amortization Curve							
Year	Ratio	Year	Ratio	Year	Ratio	Year	Ratio
2009	0.05250	2014	0.04350	2019	0.03680	2024	0.02820
2010	0.04930	2015	0.04340	2020	0.03480	2025	0.02680
2011	0.04930	2016	0.04180	2021	0.03280	2026	0.02540
2012	0.04750	2017	0.04010	2022	0.03130		
2013	0.04420	2018	0.03790	2023	0.02970		

15 INVENTORIES

This group includes stored materials and equipment.

	2009	2008
Total inventory	93,811	57,766
Fixed assets in progress – stored materials	(88,477)	(51,405)
Total	5,334	6,361

16 JUDICIAL DEPOSITS

This group includes court deposits to allow for filing appeals under the terms of applicable legislation, with no provision for contingent liabilities.

	Re.	2009	2008
Labor		23,727	23,031
Cível		10,702	10,363
Tax:			
IRRF on interest on equity capital	(1)	15,776	15,091
Others		30,749	18,150
Total		80,954	66,635
Noncurrent assets		80,954	66,635

- (1) The Company received a court order, issued in connection with an individual writ of mandamus filed by Neoenergia S/A (then Guaraniana), proceeding No. 2002.5101000216/4, whereby the Company was notified to deposit Withholding Income Tax (IRRF) levied on interest on equity capital (JSCP) recorded in December 2001 on behalf of Neoenergia S/A, which should have been paid to Brazil's IRS. This deposit is updated based on the Selic rate, amounting to R\$ 15,776 at December 31, 2009 (R\$ 15,091 in 2008).

The remaining judicial deposits are presented adjusting the balance of provisions for contingent liabilities to which they relate (see Note 29.1).

17 PREPAID EXPENSES

	<u>2009</u>	<u>2008</u>
Insurance premium	996	782
Others	1,180	1,070
Total	<u>2,176</u>	<u>1,852</u>
Current assets	2,176	1,852

18 OTHER CREDITS

	<u>Re.</u>	<u>2009</u>	<u>2008</u> <u>Reclassified</u>
Subvention to low income consumers – social tariff	(1)	52,887	46,356
Advances to employees		4,388	4,049
Advances to suppliers		4,092	6,420
Services rendered to third parties		4,729	2,616
CBEE charges		541	1,152
RGR for offset		2,475	3,693
Securities issued to cover court ordered debts – Finsocial	(2)	12,986	11,718
Decommissioning in progress		3,636	5,559
Refundable expenses in course	(3)	8,397	5,639
Other credits receivable		<u>7,476</u>	<u>11,218</u>
Total		<u>101,607</u>	<u>98,420</u>
Current assets		89,243	84,198
Noncurrent assets		12,364	14,222

- (1) The Federal Government, through Law No. 10438 of April 26, 2002, established the application of the residential low-income consumers' tariff, which significantly affected the Company's operating revenue.

Presidential Decree No. 4538, of December 23, 2002, defined the sources for economic subsidy grants in order to contribute to reasonably priced electric energy tariffs for residential low income end consumers, considering the new criteria established by article 1, Law No. 10438, of April 26, 2002, and article 5, Law No. 10604, of December 17, 2002

- (2) Federal government securities issued on behalf of the Company in July 2003 to cover court-ordered debts, in the amount of R\$ 18,776. Subject to approval by the Annual Budget Law (LOA), the balance is expected to be realized in 10 (ten) equal, consecutive, annual installments, including statutory interest, with the first six annual installments having been released.
- (3) These refer to expenses incurred with construction/installation of service connection points and the low-income kit under the "Electricity for All" Program, to be repaid by the beneficiaries.

19 PROPERTY, PLANT AND EQUIPMENT

By nature, property, plant and equipment can be broken down as follows:

	2009			2008		
	Weighted average annual depreciation rates (%)	Cost	Accumulated depreciation and amortization	(-) Concession related liabilities	Net	Net
In service						
Land		12,380	—	—	12,380	12,750
Buildings, civil works and improvements	3.44%	100,360	(57,413)	—	42,947	44,120
Machinery and equipment	4.41%	5,748,655	(2,035,485)	(1,534,904)	2,178,266	2,016,008
Vehicles	11.48%	27,064	(17,766)	—	9,298	8,257
Furniture and fixtures	7.88%	13,460	(7,337)	—	6,123	5,470
Others						
Subtotal		5,901,919	(2,118,001)	(1,534,904)	2,249,014	2,086,605
In progress						
Land		302	—	—	302	275
Buildings, civil works and improvements		4,715	—	—	4,715	1,466
Machinery and equipment		347,098	—	(202,689)	144,409	1,290
Vehicles		—	—	—	—	135
Furniture and fixtures		90	—	—	90	35
Stored materials		88,477	—	—	88,477	51,405
Others		11,835	—	—	11,835	6,014
Subtotal		452,517	—	(202,689)	249,828	60,620
Total		6,354,436	(2,118,001)	(1,737,593)	2,498,842	2,147,225

Fixed assets in progress substantially refer to ongoing expansion of the electric energy distribution system.

By activity, property, plant and equipment can be broken down as follows:

	2009				2008		
	Weighted average annual depreciation rates (%)	Cost	Accumulated depreciation and amortization	Subtotal	(-) Concession related liabilities	Net	Net
In service							
Generation		—	—	—	—	—	3,585
Distribution	4.36	5,762,958	(2,019,549)	3,743,409	(1,534,904)	2,208,505	2,038,650
Sale	8.94	14,075	(12,293)	1,782	—	1,782	3,125
Administration	6.62	124,886	(86,159)	38,727	—	38,727	41,245
Subtotal		5,901,919	(2,118,001)	3,783,918	(1,534,904)	2,249,014	2,086,605
In course							
Distribution		451,348	—	451,348	(202,689)	248,659	59,075
Sale		3	—	3	—	3	3
Administration		1,166	—	1,166	—	1,166	1,542
Subtotal		452,517	—	452,517	(202,689)	249,828	60,620
Total		6,354,436	(2,118,001)	4,236,435	(1,737,593)	2,498,842	2,147,225

Changes in property, plant and equipment are shown below:

	Balance 2008	Additions	Write-offs	Transfers		Balance 2009
				Capitalization	Others	
IN SERVICE						
Cost						
Generation	10,892	—	—	—	(10,892)	—
Distribution	5,171,035	—	(24,733)	611,892	4,764	5,762,958
Sale	14,177	—	(102)	—	—	14,075
Administration	117,008	—	(2,269)	4,417	5,730	124,886
Subtotal	5,313,112	—	(27,104)	616,309	(398)	5,901,919
(-) Depreciation						
Generation	(7,307)	(257)	—	—	7,564	—
Distribution	(1,798,398)	(237,386)	19,316	—	(3,081)	(2,019,549)
Sale	(11,052)	(1,257)	16	—	—	(12,293)
Administration	(75,763)	(7,892)	2,182	—	(4,686)	(86,159)
Subtotal	(1,892,520)	(246,792)	21,514	—	(203)	(2,118,001)
Total in service	3,420,592	(246,792)	(5,590)	616,309	(601)	3,783,918
IN PROGRESS						
Distribution	329,230	735,483	(822)	(615,275)	2,732	451,348
Sale	3	—	—	—	—	3
Administration	1,542	6,105	—	(6,404)	(77)	1,166
Subtotal	330,775	741,588	(822)	(621,679)	2,655	452,517
TOTAL PP&E	3,751,367	494,796	(6,412)	(5,370)	2,054	4,236,435

At December 31, 2009, the Company tested its fixed assets for impairment, as described in Note 22.

The main depreciation rates, according to Regulatory Resolution ANEEL No. 240, of December 5, 2006, are as follows:

Sale /Administration	Distribution				
	(%)	Lines, Network and Substations Voltage < 69 KV	(%)	Lines, Network and Substations Voltage ≥ 69 KV	(%)
Buildings	4.0	Capacitors bank	6.7	Capacitors bank	5.0
Vehicles	20.0	Switch	6.7	Switch	3.3
IT equipment	10.0	Conductor	5.0	Conductor	2.5
		Building	4.0	Building	4.0
		Structure	5.0	Structure	2.5
		Regulator	4.8	Regulator	3.5
		Reswitcher	4.3	Reswitcher	4.3
		Transformer	5.0	Transformer	2.5
		Meter	4.0	Interrupter	3.0

Assets Linked to the Concession

In accordance with articles 63 and 64 of Decree No. 41019, of February 26, 1957, assets and facilities used in the subtransmission, distribution and sale of electric energy are linked to these services and cannot be retired, sold, assigned or pledged in guarantee without the prior written approval of the Regulatory Agency.

Financial Charges

In compliance with the provisions of Accounting Instruction No. 6.3.10, item 4, of the Accounting Manual for Electric Energy Public Services and of CVM Rule No. 193, of June 11, 1996, the following amounts were transferred to property, plant and equipment:

	<u>2009</u>	<u>2008</u>
Interest recorded in the statement of income	110,613	144,534
(-) Transfer to fixed assets in progress	(1,289)	(3,204)
Net effect on the statement of income	<u>109,324</u>	<u>141,330</u>

Obligations linked to the Concession of Electric Energy Public Services

Special obligations (not subject to remuneration) represent contributions from the Federal Government, States, Cities and Consumers, as well as donations not conditional on any return on behalf of the donor and subsidies for investments in the concession of electric energy distributions services.

These obligations were restated to December 31, 1995.

Regulatory Resolution ANEEL No. 234, of October 31, 2006, establishes the general concepts, methodologies and initial procedures for performing the second periodic tariff review cycle, which the Company undertook in April 2008, and determines that special obligations should be amortized at the same depreciation rates adopted for fixed assets in service, using an average rate following the tariff review. The Company adopted this procedure after the tariff review of April 22, 2008.

These obligations are broken down as follows:

	<u>2009</u>	<u>2008</u>
Participation of Federal Government	1,099,495	1,012,354
Participation of States	234,254	215,925
Participation of Municipalities	27,160	27,177
Participation of Consumers	327,677	298,343
Other subventions	49,007	50,343
Total	<u>1,737,593</u>	<u>1,604,142</u>

Changes in special obligations are as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance 2009</u>
<u>In service</u>				
<u>Cost</u>				
Distribution	(1,378,952)	(25,826)	(248,936)	(1,653,714)
<u>(-) Amortization</u>				
Distribution	44,965	73,845	—	118,810
Total in service	(1,333,987)	48,019	(248,936)	(1,534,904)
<u>In progress</u>				
Distribution	(270,155)	(205,589)	273,055	(202,689)
Total	<u>(1,604,142)</u>	<u>(157,570)</u>	<u>24,119</u>	<u>(1,737,593)</u>

Free-lease

The Company has property assigned under free-lease arrangements as follows:

<u>Reason</u>	<u>2009</u>		<u>2008</u>	
			<u>Reclassified</u>	
	<u>Book Value</u>			
	<u>Cost</u>	<u>Depreciation</u>	<u>Cost</u>	<u>Depreciation</u>
Room assignment for convenience services	785	(785)	785	(785)
Room assignment for ODEBRECHT	21	(13)	21	(12)
Room assignment for Lanchonete Café Coelba	261	(32)	261	(22)
Room assignment for Environmental Department	5	(5)	5	(5)
Room assignment for Municipal Government of Sr. do Bonfim	24	(16)	24	(14)
Room assignment for Municipal Government of Morro do Chapéu	262	(175)	262	(165)
Room assignment for Municipal Government of Itapebi	5	(4)	5	(4)
Room assignment for headquarter of IBAMA	117	(26)	117	(21)
Room assignment for Axé Project	790	(584)	790	(555)
Room assignment for Municipal Government of Cachoeira	207	(138)	207	(130)
Room assignment for Municipal Government of Jaguaquara	69	(46)	69	(43)
Room assignment for Municipal Government of Candeias	15	(10)	15	(10)
Room assignment for Municipal Government of Itaquara	69	(1)	69	(1)
Room assignment for Municipal Government of Central	248	(73)	248	(73)
Room assignment for Adelba	2,729	(1,720)	2,729	(1,611)
Room assignment for Municipal Government of Brejões	58	(14)	58	(12)
Room assignment for EBAL	163	(163)	163	(163)
Room assignment for Escola Geraldo Tavares	33	(33)	33	(33)
Room assignment for the headquarter of CRA	94	(27)	94	(23)
	<u>5,955</u>	<u>(3,865)</u>	<u>5,955</u>	<u>(3,682)</u>

National Plan on Universal Access to and Use of electric Energy

Through Resolution No. 223, of April 29, 2003, and subsequent amendments, ANEEL established the general conditions for preparation of Universal Electric Energy Plans in order to serve new consumer units. Law No. 10762, of November 11, 2003, changed the priority of service to cities focusing on those with the lowest electrification rates and limited this service only to these new low voltage (less than 2.3 KV) units, with installed capacity up to 50 KW.

In 2009, the Company invested R\$ 104,019 in new Urban and Rural connections (R\$ 89,665 at December 31, 2008) not covered by the “Electricity for All” Program, interconnecting 193,308 new consumers (202,009 in 2008) to its distribution system.

“Electricity for All” Program

Presidential Decree No. 4873, of November 11, 2003, as amended by Decree No. 6442, of April 25, 2008, introduced the National Plan on Universal Access to and Use of electric Energy, the so-called “ELECTRICITY FOR ALL” Program, designed to provide, by the year 2010, electric energy services to part of the Brazilian rural population with no access to this public utility service.

The Company is a party to the following agreements, specified below:

	ELETROBRÁS							STATE	
	1st Tranche	2nd Tranche	3rd Tranche	4th Tranche	5th Tranche	6th Tranche		10/SEINFRA/04 12/SEINFRA/06 15/SEINFRA/08 06/SEINFRA/09 04/08/04, 31/08/06, 01/07/08 E 11/09/09	
CONTRACTS	ECFS 013/2004 11/SEINFRA04	ECFS 095/2005	ECFS 153/2006	ECFS 185/2007	ECFS 239/2008	ECFS 277/2009	PIONEIROS		
EXECUTION DATE	6/30/04 and 10/4/04	10/3/2005	8/3/2006	8/6/2007	9/3/2008	11/23/2009			
PARTICIPATIONS									Total
Subsidized portion (Eletrobras CDE)	115,437	234,892	237,005	347,372	315,671	406,972	186	—	1,657,535
Financed portion (Eletrobras RGR)	11,544	19,574	19,750	86,843	78,918	40,697	—	—	257,326
Financed portion (State)	59,745	—	—	—	—	—	—	184,371	244,116
Financed portion (Municipal Government)	9,666	—	—	—	—	—	—	—	9,666
Tranche (C)	34,705	44,906	45,310	76,626	69,633	298,446	33	32,536	602,195
Total of the Program (A)	231,097	299,372	302,065	510,841	464,222	746,115	219	216,907	2,770,838
CASH INFLOW									Total
Eletrobrás (CDE)	113,302	203,131	183,079	312,635	220,970	—	155	—	1,033,272
Eletrobrás (RGR)	11,330	16,932	15,261	78,159	55,242	—	—	—	176,924
State Government	50,577	—	—	—	—	—	—	131,201	181,778
Municipal Government	9,666	—	—	—	—	—	—	—	9,666
Inflow performed (B)	184,875	220,063	198,340	390,794	276,212	—	155	131,201	1,401,640
DIFFERENCE BETWEEN REALIZED AND CONTRACTED / DISALLOWING									Total
Eletrobrás	(2,350)	(34,403)	(58,415)	—	—	—	(31)	—	(95,199)
Estado	(9,167)	—	—	—	—	—	—	(13,091)	(22,258)
Total (D)	(11,517)	(34,403)	(58,415)	—	—	—	(31)	(13,091)	(117,457)
EXPENSES INCURRED									Total
Expenses incurred (CDE, RGR, State)	247,207	261,367	275,079	496,255	403,402	—	184	146,569	1,830,063
Payments to Eletrobrás	6,559	7,524	4,939	11,767	3,158	—	—	—	33,947
Total expenses	253,766	268,891	280,018	508,022	406,560	—	184	146,569	1,864,010
BALANCE									Total
Total receivable of the program (A-C+D)	184,875	220,063	198,340	434,215	394,589	447,669	155	171,280	2,051,186
Inflow carried out (B)	184,875	220,063	198,340	390,794	276,212	—	155	131,201	1,401,640
Inflow to be carried out	—	—	—	43,421	118,377	447,669	—	40,079	649,546
NUMBER OF CONNECTIONS									Total
Connections performed (E)	63,215	51,042	46,020	84,023	69,985	5,886	18	27,199	347,388
Percentage of physical completion	99.7%	89.0%	100.2%	100.0%	99.7%	6.4%	100.0%	73.0%	77.2%
Connections in progress (F)	—	—	—	—	204	85,822	—	8,445	94,471
Connections to be performed (G)	187	6,335	(71)	—	—	—	—	1,604	8,055
Total connections of the program (E+F+G)	63,402	57,377	45,949	84,023	70,189	91,708	18	37,248	449,914

20 INTANGIBLE ASSETS

By nature, intangible assets can be broken down as follows:

	2009			2008	
	Weighted average annual amortization rates (%)	Cost	Accumulated amortization	Net	Net
In service					
Easements	—	13,202	—	13,202	13,198
Software use rights	6.68	127,807	(109,201)	18,606	17,359
Subtotal		141,009	(109,201)	31,808	30,557
In progress					
Easements		3,314	—	3,314	415
Software use rights		137,867	—	137,867	84,691
Subtotal		141,181	—	141,181	85,106
Total		282,190	(109,201)	172,989	115,663

Software use rights represent intellectual property license rights, comprising expenses on the acquisition of licenses and other costs incurred with supplementary services to the productive use of software, unrelated to tangible equipment (hardware), and are amortized on a straight-line basis, according to the estimated useful life of software.

Easement strips represent rights of way for transmission lines associated with distribution services in the Company's concession area, and in private urban and rural areas, comprising compensation to property owners. As rights of way are permanent, no amortization applies.

By activity, intangible assets can be broken down as follows:

	2009			2008
	Cost	Accumulated amortization	Net	Net
In service				
Distribution	68,119	(44,371)	23,748	23,620
Sale	18,840	(18,670)	170	845
Administration	<u>54,050</u>	<u>(46,160)</u>	<u>7,890</u>	<u>6,092</u>
Subtotal	141,009	(109,201)	31,808	30,557
In progress				
Distribution	3,305	—	3,305	1,866
Sale	689	—	689	254
Administration	<u>137,187</u>	<u>—</u>	<u>137,187</u>	<u>82,986</u>
Subtotal	<u>141,181</u>	<u>—</u>	<u>141,181</u>	<u>85,106</u>
Total	<u>282,190</u>	<u>(109,201)</u>	<u>172,989</u>	<u>115,663</u>

Changes in intangible assets are shown below:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Write-offs</u>	<u>Transfers</u>		<u>Balance 2009</u>
				<u>Capitalization</u>	<u>Others</u>	
IN SERVICE						
Cost						
Distribution	62,793	—	(1)	5,327	—	68,119
Sale	18,840	—	—	—	—	18,840
Administration	54,852	—	(5,631)	4,829	—	54,050
Subtotal	136,485	—	(5,632)	10,156	—	141,009
(-) Amortization						
Distribution	(39,173)	(5,199)	1	—	—	(44,371)
Sale	(17,995)	(675)	—	—	—	(18,670)
Administration	(48,760)	(3,021)	5,621	—	—	(46,160)
Subtotal	(105,928)	(8,895)	5,622	—	—	(109,201)
Total in service	<u>30,557</u>	<u>(8,895)</u>	<u>(10)</u>	<u>10,156</u>	<u>—</u>	<u>31,808</u>
IN PROGRESS						
Distribution	1,866	1,883	—	(391)	(53)	3,305
Sale	254	435	—	—	—	689
Administration	82,986	60,837	—	(4,395)	(2,241)	137,187
Subtotal	<u>85,106</u>	<u>63,155</u>	<u>—</u>	<u>(4,786)</u>	<u>(2,294)</u>	<u>141,181</u>
TOTAL INTANGIBLE ASSETS	<u>115,663</u>	<u>54,260</u>	<u>(10)</u>	<u>5,370</u>	<u>(2,294)</u>	<u>172,989</u>

Amortization of intangible assets is posted to the income statement as depreciation and amortization.

At December 31, 2009, the Company tested its intangible assets for impairment, as described in Note 22.

21 REMUNERABLE INVESTMENT

Remunerable investment, also referred to as Remuneration Base, consisting of Fixed Assets in Service (AIS), Operating Supplies and Intangible Assets, less Obligations linked to the Concession of Electric Energy Public Services (Special Obligations), on which remuneration was calculated, as well as AIS that generated the depreciation amount, which are part of the concessionaire's Tranche "B" of Required Revenue (RR), approved by Ratifying Resolutions ANEEL No. 638, of April 17, 2008, on a provisional basis, and No. 799, of April 7, 2009, in final form, updated by the IGP in the Annual Tariff Adjustments that have occurred, is broken down as follows:

	<u>Provisional review April-2008</u>	<u>Definitive retroactive review April-2009</u>	<u>Adjustment April-2009</u>
Gross property, plant and equipment in service	8,145,074	8,158,139	8,654,969
(-) Accumulated depreciation – 46,88%	(3,779,307)	(3,779,307)	(4,340,329)
(-) SPEE related liabilities	(1,611,094)	(1,638,814)	(1,659,337)
Net property, plant and equipment in service	2,754,672	2,740,017	2,655,303
(+) Storeroom	6,112	6,112	6,484
Remunerable Investments (Remuneration Base)	2,773,849	2,746,129	2,661,788
(+) Investment included in Xe	—	—	403,580
Total Remunerable Investment	2,773,849	2,746,129	3,065,368
100% depreciated assets	1,263,652	1,263,652	1,340,608
IGPM variation (RH Aneel/Tariff Adjustment nº 806 of 04/14/2009)	—	—	6.09%
Depreciation charge – Annual Average Rate – 4.56%	—	—	—

22 IMPAIRMENT OF ASSETS

The Company evaluated the recoverable value of its assets in use based on the present value of estimated future cash flows.

The amounts assigned to the assumptions represent management's evaluation of future trends in the electric power sector and are based both on external sources of information and on historical data.

The cash flow was projected based on the Company's operating results and projections until the end of the concession, with the main assumptions being:

- Organic growth consistent with historical data and growth prospects of the Brazilian economy; and
- Average discount rate usually derived by the methodology adopted by the market, taking into account the weighted average cost of capital.

The recoverable value of these assets exceeds their book value, and therefore no impairment losses are to be recognized.

23 SUPPLIERS

At December 31, 2009 and 2008, the balance is comprised as follows:

<u>Electric energy suppliers</u>	<u>2009</u>	<u>2008</u>
CHESF	20,547	25,072
CCEE	2,580	—
CEEE	6,504	2,331
CESP	12,024	11,069
CEMIG GERAÇÃO	6,773	4,866
COPEL GERAÇÃO	8,510	8,103
DUKE	2,720	2,633
ELETRONORTE	8,623	8,629
FURNAS	32,812	31,658
LIGHT	2,590	2,508
PETROBRAS	22,533	—
TRACTEBEL	3,651	—
ASSOCIATED COMPANIES TERMOPERNAMBUCO	11,398	9,656
ITAPEBI	23,742	22,792
AFLUENTE	1,781	1,808
NC ENERGIA	1,140	1,903
TERMOAÇU	—	18,147
RIO PCHI	119	—
Others	8,182	10,091
Subtotal	176,229	161,266
Network use charges	27,623	18,258
Materials and services	105,475	56,135
Total	309,327	235,659
Current liabilities	303,847	234,242
Noncurrent liabilities	5,480	1,417

24 LOANS, FINANCING AND CHARGES

Debt breakdown	Debt charges	Principal		Total	
		Current	Noncurrent	2009	2008
Local currency					
BNB	623	20,000	132,544	153,167	173,248
(-) Transaction costs – BNB	—	(277)	(837)	(1,114)	(1,391)
BNB net of transaction costs	623	19,723	131,707	152,053	171,857
BNDES Emergential	—	—	—	—	4,963
BNDES FINEM	806	79,663	130,297	210,766	248,156
(-) Transaction costs – BNDES FINEM	—	(64)	(134)	(198)	—
BNDES FINEM net of transaction costs	806	79,599	130,163	210,568	248,156
Eletrobrás	—	34,601	187,614	222,215	218,712
FINEP	25	2,800	5,284	8,109	5,853
(-) Transaction costs – FINEP	—	(10)	(39)	(49)	—
FINEP net of transaction costs	25	2,790	5,245	8,060	5,853
Total in local currency	1,454	136,713	454,729	592,896	649,541
Foreign currency					
Interamerican Development Bank – BID	30	2,487	1,453	3,970	8,677
Foreign Notes	10	74,623	181,411	256,044	332,980
(-) Transaction costs – Foreign Notes	—	(315)	(363)	(678)	(1,016)
Foreign Notes net of transaction costs	10	74,308	181,048	255,366	331,964
Swap operations	—	18,590	46,059	64,649	(5,711)
Total in foreign currency	40	95,385	228,560	323,985	334,930
Total	1,494	232,098	683,289	916,881	984,471

Derivative instruments and loans and financing in foreign currencies are accounted for in accordance with the hedge accounting methodology, as permitted by CVM Rule No. 566, which approved CPC Technical Pronouncement No. 14 (see Note 39).

Amounts raised in the year:

National Bank of Economic and Social Development (BNDES): The Company received R\$ 70,000 from BNDES to finance the investments made in 2009, under the Financing Agreement Through Revolving Credit Limit, executed in March 2009 and amended in November 2009.

Financing Agency for Studies and Projects (FINEP): The Company received R\$ 5,051 from FINEP to fund its Innovation Project, under the Financing Agreement executed in October 2009.

Agreements held with BNDES (FINEM) and Foreign Securities defined compliance with some financial covenants (indices) that relate debt, EBITDA and financial results. In the financial statements for the years ended December 31, 2009 and 2008, the Company complied with all the agreed covenants.

Contractual terms of the Company's loans at December 31, 2009:

Source	Execution	Currency	Objective	Interest	Maturity
BNB	11/29/2004 6/27/2008 8/22/2008	R\$	Distribution Investment Program Investments in line and network systems Transmission and distribution network improvement	10.0% p.a. 10.0% p.a. 10.0% p.a.	2012 2016 2016
BNDES/FINEM	9/23/2005 10/4/2006 12/12/07 3/16/2009	R\$	Electric energy sub-transmission and distribution Electric energy sub-transmission and distribution Electric energy sub-transmission and distribution Electric energy sub-transmission and distribution	TJLP + 5.00% p.a. TJLP + 4.30% p.a. TJLP + 3.20% p.a. TJLP + 2.12 p.a. 4.50% p.a.	2010 2011 2012 2015
ELETROBRÁS	1999 to 2008	R\$	Expansion of distribution lines and networks and electricity for all	5.00% p.a	2020
FINEP	12/23/2004 10/14/2009	R\$	Investment in distribution and energetic efficiency Innovation project	TJLP + 5.00% p.a. TJLP + 5.00% p.a.	2011 2018
IDB	3/23/1986	US\$	Program for expansion and improvement of the electric energy transmission and distribution system of the Bahia state - 2nd Stage	3.0% p.a.+ ev	2011
FOREIGN NOTES	12/28/2005	US\$	Distribution investments	Libor + 1.00% p.a. + ev	2013

Some loans were guaranteed by own revenues, promissory notes, by the controlling shareholder, administrative buildings, bank guarantees or earmarked investments (reserve accounts).

The total amount owed by the Company in local currency and foreign currency is as follows:

National Currency	2009		2008	
	R\$	%	R\$	%
Fixed interest	168,255	28.4%	171,856	26.7%
UFIR	222,216	37.5%	218,713	33.9%
TJLP	202,425	34.1%	254,010	39.4%
Total	592,896	100.0%	644,579	100.0%
Principal	591,442		647,690	
Charges	1,454		(3,111)	

Foreign currency	2009			2008		
	Original currency	R\$	%	Original currency	R\$	%
US dollar	186,072	323,985	100.0%	143,316	334,930	100.0%
Total		323,985			334,930	
Principal		323,945			334,835	
Charges		40			95	

Changes in the major currencies and indices used to update the loans and financing for the years ended December 31, 2009 and 2008 were as follows:

Currency / Index	Variation %	
	2009	2008
US dollar	(25.49)	31.94
IGP-M	(1.72)	9.81
FINEL	—	1.90
TJLP	6.12	6.25
CDI	9.90	12.37
SELIC	—	12.48

The aging list of long-term amounts is shown below:

	2009	2008
2010	—	223,792
2011	222,175	209,132
2012	186,684	173,399
2013	100,061	84,564
2014	54,901	37,014
After 2014	119,468	91,958
Total	<u>683,289</u>	<u>819,859</u>

Changes in loans and financing:

	Local currency		Foreign currency		Total
	Current liabilities	Noncurrent liabilities	Current liabilities	Noncurrent liabilities	
Balances at December 31, 2008	164,643	484,898	(31)	334,961	984,471
Inflows	34,264	106,618	—	—	140,882
Charges	45,868	—	7,712	—	53,580
Monetary and exchange variation	124	148	(5,920)	(85,740)	(91,388)
Swap	—	—	47,934	70,167	118,101
Mark-to-market cumulative effect	—	—	—	4,647	4,647
Transfers	136,681	(136,681)	95,475	(95,475)	—
Amortization and interest payment	(243,697)	—	(50,084)	—	(293,781)
(-) Transaction costs	284	(254)	339	—	369
Balances at December 31, 2009	<u>138,167</u>	<u>454,729</u>	<u>95,425</u>	<u>228,560</u>	<u>916,881</u>

25 DEBENTURES AND CHARGES

Debentures	Series	Number of securities issued	Interest	2009			2008
				Charges	Principal		Total
				Current	Current	Noncurrent	
3rd Issue	Single	3,000	E.V. + 10.8% p.a.	1,178	5,224	19,178	25,580
(-) Transaction costs – 3rd Issue				—	(183)	(283)	(466)
3rd Issue net of transaction costs				1,178	5,041	18,895	25,114
5th Issue	1st	8,608	CDI +1.4% p.a.	139	17,216	—	17,355
(-) Transaction costs – 5th Issue				—	(29)	—	(29)
5th Issue net of transaction costs				139	17,187	—	17,326
5th Issue	2nd	10,000	IGPM + 10.8% p.a.	5,598	—	100,000	105,598
(-) Transaction costs – 5th Issue				—	(177)	(77)	(254)
5th Issue net of transaction costs				5,598	(177)	99,923	105,344
6th Issue	Single	35,392	CDI + 0.6% p.a.	2,624	39,324	314,596	356,544
(-) Transaction costs – 6th Issue				—	(694)	(1,248)	(1,942)
6th Issue net of transaction costs				2,624	38,630	313,348	354,602
Subtotal				<u>9,539</u>	<u>60,681</u>	<u>432,166</u>	<u>502,386</u>
Swap				—	12,199	37,272	49,471
(-) Transaction costs – Swap				—	—	—	—
Swap net of transaction costs				—	12,199	37,272	49,471
Total				<u>9,539</u>	<u>72,880</u>	<u>469,438</u>	<u>551,857</u>

Derivative instruments and debentures in local currency indexed to foreign currencies are accounted for in accordance with the hedge accounting methodology, as permitted by CVM Rule No. 566, which approved CPC Technical Pronouncement No. 14 (see Note 39).

The Third Issuance of Debentures was guaranteed by own revenues and by the controlling shareholder.

The debentures registration statements require compliance with debt levels and interest coverage. In the financial statements for the years ended December 31, 2009 and 2008, the Company complied with all the agreed levels.

The aging list of long-term amounts is shown below:

	<u>2009</u>	<u>2008</u>
2010	—	87,434
2011	193,637	192,201
2012	92,473	91,220
2013	91,390	90,359
2014	91,938	89,726
After 2014	—	—
Total	<u>469,438</u>	<u>550,940</u>

Changes in debentures are shown below:

	<u>Local currency</u>		
	<u>Liabilities</u>		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Balances at December 31, 2008	67,910	550,940	618,850
Charges	55,136	—	55,136
Monetary and exchange variation	(2,092)	(9,003)	(11,095)
Swap	4,057	11,527	15,584
Mark-to-market cumulative effect	—	(14,910)	(14,910)
Transfers	69,116	(69,116)	—
Amortization and interest payment	(113,006)	—	(113,006)
(-) Transaction costs	1,298	—	1,298
Balances at December 31, 2009	<u>82,419</u>	<u>469,438</u>	<u>551,857</u>

26 REGULATORY CHARGES

	<u>Re</u>	<u>2009</u>	<u>2008</u>
Global Reversal Reserve—RGR		3,906	3,496
Fuel Consumption Account—CCC		2,602	14,149
Energetic Development Account—CDE		2,296	1,951
National Fund for Scientific and Technologic Development—FNDCT		1,260	9,649
Energetic Research Company—EPE		327	3,398
Research and Development—P&D	(1)	17,367	15,034
Energetic Efficiency Program—PEE	(1)	34,574	26,881
Electric Energy Public Service Inspection Charge—TFSEE		648	761
Total		<u>62,980</u>	<u>75,319</u>
Current liabilities		50,551	75,319
Noncurrent liabilities		12,429	—

- (1) The Company recognized liabilities in connection with amounts already billed in tariffs (1% of Net Operating Revenue), but not yet used in the Energetic Efficiency Program (PEE) and Research and Development Program (P&D), updated monthly, from the 2nd month subsequent to its recognition until actual realization, based on the Selic rate, according to the ANEEL Resolutions No. 300/2008 and No. 316/2008.

27 DIVIDENDS AND INTEREST ON EQUITY CAPITAL

The Company's Board of Directors and/or Shareholders' Meeting approved the distribution of interim and proposed dividends, and interest on equity capital to its shareholders as follows:

Resolution	Remuneration	Amount established	Amount per share		
			ON	PNA	PNB
2009					
RCA—June 29, 2009	JSCP	51,024	0.26286280	0.26286280	0.28914900
RCA—September 30, 2009	Dividends	236,920	1.22055210	1.22055210	1.34260740
RCA—September 30, 2009	JSCP	24,494	0.12618690	0.12618690	0.13880560
RCA—December 18, 2009	JSCP	24,494	0.12618690	0.12618690	0.13880560
		<u>336,932</u>			
2008					
RCA—April 28, 2008	JSCP	23,465	0.12088570	0.12088570	0.13297430
RCA—July 31, 2008	JSCP	23,473	0.12092690	0.12092690	0.13301960
RCA—October 31, 2008	JSCP	23,458	0.12084970	0.12084970	0.13293460
RCA—October 31, 2008	Dividends	269,301	1.38737090	1.38737090	1.52610800
RCA—December 30, 2008	JSCP	23,465	0.12088570	0.12088570	0.13297430
AGO March 27, 2009	Dividends	292,627	1.50754062	1.50754062	1.65829468
		<u>655,789</u>			

The payment of interest on equity capital is being considered in computing the minimum mandatory dividend.

Article 9 of Law No. 9249, of December 26, 1995, allows interest on equity capital paid to shareholders, calculated based on the variation of Long Term Interest Rate (TJLP), to be deducted from income tax and social contribution tax bases.

The Company's Board of Directors proposed the General Meeting to distribute dividends amounting to R\$ 324,215, corresponding to R\$ 1.6702745650 per common share, R\$ 1.6702745650 per preferred class "A" share, and \$ 1.8373020215 per preferred class "B" share.

In accordance with the Company's bylaws, the minimum mandatory dividend is 25% of net income, adjusted in accordance with corporate law. Preferred class "B" shares shall be entitled to receive dividends at least 10% higher than those paid to common shareholders.

The basis for calculating the mandatory minimum dividends is as follows:

	<u>2009</u>	<u>2008</u>
<u>Minimum dividends – on net income</u>		
Common shares	93,075	90,467
Preferred shares class “A”	15,654	16,187
Preferred shares class “B”	55,559	54,002
Total	<u>164,288</u>	<u>160,656</u>
<u>Minimum dividends – on adjusted net income</u>		
Net income for the year	809,395	814,805
Tax incentive SUDENE	(148,248)	(159,016)
Absorption of accumulated losses		
Set up of legal reserve		
Amortization of incorporated goodwill	59,161	55,349
Reversal of the provision for maintenance of shareholders’ equity	(39,046)	(36,530)
Tax benefit of amortization of incorporated goodwill	(20,115)	(18,819)
Tax incentive reserve		
Calculation base of dividends	<u>661,147</u>	<u>655,789</u>
<u>Mandatory minimum dividends</u>	<u>165,287</u>	<u>163,947</u>
<u>Dividends and interest on equity capital paid and proposed:</u>		
Interim Dividends – R\$ 1,2205521 per share ON and R\$ 1,2205521 per share PNA and R\$ 1,3426074 per share PNB (2008 R\$ 1,3873709 per share ON and R\$ 1,3873709 per share PNA and R\$ 1,5261080 per share PNB)	236,920	269,301
Interest on equity capital – R\$ 0,5152366440 per share ON and R\$ 0,5152366440 per share PNA and R\$ 0,5667603084 per share PNB (2008 R\$ 0,4835482 per share ON and R\$ 0,4835482 per share PNA and R\$ 0,5319031 per share PNB)	<u>100,012</u>	<u>93,861</u>
Proposed Dividends – R\$ 1,6702745650 per share ON, R\$ 1,6702745650 per share PNA and R\$ 1,8373020215 per share PNB (2008 R\$ 1,4397222 per share ON and R\$ 1,4397222 per share PNA and R\$ 1,5836945 per share PNB)	<u>324,215</u>	<u>292,627</u>
Gross Total	<u>661,147</u>	<u>655,789</u>
Withholding income tax on interest on equity capital 15%(*).	<u>(1,363)</u>	<u>(1,288)</u>

(*) The portion attributed to tax immune shareholders is not subject to income tax levy.

Balances are broken down as follows:

Balances at December 31, 2008	<u>318,212</u>
Dividends and interest on equity capital:	
Declared	336,932
Proposed	324,215
Withholding income tax – IRRF	(1,366)
Paid in the period	(333,066)
Unclaimed	(91)
Balances at December 31, 2009	<u>644,836</u>

28 ESTIMATED LIABILITIES

	<u>2009</u>	<u>2008</u>
Provision for vacation pay and 13th monthly salary	15,394	14,236
Charges on provision for vacation pay and 13th monthly salary	5,588	5,103
Provision for profit sharing	14,801	12,295
Total	<u>35,783</u>	<u>31,634</u>

29 CONTINGENCIES

29.1 CONTINGENT LIABILITIES

The provisions for contingent liabilities, net of related judicial deposits, are as follows:

	<u>2009</u>			<u>2008</u>
	<u>Contingencies</u>	<u>(-) Judicial deposits</u>	<u>Net provision</u>	<u>Net provision</u>
Labor	48,612	(40,375)	8,237	5,944
Civil	42,752	(8,007)	34,745	47,768
Tax	6,488	(1,942)	4,546	9,773
Total	<u>97,852</u>	<u>(50,324)</u>	<u>47,528</u>	<u>63,485</u>
Current liabilities			14,171	13,469
Noncurrent liabilities			33,357	50,016

	<u>Contingencies</u>			
	<u>Labor</u>	<u>Civil</u>	<u>Tax</u>	<u>Total</u>
Balances at December 31, 2008	33,807	53,293	10,298	97,398
Set up	22,485	16,202	158	38,845
Write-offs/reversal	(11,446)	(31,888)	(4,737)	(48,071)
Remuneration	3,766	5,145	769	9,680
Balances at December 31, 2009	<u>48,612</u>	<u>42,752</u>	<u>6,488</u>	<u>97,852</u>

The Company's management, based on the opinion of legal counsel regarding the possibility of successful outcomes on several lawsuits, believes that the provisions recorded in the balance sheet are sufficient to cover probable losses arising therefrom.

Labor contingencies

This refers to suits filed by former employees against the Company, seeking payment of overtime, risk exposure premium, equitable/adjusted salary scale, disputes involving career plans and other discussions, as well as lawsuits filed by former employees of the Company's subcontractors (joint and/or several liability) seeking compensation and others.

<u>Labor Contingencies</u>	<u>Re.</u>	<u>Updated Amount</u>	<u>Court level</u>	<u>Chances of loss</u>	<u>Provisioned Amount</u>	
					<u>2009</u>	<u>2008</u>
						Reclassified
Former Company employees		23,024	1st, 2nd and 3rd	Probable	23,024	16,689
		118,271	1st and 2nd	Possible	—	—
		16,016	2nd and 2nd	Remote	—	—
Former subcontractors' employees		21,733	1st, 2nd and 3rd	Probable	21,733	16,403
		76,358	1st and 2nd	Possible	—	—
		46,964	1st and 2nd	Remote	—	—
Employees		3,854	1st, 2nd and 3rd	Probable	3,855	715
		40,075	1st and 2nd	Possible	—	—
		235	1st and 2nd	Remote	—	—
Total		<u>346,530</u>			<u>48,612</u>	<u>33,807</u>

The amounts were monetarily restated based on the Reference Rate (TR) variation, the rate used to adjust labor cases, as informed by the Superior Labor Court, plus interest of 1% per month.

Civil contingencies

These refer to business and compensation claims filed by individuals and legal entities, involving claims for tax refunds, damages and/or pain and suffering.

<u>Civil Contingencies</u>	<u>Re.</u>	<u>Updated Amount</u>	<u>Court level</u>	<u>Chances of loss</u>	<u>Provisioned Amount</u>	
					<u>2009</u>	<u>2008</u>
						Reclassified
Customers – Tariffs – Cruzado Plan		11,673	1st and 3rd (Federal and Civil Courts)	Probable	11,673	22,593
Indemnification for damages		27,609	1st, 2nd and 3rd	Probable	27,609	27,898
		168,400	1st and 2nd	Possible	—	—
		14,327	1st and 2nd	Remote	—	—
Third party/occupational accidents		1,095	1st, 2nd and 3rd	Probable	1,095	893
		489	1st and 2nd	Possible	—	—
Electric energy and product sales		3,337	1st and 2nd	Possible	—	—
Consumption irregularity		406	1st, 2nd and 3rd	Probable	406	253
		24,586	1st and 2nd	Possible	—	—
		892	1st	Remote	—	—
Compulsory loan		2,630	1st and 2nd	Possible	—	—
Corporate Shareholdings		1,560	1st, 2nd and 3rd	Probable	1,560	1,384
Other		409	1st, 2nd and 3rd	Probable	409	272
		4,451	1st and 2nd	Possible	—	—
		524	1st and 2nd	Remote	—	—
Total		<u>262,388</u>			<u>42,752</u>	<u>53,293</u>

The values were monetarily restated based on the INPC, plus interest of 1% per month.

Customers – Cruzado Plan – Suits filed by some industrial and commercial consumers questioning the legality of the electric energy tariff increase during the Cruzado Plan, in accordance with DNAEE Ordinances No. 38 and No. 45, of January 27 and March 4, 1986, respectively, and claiming the refund of amounts involved.

Compensation for Losses – Suits filed by individuals and legal entities against the Company, seeking compensation for death, damages, pain and suffering and electrical damage.

Other – Several lawsuits filed by individuals and legal entities involving claims for tax refunds, review of debts relating to measured and unmeasured consumption (irregular consumption), cancellation of debits, restoring the electricity supply, cancellation of debts, litigation with electricity bill collecting agents, demands regarding contractual fine with electricity and service suppliers and others.

Tax contingencies

Tax claims and appeals against collections, notices and tax assessments.

Tax contingencies	Re.	Updated Amount	Court levels	Chances of loss	Provisioned amount	
					2009	2008
ICMS	(1)	(a) 116	Administrative	Probable	116	106
		(b) 2,702	Administrative	Possible		
ISS	(2)	1,749	Adm./Legal/Lower	Probable	1,749	4,226
		4,874	Adm./Legal	Possible		
CPMF	(3)	3,749	Administrative	Remote		
CSLL	(4)	6,652	Administrative	Possible		
IPTU	(5)	103	Administrative	Possible		
REFIS	(6)	14,137	Adm./Legal/Lower	Possible		
PIS/COFINS	(7)	(a) 31,509	Administrative	Possible		
		(b) 13,274	Administrative	Possible		
		(c) 168	Administrative	Possible		
COFINS	(8)	13,670	Adm./Legal	Remote		
IRPJ	(9)	(a) 9,341	Administrative	Possible		
		(b) 936	Administrative	Possible		
INSS	(10)	4,273	Administrative	Probable	4,273	5,668
ITD	(11)	3	Administrative	Probable	3	
		907	Administrative	Remote		
CIDE	(12)	(a) 3,836	Administrative	Possible		
		(b) 355	Administrative	Remote		
Sundry taxes	(13)	1,938	Administrative	Possible		
		1,127	Administrative	Remote		
Tax incentive SUDENE	(14)	25,392	Legal	Possible		
Other	(15)	347	Administrative	Probable	347	298
		206	Administrative	Possible		
Total		141,364			6,488	10,298

The amounts were monetarily restated based on the SELIC rate variation.

(1) ICMS (State VAT)

- (a) Tax assessments served on the Company in 12/2007 and 08/2008, arising from the misuse of ICMS credits on capital expenditures from 2002 to 2006. The Company has partially recognized the grounds of the notice and paid the amount it considered due. The remaining amount was subject to administrative appeal, but, as there was no case law on the argument supported by the defense, the Company decided to account for the contingency. The discussion being exhausted at the administrative level, the Company filed a suit with a request for interim relief; however, in order to maintain the suspended liability for tax credit, it was necessary to make a judicial deposit in the amount of R\$ 4,549.
- (b) Tax assessment that disallowed used ICMS credits resulting from the acquisition of information technology goods and furniture intended for permanent assets. The Company believes that the credit is legitimate, and, therefore, filed an administrative appeal.
- (2) Tax assessments questioning the nonpayment of ISS amounts due under the regular system and under the tax substitution system involving several cities. The Company had challenged the tax assessments, and established a provision for those cases for which there is no case law favoring its arguments. The cases with favorable case law are classified as possible losses and no provision was established. Taking advantage of the amnesty granted by the city of Salvador, under Law No. 7727/09, the Company paid off, in December 2009, tax assessments classified as probable losses, in the amount of R\$ 413, eliminating the ISS-related contingency.
- (3) Tax assessment charging CPMF on tax payments falling due from 09/1998 to 08/2002, made via SIAFI (Federal Government's Integrated Financial Administration System). The Company challenged the tax

assessment, producing the bank statements that show the levy of CPMF on payments made. However, the administrative proceeding was upheld at the court of first instance. The Company filed an appeal with the Taxpayers' Council in June 2007, which is pending judgment.

- (4) Tax assessment for calendar year 2003, due to the exclusion of IPC/BTNF depreciation improperly added to the CSLL tax basis in previous years. The Company considers that the penalty imposed by the federal tax authorities is invalid, and, therefore, filed an administrative appeal.
- (5) Administrative claims involving the payment of IPTU in the cities of Salvador and Itabuna.
- (6) The alternative REFIS installment program, effective for five years, had the last installment paid in 03/2005. However, Brazil's IRS claims there is a difference between the consolidated debt amount and the figure declared by the Company, resulting from late payment fines calculated on IRPJ, and CSSL and FINSOCIAL, which had their payments suspended. The Company filed an action for annulment with request for interim relief, aiming to extinguish the outstanding debt and suspension of the liability for the tax credit. But the lawsuit was dismissed by the court of first instance, which led to an appeal to a higher court, where the Company obtained the suspension of the liability for tax credit until there is judgment on the merits of the case. In December 2009, the court of first instance handed down a decision, partly granting the Company's request. As a result, an appeal was lodged with the Federal Regional Court (TRF). At the same time, an injunctive relief was proposed to maintain the suspended liability for the tax credit and it was accepted by the TRF.
- (7) PIS/COFINS
 - (a) Tax assessment served in March 2005, seeking payment of PIS and COFINS on income from the hedge/swap contracts, referring to the years 2000 to 2002, under the accrual basis of accounting. The Company challenged the assessment claiming that such contracts are ancillary to the loan agreements and therefore the said contributions would only be payable upon the settlement of contracts on the cash basis. To file an administrative appeal, the Company was required to make an appeal deposit equivalent to 30% of the amount in dispute.
 - (b) Refusal by the IRS to permit the offset of PIS and COFINS tax debits against related credits for calendar year 2002, arguing that the Company was assessed as a result of non-taxation of hedge – swap income on PIS and COFINS tax bases. The Company filed an appeal to the Superior Court of the Taxpayers' Council Appeals Board, reinstating the suspension of the liability for the tax credit. As long as a decision on the tax assessment mentioned in the previous item does not become final, the IRS cannot reject an application for tax offset on the grounds of lack of tax credits.
 - (c) Tax notification resulting from withholding taxes disallowed by public agencies in calendar year 2002. The Company filed an appeal against the disallowance and awaits the administrative decision.
- (8) Tax assessment served in August 2003 challenging the payment of COFINS debts, for November and December 1998, and January and February 1999. These amounts were offset against withholding tax (IRRF) credits, claimed via proceeding # 10580.007.291/98-41, but the formal rite for the offset, namely the Offset Declaration, was not observed. Nonetheless, the Company filed legal defense on the grounds that the form should not prevail over substance, i.e. the mere breach of ancillary procedures must not undermine legitimate tax credits (the principle of substance over form). Case awaiting trial on the merits.
- (9) IRPJ
 - (a) Tax assessment for calendar year 2003 for not withholding IRRF on interest on equity capital paid to Guaraniana. The Company considers this penalty imposed by the federal tax authorities to be invalid, because it believes that its procedure is backed by the provisions contained in Regulatory Opinion No. 01/2002. As a result, the Company filed an appeal and awaits the administrative decision.

- (b) Tax notification received in 09/2008, as a result of tax credits from negative IRPJ balances in calendar year 2004 being offset against several debts totaling R\$ 4,813. Of this amount, the IRS only rejected the offset of R\$ 689 referring to IRPJ debts, for the accrual period of 01/2004, with a negative balance computed in December of that period. The Company filed an administrative appeal and awaits a decision.
- (10) Tax Debt Notices (NFLD) issued by INSS, for 1998 and 1999, on the grounds that the Company failed to present proof of payment of social security contributions payable by the companies that provided services. The Company filed appeal arguing that a debt can only be imputed after the principal debtor is found to have breached its obligation, but, as in some cases it does not have the supporting documentation required by INSS in its files, the Company conservatively established a provision for the related amounts. As for processes for which the Company has the supporting documentation required by the authorities, no provision is recognized.

With the enactment of Law No. 11941/09, which introduced the new Federal REFIS, the Company paid in December 2009 the amount of R\$ 402 referring to various tax assessments classified as probable losses.
- (11) Estate and Gift Tax (ITD) – Tax assessments issued in 2005, 2006 and 2007 and 2008 by SEFAZ-BA, referring to accrual periods 2000, 2001, 2002 and 2003 demanding payment of tax on the donation of electric power grid and financial participation of the consumer. The Company filed administrative appeal with SEFAZ-BA for all tax assessments. In June 2009, the Company was notified of the administrative decision on base year 2000, where the tax assessment was dismissed by CONSEF. As for other periods, the appeals are still awaiting trial.
- (12) CIDE
 - (a) Contribution of Intervention in the Economic Domain (CIDE) – Tax assessment issued in 05/2003 on the grounds of lack of payment of CIDE in the period 01/2001 to 09/2002. The Company filed an administrative appeal on the grounds that the mentioned period had no operations that triggered CIDE, but despite the arguments, the tax assessment was upheld. In 01/2007 the Company filed an appeal with the Taxpayers' Council, which is pending trial.
 - (b) Decision Order dismissing the claim for offsetting CIDE debts for calendar year 2003, against CIDE credits computed in December 2001. The SRF claimed they could not identify the tax credit reported in the ancillary obligation (DCTF) and dismissed the case. The Company filed an administrative appeal on 9/19/2008, which is pending trial.
- (13) This refers to tax notices involving license fees for occupation of areas in public roads and streets, and lawsuits filed against the annual public lighting charge.
- (14) Writ of mandamus filed by the Company against a private letter ruling issued by the IRS opposing the procedure adopted for excluding the provision for preserving the integrity of shareholders' equity from the calculation of profits from activities under favorable tax treatment ("lucro da exploração"), which is the way for determining the SUDENE tax incentive. This corresponds to triggering events from 2003 to December 2008. In order to maintain the liability for tax credit, the Company made a judicial deposit in an amount equivalent to the full amount under dispute.
- (15) Various tax claims such as consumers questioning the levy of taxes on energy bills, attorneys' fees in tax cases, etc.

29.2 – CONTINGENT ASSETS

PIS/COFINS (Increase in Tax Bases) – The Company filed for a writ of mandamus with a request for preliminary order on July 21, 2004, underway in the Federal Regional Court (TRF) 1st Region, challenging the unconstitutionality of Law No. 9718/98, which included income from financial transactions in the calculation bases of PIS and COFINS. The Company's legal advisors expect a probable favorable outcome of the suit. The estimated amount of the claimed credit, at nominal value, is R\$ 34,789; however, the Company expects final decision by the court to account for it.

30 OTHER ACCOUNTS PAYABLE

	<u>Re</u>	<u>2009</u>	<u>2008</u>
Consumers	(1)	14,441	47,208
Health Plan (Reserve Fund)	(2)	14,725	22,462
Contribution for public lighting service financing – COSIP		5,476	5,487
Compulsory loans – ELETROBRÁS		372	600
Covenants		1,202	977
Advances from State government		736	—
Guarantee	(3)	28,428	19,655
CBEE charges		550	1,175
Other		6,109	6,328
Total		<u>72,039</u>	<u>103,892</u>
Current liabilities		52,595	66,468
Noncurrent liabilities		19,444	37,424

- (1) Obligations to electric energy consumers resulting from advanced funds for construction works in cities not yet covered by the universal system, accounts payable in duplicity, other billing adjustments etc.
- (2) Reserve Fund comprising contributions in the form of prepayment for Bradesco Health Plan by the Company and participants (active employees, FAELBA employees and assisted participants – inactive employees, retirees and pensioners), to meet future expenses on medical care (outpatient and inpatient) and dental care incurred by participants (members and dependents). The balance is updated monthly based on 100% of CDI variation.
- (3) Guarantee in kind made to ensure the enforcement of contracts, with regard not only to their operational clauses, but also to the compulsory payment of charges on behalf of third parties' employees.

31 SHAREHOLDERS' EQUITY

Capital

The Company's authorized capital at December 31, 2009 and 2008 is R\$ 1,300,000; paid up capital is R\$ 542,163 through to the balance sheet date.

Realized capital is broken down by class of shares, without par value, and by main shareholders as follows:

Shareholders	Number of Shares (In thousands)							
	Common Shares		Preferred Shares				Total	
	Sole	%	A	%	B	%		
Neoenergia S/A	98,122	89.8	7,864	40.2	59,315	100.0	165,301	87.8
Iberdrola Energia S/A	5,598	5.1	10,394	53.1	—	0.0	15,992	8.5
Previ	3,318	3.0	994	5.1	—	0.0	4,312	2.3
Other	2,267	2.1	305	1.6	—	0.0	2,573	1.4
Total	109,305	100.0	19,558	100.0	59,315	100.0	188,178	100.0

Shareholders	R\$ (Thousand)							
	Common Shares		Preferred Shares				Total	
	Sole	%	A	%	B	%		
Neoenergia S/A	282,702	89.8	22,656	40.2	170,895	100.0	476,253	87.8
Iberdrola Energia S/A	16,128	5.1	29,947	53.1	—	0.0	46,075	8.5
Previ	9,559	3.0	2,865	5.1	—	0.0	12,424	2.3
Other	6,531	2.1	880	1.6	—	0.0	7,411	1.4
Total	314,920	100.0	56,348	100.0	170,895	100.0	542,163	100.0

Each common share entitles the right to one vote at the General Meeting. Preferred shares of either class have no voting rights, and the following is ensured: (i) preferred "Class A" shares have priority in the distribution of dividends, which will be at least 10% (ten percent) of capital represented by preferred "Class A" shares; (ii) preferred "Class B" shares have priority in the distribution of dividends only after the payment of dividends to holders of preferred "Class A" shares, and such dividends shall be at least 10% (ten percent) higher than those assigned to common shares.

Tax Incentive Reserve

The income tax legislation allows legal entities located in the Northeast operating in the infrastructure sector to reduce the amount of income tax payable for purposes of investing in capacity expansion projects, as defined in article 551, paragraph 3, of Decree No. 3000, of March 26, 1999.

For the year ended December 31, 2009, the Company computed the amount of R\$ 148,248 (R\$ 159,016 at December 31, 2008) in the form of SUDENE tax incentive, calculated on profits from activities under favorable tax treatment ("lucro da exploração"), by applying a 75% decrease in corporate income tax based on accounting records ("lucro real").

In compliance with Law No. 11638/07 and CPC 07, the SUDENE tax incentive amount computed since the effectiveness of the Law had been recorded in the income statement, and then transferred to the income reserve. This amount can only be used to increase capital or to possibly offset accounting losses, as defined in article 545 of the Income Tax Regulation.

Special Goodwill Reserve

This reserve represents the formation of the special goodwill reserve as a result of the Company's corporate restructuring, which led to the recognition of tax credits directly in shareholders' equity. (See Note 14).

Legal Reserve

The legal reserve is calculated at 5% of net income as defined in current legislation, limited to 20% of total capital.

Profit Retention Reserve

Brazil's Corporation Law allows companies to retain part of the net income for the year, as established in the capital budget previously approved by the General Meeting.

At December 31, 2009, the Company records under shareholders' equity a Profit Retention Reserve amounting to R\$ 123,633 (R\$ 123,543 at December 31, 2008), which was formed in accordance with article 196 of Brazil's Corporation Law.

32 ELECTRIC ENERGY SUPPLY

Electric energy supply is broken down by type of consumers as follows:

	Number of consumers		MWh (*)		R\$	
	2009	2008	2009	2008	2009	2008
Consumers:						
Residential	4,059,661	3,858,548	4,836,676	4,364,108	1,806,361	1,714,305
Industrial	20,942	20,323	3,564,156	3,126,526	910,476	827,976
Commercial	296,826	288,553	2,643,569	2,451,407	1,109,506	1,106,844
Rural	192,463	192,995	1,009,854	1,042,764	189,049	193,588
Government	43,050	41,460	572,881	527,684	199,990	199,295
Public Lighting	15,904	15,702	700,360	662,235	122,565	120,955
Public Service	7,298	6,680	741,020	718,441	163,157	162,523
Own Consumption	361	375	14,876	15,042	—	—
Supply	1	1			—	3
Unbilled supply					640	(17,992)
Transfer to distribution activity					(2,873,577)	(2,594,849)
Subtotal	<u>4,636,506</u>	<u>4,424,637</u>	<u>14,083,392</u>	<u>12,908,207</u>	<u>1,628,167</u>	<u>1,712,648</u>
Revenue (reversal) from extraordinary tariff recomposition					—	(20,631)
Revenue (reversal) from tariff adjustment					(13,284)	(93,373)
Revenue (reversal) from free energy					11,962	(22,431)
Tariff subvention for lower income consumers					294,698	269,343
Total	<u>4,636,506</u>	<u>4,424,637</u>	<u>14,083,392</u>	<u>12,908,207</u>	<u>1,921,543</u>	<u>1,845,556</u>

33 TRANSMISSION AND DISTRIBUTION SYSTEM AVAILABILITY

Revenue from the Distribution Network Use Tariff (TUSD) basically refers to the sale of energy to free consumers including the fee for using the distribution network.

	Re.	Balance	
		2009	2008
Distribution electric system use tariff			
Revenue from use of basic network / connection system		60,802	106,214
Adjustment—Transmission tariff review		604	(3,513)
Transfer of sale activity (captive consumers)	(a)	2,873,577	2,594,849
		<u>2,934,983</u>	<u>2,697,550</u>

(a) In compliance with ANEEL Order No. 1618, of April 23, 2008, the Company segregated revenues from sales and distribution activities using an “average TUSD” calculated based on the TUSD approved for captive consumers.

34 OTHER OPERATING REVENUES

	2009	2008
Revenue from services rendered	33,049	54,662
Lease and rents	18,773	16,784
Charged service	5,406	4,660
Bill fraud management cost	5,489	(149)
Other revenues	32	676
Balances at December 31, 2009	<u>62,749</u>	<u>76,633</u>

35 PURCHASE AND SALE OF SHORT-TERM ENERGY WITHIN CCEE

Purchase	2009		2008	
	MWh	R\$	MWh	R\$
CCEE (*)	54,952	876	196,707	24,883
Adjustments (**)	—	8,078	—	—
Total	<u>54,952</u>	<u>8,954</u>	<u>196,707</u>	<u>24,883</u>

Sale	2009		2008	
	MWh	R\$	MWh	R\$
CCEE	438,772	13,249	322,211	36,118
Total	<u>438,772</u>	<u>13,249</u>	<u>322,211</u>	<u>36,118</u>

(*) Estimated Purchase for December 2009.

(**) Adjustments due to the effects of availability contracting in the Regulated Market (ACR) (difference between the Difference Settlement Price—PLD and the minimum price).

The revenue/expense amounts billed and/or paid by the concessionaires that had energy surplus/deficit, traded within CCEE, were informed by CCEE and confirmed by the Company.

36 OPERATING COSTS AND EXPENSES

Operating costs and expenses are broken down by type of expenditure as follows:

	2009			2008
	Cost of goods and services sold	Selling expenses	General and administrative expenses	Total Reclassified
Net Operating Revenue				3,350,764
Operating Costs / Expenses				3,115,104
Payroll	(53,491)	(59,097)	(52,316)	(158,987)
Management fees	—	—	(2,964)	(2,097)
Private pension plan	(3,256)	(2,262)	(924)	(7,347)
Materials	(12,146)	(1,482)	(113)	(19,710)
Fuels for electric energy generation	(2)	—	—	(80)
Outsourced services	(56,331)	(87,690)	(39,704)	(182,932)
Electric energy service inspection charge—TFSEE	(4,902)	(3,196)	—	(9,460)
Electric energy purchased for resale	(1,516,697)	—	—	(1,516,697)
Transmission system use charges	(222,305)	—	—	(180,653)
Depreciation and amortization	(162,296)	(1,932)	(8,544)	(184,582)
Leasing and rents	(1,097)	(495)	(1,538)	(3,357)
Taxes	(46)	(1,065)	(855)	(1,627)
Net provisions—PCLD	(13,543)	(10,754)	—	(16,434)
Net provision for contingencies	—	—	9,227	8,371
Provision for RTE loss	—	—	—	1,207
Provision for free energy loss	—	—	—	16,549
Other	(5,179)	(5,522)	(17,670)	(15,812)
Total operating costs / expenses	(2,051,291)	(173,495)	(115,401)	(2,082,501)
Result from service	(2,051,291)	(173,495)	(115,401)	1,010,577
Financial result				(53,568)
Interest on equity capital				(100,012)
Result from disposal /decommissioning of assets and rights				(9,774)
Income before income tax and social contribution	(2,051,291)	(173,495)	(115,401)	847,223
				854,407

- Payroll costs and expenses

Payroll	2009	2008
Salaries	106,767	98,035
Social charges	49,719	47,314
Subsidized meals	9,215	8,385
Assistance covenant and other benefits	3,473	3,401
Voluntary retirement program—PDV	5,534	3,528
Provision for vacation pay and 13th salary	24,579	25,405
Health care	9,475	8,695
Labor claims	8,050	3,581
Profit sharing	33,631	29,975
Order closing in progress	1,588	2,353
(-) Transfers to orders	(87,127)	(71,685)
Total	164,904	158,987

- Electric energy purchased for resale

Electric Energy Purchased for Resale	2009		2008	
	R\$	MWh (1)	R\$	MWh (1)
CHESF	199,445	2,638,878	195,525	2,931,582
CEEE	19,790	273,435	18,465	275,938
CESP	105,081	1,304,418	93,588	1,281,770
COPEL	73,904	1,006,435	67,598	998,916
DUKE	23,439	293,416	22,190	299,617
ELETRONORTE	74,468	970,597	70,343	972,341
EMAE	6,406	84,141	5,925	84,404
ENERGEST	7,370	95,221	6,943	89,232
TRACTEBEL	23,803	242,920	5,036	4,779
ENGUA	2,378	55,946	8,345	56,099
PETROBRAS	160,054	1,342,536	—	—
CEMIG GERAÇÃO	59,079	624,409	39,552	513,947
CPFL	51	5,685	—	—
FURNAS	286,438	3,704,494	265,448	3,720,867
LIGHT	22,498	351,656	21,133	355,729
ITAPEBI	274,521	1,877,268	256,324	1,877,268
TERMOPERNAMBUCO	77,745	569,400	70,165	570,960
TERMOAÇU	14,616	137,904	53,980	509,298
AFLUENTE	20,249	148,920	17,341	149,328
NCEnergia	6,635	34,663	11,022	72,686
CCEAR	28,476	375,557	19,469	143,093
CCEE	8,954	54,952	24,883	196,707
TRANCHE A	12,142	—	76,355	—
PIS / COFINS CREDITS	(143,191)	—	(113,619)	—
PROINFA	50,717	339,363	27,461	218,808
System Service Charge—ESS	78,096	—	16,305	—
OTHER	23,533	396,301	45,773	181,948
Total	<u>1,516,697</u>	<u>16,928,515</u>	<u>1,325,550</u>	<u>15,505,317</u>

- Transmission system use charges

	<u>2009</u>	<u>2008</u>
FURNAS	26,122	22,391
CTEEP	19,892	17,414
ELETRONORTE	13,086	11,667
CHESF	74,320	63,247
ELETROSUL	12,522	10,474
CEMIG	7,631	5,832
CEEE	5,316	4,669
ONS	5,503	—
NOVATRANS	5,944	5,391
TSN	6,372	5,631
AFLUENTE	13,136	6,513
COPEL	3,437	2,724
ETEO	2,058	1,837
ENTE	2,559	2,263
NTE	1,798	1,604
EXPANSION	2,329	2,088
ATE	1,677	1,520
STN	2,052	1,839
EATE	5,038	4,418
ITE	2,433	2,192
ATII	2,560	2,309
CELPE	3,181	2,248
ENERGIPE	3,736	3,076
CVA charges	(1,601)	(5,783)
PIS / COFINS credit	(22,506)	(18,934)
Other	23,710	24,023
Total	<u>222,305</u>	<u>180,653</u>

- Depreciation and amortization

	<u>2009</u>	<u>2008</u>
Depreciation and amortization charge for the year	182,206	193,264
(-) Depreciation and amortization transferred to orders in progress ...	(2,369)	(2,799)
(-) PIS/COFINS credit	(7,065)	(5,883)
Residual depreciation and amortization in P&L	<u>172,772</u>	<u>184,582</u>

- Other operating costs and expenses

	<u>2009</u>	<u>2008</u>
Insurance	932	798
Donations and contributions	1,867	1,514
Recovered expenses	(6,466)	(9,157)
Publications and disconnection communications	747	759
Electric sector trade associations	1,826	1,204
Travel expenses	2,405	2,626
Own electric energy consumption	5,632	6,602
Advertising and promotion	2,668	1,673
Civil proceedings	11,370	5,067
Tax proceedings	1,033	162
ANEEL penalties	4,807	1,764
Closing of orders in progress	843	103
Other	707	2,697
Total	<u>28,371</u>	<u>15,812</u>

Gains (losses) on disposal/decommissioning of assets and rights

	<u>2009</u>	<u>2008</u>
Gain on disposal/decommissioning of assets and rights	1,035	816
Loss on disposal/decommissioning of assets and rights	(8,851)	(6,182)
Other revenues (expenses)	<u>(1,958)</u>	<u>124</u>
Total	<u>(9,774)</u>	<u>(5,242)</u>

37 PROFIT SHARING

The Company has an employee profit sharing program, pursuant to the terms of Law No. 10101/00 and article 189 of Law No. 6404/76, based on agreed operating and financial targets previously established by the parties. The amount of profit sharing for 2009 is R\$ 33,631 (R\$ 29,975 in 2008).

38 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Company carries out business transactions with related parties within the same economic group. The balances and nature of these transactions are detailed below:

Company	Re	Operation Nature	2009			2008		2008
			Assets	Liabilities	St. of Income	Assets	Liabilities	St. of Income
Fundação Coelba de Previdência Complementar . .		Employer's contribution to the Foundation			(689)			(7,347)
		Refunded expenses	—	—	10	10	—	(7,347)
			—	—	(689)	10	—	(7,347)
Itapebi	(a.1)	Refunded expenses	3		35	33		146
		Rent/Free Lease						15
		ICMS credits					483	
		Electric energy purchased		23,742			22,309	(256,324)
		Electric energy supplied	25		147	15		165
		Network use			(274,521)			
			28	23,742	(274,339)	48	22,792	(255,998)
Amara Brasil	(f)	Services rendered (storeroom)		190			210	
		Refunded expenses	—		65	—		140
			—	190	65	—	210	140
NC Energia	(a.1)	Electric energy purchased		1,140	(6,399)		1,770	(11,022)
		Refunded expenses	2				10	
			2	1,140	(6,399)	—	1,780	(11,022)
Termopernambuco	(a.1)	Electric energy purchased		11,398	(77,745)		9,663	(70,165)
			—	11,398	(77,745)	—	9,663	(70,165)
Afluyente	(a.1), (b), (c) (d), (e)	Rent/Free Lease		4	(23)			28
		Electric energy purchased		1,781	(20,249)		1,580	(17,341)
		Network use	95	983	(11,955)	93	911	(5,314)
			95	2,768	(32,227)	93	2,491	(22,627)
Celpe	(b)	Network use		241	(3,321)		183	(2,248)
			—	241	(3,321)	—	183	(2,248)
Neoenergia		AFCI		1,694			1,694	
		Dividends		513,143			246,527	
		Interest on equity capital		88,225			20,700	(82,799)
		Refunded expenses	49			754		
			49	603,062	—	754	268,921	(82,799)
Iberdrola Energia		Dividends		26,711			23,024	
		Interest on equity capital		1,715			1,643	(6,573)
			—	28,426	—	—	24,667	(6,573)
Termoaçu	(a.1)	Electric energy purchased			(14,616)		18,147	(53,980)
			—	—	(14,616)	—	18,147	(53,980)
Previ		Rent/Free Lease					15	
		Dividends		7,203				
		Interest on equity capital		544				
			—	7,747	—	—	15	—
Neoenergia Investimentos		Refunded expenses	77					
RIO PCHI	(a.2)	Electric energy purchased		119	(819)			

The main conditions referring to related party transactions are described below:

- a) Electricity Energy Supply Contracts in the following markets:
 - a.1) Bilateral (Initial) Agreements, as approved by ANEEL
 - Itapebi—Contracts No. 4600010159 and No. 4600007239, effective until November 1, 2016 and April 15, 2017, respectively, annually adjusted based on the IGPM variation.
 - NC Energia—Contract No. 4600007278, effective until April 30, 2017, annually adjusted based on the IGPM variation.
 - Termopernambuco—Contract No. 4600007277, effective until December 31, 2023, annually adjusted based on the IGPM variation.
 - Afluyente—Contract No. 4600009536, effective until August 1, 2027, annually adjusted based on the IGPM variation.
 - Termoaçu—Contract No. 4600015144, effective until September 1, 2028, annually adjusted based on the IGPM variation.
 - a.2) Contracts in the Regulated Market (CCEAR), through Energy Auctions held and regulated by ANEEL
 - Rio PCHI—Contracts No. 4600015317 and No. 4600015318, effective until January 31, 2039, annually adjusted based on the IPCA variation.
- b) Contracts for the Use of Distribution System (CUSD)
 - Afluyente—Contract No. 0220928845, effective until agosto de 2027, annually adjusted based on ANEEL tariff adjustment.
 - Celpe—Contract de No. 4600013697, effective until January 31, 2010, annually adjusted based on the IGPM variation.
- c) Contracts for the Use of Transmission Distribution System (CUST)
 - Afluyente—Contract No. 4600007292, by and between Afluyente, Coelba and the National Electricity System Operator (ONS), effective until August 2027, annually adjusted based on the IGPM variation.
- d) Contracts for the Transmission System Connection (CCT)
 - Afluyente—Contract No. 4600016674 for the use/connection of Afluyente's transmission system, effective until August 2027, annually adjusted based on the IGPM variation.
- e) Property Lease Contracts
 - Afluyente—Contracts No. 4600016054 and No. 4600016280 for the lease of real estate at SE Tomba and SE Brumado, respectively, effective until December 31, 2011, annually adjusted based on the IGPM variation.
- f) Service Contracts
 - Amara Brasil—Contract No. 4600014414 for warehouse administration and logistic, effective until May 16, 2011, annually adjusted based on the IPCA variation.

Additionally, the Company sells energy to related parties located in its concession area (captive consumers), for amounts defined by ANEEL regulated tariffs.

The Company's management believes that the business operations with related parties are carried out under usual market conditions.

Total management compensation for the year ended December 31, 2009 is R\$ 3,419 (R\$ 3,335 at December 31, 2008), which is considered short-term benefit. The Company also uses severance packages generally adopted by the market.

39 FINANCIAL INSTRUMENTS

Pursuant to CVM Rule No. 566, of December 17, 2008, which approved Technical Pronouncement CPC No. 14, and to CVM Instruction No. 475, of December 17, 2008, the Company measured its financial instruments, including derivatives.

General considerations:

At December 31, 2009, the main financial instruments are as follows:

- Cash and cash equivalents—these are classified as available for trading. Their market value is reflected on balance sheet figures.
- Marketable securities—these are classified as held to maturity and are recorded at their amortized cost. Amounts recorded are equivalent to their market values at the balance sheet date.
- Consumers, concessionaires and licensees and Trade notes receivable—these result directly from the Company's operations, are classified as loans and receivables, and are recorded at their original values, subject to a provision for losses and present value adjustment, as applicable.
- Suppliers—these result directly from the Company's operations, are classified as financial liabilities not measured at fair value.
- Loans, financing and debentures:

This financial instrument aims mostly at generating funds to finance the Company's expansion programs, and possibly managing its cash flow requirements in the short term.

- Loans and financing in local currency—these are classified as financial liabilities not measured at fair value, and are recorded at their contract values, updated by the effective interest rate of the operation. The market values of these loans are equivalent to their book values, as they refer to financial instruments characterizing solely as specific funding sources to finance investments in energy distribution, at subsidized costs, mostly associated with the Long Term Interest Rate (TJLP) or fixed rates.
- Debentures in local currency—these are classified as financial liabilities not measured at fair value, and are recorded at their contract values, and updated by the effective interest rate of the operation. For disclosure purposes, the market values of debentures was calculated based on secondary market rates for the debt itself or an equivalent debt, as informed by ANDIMA, with BM&F curves in force at the balance sheet date being used as a projection of its indicators.
- Loans and financing in foreign currency and debentures in local currency indexed to foreign currencies—in line with the financial policy adopted by Neoenergia Group and by the Company, these are considered hedged items, in accordance with the hedge accounting methodology, and are recorded at their market values. The fair values are calculated by projecting future flows from operations (assets and liabilities) using the short position cost of its swaps.
- Derivative financial instruments—derivative transactions are intended to protect against exchange rate fluctuations on funds obtained in foreign currency and in local currency indexed to foreign currencies, not for purposes of speculation. Thus, they are considered hedge instruments in accordance with the hedge accounting methodology, and recorded at market value. The fair values are calculated by projecting future flows from operations (assets and liabilities) using BM&F curves and bringing these amounts to present value using the short position cost of its swaps.

The book value and the market value of the Company's financial instruments at December 31, 2009 and 2008 are:

	Assets (Liabilities)			
	2009		2008	
	Book	Market	Book	Market
Cash and cash equivalents	217,329	217,329	334,809	334,809
Marketable securities	84,476	84,476	72,619	72,619
Consumers, Conc. and licensees and notes receivable (net of PCLD)	1,019,027	1,019,027	826,905	826,905
Restricted funds	157	157	2,245	2,245
Loans and financing in local currency	(592,896)	(592,896)	(649,541)	(649,541)
Debentures in local currency	(477,272)	(473,329)	(518,297)	(494,626)
Loans, financing and debentures in foreign currency	(284,450)	(284,450)	(389,615)	(391,326)
Derivative instruments	(114,120)	(114,120)	(45,868)	(45,868)

The Company has derivative instruments for sole purpose of economic and financial protection against currency fluctuations by swapping U.S. dollars for CDI and PGI-M, but has no exotic or other types of derivatives. The Company's policy does not allow the use of derivative financial instruments for speculative purposes.

Hedge transactions cover all of the Company's foreign currency denominated loans, in such a way that foreign exchange gains and losses on these transactions are offset by the related gains and losses on foreign currency denominated debt.

Derivative contracts effective as of December 31, 2009 and 2008 are as follows:

Description	Counterparty	Contract Date	Maturity Date	Position	Notional Value				Fair Value		Ac. Effect 2009
					Foreign Currency		Local Currency				Amount receivable/ received - payable / paid
					2009	2008	2009	2008	2009	2008	
Swap contracts:											
Swap											
Asset	Banco Votorantim	1/12/2001	3/22/2011	USD + 3.446% p.a.	USD 1,649	USD 2,827 R\$	3,209 R\$	5,501	3,969	8,677	
Liability				CDI -6% p.a.					7,116	10,910	
									(3,147)	(2,233)	(2,821)
Swap											
Asset	Bancos ABN AMRO 7/11/06 and			USD 6M LIBOR + 1%p.a.							
	and Citibank	6/15/09	6/26/2013	106.75% and 107.25% of CDI - USD 150,000	USD 150,000	R\$317,315	R\$328,500		256,142	340,515	
Liability				101.61% and 101.72% of CDI					317,644	332,570	
									(61,502)	7,945	(107,531)
Swap											
Asset	Banco Votorantim	7/30/2004	1/27/2014	USD + 13.4853% p.a.	USD 9,523	USD 12,434 R\$	28,779 R\$	37,575	25,588	49,659	
Liability				IGPM + 13.95% a.a					75,059	101,239	
									(49,471)	(51,580)	(8,096)
Total									(114,120)	(45,868)	(118,448)

As permitted by CVM Rule No. 566, which approved Technical Pronouncement CPC No. 14, the Company accounted for its derivative instruments based on the hedge accounting methodology. Under this method, the impacts of changes in the fair value of derivatives used for hedging purposes are recognized in the income statement as the hedged items are recognized. The Company's hedge transactions were considered to be effective.

The Company's derivatives (hedging derivative financial instruments) and foreign currency denominated debt (the related hedged item) were marked to market. Appreciation or devaluation in the fair value of hedging derivative instruments and hedged items were recorded in the income statement as financial income or expenses.

Risk factors:

- Financial risks

- Foreign currency risk

This risk arises from possible losses deriving from a hike in exchange rates that increases the liabilities for loans and financing in foreign currency and debentures in local currency indexed to foreign currencies obtained in the market. Aiming to ensure that significant fluctuations in currency prices to which its foreign currency denominated liabilities are subject do not affect its results and cash flows, the Company has, at December 31, 2009, foreign exchange hedge transactions, representing 100% of its debt subject to foreign exchange exposure.

For the year ended December 31, 2009, the Company recorded losses on foreign exchange hedge transactions in the amount of R\$ 118,448 (loss of R\$ 43,667 at December 31, 2008).

Please find below the sensitivity analysis of exchange rate risk, including the effects of different scenarios on the result.

<u>Operation</u>	<u>Risk</u>	<u>Probable Scenario</u>	<u>Scenario (II)</u>	<u>Scenario (III)</u>
<u>FINANCIAL ASSETS AND LIABILITIES</u>				
BID	USD	(3,971)	(4,963)	(5,956)
Swap—Asset end—BID	USD	3,970	4,962	5,954
Foreign securities	USD	(256,044)	(320,055)	(384,066)
Swap—asset end—Foreign securities	USD	256,142	320,177	384,213
3rd Issue Debentures	USD	(25,580)	(31,975)	(38,369)
Swap—asset end—3rd Issue Debentures	USD	25,589	31,986	38,383
<u>Reference for financial assets and liabilities</u>		<u>Rate appreciation</u>	<u>25%</u>	<u>50%</u>
Dolar USD/R\$		1.741	2.177	2.612

- Risk of debt charges

This risk arises from the possibility that the Company may incur losses on account of fluctuations in interest rates or other debt indices that increase its financial expenses on loans and financing obtained in the market, or reduce the financial income obtained from its investments. The Company does not have derivative swaps against this exposure, but continuously monitors market interest rates in order to consider the need to enter into derivative contracts to protect against the risk of interest rate fluctuations.

Please find below the sensitivity analysis of debt charge risk, including the effects of different scenarios on the result:

Financial Charge Increase Risk

<u>Operation</u>	<u>Risk</u>	<u>Probable scenario</u>	<u>Scenario (II)</u>	<u>Scenario (III)</u>
<u>FINANCIAL ASSETS</u>				
Short-term financial investments	CDI	183,472	187,602	191,733
Marketable securities	CDI	84,476	86,378	88,279
<u>FINANCIAL LIABILITIES</u>				
Loans, Financing and Debentures				
BNDES/FINEM	TJLP	(210,765)	(213,806)	(216,847)
FINEP	TJLP	(8,109)	(8,226)	(8,343)
5th Issue Debentures—1st series	CDI	(17,355)	(17,746)	(18,137)
5th Issue Debentures—2nd series	IGPM	(105,598)	(106,060)	(106,521)
6th Issue Debentures	CDI	(356,544)	(364,571)	(372,598)
Derivatives				
Swap—liability end—BID	CDI	(7,116)	(7,277)	(7,437)
Swap—liability end—Foreign securities	CDI	(317,645)	(324,796)	(331,948)
Swap—liability end—3rd Issue Debentures	IGPM	(75,060)	(75,389)	(75,717)
<u>Reference for financial assets</u>		<u>Rate appreciation</u>	<u>25%</u>	<u>50%</u>
CDI (%)		9.90	1.1237	1.1485
<u>Reference for financial liabilities</u>		<u>Rate appreciation</u>	<u>25%</u>	<u>50%</u>
TJLP %		6.12	1.0766	1.0919
IGPM %		(1.72)	0.9871	0.9914
CDI %		9.90	1.1237	1.1485

Financial Income Decrease Risk

<u>Operation</u>	<u>Risk</u>	<u>Probable scenario</u>	<u>Scenario (II)</u>	<u>Scenario (III)</u>
<u>FINANCIAL ASSETS</u>				
Short-term financial investments	CDI	183,472	197,341	175,211
Marketable securities	CDI	84,476	82,574	80,672
<u>FINANCIAL LIABILITIES</u>				
Loans, Financing and Debentures				
5th Issue Debentures—1st series	CDI	(17,355)	(16,964)	(16,574)
6th Issue Debentures	CDI	(356,544)	(348,517)	(340,489)
Derivatives				
Swap—liability end—IDB	CDI	(7,116)	(6,956)	(6,796)
Swap—liability end—Foreign securities	CDI	(317,645)	(310,494)	(303,342)
<u>Reference for financial assets</u>		<u>Rate decrease</u>	<u>25%</u>	<u>50%</u>
CDI (%)		9.90	1.07	1.05
<u>Reference for financial liabilities</u>		<u>Rate decrease</u>	<u>25%</u>	<u>50%</u>
CDI %		9.90	1.07	1.05

These sensitivity analyses are intended to illustrate the Company's financial instruments sensitivity to changes in market variables. The sensitivity analyses shown above are established with the use of premises and assumptions regarding future events. The Company's management regularly reviews these estimates and assumptions used in the calculations. However, the settlement of transactions involving these estimates may result in different amounts due to the subjectivity inherent in the analytical process.

- Operating risks

- Credit risk

The risk arises from the possibility that the Company may incur losses due to the difficulty in collecting amounts billed to its consumers, concessionaires and licensees. In order to reduce this risk and to help manage the risk of default, the Company monitors accounts receivable from consumers by implementing various collection efforts, including interrupted supply if consumers fail to make payments. In the case of consumers, the credit risk is low due to the large risk spread.

- Debt acceleration risk

The Company has loan, financing and debenture agreements with restrictive covenants that generally require compliance with economic and financial indices at certain levels (financial covenants). Failure to comply with these covenants may result in debt acceleration (see Notes 24 and 25).

- Risk related to energy shortage

The Brazilian electric power system is supplied mainly by hydroelectric generation. A long period of low rainfall during the wet season will reduce the level of these power plants' water reservoirs, resulting in an increase in the cost of acquiring energy in the short-term market and a hike in System Charges due the supply of thermal power plants. A rationing program may ultimately be adopted, implying in reduced revenues. However, given current reservoir levels and the latest simulations performed, the National Electricity System Operator (ONS) does not expect a new rationing program over the coming years.

40 COMMITMENTS

The commitments relating to long-term contracts for the acquisition of electric power are as follows:

	<u>Validity</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>After 2015</u>
ELECTRIC ENERGY PURCHASE							
CONTRACTS	2011 to 2030	1,847,239	2,099,307	2,503,586	2,820,080	96,308,126	96,308,126

Amounts relating to energy purchase contracts, effective from 6 to 30 years, represent the total volume contracted for the current price at the end of 2009, as approved by ANEEL.

41 PENSION PLANS AND OTHER EMPLOYEE BENEFITS

Pension Plans

The Company is the sponsor of Fundação COELBA de Previdência Complementar (FAELBA), a not-for-profit legal entity sponsoring the following pension plans: Plano Misto de Benefícios Previdenciários (Mixed Pension Benefits Plan) No. 1 – (DC Plan – FAELFLEX) and Plano Previdenciário (Pension Plan) No. 2 – (DB Plan). The main purpose of these plans is to provide its members and beneficiaries with supplementary post-retirement and pension amounts, based on the plans to which they belong.

Plan No. 1 – FAELFLEX, with defined contribution features, including programmed retirement income and death and disability annuity benefits, was implemented in 1998, having been joined by over 98% of active participants (who migrated from the DB Plan). FAELFLEX, considering its individual savings feature (DC), has no deficit or surplus, as the results of investments are fully passed on to participants. In 2009, the fair value of plan assets totaled R\$ 751,469 (R\$ 630,566 in 2008).

Plan No. 2 – DB, is a mature plan and has been closed to new participants since 1998. Any deficits are the responsibility of the sponsor and participants.

Current contributions (by the sponsor and participants, at a parity of one to one) are intended to cover the benefits payable to participants, that have accumulated since their admission to the plan.

Sponsor's contributions in relation to the total monthly payroll of active plan participants correspond to:

	Type	
	DC Plan - Annuity	DB Plan
Regular contribution	5,05%	6,76%
Risk contribution	0,51%	0,00%
Cover for foundation's administrative expenses	2,00%	2,17%

Contributions paid or accrued during the year:

	2009	2008
Cost of fixed assets in progress	778	767
Operating expenses	6,442	7,347
Total	7,220	8,114

Actuarial valuation of pension plans

The actuarial valuation of pension plans adopted the projected credit unit method. The actuarial reports issued by independent actuaries, considering the financial situation of FAELBA pension plans as of December 31, 2009 and 2008, are summarized below, as well as other information required by CVM Rule No. 371/00.

	Pension plans			
	No. 1 - DC - Annuity		No. 2 - DB	
	2009	2008	2009	2008
Benefit plan's assets and liabilities				
Present value of actuarial liabilities	4,582	4,952	244,706	239,462
Fair value of plan assets	(1,861)	(2,755)	(344,865)	(329,009)
Present value of liabilities in excess of fair value of plan assets	2,721	2,197	(100,159)	(89,547)
Allowed adjustments for deferrals:				
Unrecognized actuarial (gains) losses	724	—	(7,331)	(5,003)
Actuarial liabilities (assets), net	1,997	2,197	(92,828)	(84,544)

	No. 1 - CD		No. 2 - BD	
	2009	2008	2009	2008
BENEFIT PLANS				
Nominal discount rate for actuarial liabilities	9.73%	9.20%	9.73%	9.20%
Expected nominal yield rate on plan assets	11.84%	11.25%	9.73%	9.20%
Estimated nominal salary raise index	6.59%	6.08%	4.50%	4.00%
Estimated nominal benefit increase index	Not applicable	Not applicable	4.50%	4.00%
Estimated inflation rate - long term	4.50%	4.00%	4.50%	4.00%
Expected turnover	0.15 / (length of service + 1)	0.15 / (length of service + 1)	Nil	Nil
Capacity factor	Not applicable	Not applicable	0.98	0.98
Mortality table	AT-2000	AT-2000	AT-2000	AT-2000
Disabled mortality table	Not applicable	Not applicable	AT-83	AT-83
Retirement for disability table	Ligth-average	Ligth-average	Ligth-average	Ligth-average
	100% on the programmed	100% on the		
Probability of retirement	benefit vesting date (pension)	programmed benefit vesting date (pension)	Not applicable	Not applicable

Other Benefits

In addition to the benefits provided by means of the supplementary pension plans, the Company offers other benefits to its employees, such as health insurance, meal vouchers, transportation allowances, funeral service and day care center, training and career development, which are regularly negotiated on the occasion of collective bargaining agreements. For the year ended December 31, 2009, the Company disbursed R\$ 21,378 (R\$ 19,600 in 2008) on these items.

42 INSURANCE

Insurance contracts detailed per type of risk and effective period, according to the Company's insurance brokers:

<u>Risk</u>	<u>Validity</u>	<u>Insured</u>	<u>Premium</u>
Named perils - Substations and power plants	08-10-09 to 08-10-10	228,181	526
Named perils - Own and leased properties	08-10-09 to 08-10-10	119,076	274
Civil liability - Operations	08-10-09 to 08-10-10	—	487
Vehicles	08-10-09 to 08-10-10	—	41

The Company's insurance policies are taken out in accordance with the related risk management policies and insurance policies in force, as follows:

Named perils—own or leased (to or from third parties) property, warehouses, substations and power plants—the insurance policy covers the main equipment of substations and power plants, including their sum insured and maximum indemnity limits. Basic insurance coverage against fire, lightning and explosion of any kind, and the substations and power plants have additional coverage against electrical damage.

General Civil Liability—coverage for unintentional damages and/or injuries caused to third parties as a result of the Company's business operations. Maximum indemnity limit is R\$ 5,000 per event.

Transportation (National and International)—ensures the payment of indemnity to the insured if its (new or used) assets in transit, whether carried by sea, river, lake, air, road or rail, duly annotated, suffer an accident (loss) anywhere within the national territory (national transportation) or abroad (international transportation).

Vehicles—basic coverage including civil liability, car damage and group personal accident, and additional coverage including windscreen/window breakage, 24-hour service and spare car for seven days in case of accident or theft.

43 ENVIRONMENTAL ISSUES

The Company's attitude is based on environmental preservation and compliance with environmental legislation. The Company has ensured the improvement of its Environmental Management System (SGA), created in 2005 focusing on several sustainability efforts and increasingly related to the Company's business.

In 2009, among the efforts aimed at environmental conservation, the following may be highlighted:

Vegetation Management—Implemented in partnership with the city authorities, this project is designed to improve urban and rural landscaping, by training tree pruning teams with adequate techniques, proper tools, planning of urban forestry, encouraging the growth of plant types that are proper of urban areas, and complying with environmental legislation.

Ecological Corridors—Implemented in partnership with Grupo Ambiental Natureza Bela, this project aims at recovering the rainforest and protecting the waters in rivers Caraíva, Mucugê, and wetlands, by building ecological mini-corridors.

Compact Network / Green Line—Use of protected electric cables to avoid accidents caused by contact with trees, reducing the need for pruning trees and improving the performance of the electrical system.

Environmental Education Project (PEA)—Creation of a system of protected areas combined with environmental education programs, aimed at preserving the fauna, flora, water sources, biodiversity and the remnants of the rainforest.

Sustainable Waste Management—Several efforts that contribute to improve the management of waste generated in the Company’s production process, such as:

- Logisverde Project—reuse of wooden spools from the acquisition of conductors used in Coelba networks and lines;
- Disposal of Fluorescent Light Bulbs—collection and decontamination of burnout fluorescent light bulbs out of its facilities, offering this service to its employees, to low-income communities that are part of the Company’s energy efficiency program, and to the Administrative Center of the State of Bahia, through an agreement between the concessionaire and the state government.
- Collection of Residual Oil—in partnership with Comanche Clean Energy, this consists in collecting the waste oil produced in employees’ households and in the two restaurants owned by the Company for recycling and reuse in biodiesel production.

The Company also has investments aimed at environmental preservation, which are part of the Investment Projects and Programs, and that are driven by the “environmental conditions”, which represent compensations that should be made in connection with the project with a view to repairing, mitigating or preventing environmental damage to the project’s site.

We highlight below the amounts invested in order to comply with meet environmental commitments.

	<u>Assets</u>		<u>St. of Income</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Funds used	42,860	30,336	9,581	8,235

44 SEGMENT REPORTING – NOT AUDITED

In compliance with the Accounting Manual for Electric Energy Public Services, established by ANEEL Resolution No. 444/2001, we present below the statement of income per operating segment.

	Production	Distribution	Sale	Unrelated activities	Total
Electric energy supply	—	—	1,921,543	—	1,921,543
Electric energy supply – CCEE	—	—	13,249	—	13,249
Transmission and distribution system availability	—	2,934,379	604	—	2,934,983
Other operating revenues	—	35,245	27,262	242	62,749
Operating revenue	—	2,969,624	1,962,658	242	4,932,524
ICMS	—	(556,541)	(358,240)	—	(914,781)
PIS	(6)	(1,583)	(78,345)	(4)	(79,938)
COFINS	(2)	(272,303)	(96,062)	(18)	(368,385)
ISS	—	(1,838)	(978)	—	(2,816)
Global reversal reserve – RGR	—	(26,289)	(17,383)	—	(43,672)
Energetic Efficiency Program – PEE	—	(10,136)	(6,653)	—	(16,789)
Energetic Development Account – CDE	—	(16,314)	(10,664)	—	(26,978)
Subvention – fuels consumption account – CCC	—	(66,295)	(42,951)	—	(109,246)
National Fund for Scientific and Technological Development-FNDCT	—	(4,129)	(2,545)	—	(6,674)
Energetic Research Company – EPE	—	(1,259)	(2,545)	—	(3,804)
Research and Development – P&D	—	(4,129)	(2,545)	—	(6,674)
Consumer Charges – Proinfra	—	(2,028)	—	—	(2,028)
CBEE charges	—	—	25	—	25
Deductions from operating revenue	(8)	(962,844)	(618,886)	(22)	(1,581,760)
NET OPERATING REVENUE	(8)	2,006,780	1,343,772	220	3,350,764
Cost of electric energy service					
Electric energy cost					
Electric energy purchased for resale	—	—	(1,516,697)	—	(1,516,697)
Transmission system use charges	—	—	(222,305)	—	(222,305)
Total			(1,739,002)		(1,739,002)
Operation cost					
Payroll	—	(78,787)	—	—	(78,787)
Private pension plan	—	(3,256)	—	—	(3,256)
Materials	—	(7,495)	—	—	(7,495)
Fuels for electric energy generation	—	(2)	—	—	(2)
Outsourced services	(3)	(68,785)	—	—	(68,788)
Electric energy service inspection charge –					
TFSEE	—	(4,902)	—	—	(4,902)
Depreciation and amortization	(257)	(165,727)	—	(366)	(166,350)
Leasing and rents	—	(1,827)	—	—	(1,827)
Taxes	—	(447)	—	—	(447)
Net provisions – PCLD	—	(4,316)	—	—	(4,316)
Other operating expenses	(43)	(14,155)	—	—	(14,198)
Total	(303)	(349,699)		(366)	(350,368)
Cost of services rendered to third parties	—	(7,537)	—	—	(7,537)
Total electric energy service cost	(303)	(357,236)	(1,739,002)	(366)	(2,096,907)
GROSS PROFIT	(311)	1,649,544	(395,230)	(146)	1,253,857
Operating expenses					
Selling expenses	—	—	(243,280)	—	(243,280)
Result from services	(311)	1,649,544	(638,510)	(146)	1,010,577

- continued -

- continued -

	<u>Production</u>	<u>Distribution</u>	<u>Sale</u>	<u>Unrelated activities</u>	<u>Total</u>
Financial result	—	(151,543)	97,975	—	(53,568)
Revenue	—	191,000	126,232	—	317,232
Financial investments yield	—	—	27,951	—	27,951
Interest, commissions and arrears charge on electricity bills	—	—	35,050	—	35,050
Financial remuneration of regulatory assets	—	—	8,323	—	8,323
Monetary variation	—	24,835	4,571	—	29,406
Exchange variation	—	115,084	—	—	115,084
Swap operations	—	42,278	—	—	42,278
Other financial income	—	8,803	50,337	—	59,140
Expense	—	(342,543)	(28,257)	—	(370,800)
Debt charges (net of R\$ 1,289 transferred to construction cost—Note 19)	—	(109,238)	(86)	—	(109,324)
Financial remuneration of regulatory liabilities	—	—	(25,094)	—	(25,094)
Monetary variation	—	(41,960)	—	—	(41,960)
Exchange variation	—	(14,198)	—	—	(14,198)
Swap operations	—	(160,726)	—	—	(160,726)
Other financial expenses	—	(16,421)	(3,077)	—	(19,498)
Interest on equity capital payable	—	—	(100,012)	—	(100,012)
Result from disposal/decommissioning of assets and rights	—	(7,055)	(2,719)	—	(9,774)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	(311)	1,490,946	(643,266)	(146)	847,223
INCOME TAX AND SOCIAL CONTRIBUTION	—	(137,840)	—	—	(137,840)
Income tax and social contribution—current	—	(263,320)	—	—	(263,320)
Income tax and social contribution—deferred	—	(2,653)	—	—	(2,653)
Income tax—SUDENE	—	148,248	—	—	148,248
Goodwill amortization and PMIPL reversal	—	(20,115)	—	—	(20,115)
INCOME BEFORE REVERSAL OF INTEREST ON EQUITY CAPITAL	(311)	1,353,106	(643,266)	(146)	709,383
Reversal of interest on equity capital	—	—	100,012	—	100,012
NET INCOME FOR THE YEAR	(311)	1,353,106	(543,254)	(146)	809,395

Revenues and expenses relating to production and distribution activities are allocated directly to operating units and those relating to central administration are allocated to administrative units. Other expenses relating to central administration, after central administration expenses are apportioned to orders in progress, are allocated to operating activities in proportion to account balances. Revenues and expenses in connection with equity interests are allocated to investments atypical of the concession. This procedure is in line with the requirements of the Accounting Manual for Electric Energy Public Services, established by ANEEL Resolution No. 444/2001.

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