Energisa Borborema – Distribuidora de Energia S/A

Management Report and Financial Statements for 2012

Management Report

The Management of Energisa Borborema – Distribuidora de Energia S/A ("Energisa Borborema" or "Company") hereby presents its headlines for FY 2012, along with the respective Financial Statements, prepared in accordance with International Financial Reporting Standards - IFRS. These statements were reviewed and approved by the Board of Directors and Executive Board on March 05, 2013.

1 – General Considerations

Energisa Borborema is an electricity distribution company that serves around 179,000 clients and a population of approximately 483,000 in 6 municipalities in the state of Paraíba.

Our commitment to the permanent pursuit of operational improvements has enabled the Company to maintain its performance indicators and the quality of its electricity distribution services at among the best levels in Brazil.

In 2012 Energisa Borborema won the Chico Mendes Social and Environmental Award in recognition of practices that further social well-being and the environment. The head offices of Energisa Borborema in Campina Grande received the award. The Chico Mendes award is given by the Chico Mendes International Institute of Research and Socio-environmental Responsibility and is directed at public and private institutions who maintain responsible socio-environmental management practices and initiatives and develop products committed to sustainability concepts, especially in terms of reducing environmental impacts and which demonstrate responsibility to people's well-being and improving living standards in low-income communities. The main goal is to lend visibility to successful examples and stimulate new ideas and initiatives which will expand the range of options for Brazilian society's interaction with socio-environmental issues.

2 – Investment

Energisa Borborema invested a substantial R$ 21.9 million in 2012 (R$ 19.7 million in 2011), largely in the construction of the Queimadas and Aeroclube substations and the duplication of the 69 kV transmission line supplying the Catolé substation, improving power system reliability.

Other key projects in 2012 include the construction of new feeders to service Massaranduba and Galante, and medium voltage system improvements in Lagoa Seca and Campina Grande.

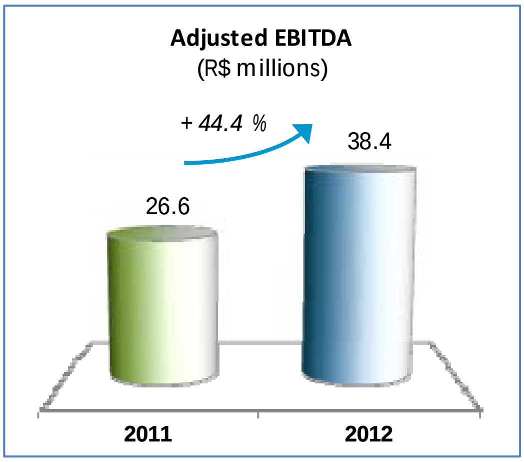
The table below denotes the changes in Energisa Borborema's operating assets in the year:

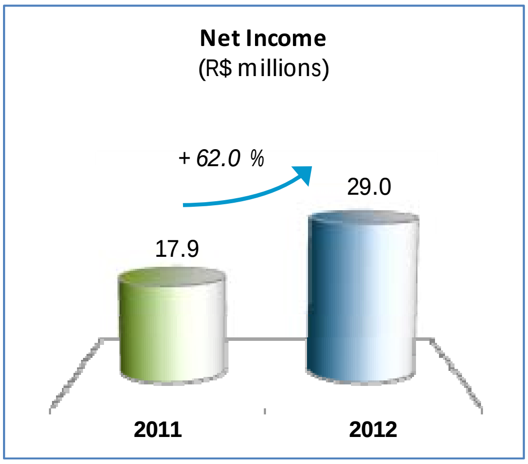
Asset description	Dec / 2012	Dec / 2011	Increase (%) 2012/2011
Substations – Number	4	2	+ 100.0
Installed capacity at the substations - MVA	75	38	+ 97.4
Distribution grids (company) - Km	5,076	5,005	+ 1.5
Transformers installed in the distribution grids – no.	3,315	3,161	+ 4.8
Installed capacity of the distribution grids (company) - MVA	143	126	+ 13.5

3 - Economic and financial headlines

The Company’s main economic and financial figures for 2012 have been summarized below:

Economic and Financial Figures	2012	2011	Change %
Results - R$ million			
Gross Operating Revenue	264.6	217.8	+ 21.5
Net Operating Revenue	186.4	147.3	+ 26.5
Earnings before interest and tax (EBIT)	31.2	19.9	+ 56.8
EBITDA	35.9	24.5	+ 46.5
Financial Income/Loss	2.9	(0.2)	-
Income (loss) before taxes	34.1	19.6	74.0





Financial Indicators - R$ million			
Total Assets	183.4	156.1	+ 17.5
Cash / Cash Equivalents / Short-Term Investments	14.0	14.0	-
Shareholders' Equity	98.2	89.5	+ 9.7
Net Debt	29.5	16.4	+ 79.9
Operating Indicators			
Number of Captive Consumers (thousand)	179	173	+ 3.5
Total Electricity Distributed (GWh)	661	632	+ 4.6
Energy Losses (% in past 12 months)	6.69	7.58	- 0.89 p.p
Relative Indicators			
Adjusted EBITDA / Net Revenue (%)	20.6	18.1	+ 2.5 p.p
Net Debt / Adjusted EBITDA for 12 months (times)	0.8	0.6	+ 33.3

NB: Adjusted EBITDA: EBITDA plus arrears charges on electricity bills.

3.1 - Net income, cash generation and dividends

Energisa Borborema recorded net income of R$ 29.0 million in 2012 (R$ 98.87 per share), an increase of 62.0% over 2011. This net income growth is partly due to the increase of 26.5% (or R$ 39.1 million) in net operating revenue in the period, along with small growth in operating expenses, which rose by 21.7% (or R$ 27.7 million). The operating cash generation (Adjusted EBITDA) amounted to R$ 38.4 million, compared with R$ 26.6 million in 2011, i.e. an increase of 44.4%.

See below the change in the Company's cash generation:

Breakdown of cash generation (EBITDA) (R$ millions)	Year 2012	2011	Change %
(=) Net Income	**29.0**	**17.9**	**+ 62.0**
(-) Income and social contribution taxes	(5.1)	(1.7)	+ 200.0
(-) Financial result	2.9	(0.2)	-
(-) Depreciation and amortization	(4.7)	(4.7)	-
(=) Cash generation (EBITDA)	**35.9**	**24.5**	**+ 46.5**
(+) Arrears surcharge revenue	2.5	2.1	+ 19.0
(=) Adjusted cash generation (Adjusted EBITDA)	**38.4**	**26.6**	**+ 44.4**
Adjusted EBITDA Margin	20.6	18.1	+ 2.5 p.p

From its earnings in 2012, the Company has paid out dividends of R$ 16.6 million commencing: i) August 17, 2012, R$ 11.1 million (R$ 37.84 per share) and ii) December 21, 2012, equal to R$ 5.5 million (R$ 18.85 per share). On top of these dividends, additional dividends will be paid out of R$ 5.2 million (R$ 17.8906128 per share), on a date to be determined. The total dividends for the year amounting to R$ 21.8 million represent 75.2% of the net income earned by the Company.

3.2 - Operating expenses

Operating expenses break down as follows:

Breakdown of operating expenses (R$ million)	2012	2011	Change in R$ million
1 – Controllable expenses	29.5	26.7	+ 2.8
1.1 - Personnel (includes pension fund)	15.5	13.8	+ 1.7
1.2 - Material	1.5	1.6	- 0.1
1.3 - Services	12.5	11.3	+ 1.2
2 - Uncontrollable expenses (acquisition of energy and transmission)	95.0	76.5	+ 18.5
3 - Depreciation and amortization	4.7	4.7	-
4 - Allowance for doubtful accounts and contingencies	0.1	(1.0)	+ 1.1
5 - Other expenses / revenue	4.4	1.5	+ 2.9
Subtotal (1+2+3+4+5)	**133.7**	**108.4**	**+ 25.3**
6 – Construction cost	21.5	19.1	+ 2.4
Total	**155.2**	**127.5**	**27.7**

4 - Operating performance

People management practices in the company also became visible, with the practice of internal recruitment highlighted, along with development programs and performance assessment. This fact is shown by the high levels of consumer satisfaction.

The latest survey published by the Brazilian Association of Electricity Distributors (Abradee) showed that Energisa Borborema achieve an approval rating of 88.8% in the ISQP survey (Perceived Quality Satisfaction Index), which was ranked second amongst the best distribution companies in the Northeast region.

4.1 - Management of energy losses: the year saw the excellent results being maintained in the combating of overall electricity losses, which dropped to 6.69%, one of the lowest levels amongst all electricity distribution companies in the country.

4.2 - Default management: Consumer default in relation to unpaid electricity bills in the past 12 months also fell from 1.63% in 2011 to 1.16% in 2012, as did the number of monthly invoices (pending), which fell from 0.84 to 0.73.

4.3 - DEC and FEC: the significant reduction in the continuity indicators (DEC and FEC) in 2012 is another headline, resulting from the investments made based on correctly planning the system's requirements. The DEC was 37.6% better than last year and the FEC improved by 43.0% over the same comparison period.

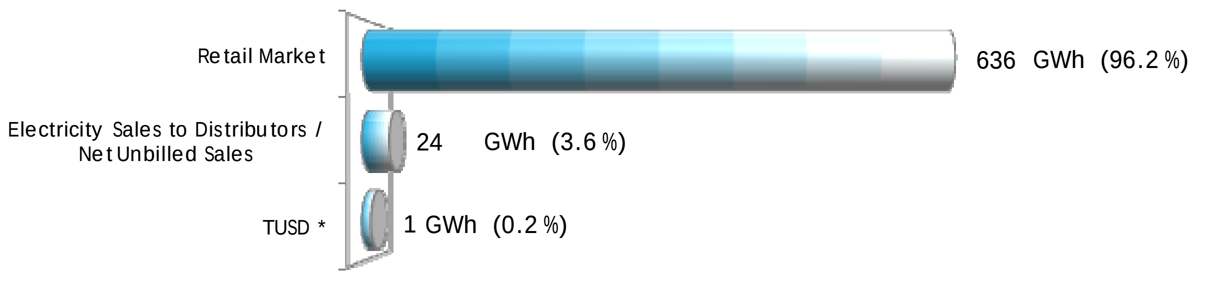
Operating indicators	2012	2011	Change %
Power loss from the company's system (%)	6.69	7.58	- 0.89
Consumer default over the last 12 months (%)	1.16	1.63	- 28.8
Outstanding receivables (outstanding monthly invoices) – no.	0.73	0.84	- 13.1
ISQP (Perceived Quality Satisfaction Index) - Abradee	88.8	84.6	+ 5.0
IASC (Aneel Consumer Satisfaction Index)	66.8	(*) 76.1	-12.2
DEC (Equivalent Outage Duration per Consumer) – hours	9.14	14.64	- 37.6
FEC (Equivalent Outage Frequency per Consumer) - times	6.76	11.85	- 43.0

(*) IASC from 2010, as the survey was not conducted in 2011

4.4 - Electricity sales: the Company distributed total energy of 661 GWh in 2012, an increase of 4.6% over 2011. Retail sales amounted to 635 GWh, an increase of 5.6% over the previous year. Consumption was driven by the commercial and residential sectors, which jointly accounted for 52.4% of the total energy consumed by its captive consumers. The consumption of these sectors rose by 8.4% and 5.2% respectively. Though accounting for a smaller slice of energy sales, the rural sector also performed well, with consumption rising 13.6%.

Energisa Borborema closed FY 2012 with 179,176 captive consumer units, or 3.9% more than at the end of 2011.

Total Sales by Segment - In 2012



(*) Energy associated with Free Consumers.

5 - People management

To meet its operational requirements, especially enhancing the quality of products and services offered, in 2012 Energisa Borborema provided 20,925 man-hours of training, equal to 75.5 hours of training/employee. The distance education system (EAD) accounted for 70% of the company's training program

The successful practices from recent years were maintained and bolstered, especially: **Project Bússola**, which disclosed the company's targets and guidelines to all staff; **A Welcome Program**, which involved a meeting between the Officers and recent recruits; **Executive Board meetings with accident victims;** workplace gymnastics; **Incentives Program** (PIN), which seeks to value ideas and innovation of staff, and the **Present-Future Project**, which is aimed at the children of our employees, with a view to greater integration, operational efficiency, fewer accidents and commitment to results.

People management practices in the company also became visible, with the practice of internal recruitment highlighted, along with development programs and performance assessment. These fully serve all of Human Resources' needs across the various levels, in order to maintain the complete range of its operational activities.

6 - Social and Environmental Responsibility

In 2012 Energisa Borborema continued its initiatives in the areas of social / environmental responsibility and culture, especially at the **Energy Center**, which carried out educational work with the purpose of disseminating knowledge about history and science, especially as regards the importance of electrical power and how to use it rationally and efficiently. The Energy Center was visited by 18,959 people in 2012 (16.5% more than in 2011).

Created in 2005 by Energisa Borborema as part of the Aneel/Procel Energy Efficiency Program, the **Communities Project** benefited some 1,260 families in 2012, and has permitted the company to be present in all municipalities in its concession area via its mobile units. This program aims to instruct impoverished communities about precautions and the efficient and safe use of electricity, in addition to instructions about social matters and helping clients achieve a close and better relationship with the company.

The achievements in 2012 also include the Conta Cidadã project, whereby recyclable waste is exchanged for credits on the electricity bills of consumers, the materials collected in the process going to supply the recycling industry.

The **Balcão de Livros** (*book counter*) was launched in 2011, a groundbreaking project to encourage the habit of reading and further awareness, which through service centers and stations gave 137 of the company's clients access to leading works of literature in 2012, especially those in the Portuguese language.

In 2012, the company made history by receiving an honor from the Chico Mendes Institute, being awarded the International Socio-Environmental Award for the construction of the sustainable building in 2011 - the head office of Energisa Borborema, a testament to a major commitment to future generations.

7- Services rendered by the independent auditor

The total remuneration of Deloitte Touche Tohmatsu Auditores Independentes for the services provided to Energisa Borborema in 2012 was R$ 84,000, and consisted of: i) R$ 40,000 for reviewing the financial statements and. iv) R$ 44,000 for reviewing the processes and procedures implemented to obtain corporate income tax incentives – Sudene.

The Company's engagement policy complies with the principles that sustain the auditor's independence, in accordance with existing standards, which mainly determine that the auditor should not audit its own work, perform managerial duties for its client or pursue its interests.

Management.

Balance Sheet

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S.A. ANNUAL SOCIAL BALANCE SHEET - 2012 (In thousands of reais)						
1 - Calculation Base	**2012 Amount (thousand reais)**			**2011 Amount (thousand reais)**		
Net revenue (RL)	186,389			147,346		
Operating income (RO)	34,054			19,416		
Gross payroll (FPB)	13,137			11,402		
2 - Internal Social Indicators	**Amount**	**% of FPB**	**% over RL**	**Amount**	**% of FPB**	**% over RL**
Meals	1,734	13.20%	0.93%	1,623	14.23%	1.10%
Compulsory social charges	2,833	21.57%	1.52%	2,479	21.74%	1.68%
Private pensions	153	1.16%	0.08%	170	1.49%	0.12%
Health insurance	608	4.63%	0.33%	608	5.33%	0.41%
Occupational health and safety	0	0.00%	0.00%	46	0.40%	0.03%
Education	91	0.69%	0.05%	69	0.61%	0.05%
Culture	3	0.02%	0.00%	0	0.00%	0.00%
Professional training and development	96	0.73%	0.05%	54	0.47%	0.04%
Crèches or crèche allowance	245	1.86%	0.13%	229	2.01%	0.16%
Profit sharing	1,388	10.57%	0.74%	1,051	9.22%	0.71%
Other	230	1.75%	0.12%	218	1.91%	0.15%
Total - Internal social indicators	**7,381**	56.18%	3.96%	**6,547**	57.42%	4.44%
3 - External Social Indicators	**Amount**	**% over RO**	**% over RL**	**Amount**	**% over RO**	**% over RL**
Education	0	0.00%	0.00%	31	0.16%	0.02%
Culture	199	0.58%	0.11%	119	0.61%	0.08%
Healthcare and sanitation	0	0.00%	0.00%	0	0.00%	0.00%
Sports	30	0.09%	0.02%	0	0.00%	0.00%
Combating hunger and food safety	0	0.00%	0.00%	0	0.00%	0.00%
Other	38	0.11%	0.02%	59	0.30%	0.04%
Total contributions to society	267	0.78%	0.14%	209	1.08%	0.14%
Taxes (not including social charges)	64,015	187.98%	34.34%	53,997	278.11%	36.65%
Total - External social indicators	64,282	188.76%	34.49%	54,206	279.18%	36.79%
4 - Environmental Indicators	**Amount**	**% over RO**	**% over RL**	**Amount**	**% over RO**	**% over RL**
Investments related to company production / operation	6	0.02%	0.00%	981	5.05%	0.67%
Investments in external programs and/or projects	0	0.00%	0.00%	0	0.00%	0.00%
Total environmental investment	6	0.02%	0.00%	981	5.05%	0.67%
As concerns establishment of annual targets to minimize waste, production/operation consumption in general and to use natural resources more efficiently, the company	(X) has no targets ( ) performs 51 to 75% ( ) performs 0 to 50% ( ) performs 76 to 100%			(X) has no targets ( ) performs 51 to 75% ( ) performs 0 to 50% ( ) performs 76 to 100%		
5 - Workforce Indicators	**2012**			**2011**		
Number of employees at period-end	278			278		
Number of admissions in the period	34			33		
Number of outsourced employees	27			33		
Number of trainees	1			4		
Number of employees over 45	65			59		
Number of women working at the company	42			45		
% management positions held by women	18.18%			22.22%		
Number of black people working at the company	88			89		
% management positions held by black people	18.18%			0.00%		
No of workers with handicaps or special needs	9			9		
6 - Material information regarding corporate citizenship	**2012**			**2013 Targets**		
Ratio between the lowest and highest earners at the company	20.4			20.4		
Total number of occupational accidents	9			9		
The social and environmental projects implemented by the company were defined by:	( ) directors	(X) directors and managers	( ) all employees	( ) directors	(x) directors and managers	( ) all employees
The occupational health and safety standards were defined by:	( ) directors and managers	( ) all employees	(X) all + Cipa	( ) directors and managers	( ) all employees	(x) all + Cipa
In respect of trade union freedom, the right to collective bargaining and internal representation of workers, the company:	( ) does not get involved	( ) follows the OIT rules	(X) promotes and follows OIT	( ) will not get involved	( ) will follow the OIT rules	(x) will promote and follow OIT
The private pension embraces:	( ) directors	( ) directors and managers	(X) all employees	( ) directors	( ) directors and managers	(x) all employees
Profit-sharing embraces:	( ) directors	( ) directors and managers	(X) all employees	( ) directors	( ) directors and managers	(x) all employees
When selecting suppliers the same ethical, social responsibility and environmental standards adopted by the company:	( ) are not considered	(X) will be suggested	( ) are demanded	( ) will not be considered	(x) will be suggested	( ) will be demanded
In respect of employee participation in voluntary work programs, the company:	( ) does not get involved	( ) gives support	(X) offers organization and	( ) will not get involved	( ) will give support	(x) will offer organization and
Total number of consumer complaints and criticism:	to the company	at Procon 56	to the Courts 155	to the company	to Procon 68	to the Courts 184
% complaints and criticism handled or resolved:	at the company	at Procon 62.5%	at the Courts 46.2 %	at the company	at Procon 65%	at the Courts 45%
Added value to be distributed (in R$ thousand):	**In 2012: 122,142**			**In 2011: 104,858**		
Distribution of Added Value (DVA):	62% government 11% employees 18% shareholders 3 % third parties 6 % withheld			65% government 12% employees 12% shareholders 6% third parties 5% withheld		
7 - Further Information	**2012**			**2011**		
7) Social investments						
7.1 The "Light for All" Program						
7.11 - Government Investment	0			0		
7.12 - State Investment	0			0		
7.13 - Municipal Investment	0			0		
7.14 - Concessionaire Investment	0			0		
Total - Light for All program (7.11 to 7.14)	**0**			**0**		
7.2 - Energy efficiency program	466			612		
7.3 - Research and development program	1,063			625		
Total social investment (7.1 to 7.3)	**1,529**			**1,237**		

Financial Statements

1. Balance Sheet - Assets

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
BALANCE SHEET
AT DECEMBER 31, 2012
(In thousands of reais)

	Note	2012	2011 (reclassified)	1/1/2011 (reclassified)
Assets				
Current				
Cash and cash equivalents	5	7,968	8,699	22,706
Money market and secured funds	5	2,353	3,639	2,847
Consumers and concessionaires	6	33,644	23,290	20,436
Credit receivables	7	2,828	2,213	2,273
Inventory		578	621	628
Recoverable taxes	11	4,037	6,761	7,952
Prepaid expenses		400	455	172
Low income	10	1,580	954	901
Other accounts receivable		2,673	2,171	2,243
Total current		**56,061**	**48,803**	**60,158**
Noncurrent				
Noncurrent assets				
Money market and secured funds	5	3,662	1,692	1,693
Credit receivables	7	4,159	3,547	1,905
Recoverable taxes	11	3,818	3,054	2,338
Tax credits	13	23,166	23,337	23,452
Escrow and secured deposits	19	5,313	5,487	5,661
Derivative financial instruments	27	1,621	-	-
Accounts receivable from the concession	14	19,527	5,556	2,650
		61,266	**42,673**	**37,699**
Investments		82	84	85
Intangible assets	15	65,165	64,492	52,872
Property, plant and equipment	15	868	-	-
Total noncurrent		**127,381**	**107,249**	**90,656**
Total Assets		**183,442**	**156,052**	**150,814**

See the accompanying notes to the financial statements.

2. Balance Sheet - Liabilities

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
BALANCE SHEET
AT DECEMBER 31, 2012
(In thousands of reais)

	Note	2012	2011 (reclassified)	1/1/2011 (reclassified)
Liabilities				
Current				
Suppliers payable	16	14,100	11,677	11,634
Debt charges	17	362	229	279
Loans and financing	17	3,644	8,646	9,225
Payroll		232	193	254
Taxes and social contributions	18	9,475	8,637	7,834
Dividends	20.5	4,000	3,487	132
Consumer charges payable		947	1,050	902
Estimated obligations		903	899	772
Public lighting fee received		747	672	518
Intrasector Obligations		3,343	3,284	3,525
Other accounts payable		2,661	1,910	5,468
Total current		**40,414**	**40,684**	**40,543**
Noncurrent				
Noncurrent liabilities				
Suppliers payable	16	391	361	323
Loans and financing	17	39,450	21,596	22,004
Taxes and social contributions	18	1,854	153	160
Deferred income and social contribution taxes	13	-	865	267
Provisions for labor, civil and tax risks:	19	3,143	2,910	2,574
Total noncurrent		**44,838**	**25,885**	**25,328**
Shareholders' equity	20			
Capital	20.1	57,017	52,239	46,835
Treasury stock	20.1	(50)	(50)	(50)
Capital reserves	20.2	24,148	24,148	24,148
Profit reserves	20.3 and 20.4	11,831	9,426	9,157
Additional dividends proposed	20.5	5,244	3,720	4,853
		98,190	**89,483**	**84,943**
Total Liabilities		**183,442**	**156,052**	**150,814**

See the accompanying notes to the financial statements.

3. Statements of Income

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S.A.
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2012
(In thousands of reais, except for net income per free float share)

	Note	2012	2011
Net operating revenue	21	186,389	147,346
Cost of the electricity service	22	(129,379)	(107,572)
Gross profit		**57,010**	**39,774**
Sales expenses	22	(6,690)	(5,015)
General and administrative expenses	22	(16,588)	(15,115)
Other revenue	23	1,793	772
Other expenses	23	(4,374)	(539)
Earnings before financial revenue and expenses and tax		**31,151**	**19,877**
Financial revenue	24	5,727	4,634
Financial expense	24	(2,824)	(4,862)
Net financial income (expenses)		**2,903**	**(228)**
Income before tax		**34,054**	**19,649**
Current income and social contribution taxes	13	(6,895)	(2,620)
Deferred income and social contribution taxes	13	1,802	862
Net income for the year		**28,961**	**17,891**
Basic and diluted net income per common and preferred share - R$	25	**98.87**	**61.08**

See the accompanying notes to the financial statements.

4. Comprehensive Statement of Income

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S.A.
COMPREHENSIVE STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2012
(In thousands of reais)

	2012	2011
Net income for the year	**28,961**	**17,891**
Total comprehensive income for the year, net of tax	**28,961**	**17,891**

See the accompanying notes to the financial statements.

5. Statements of Cash Flows

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012
(In thousands of reais)

	Note	2012	2011
Operating activities			**(adjusted)**
Income before tax		34,054	19,649
Expenses (revenue) not affecting cash:			
Expenses on interest and monetary and exchange variance - net		1,321	2,187
Financial restatement of accounts receivable from the concession - VNR	14	(1,214)	-
Allowance for doubtful accounts	22	66	(522)
Amortization and depreciation	22	4,691	4,661
Loss on the sale of PP&E and intangible assets	23	2,581	255
Provisions for labor, civil and tax risks:	22	63	180
Mark-to-market of Derivatives	24	(758)	-
Derivative Financial Instruments	24	(608)	-
Changes in current and noncurrent assets			
(Increase) in consumers and concessionaires		(10,476)	(2,524)
(Increase) in credit receivables		(999)	(1,422)
Inventory decrease		43	7
Decrease in Recoverable taxes		1,960	482
Decrease in escrow deposits		117	173
Decrease (increase) in prepaid expenses		55	(283)
(Increase) decrease in other accounts receivable		(1,128)	11
Changes in current and noncurrent liabilities			
Increase in trade payables		1,693	81
Increase (decrease) in salaries payable		39	(61)
(Decrease) increase in taxes and social contributions		(572)	1,380
Income and social contribution taxes paid		(2,676)	(550)
Increase in Estimated obligations		4	127
(Decrease) increase in consumer charges payable		(103)	148
Increase (decrease) in other accounts payable		883	(3,644)
Net cash produced by operating activities		**29,036**	**20,335**
Investment activities			
Investment		2	-
Money market and secured funds		(2,124)	(1,591)
Discharge of short-term investments		1,660	833
Additions to Intangible assets		(20,234)	(19,442)
Sale of PP&E and intangible assets		1,793	-
Net cash consumed in investment activities		**(18,903)**	**(20,200)**
Financing activities			
New loans and financing		19,638	6,633
Payments of loans - principal		(8,198)	(7,710)
Payments of loans - interest		(2,308)	(3,069)
Settlement of Derivative Financial Instruments		(255)	-
Payment of dividends		(19,741)	(9,996)
Cash consumed in financing activities		**(10,864)**	**(14,142)**
Net cash variation		**(731)**	**(14,007)**
Opening cash and cash equivalents		8,699	22,706
Closing cash and cash equivalents		7,968	8,699
Net cash variation		**(731)**	**(14,007)**

See the accompanying notes to the financial statements.

6. Statements of Added Value

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
STATEMENT OF ADDED VALUE - DVA
YEAR ENDED DECEMBER 31, 2012
(In thousands of reais)

	Note	2012	2011
Generation of added value			
Revenue			
Revenue from energy sales and services	21	243,102	198,736
Other income	23	1,793	772
Revenue relating to construction of company assets	21	21,452	19,853
Reversal (realization) of the allowance for doubtful accounts	22	(66)	1,154
(-) Consumables acquired from third parties			
Cost of electricity sold		103,682	83,953
Materials and outsourced services		14,336	29,827
Other operating costs		27,157	1,850
		145,175	**115,630**
Gross added value		**121,106**	**104,885**
Amortization and depreciation	**22**	**4,691**	**4,661**
Net added value		**116,415**	**100,224**
Transferred added value			
Financial revenue	24	5,727	4,634
Added value to be distributed:		**122,142**	**104,858**
Distribution of added value:			
Personnel			
Direct remuneration		9,813	9,289
Benefits		2,870	2,897
FGTS		797	645
Taxes, charges and contributions			
Federal		20,173	14,104
State		46,614	42,285
Municipal		61	87
Intrasector Obligations		9,512	11,433
Interest expenses			
Interest		2,824	5,669
Rent		517	558
Interest earnings			
Dividends and additional dividends proposed	20.5	21,850	12,279
Legal Reserve	20.3	1,448	895
Income tax reduction reserve	20.5	5,735	4,778
Prior-year dividends	20.5	(72)	(61)
		122,142	**104,858**

See the accompanying notes to the financial statements.

7. Statements of Changes in Shareholders' Equity

ENERGISA BORBOREMA - DISTRIBUIDORA DE ENERGIA S/A
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2012
(In thousands of reais)

				Capital reserves		Profit reserves				
	Note	**Capital**	**Treasury Stock**	**Remuneration of property, plant and equipment in progress**	**Special goodwill reserve**	**Legal reserve**	**Income tax decrease**	**Additional dividends proposed**	**Retained earnings**	**Total**
Balances at January 01, 2011		**46,835**	**(50)**	**154**	**23,994**	**3,753**	**5,404**	**4,853**	**-**	**84,943**
Payment of additional dividends		-	-	-	-	-	-	(4,853)	-	(4,853)
Capital increase as per the AGM and EGM held 4/29/2011		5,404	-	-	-	-	(5,404)	-	-	-
Prior-year dividends		-	-	-	-	-	-	**-**	61	61
Net income for the year		-	-	-	-	-	-	**-**	17,891	17,891
Proposed allocation of net income for the year:										
Legal reserve	20.3	-	-	-	-	895	-	-	(895)	-
Tax Incentive - Ruling 0094/2004 - ADENE	20.4	-	-	-	-	-	4,778	-	(4,778)	-
Dividends	20.5	-	-	-	-	-	-	-	(8,559)	(8,559)
Additional dividends proposed	20.5	-	-	-	-	-	-	3,720	(3,720)	-
Balances at December 31, 2011		**52,239**	**(50)**	**154**	**23,994**	**4,648**	**4,778**	**3,720**	**-**	**89,483**
Payment of additional dividends	**20.5**	-	-	-	-	-	-	(3,720)	-	(3,720)
Capital increase as per the AGM and EGM held 4/25/2012	**20.1**	4,778	-	-	-	-	(4,778)	-	-	-
Prior-year dividends		-	-	-	-	-	-	**-**	72	72
Net income for the year		-	-	-	-	-	-	**-**	28,961	28,961
Proposed allocation of net income for the year:										
Legal reserve	20.3	-	-	-	-	1,448	-	-	(1,448)	-
Tax Incentive - Ruling 0094/2004 - ADENE	20.4	-	-	-	-	-	5,735	-	(5,735)	-
Dividends	20.5	-	-	-	-	-	-	-	(16,606)	(16,606)
Additional dividends proposed	20.5	-	-	-	-	-	-	5,244	(5,244)	-
Balances at December 31, 2012		**57,017**	**(50)**	**154**	**23,994**	**6,096**	**5,735**	**5,244**	**-**	**98,190**

See the accompanying notes to the financial statements.

Energisa Borborema - Distribuidora de Energia S/A
Notes to the financial statements
Year ended December 31, 2012
(In thousands of reais, unless stated otherwise)

1. Operations

A part of **ENERGISA GROUP**, Energisa Borborema – Distribuidora de Energia S/A ("Company or Energisa BO") is an electricity distribution company, operating in the municipalities of Campina Grande, Lagoa Seca, Queimadas, Fagundes, Massaranduba and Boa Vista in the state of Paraíba, serving 179,177 consumers (information not audited by the independent auditors). The Company is headquartered in the city of Campina Grande, Paraíba state.

In September 2012 the Federal Government issued Preliminary Law 579, enacted as Law 12783 on January 11, 2013.

This legislation states the following:

Concession renewal:

Electricity generation, transmission and distribution concessions expiring between 2015 and 2017 can be extended for the term of 30 years in order to ensure the continuity, efficiency of service and minimum price increases.

The extension terms will only be known when the concession authority discloses the draft amendment to the concession agreement.

Reduction/elimination of regulatory charges:
The following regulatory charges have been eliminated from electricity rates. RGR - Global Reversal Reserve; CCC – fuel consumption cost and the CDE – Energy Development Account has been reduced.

The eliminations and reductions in sector charges payable on electricity will not directly impact earnings, as the revenue drop will be offset by lower charges and taxes.

The Company's concession expires in February 2030.

See below some of the concession operator's obligations stipulated in the concession arrangement:

I - to supply electricity to consumers located in their concession area, at the levels of quality and continuity established in specific legislation

II - to carry out the work necessary to provide the concession services, replace assets and operate the infrastructure so as to ensure the regular, continuous, efficient and safe provision of services and charging of rates, in accordance with the specific technical and legal standards

III – to organize and maintain a record and inventory of the concession assets and strive for the integrity thereof, where concession operator may not sell or submit as collateral such assets without the prior explicit consent of the regulatory agency

IV - to meet all tax, labor, social security and regulatory obligations, including the provision of information to consumers

V - to implement measures to combat energy waste, through energy consumption reduction programs and innovations

VI – to submit to the prior approval of the National Electricity Regulatory Agency (ANEEL) any changes in equity positions that could result in control changing hands. In the event share control is transferred, the new controlling shareholders should sign an agreement accepting the terms of the concession arrangement and the concession legislation and regulations;

VII - the concession may be discontinued by terminating the agreement, expropriation of the service, cessation, rescission, irregularities or bankruptcy of the concession operator, and may be extended by way of an application from the concession operator and at the sole discretion of the concession authority.

The information regarding rate reviews and adjustments, concession accounts receivable, concession assets, construction revenue and concession term can be seen in notes 9, 14, 15, 21 and 30 respectively.

2. Presentation of the financial statements

The financial statements have been prepared in accordance with the accounting practices adopted in Brazil, which embrace corporate legislation, the Pronouncements, Guidance and Interpretations issued by the Accounting Pronouncements Committee – CPC, approved by the standards and regulations of the Brazilian Securities Commission – CVM and specific legislation applying to the Public Energy concession operators established by the National Electricity Regulatory Agency – ANEEL and the International Financial Reporting Standards (IFRS) issued in accordance with the International Accounting Standards Board - IASB.

Authorization for the issuance of these financial statements was given by the Board of Directors on March 05, 2013.

The financial statements are being presented in Brazilian reais, which is the Company's functional currency. The financial statements are presented in thousands of reais, except where specified otherwise.

The financial statements have been prepared based on historic cost, except for the following items:

- Derivative financial instruments measured at fair value, and
- Nonderivative financial instruments stated at fair value through profit or loss

Accounting estimates - Preparing the financial statements in accordance with the accounting practices adopted in Brazil requires management to use estimates to carry certain transactions affecting the assets and liabilities, revenues and expenses, and to disclose information concerning the figures in its financial statements. The final results of such transactions and information when actually realized in subsequent years may differ from these estimates. The main estimates related to the financial statements refer to recording the effects deriving from the purchase and sale of electricity at the Electricity Sale Chamber – CCEE, provision for possible loan losses, provision for labor, civil and tax claims, provision for supplementary retirement and pensions plan and tax credits. Estimates and assumptions are continually reviewed. Reviews of accounting estimates are recognized in the year in which the estimates are reviewed and any future years affected.

Purchase and sale of electricity at the Electricity Trading Chamber - CCEE - the recording of electric power purchase and sale transactions through the CCEE are recognized on the accrual basis based on calculations prepared and disclosed by the entity or by Management estimate, when this information is not available in time.

Allowance for doubtful accounts - (i) trade accounts receivable, consumers and concession operators is created based on receivables from residential consumers more than 90 days overdue, commercial consumers more than 180 days overdue and industrial, rural, government, public lighting and public service sector consumers more than 360 days overdue; (ii) credits receivables composed at 100% of the debt after 3 contractual payments have fallen overdue.

Provision for labor, civil and tax claims - The Company made provisions, which involves management judgment, for labor, civil and tax claims when it is probable that an outflow of economic benefits will be required to settle the obligation, which has arisen as a result of past events and which can be reliably estimated.

The Company is also subject to several legal, civil and labor claims arising out of the normal course of business. The Company's judgment relies on the opinion of its legal advisers. Provisions are revised and adjusted to reflect changes in circumstances, such as the applicable statute of limitations, the completion of tax inspections or exposure identified as a result of new issues or court decisions.

Retirement and pension supplementation plan - The Company has a benefits plan for employees which includes retirement and pension supplementation plans and health plans.

The actuarial commitments with respect to the supplementary pension and retirement plans are provisioned for based on actuarial calculations prepared by independent actuaries. Their calculations are based on the projected unit of credit method, net of the assets guaranteeing the plan, when applicable. The costs are recognized in the employees' vesting period, in according with CVM Resolution 600 issued October 07, 2009 and the accounting rules established by CPC Technical Pronouncement 33 issued by the Accounting Pronouncements Committee. Any surpluses on employee benefit plans are not recorded.

The projected unit of credit method considers each term of employment to be an event that generates an additional unit of benefit, which are accrued to calculate the final obligation. Other actuary premises are also used, such as biometric and economic hypotheses and historical data on expenses incurred and on employees contributions.

The actuarial gains and losses generated by adjustments and alterations to the actuarial premises of the pension and retirement benefit plans and the actuarial commitments related to the health coverage plan are recognized in the income statement for the year.

Tax credits - the tax credits are recognized in relation to temporary differences between the book values of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes. If they are recognized to the extent it is probable that the taxable income in coming years will be able to be used to offset tax credits, based on projected future earnings relying on internal assumptions and future economic scenarios, which are therefore subject to change. The recorded amounts are periodically revised and any effects of realization or settlement are recorded in accordance with the legislation.

3. Adoption of international accounting standards

3.1. New accounting procedures issued by IASB - International Accounting Standards Board

The International Accounting Standards Board – IASB issued the following accounting pronouncements, the adoption of which is mandatory from January 01, 2013:

IFRS 1 - Exemptions from the requirement to restate comparative information for IFRS 9;

IFRS 7 - Disclosure – offsetting financial assets and liabilities;

IFRS 9 - Financial instruments - establishes the principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This standard is effective from January 01, 2015.

IFRS 13 - Fair value measurement (CPC 46);

IAS 1 – Clarification of the requirements for comparative information;

IAS 16 — Classification of servicing equipment

IAS 19 – Employee Benefits - Modifying accounting for the recognition of changes in the defined benefit liabilities and plan assets, which require recognition of these changes as and when they arise and therefore eliminate the 'corridor approach' (CPC 33 R1);
IAS 27 - Separate financial statements (CPC 35 R2);

IAS 32 – Tax effects of the distribution to shareholders of equity instruments are effective from January 01, 2013 and Offsetting financial assets and liabilities is effective from January 01, 2014

IAS 34 – interim financial statements and segment reporting for total assets and liabilities.

The Company is proceeding to analyze the impact of these new pronouncements on its financial statements.

3.2. Main accounting practices

The accounting policies set out below have been applied consistently to all the years reported in these financial statements.

a. Cash and cash equivalents - includes balances of cash and short-term investments that can be redeemed within up to 90 days from acquisition at the contracted rates and are subject to an insignificant risk of impairment, which are used to manage short-term obligations

b. Financial instruments – All financial instruments (assets and liabilities) are recognized in the Company's balance sheets, and are measured at fair value when applicable and after the initial recognition according to classification. The Company's financial instruments have been classified into: (i) stated at fair value through profit or loss. This classification includes derivative transactions. (ii) held to maturity – valued at the effective interest rate and recorded in profit and loss and (iii) loans and receivables – measured at amortized cost, using the effective interest rate method and recorded in the income statement.

There are three classification levels of fair value for financial instruments, as shown below:

Level 1 - Inputs from an active market (quoted price not adjusted), which can be accessed on a daily basis, including at the fair value measurement date.

Level 2 - Inputs other than those from an active market (quoted price not adjusted), included in level 1, taken from a pricing model based on observable market inputs.

Level 3 - Inputs taken from a pricing model not based on observable market inputs.

The fair values of the financial instruments are classified in note 27.

The main financial assets recognized by the Company are: cash and cash equivalents; money market; secured funds; clients, consumers, and concession operators; accounts receivable from the concession; credit receivables and derivative financial instruments.

The main financial liabilities recognized by the Company are: suppliers payable; loans and financing, debt charges and derivative financial instruments.
A financial asset is derecognized when the contractual rights to the asset's cash flows expire or when the Company transfers the rights to receive the contractual cash flows of a financial asset in a transaction where essentially all the risks and rewards of ownership of financial assets are

transferred to the buyer. Financial liabilities are measured at amortized cost, using the effective interest rate method and recorded in net income.

c. Consumers and concessionaires - embrace the provision of billed and unbilled electricity (unbilled electricity is an estimate, recognized on the accrual basis of accounting), up to closure of the balance sheet

d. The allowance for doubtful accounts was made to an amount deemed sufficient to cover any losses incurred on the collection of loans in accordance with ANEEL criteria

e. Inventory - inventories are valued at the average acquisition cost not in excess of market value or acquisition cost

f. Accounts receivable from the concession - denotes the portion of the capital invested in the assets, not amortized during the concession period, to be indemnified at the end of the arrangement. In light of the uncertainty surrounding the indemnification value of these assets, until December 31, 2011 Company Management concluded that the best estimate to value the financial asset receivable at the end of the arrangement is the value of the assets in service recorded in the accounting records at historic cost.

Following the publication of Provisional Law 579/2012, enacted as Law 12783/2013, after the year had ended the company confirmed it would use the VNR – New Replacement Value published by the Concession Authority to pay for the indemnification of assets not amortized when the concession expires. For this reason the difference between the VNR and historic book cost was recorded as financial revenue on December 31, 2012. These assets are classified as available-for-sale, the effects of which are explained in detail in note 14.

g. Regulatory assets and liabilities - for the purpose of rates, costs not yet recognized in the rates and/or costs recognized in the rates at amounts in excess of the effective amounts are deferred and only recognized by ANEEL when included in the electricity rates. As international accounting standards (IFRS) and the CPCs do not provide for recording these assets and liabilities, they are recognized in the income statement of the year they are effectively occurred in.

h. Investments - recorded at acquisition cost less a provision for devaluation, when applicable.

i. Financial leases - the assets acquired under a financial commercial lease have been recognized as intangible assets, and are subject to amortization at the rates practiced by the Company, in accordance with the nature of each item. The respective payable balances of these contracts are recognized as financing in the current liabilities or noncurrent liabilities based on the present value of outstanding installments. The difference between the present value and the value of the installments will be appropriated to the income statement as a financial expense.

j. Intangible assets - concession arrangement: the assets operated by the Company to provide electricity distribution services. The amortization is based on the consumption pattern of the benefits expected during the arrangement term.

k. The interest and financial charges are capitalized to works in progress at the average effective capitalization rate.

l. Decrease in recoverable value - the Company evaluates its intangible assets with defined useful lives if there are signs of impairment. Recoverable taxes and tax credits are tested for impairment annually, regardless of whether there are any signs.

A financial asset not measured at fair value through profit and loss is valued at each reporting date to test for impairment. An asset has incurred impairment if objective evidence indicates impairment has occurred after the initial recognition of the asset and this impairment has had a negative effect on the future projected cash flows that can be estimated reliably.

Objective evidence that the financial assets (including securities) have incurred impairment can include: (i) nonpayment or late payment by the debtor; (ii) restructuring of the amount owed to the Company on terms that it would not accept in other transactions of the same nature (iii) signs that the debtor or issuer is going to enter bankruptcy proceedings and (iv) the disappearance of an active market for a security. Furthermore, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment.

The Company takes into account evidence of impairment for receivables and securities kept to maturity, both individually and collectively. All receivables and securities kept to an individually significant maturity are specifically tested for impairment. All receivables and securities kept to an individually significant maturity found not to have incurred impairment are then tested collectively for any impairment that may have occurred, but not yet been identified. Receivables and securities kept to maturity that are not individually material are tested collectively for impairment by grouping securities posing similar risks.

When testing for impairment collectively the Company uses historic patterns of default probability, recovery terms and the size of losses incurred, adjusted to reflect management's judgment as to whether the current economic credit conditions mean that the actual losses will probably be greater or less than those suggested by historic patterns.

Impairment of a financial asset measured at amortized cost is calculated as the difference between the book value and the present value of future estimated cash flows, discounted at the asset's effective original interest rate. Losses are recognized in the income statement and recorded in a provision against receivables. Interest on the impaired asset is still recognized by reversing the discount. When a subsequent event indicates a reversal of the impairment, the decrease in the impairment is reversed and credited to the income statement.

Impairment of financial assets available for sale is recognized by reclassifying the cumulative loss that was recognized in other comprehensive income in the shareholders' equity to the net income. The cumulative loss that is reclassified from other comprehensive income to the net income is the difference between the acquisition cost, net of any reimbursement and principal amortization, and the current fair value, minus any impairment previously charged to the income statement. Changes in the provisions for impairment, attributable to the effective interest rate, are presented as a constituent of financial revenue.

At the end of each year the Group reviews the book value of its tangible and intangible assets to check for signs of impairment. If there are signs of impairment, the asset's recoverable value is estimated in order to measure the impairment. When an asset's recoverable value cannot be estimated individually, the Group calculates the recoverable value of the cash generating unit the asset belongs to. When a reasonable and consistent allocation basis can be identified, the corporate assets are also allocated to the individual cash generating units or the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Company management did not identify any evidence of impairment other than the provisions already made as of December 31, 2012.

m. Loans and financing - stated net of transaction costs incurred, and subsequently stated at the amortized cost using the effective interest rate method.

n. Derivatives - The derivatives are initially recognized at fair value; attributable transaction costs are expensed as and when they are incurred. After their initial recognition, the derivatives are appraised at fair value and any changes are recorded in the income statement. Details can be seen in note 27.

o. Income and social contribution taxes - These expenses consist of current and deferred income tax. The deferred tax is recorded in the income statement unless it is related to items recorded in comprehensive income in the shareholders' equity. The Company opted to use the Transitional Taxation Scheme (RTT) to calculate its income and social contribution taxes from FY 2008. The deferred tax is recognized in relation to temporary differences between the values of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes.

Although current tax assets and liabilities are recognized and measured separately, the offsetting thereof in the balance sheet is subject to similar criteria to those established the financial instruments. The entity is normally legally entitled to offset the current tax asset against a current tax liability when they are related to income taxes charged by the same tax authority and the tax legislation permits the entity to make or receive a single net payment.

Deferred income and social contribution tax assets are reviewed at each closing date and are reduced to the extent that realization is no longer probable.

p. SUDENE tax incentives - as the terms established will almost certainly be met, these incentives received have been recognized in the income statement and allocated to a specific profit reserve, where they are held until capitalization.

q. Provisions - a provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk involved. Liabilities related to court cases are provisioned for to amounts deemed adequate by the legal advisors and directors to cover unfavorable outcomes

r. Restatement - certain receivables have been restated based on specific interest rates, which reflect the nature of these assets in terms of term, risk, currency and receipt terms at the dates of the respective transactions

s. Dividends - Dividends declared in excess of the minimum mandatory dividend after the accounting period reported on by the financial statements are recorded separately in the shareholders' equity, as they do not constitute a present obligation, and the respective liability is not recorded until it has been approved

t. Income statement - revenue and expenses are recognized in the income statement for the year on the accrual basis of accounting. Revenue is not recognized if there are significant uncertainties as to its realization. The Company records revenue and cost during the construction of the assets used to provide the electricity distribution service. The Company outsources its works and Management accordingly believes that this activity generates a very small margin and does not justify additional expenditure to measure and control it; it accordingly attributes a margin of zero to this activity.

u. Employee benefits - defined benefit - The net obligation of the Company under defined-benefit pension plans is calculated individually for each plan by estimating the future benefit the employees are entitled to in return for their work in the current period and previous periods, discounted to present value. Any unrecognized past service costs and the fair values of any of the plan's assets are deducted. The discount rate is the yield at the reporting date for first-rate securities which mature on dates near the obligations of the Company denominated in the same currency in which the benefits are expected to be paid. The calculation is made annually by a qualified actuary using the projected units credit method. When the calculation produces a benefit, the asset to be recognized is limited to the total of any past service costs not recognized and the present value of economic benefits available in the form of future reimbursements under the plan or decrease to the plan's future contributions. To calculate the present value of the economic benefits, any minimum costing requirements applying to any plan are taken into account. An economic benefit is available if it can be realized within the plan's life or upon settlement of the plan's liabilities.

v. Other (current and non-current) assets and liabilities - other assets and liabilities are stated at known or calculable values, plus the corresponding earnings/charges incurred up to the reporting date, when applicable.

3.3 Adjustment and Reclassification:

To facilitate a comparison of the classification adopted in the financial year ended December 31, 2012, the opening and closing balances as of December 31, 2011 were reclassified in relation to those originally published for:

Recoverable taxes and tax credits

	2011 Published	2011 Reclassified	1/1/2011 Published	1/1/2011 Reclassified
Recoverable taxes				
Tax credit	19,274	-	20,467	-
Current	7,954	6,761	9,145	7,952
Noncurrent	21,135	3,054	21,612	2,338
Total recoverable taxes	**29,089**	**9,815**	**30,757**	**10,290**
Tax credits				
Noncurrent temporary differences	4,063	23,337	2,985	23,452
Total tax credits	**4,063**	**23,337**	**2,985**	**23,452**

Statement of cash flows for the previous period

In the year the Company revised the presentation of cash flow statements and reallocated short-term investment and secured fund investments, previously presented under operating activities, to investment activities. Consequently, the opening and closing cash flow statements for the financial year ended December 2011 are being amended to facilitate a comparison.

	2011 Published	2011 Reclassified
Changes in current and noncurrent assets		
(Increase) in secured funds	(1,591)	-
Net cash produced by operating activities	**18,744**	**20,335**
Investment activities		
Short-term investments and secured funds	-	(1,591)
Net cash produced by (used in) investment activities	**(18,609)**	**(20,200)**
Net cash variation	**(14,007)**	**(14,007)**
Opening cash and cash equivalents	22,706	22,706
Closing cash and cash equivalents	8,699	8,699
Net cash variation	**(14,007)**	**(14,007)**

4. Segment reporting

An operational segment is a component that develops business activities from which revenue streams can be derived and expenses incurred, including revenue and expenses related to transactions with other Company components. All operational income from segments is reviewed frequently by Management to support decisions about new resources to be allocated to the segment and to evaluate its performance, for which individual financial information is made available.

Segment results reported to Management include items directly attributable to the segment and items that can be reasonably allocated. Items not allocated primarily consist of corporate assets.

The Company only operates in the energy distribution segment in six municipalities in Paraíba state, which is its only reportable segment, and its income statement denotes this activity.

5. Cash and cash equivalents, money market and secured funds

a) Cash and cash equivalents

a.1 Short-term investments appraised at fair value through profit and loss

Financial institution	Type	Maturity (*)	Compensation	2012	2011	1/1/2011
BIC Banco	CDB	11/8/2011	110% of CDI	-	-	2,408
BTG Pactual	Financial Bill	1/14/2011	35% of CDI	-	-	390
CEF	CDB	12/29/2014	100,5% of CDI	3,887	1,781	-
CEF	Investment Fund	-	Benchmark CDI	-	368	3,943
Fundo Plural	Investment Funds	-	Benchmark CDI	-	-	3,340
Fundo Capitania Treasury	Investment Funds	-	Benchmark CDI	-	-	729
Fundo GAP Multiportifolio	Investment Funds	-	Benchmark CDI	-	-	734
Fundo Kondor FIC	Investment Funds	-	Benchmark CDI	-	-	1,249
Fundo Oren Dinamico	Investment Funds	-	Benchmark CDI	-	-	726
Fundo Patria Equity	Investment Funds	-	Benchmark CDI	-	-	105
Fundo Quest Long Short	Investment Funds	-	Benchmark CDI	-	-	525
Itaú	Investment Fund	-	Benchmark CDI	-	18	5,034
Mercantil	CDB	12/15/2014	105,0% of CDI	19	1,556	-
Santander	Debentures (**)	12/10/2014	103,2% of CDI	69	-	-
				3,975	**3,723**	**19,183**
Cash and bank deposits				3,993	**4,976**	**3,523**
Total cash and cash equivalents				**7,968**	**8,699**	**22,706**

b) Money market and secured funds

b.1 Short-term investments appraised at fair value through profit and loss						
Financial institution	**Type**	**Maturity (*)**	**Compensation**	**2012**	**2011**	**1/1/2011**
CEF	Investment Fund	Benchmark CDI		361	-	-
ABC Brasil	CDB	10/29/2012	104,5% of CDI	-	13	12
BES	CDB	3/19/2015	103.0% of CDI	2	23	20
BMG	CDB	12/16/2013	112,0% of CDI	380	348	307
Bradesco	CDB	7/25/2013 to 12/2/2013	99.0% to 100.0% of CDI	33	30	22
Bradesco	Investment Fund	-	Benchmark CDI	1,215	-	-
CEF	Savings	-	Savings	15	15	15
HSBC	CDB	1/19/2015	103,3% of CDI	4	5	4
Itaú	CDB	3/11/2013	103,5% of CDI	13	12	13
Itaú	Debentures (**)	7/25/2013 to 12/6/2013	100.0% to 102.0% of CDI	122	112	103
Itaú	Investment Fund	-	Benchmark CDI	1	24	2
North-east	CDB	7/31/2017 to 9/30/2019	90.0% to 99.0% of CDI	2,884	2,950	1,845
Safra	Debentures (**)	1/15/2013	100,0% of CDI	21	18	17
Votorantim	CDB	8/10/2012	100,5% of CDI	-	18	16
				5,051	**3,568**	**2,376**
b.2 Available-for-sale financial securities						
Bradesco	Investment Fund	-	Benchmark CDI	-	71	471
				-	**71**	**471**
b.3 Held-to-maturity securities						
Itaú	Credit Receivables Investment Funds	1/23/2013 to 12/29/2020	100,0% of CDI	964	1,692	1,693
				964	**1,692**	**1,693**
Total money market and secured funds				**6,015**	**5,331**	**4,540**
Current				**2,353**	**3,639**	**2,847**
Noncurrent				**3,662**	**1,692**	**1,693**

(*)The dates presented denote the maturity of the security underlying the financial investments. These investments can be redeemed within 90 days of the procurement date at the contracted rates, under a contractual clause.

(**) Debentures held under repurchase agreements - Sales of securities subject to a repurchase agreement undertaken by the seller, alongside the resale commitment undertaken by the buyer. These operations have immediately liquidity, yield the CDI rate and underlie the debentures issued by the bank.

6. Consumers and concessionaires

Consumer Sectors	Outstanding balances (*)	Overdue up to 30 days	Overdue 31 to 90 days	Overdue 91 to 180 days	Overdue 181 to 360 days	Overdue Over 360 days	2012	2011	1/1/2011
Residential	2,369	2,273	789	186	6	-	5,623	5,764	4,835
Industrial	5,067	101	20	14	6	1,187	6,395	6,167	5,688
Commerce, services and other activities	3,165	718	178	133	6	-	4,200	4,066	3,746
Rural	176	120	56	20	-	-	372	598	504
Government:									
Federal	497	58	-	-	-	-	555	436	740
State	438	51	-	-	-	-	489	384	653
Municipal	118	14	-	-	-	-	132	104	177
Public lighting	516	50	-	-	-	-	566	430	380
Public utility	214	-	-	-	-	-	214	250	211
Subtotal - consumers	**12,560**	**3,385**	**1,043**	**353**	**18**	**1,187**	**18,546**	**18,199**	**16,934**
Concession operators (**)	8,467	-	-	-	-	-	8,467	9	123
Unbilled sales	5,599	-	-	-	-	-	5,599	4,096	2,784
Other	2,417	-	-	-	-	94	2,511	2,344	2,283
(-) Allowance for doubtful accounts	-	-	-	(186)	(12)	(1,281)	(1,479)	(1,358)	(1,688)
Total - Current	**29,043**	**3,385**	**1,043**	**167**	**6**	**-**	**33,644**	**23,290**	**20,436**

(*) Maturities are scheduled for the 5th working day after the bills are delivered, except for government consumers who have 10 working days to pay.

(**) Includes energy sold at the Electricity Commercialization Chamber - CCEE.

7. Credit receivables

Refers to overdue electricity bills, renegotiated with consumers through the Debt Acknowledgment Instruments, restated according to the variation of the IGPM price index. The receivables under certain operations that have been negotiated at rates other than those practiced for this set of accounts receivable have been restated to present value based on the change in the CPI rate.

As of December 31, 2012 the balances were the following:

	2012	2011	1/1/2011
Credit receivables	8,552	7,907	5,490
Adjustment to present value	(915)	(1,269)	(242)
(-) Allowance for doubtful accounts (*)	(650)	(878)	(1,070)
	6,987	**5,760**	**4,178**
Current	2,828	2,213	2,273
Noncurrent	4,159	3,547	1,905

(*) Included in the total presented as a reduction to the current assets.

As of December 31, 2012, the maturities of receivables are scheduled as follows:

Overdue	650
2013	2,828
2014	1,107
2015	826
2016	570
2017	532
2018 onwards	1,124
Total	**7,637**

8. Allowance for doubtful accounts

Changes in provisions	2012	2011
Balance - opening 2011 and 1/1/2011	2,236	2,758
Provisions recorded in the year	1,561	1,549
Reversal of provisions in the year	(1,668)	(2,071)
Balance - closing - current	**2,129**	**2,236**
Consumers and concessionaires	1,479	1,358
Credit receivables	650	878

The allowance for doubtful accounts was made to an amount deemed sufficient to cover any losses incurred on the realization of loans and in accordance with ANEEL instructions, which have been summarized below:

Customers with material debts:

- Individual analysis of the trade accounts receivable by consumption sector, with little prospect of realization.

For the other cases:

- Residential consumers more than 90 days overdue
- Commercial consumers more than 180 days overdue
- Industrial, rural and government consumers, street lighting, public services and others more than 360 days overdue.
- A provision is made for outstanding and overdue receivables more than 90 days overdue.

9. Periodical rate adjustment and review

As consideration for services rendered the concession operator is entitled to charge consumers the rates determined and ratified by the concession authority. The rates are adjusted annually and the concession operator's revenue is divided into two portions: A Portion (consisting of uncontrollable costs) and B Portion (efficient operating costs and capital costs). The annual rate adjustment aims to pass through uncontrollable costs and to monetarily restate controllable costs.

Rate review:

The periodical rate review occurs every 4 years, with the next review scheduled for January 2017. In this process ANEEL recalculated the rates according to the changes in the structure of the concession operator's costs and sales, in order to foster the efficiency and affordability of the rates. The adjustments and reviews are rate restatement mechanisms, both stipulated in the concession agreement. The concession operator may also request an extraordinary review whenever an event causes a significant economic and financial imbalance in the concession.

On January 29, 2013 ANEEL Resolution 1,483 ratified the rate review to come into force on February 04, 2013. The effective rate impact felt by consumers will be an increase of 6.18%.

Rate adjustments:

On January 31, 2012 ANEEL Resolution 1259 ratified the rate review in force since February 04, 2012. The effective rate impact felt by consumers was an increase of 8.93%.

10. Low income

Changes in low income follow:

	2012	2011
Balance - opening - current	954	901
Low-income subsidy	8,094	5,068
Eletrobrás Reimbursement	(7,627)	(5,015)
Accounts receivable Eletrobrás - CDE	159	-
Balance – closing - current	**1,580**	**954**

These credits consist of the subsidy for the low-income residential sector with monthly consumption of under 220 kWh, subject to certain requirements being met. This revenue is paid for with funds from the RGR – Global Reversal Reserve and the CDE – Energy Development Account, both administrated by Eletrobrás. Management does not expect to record any losses in the realization of the balance.

11. Recoverable taxes

	2012	2011	1/1/2011
Value Added Tax on Sales and Services - ICMS	3,166	2,635	2,241
Corporate Income Tax – IRPJ	-	259	1,937
Income Tax Withheld at Source - IRRF	32	2,356	2,066
Social Contribution on Net Income – CSSL	55	36	58
PIS and COFINS	4,397	4,524	3,979
Other	205	5	9
	7,855	**9,815**	**10,290**
Current assets	4,037	6,761	7,952
Noncurrent assets	3,818	3,054	2,338

12. Related-party transactions

The Company is controlled by ENERGISA S/A, (100% of the voting stock), which also holds the share control of Energisa Minas Gerais – Distribuidora de Energia S/A (EMG), Energisa Sergipe - Distribuidora de Energia S/A (ESE), Energisa Paraíba - Distribuidora de Energia S/A (EPB), Energisa Nova Friburgo – Distribuidora de Energia S/A (ENF), Energisa Soluções S/A (ESO), Energisa Comercializadora Ltda (ECOM), Energisa Serviços Aéreos S/A (ESER), Energisa Planejamento e Corretagem de Seguros Ltda (EPLA), Energisa Geração Rio Grande S/A (EGR), Pequena Central Hidrelétrica Zé Tunin S/A, Energisa Geração Usina Mauricio, SPE Cristina Energia S/A, Energisa Geração Centrais Eólicas RN S/A (Holding company that holds the share control of the companies Energisa Geração Central Eólica Renascenças I, II, III, IV e Energisa Geração Central Eólica Ventos de São Miguel S/A), Energisa Bioeletricidade (Holding company that holds an 85% interest in the companies Tonon Bioeletricidade, Energisa Bioeletricidade Vista Alegre I and the entire capital of the companies Companhia Tonon Bioelétrica and Energisa Bioeletricidade Vista Alegre II)(related parties of the Company).

Transactions conducted in the year by the company:

	EPB (1)	Energisa S/A (2)	2012	2011	1/1/2011
Transactions:					
Services hired	-	(5,376)	(5,376)	(5,122)	(4,644)
Electricity purchased	(4,716)	-	(4,716)	(2,501)	(1,182)
			2012	**2011**	**1/1/2011**
Balance of trade payables	459	422	881	676	463

(1) The amounts brought in through electricity sales are supported by energy purchase and sale contracts that were submitted to the Concession Authority for approval.

(2) The administrative services provided by the parent company are supported by contracts that were submitted to the approval of ANEEL. The costs are benchmarked to the benchmark company model used by the ANEEL regulated department for regulatory purposes.

D&O compensation

In the year ended December 31, 2012 the members of the Board of Directors received compensation of R$ 402 (R$ 371 in 2011) and the Executive Board R$ 1,292 (R$ 1,161 in 2011). In addition to this compensation, the Company provides private pension, health insurance and life insurance benefits to its directors, generating an expense of R$ 62 (R$ 55 in 2011). The social charges on the compensation amounted to R$ 259 (R$ 245 in 2011).

In the year ended December 31, 2012 the highest and lowest remuneration attributed to directors for the month of December was R$ 27 and R$ 1 (R$ 25 and R$ 1 in 2011) respectively. The average remuneration in FY 2012 was R$ 8 (R$ 7 in 2011).

The EGM held April 25, 2012 ratified the overall annual compensation limit of the directors and officers for FY 2012 at R$ 2,841.

13. Tax credits and current income and social contribution tax expenses

Deferred taxes derives from temporary differences recorded in accordance with CPC 32 and presented in accordance with CPC 26.

The estimate for the realization of deferred taxes can be seen below, and the earnings projections used in the recoverability study of these assets were approved by the Boards of Directors.

Deferred taxes recognized in the balance sheet:

	2012	2011	1/1/2011
Assets			
Temporary differences:			
Income tax	17,087	17,213	17,297
Social contribution	6,079	6,124	6,155
Total noncurrent	**23,166**	**23,337**	**23,452**
Liabilities			
Income tax	**-**	**636**	**196**
Social contribution	**-**	**229**	**71**
Total noncurrent	**-**	**865**	**267**

Temporary differences are as follows:

	2012	
	Calculation basis	**Temporary IR and CS**
Swap earnings	256	87
Provisions made	15,988	5,436
Tax credit – goodwill (1)	53,179	18,081
Financial restatement of accounts receivable from the concession - VNR	(1,214)	(413)
Other	(74)	(25)
Total	**68,135**	**23,166**

(1) The tax benefit is being amortized over the remaining term of the concession, and according to the annual projected income, as determined by ANEEL Resolution 759 of December 12, 2006.

Tax credits were realized as follows:

Period	Realization of tax credits
2013	1,587
2014	1,484
2015	1,458
2016	1,484
2017	1,510
2018 to 2021	15,643
Total	**23,166**

The income and social contribution amounts which affected the income for the year, in addition to the offsetting of the tax credits recorded, are shown below:

	2012	2011
Income before tax	34,054	19,649
Combined tax bracket	34%	34%
Income and social contribution taxes expense, calculated at the total tax bracket	(11,578)	(6,681)
Adjustments:		
Decrease in income tax and surcharges (*)	5,735	4,778
Other	750	145
Income tax and social contribution expense, current	(6,895)	(2,620)
Income tax and social contribution expense, deferred	1,802	862
Effective rate	15.0%	8.9%

(*) The decreases to income tax and surcharges resulting from the SUDENE Incentive in the years ended December 31, 2012 and 2011 have been directly recorded in the income statement for the year under "current income and social contribution taxes", in accordance with Law 11638/07 and Provisional Law 449/08.

The Company has obtained a reduction to its income tax and surcharges until the 2012 financial year. Approval was obtained from the Ministry of Social Integration in December 2012 for its new application for a tax incentive of 75% for the period 1/1/2012 to 12/31/2021, submitting an application to the federal tax authorities in February 2013. The aforesaid tax benefit consists of a reduction of up to 75% of the Income Tax calculated on operating profits.

14. Accounts receivable from the concession

Preliminary Law 579/2012, enacted as Law 12783/2013, confirmed the concession authority's intention to use the VNR – New replacement value to determine the value of credits receivable at the end of the concession as compensation for investments made and not recovered when providing the concession services.

Company Management believes that this fact changed the contractual terms of the concession regarding the means of compensating the Company for investments made in concession assets, which was recognized at historic cost until FY 2011. On December 31, 2012 the Company began recognizing the VNR – New replacement value, ratified by ANEEL, for assets comprising the concession, restated by the variance of the IGP-M price index, recognizing R$ 1,214 in the net income for the year in financial revenue restatement of concession accounts receivable - VNR.

The concession's accounts receivable are classified as available-for-sale in the non-current assets.

See below the changes occurred:

Financial asset - historic cost - 2010	2,650
Additions in the year	2,906
Financial asset - historic cost - -2011	5,556
Additions in the year (*)	12,761
Write-offs in the year	(4)
Financial asset - historic cost - 2012	18,313
Financial restatement of accounts receivable from the concession - VNR	1,214
Financial asset - restated cost - 2012	**19,527**

(*) Includes R$ 3,990 referring to the application of ANEEL Normative Resolution 474 which established the new useful economic life for concession assets, converted into annual depreciation rates, retrospectively applicable from January 01, 2012.

15. Intangible assets and PPE

Concession agreements

Portion of the assets used in the electricity distribution concession to be recovered through electricity rates during the arrangement term.

	Opening balance 2011	Addition	Transfers	Write-offs (*)	Amortization	Closing balance 2012
INTANGIBLE ASSETS						
Intangible assets in service						
Cost	114,878	-	14,761	(8,356)	-	121,283
Accumulated amortization	(49,277)	-	1,605	1,204	(5,171)	(51,639)
Subtotal	65,601	-	16,366	(7,152)	(5,171)	69,644
In Progress	10,747	21,872	(19,028)	(8,758)	-	4,833
Total	**76,348**	**21,872**	**(2,662)**	**(15,910)**	**(5,171)**	**74,477**
Special Obligations						
In Service						
Cost	13,775	-	86	(2,129)	-	11,732
Accumulated amortization	(2,038)	-	-	-	(573)	(2,611)
Subtotal	11,737	-	86	(2,129)	(573)	9,121
In Progress	119	203	(86)	(45)	-	191
Total	**11,856**	**203**	**-**	**(2,174)**	**(573)**	**9,312**
Total intangible assets	**64,492**	**21,669**	**(2,662)**	**(13,736)**	**(4,598)**	**65,165**
PROPERTY, PLANT AND EQUIPMENT						
Property, plant and equipment In service						
Software	-	-	4	-	-	4
Machinery and equipment	-	-	2,820	(2,115)	-	705
Vehicles	-	-	67	-	-	67
Furniture and fixtures	-	-	1,376	-	-	1,376
Accumulated depreciation	-	-	(1,605)	414	(93)	(1,284)
Total property, plant and equipment	**-**	**-**	**2,662**	**(1,701)**	**(93)**	**868**
Grand Total	**64,492**	**21,669**	**-**	**(15,437)**	**(4,691)**	**66,033**

(*) Includes R$ 12,761 referring to the transfer to concession accounts receivable and R$ 868 transferred to property, plant and equipment.

	Opening balance 2010	Addition	Transfers	Write-offs	Amortization	Closing balance 2011
INTANGIBLE ASSETS						
Intangible assets in service						
Cost	103,081	-	12,824	(1,027)	-	114,878
Accumulated amortization	(44,619)	-	-	772	(5,430)	(49,277)
Subtotal	58,462	-	12,824	(255)	(5,430)	65,601
In Progress	6,568	19,713	(12,824)	(2,710)	-	10,747
Total	**65,030**	**19,713**	**-**	**(2,965)**	**(5,430)**	**76,348**
Special Obligations						
In Service						
Cost	13,455	-	103	217	-	13,775
Accumulated amortization	(1,269)	-	-	-	(769)	(2,038)
Subtotal	12,186	-	103	217	(769)	11,737
In Progress	(28)	271	(103)	(21)	-	119
Total	**12,158**	**271**	**-**	**196**	**(769)**	**11,856**
Grand Total	**52,872**	**19,442**	**-**	**(3,161)**	**(4,661)**	**64,492**

The Company uses the following depreciation rates:

Depreciation rates of property, plant and equipment	Fees
Reservoirs, dams and power tunnels	2.94%
Buildings and improvements	2%
Machinery and equipment	2.91%
Vehicles	20%
Furniture and fixtures	10%

The assets used by the Company in its operations are tied to public energy distribution services, and may not be removed, sold, transferred or pledged under mortgage guarantee without the prior, express consent of the Regulatory Authority. ANEEL Resolution 20/99 regulates the disassociation of assets from the Public Electricity Service concessions, granting prior authorization for the disassociation of assets when destined for disposal, also determining the proceeds of the sale be deposited in a specific bank account and reinvested in concession-related assets.

The amortization is being conducted over the arrangement term based on the economic benefits generated annually. The average weighted amortization rate used is 3.92% (4.81% in 2011) .

The balance of intangible assets and accounts receivable from the concession is reduced by obligations linked to the concession, consisting of:

Obligations linked to the concession:	2012	2011
Consumer contributions	10,643	10,442
Government Subsidy – CDE funds	3,775	3,773
Reversal reserve	12	11
(-) Accumulated amortization	(2,611)	(2,038)
Total	**11,819**	**12,188**
Allocation:		
Accounts receivable from the concession	2,507	332
Infrastructure - Intangible assets in service	9,121	11,737
Infrastructure - Intangible assets in progress	191	119
Total	**11,819**	**12,188**

Consumer contributions represent third-party participation in construction work to supply electricity to areas not embraced by the electricity concessionaires' expansion projects.

Government subsidies – CDE funds and Government subsidies derive from the Energy Development Account - CDE and are allocated to the Light for All program.

The Company began amortizing the obligations linked to the concession (special obligations) after the second periodical rate review, at the average asset amortization rate. The Company began amortizing its special obligations in February 2009.

During the period ended December 31, 2012 and 2011 the Company transferred financial charges to the intangible assets in progress, as shown below:

	2012	2011
Financial charges - debt charges - interest	2,721	3,110
(-) transfer to intangible assets in progress	(674)	(807)
Net effect on income	**2,047**	**2,303**

(*) Pursuant to CPC-20, the Company used the average weighted rate to appropriate the costs of loans for assets not directly related and the effective rate for the specific assets (see note 24).

16. Suppliers payable

	2012	2011	1/1/2011
Supplies:			
CCEE (1)	-	255	318
Bilateral Contracts (1)	8,811	7,502	8,019
Use of the high-voltage national grid (1)	1,215	999	925
Connection to the grid (1)	114	117	90
Use of the distribution system (1)	2,132	320	-
Materials, services and other (2)	2,219	2,845	2,605
Total	**14,491**	**12,038**	**11,957**
Current	14,100	11,677	11,634
Noncurrent	391	361	323

(1) The acquisition of electricity from generators, use of the high-voltage grid and use of the distribution system, with an average settlement of 25 days.

(2) Acquisitions of materials, services and other items required to implement, conserve and maintain the electricity sale and distribution services, with an average settlement of 40 days.

17. Loans, financing and debt charges

Operations	Debt charges	Principal		Total			Re.
		Current	Noncurrent	2012	2011	1/1/2011	
Local currency							
Credit Receivables Investment Fund - Energisa Group II (*)	-	-	-	-	6,542	13,086	
Credit Receivables Investment Fund - Energisa Group III (*)	35	-	5,000	5,035	5,039	5,040	
Eletrobrás - Light for All – 1st tranche	2	81	145	228	287	347	
Eletrobrás – Rural Electrification Program	-	1	-	1	6	11	
Banco do Nordeste - Investment Financing 2007-2008 (FNE)	6	2,070	6,645	8,721	10,058	11,203	
Banco do Nordeste - Investment Financing 2009-2010 (FNE)	6	1,377	6,480	7,863	8,038	1,894	
Banco Itaú BBA - FINAME	8	140	806	954	743	281	
Total local currency	**57**	**3,669**	**19,076**	**22,802**	**30,713**	**31,862**	
(-) Borrowing costs incurred	(4)	(25)	(118)	(147)	(242)	(354)	
Foreign currency							
Bank of America Merrill Lynch	114	-	8,230	8,344	-	-	(1)
Banco Itaú BBA	195	-	12,262	12,457	-	-	(1)
Total foreign currency	**309**	**-**	**20,492**	**20,801**	**-**	**-**	
Total	**362**	**3,644**	**39,450**	**43,456**	**30,471**	**31,508**	

(*) To guarantee payment of the short-term portions, the Company maintains interest-earning bank deposits to the amount of R$ 3,848 (R$ 5,331 in 2011 and R$ 4,540 as of 1/1/2011), recorded under "secured funds" in the current and noncurrent assets.

(1) These contracts are subject to a currency swap and a financial derivative instrument.

The financing obtained from Finame is secured by the actual equipment financed.

The Company usually allocates the payment of interest on financing to the cash flow statement.

Contractual covenants of the loans and financing as of December 31, 2012:

Operation	Details of the Operation			Average Term months	Cost of the Debt			
	Maturity	Amortization Frequency	Collateral		Index	Interest rate p.a.		Ref
Credit Receivables Investment Fund - Energisa Group III	Dec-2020	monthly, after Dec.2017	Receivables	78	CDI	+	0.7%	
Eletrobrás - Light for All – 1st tranche	Nov-2016	monthly	Receivables	21	RGR	+	5.0%	
Eletrobrás – Rural Electrification Program	Feb-2013	monthly	Receivables	1	RGR	+	5.0%	
Banco do Nordeste - Investment Financing 2007-2008 (FNE)	Jun-2017	monthly	Receivables + Reserve Fund	27	Fixed 7.5%			(1)
Banco do Nordeste - Investment Financing 2009-2010 (FNE)	Aug-2019	monthly, after Aug.2012	Receivables + Reserve Fund	39	Fixed 7.5%			(1)
Banco Itaú BBA - FINAME	Jan-2015	monthly	Statutory lien	50	pre-fixed 4.5% to 5.5%			
Bank of America Merryl Lynch	Jan-2014	final	Endorsement of Energisa S.A	13	Libor	+	2.15%	(2)
Banco Itaú BBA	Aug-2015	final	Endorsement of Energisa S.A	32	US dollar	+	3.2466%	(2)

(1) - Includes a 25% and 15% bonus on interest for investments in return for performance in and out of the semi-arid region respectively.

(2) – With Swap.

The main indicators used to restate the loans and financing presented the following percentage variations in the year:

Currency/indicators	2012	2011	1/1/2011
USD x R$	8.94%	12.58%	-4.3%
TJLP	5.0%	6.0%	6.0%
SELIC	8.49%	11.62%	9.77%
CDI	7.28%	11.60%	9.74%
IPCA	5.84%	6.50%	5.91%
IGP-M	7.81%	5.10%	11.32%

As of December 31, 2012, the maturities of the long-term financing are scheduled as follows:

	2012
2014	11,467
2015	15,443
2016	3,170
2017	2,184
2018	2,892
2018 onwards	4,294
	39,450

18. Taxes and Payroll Contributions

	2012	2011	1/1/2011
ICMS	3,901	3,387	3,105
Social Charges	257	249	231
IRPJ	2,761	1,458	1,054
CSSL	1,733	830	647
PIS / COFINS	2,515	2,602	2,791
IRRF	50	71	60
Other	112	193	106
Total	**11,329**	**8,790**	**7,994**
Current	9,475	8,637	7,834
Noncurrent	1,854	153	160

19. Provisions for labor, civil and tax risks.

Based on the opinion of its legal advisors, Company Management made a provision for labor, civil and tax contingencies, as shown below:

	Opening balance 2011	Provisions made	Reversal of provisions	Restatement	Closing balance 2012
Labor claims	236	298	(83)	18	469
Civil	1,831	574	(652)	104	1,857
Tax	843	-	(74)	48	817
Total	**2,910**	**872**	**(809)**	**170**	**3,143**
Restricted and escrow deposits (*)	(1,197)	-	-	-	(603)

	Opening balance 2010	Provisions made	Reversal of provisions	Restatement	Closing balance 2011
Labor claims	243	142	(161)	12	236
Civil	1,747	426	(442)	100	1,831
Tax	584	222	(7)	44	843
Total	**2,574**	**790**	**(610)**	**156**	**2,910**
Restricted and escrow deposits (*)	(1,197)	-	-	-	(1,197)

(*) The Company has restricted and escrow deposits in its noncurrent assets of R$ 5,313 (R$ 5,487 in 2011 and R$ 5,661 as of 1/1/2011). Provisions for risks have not been made for R$ 4,710 (R$ 4,290 in 2011 and R$ 4,464 as of 1/1/2011) as the chances of success are rated as possible or probable.

The amount of R$ 577 was paid in the year, consisting of labor claim settlements of R$ 362 (R$ 180 in 2011) and civil claim compensation of R$ 215 (R$ 389 in 2011).

<u>Probable losses:</u>

Labor claims

Based on the opinion of independent legal advisers, when applicable, in the FY 2012 the Company's legal advisers analyzed the labor claims in progress and accordingly made a provision of a further R$ 298 (R$ 142 in 2011), and reversed a provision of R$ 83 (R$ 161 in 2011).

Most of these lawsuits involve claims for overtime, salary parity, FGTS (Government Severance Indemnity Fund for Employees) and contractual/legal fees.

Civil

The civil proceedings are mainly disputing indemnification for moral and material damages and consumer complaints involving energy debits. Lawsuits have also been filed by consumers claiming reimbursement of amounts paid to the Company resulting from rate increases introduced under DNAEE Ordinances 38 and 45 applied during the term of the Cruzado Plan in 1986. A provision has been made for the amount of the rate increase of R$ 39.

In FY 2012 additional provisions were made of R$ 574 (R$ 426 in 2011) and reversed of R$ 652 (R$ 442 in 2011).

Tax

Refers to disputes related to INSS and ISS. The requirement to pay the liabilities has been stayed under the proceedings, either because the administrative proceedings are in progress or because the tax enforcements in progress have been duly guaranteed.

In FY 2012 no additional provisions were made (R$ 222 in 2011) and provisions were reversed of R$ 74 (R$ 7 in 2011).

Company management holds all the other provisions made are sufficient to cover any losses arising from the proceedings in progress. Based on the opinion of said legal advisors, provisions have been made for all legal proceedings for which the likelihood of a future disbursement has been rated as probable.

Possible losses:

The Company is party to labor, civil and tax claims in progress amounting to R$ 15,633 (R$ 9,356 in 2011), where the chance of success has been estimated by the legal advisors as possible, meaning no provision was required.

See below the comments of our legal advisers regarding cases rated as a possible risk:

Labor claims

Fine imposed by the Ministry of Employment in a public civil action filed to prohibit the outsourcing of services, amounting to R$ 191 (R$ 540 in 2011);

Civil

The proceedings amount to R$ 7,187 (R$ 1,028 in 2011) and are disputing the administrative penalty imposed by CADE and consumer complaints, and

Tax

These proceedings amount to R$ 8,255 (R$ 7,788 in 2011) claiming reductions to the IRPJ and CSSL calculation base - amortization of the goodwill acquired, ICMS differences paid on contracted demand, FGTS differences and the ground usage fee.

20. Shareholders' equity

20.1. Capital

The subscribed and paid-in share capital is comprised of 215,731 common shares and 77,416 preferred shares, with no par value. The preferred shares hold no voting rights but have priority in the reimbursement of capital in the event of Company liquidation and distribution of mandatory dividends at 10% per annum over the company capital attributed to this kind of share.

The Extraordinary General Meeting held April 25, 2012 approved the capital increase of R$ 4,778, without the issuance of new shares, by capitalizing the balance of the tax incentive reserve - income tax reduction accumulated until December 31, 2011. The share capital is now R$ 57,017 (R$ 52,239 in 2011).

Irrespective of amendments to the bylaws, the Company may increase its share capital through subscription to the limit of 540,000 shares, where the Board of Directors shall resolve the means, subscription terms and payment terms of the shares and the features of the shares to be issued and the issue price.

As authorized by its Board of Directors, in 2009 the Company bought back 21 common shares and 207 preferred shares of its issuance to be held in the Treasury, which have been recorded under "treasury stock" in the shareholders' equity at the amount of R$ 50. As it is a wholly owned subsidiary, the Company's shares have no market value.

20.2. Capital reserve - special goodwill reserve

Made as a result of the takeover of the parent company. As mentioned in note 13, this represents the tax benefit of the goodwill which will be incorporated to the Company's share capital, as and when it obtains the tax benefit as a result of amortizing the portion corresponding to the goodwill which originated it.

20.3. Profit reserve - legal reserve

Allocated 5% of the net income for the year prior to any other allocations, limited to 20% of the share capital.

20.4. Profit reserve - income tax reduction reserve

As it operates in the infrastructure sector of the North-East region, the Company obtained a reduction to the income tax payable for the purposes of investments in projects expanding its installed capacity, as determined by article 551 (3) of Decree 3000, dated March 26, 1999.

This reduction was approved by Constitutive Report 094/2004 – ADENE issued on March 31, 2004.

The Company qualified for a 75% reduction in the income tax calculated on its operating income, for the period 2003 through 2012, subject to certain obligations and constraints:

(i) The amount obtained as a benefit cannot be distributed to the shareholders

(ii) The amount should be recorded as a capital reserve and capitalized by December 31 of the successive year and/or used to offset losses, and

(iii) The amount should be invested in activities directly related to production in the region embraced by the tax incentive.

Approval was obtained from the Ministry of Social Integration in December 2012 for its new application for a tax incentive of 75% for the period 1/1/2012 to 12/31/2021, submitting an application to the federal tax authorities in February 2013.

Following the enactment of Law 11638/07 and Law 11941/09, the tax incentives are now recorded in the income statement for the year and subsequently transferred to the profits reserve and income tax reduction reserve. The Company obtained an income tax and surcharge reduction of R$ 5,735 (R$ 4,778 in 2011) in the year ended December 31, 2012.

20.5. Dividends

The Companies' corporate bylaws determine the distribution of a mandatory dividend of 25% of the net income for the year, adjusted as stipulated by article 202 of Law 6404/76, and allows dividends to be paid out in interim results.

Management is proposing to pay out the following dividends:

	2012	2011
Net income for the year	28,961	17,891
Expired dividends	72	61
Legal reserve	(1,448)	(895)
Profit reserve - income tax reduction reserve	(5,735)	(4,778)
Adjusted net income	**21,850**	**12,279**
Prepaid dividends paid (*):		
. Paid in September 2011 - R$ 17.5600 per share	-	5,144
. Paid in December 2011 - R$ 11.6600 per share	-	3,415
. Paid in August 2012 - R$ 37.8400 per share	11,084	-
. Paid in December 2012 - R$ 5.1943 per share	1,522	-
. Payable in January 2013 - R$ 13.6557 per share	4,000	-
	16,606	**8,559**
Additional dividends proposed: R$ 17.9028 (R$ 12.7012 in 2011) per share (**):	5,244	3,720
Total dividends	**21,850**	**12,279**
% over adjusted net income	100	100

(*) The prepaid dividends approved by the Board of Directors meetings held August 09 and December 20, 2012 (August 10 and December 23, 2011) were calculated on the net income based on the balance sheet as of June 30 and September 30, 2012 (June 30 and September 30, 2012).

(**) The additional dividends proposed were recorded in the specific item dividends payable in shareholders' equity, in accordance with ICPC-08 (R1) standards.

21. Operating revenue

	2012			2011		
	Not audited by the independent auditors			Not audited by the independent auditors		
	No. of consumers	MWh	R$	No. of consumers	MWh	R$
Residential	149,385	201,292	84,229	143,675	191,429	68,310
Industrial	620	214,781	66,397	620	207,584	59,409
Commercial	14,120	131,470	54,065	13,826	121,254	45,438
Rural	13,616	22,921	4,393	13,001	20,184	3,598
Government:						
Federal	107	17,482	7,211	105	15,892	6,261
State	261	6,810	2,799	256	6,189	2,431
Municipal	952	5,339	2,206	934	4,854	1,916
Public Lighting	51	23,986	5,775	51	23,308	5,092
Public Utility	58	11,124	2,588	56	10,783	2,805
Internal Use	6	257	-	6	325	-
Subtotal	**179,176**	**635,462**	**229,663**	**172,530**	**601,802**	**195,260**
Revenue from Remuneration of Concession Assets	-	-	1,054	-	-	371
Electricity sales to distributors	1	18,432	9,150	1	30,142	427
Sales not invoiced (net)	-	6,989	1,503	-	276	1,312
Provision of the transmission and distribution system	-	-	150	-	-	
Construction Revenue	-	-	21,452	-	-	19,081
Other operating revenue	-	-	1,582	-	-	1,366
Total - gross operating revenue	**179,177**	**660,883**	**264,554**	**172,531**	**632,220**	**217,817**
Deductions from operating revenue						
ICMS	-	-	46,614	-	-	40,662
PIS	-	-	3,921	-	-	3,276
COFINS	-	-	18,060	-	-	15,089
ISS	-	-	59	-	-	11
Quota for RGR	-	-	1,474	-	-	1,139
Energy Efficiency Program - PEE	-	-	811	-	-	668
Energy Development Account - CDE	-	-	1,452	-	-	1,335
Energy Development Account - CCC	-	-	4,477	-	-	7,223
Research and Development Program – P&D	-	-	1,297	-	-	1,068
Total	-	-	78,165	-	-	70,471
Total - net operating revenue	**179,177**	**660,883**	**186,389**	**172,531**	**632,220**	**147,346**

22. Operating costs and expenses

The operating costs and expenses specified in the income statement for the year are broken down into the following types of expenses:

	COST OF SERVICE			OPERATING EXPENSES		TOTAL	
TYPE OF EXPENSE	ELECTRICITY	OPERATIO N	PROVIDED TO THIRD PARTIES	SALES	GENERAL AND ADMIN.	2012	2011
Electricity purchased for resale	75,994	-	-	-	-	75,994	64,618
Charges for using the transmission and distribution system	19,047	-	-	-	-	19,047	11,922
Personnel and management	-	6,695	3	2,979	5,779	15,456	13,650
Private pension fund	-	-	-	6	54	60	115
Material	-	479	3	785	257	1,524	1,604
Outsourced services	-	909	52	2,753	8,804	12,518	11,262
Depreciation and amortization	-	4,151	-	5	535	4,691	4,661
Allowance for doubtful accounts	-	-	-	66	-	66	(1,154)
Provisions for risks	-	-	-	-	63	63	180
Construction cost	-	-	21,452	-	-	21,452	19,081
Other	-	594	-	96	1,096	1,786	1,763
	95,041	**12,828**	**21,510**	**6,690**	**16,588**	**152,657**	**127,702**

23. Other income

	2012	2011
Gains on the deactivation/sale of assets and rights	1,793	772
Loss on the deactivation/sale of assets and rights	(4,374)	(539)
Total	**(2,581)**	**233**

24. Financial revenue and expenses

	2012	2011
Revenue on short-term investments	1,130	1,537
Monetary variation and arrears surcharge on energy sold	2,527	2,056
Restatement of accounts receivable from the concession - VNR	1,214	-
Other financial revenue	856	1,041
Total financial revenue	**5,727**	**4,634**
Debt charges - interest	(2,721)	(3,110)
Exchange and monetary variance	(1,131)	-
Transfer to orders in progress	674	807
Mark-to-market of derivatives	758	-
Derivative financial instruments	608	-
Present value adjustment of assets	354	(1,027)
Bank expenses	(548)	(859)
Other financial expenses	(818)	(673)
Total financial expense	**(2,824)**	**(4,862)**
Net financial income (expenses)	**2,903**	**(228)**

25. Net income per share

The Company did not change the number of shares in circulation in its share capital. The basic and diluted net income per share is therefore being calculated according to the number of shares in circulation at the end of the year, i.e. 215,710 common shares and 77,209 preferred shares.

26. Insurance coverage

The Company has the policy of taking out insurance coverage for the assets subject to risk to cover any incidents, considering the nature of its activity. The Company's insurance contracts are made in accordance with the risk management and insurance fundamentals generally employed by electricity distribution companies. Given their nature, the risk assumptions adopted do not comprise the scope of a financial statements audit, and were not therefore examined by our independent auditors.

The civil liability and named risk policies are taken out in conjunction with the other Energisa Group companies and the maximum indemnification amounts are stated in the insurance coverage.

The main items covered are:

	Date of	Amount	Annual Premium	
Lines	**Maturity**	**Insured**	**2012**	**2011**
Operating Risks	10/23/2013	23,000	36	16
General Civil Liability	10/23/2013	44,572	40	38
Automobiles – Third party material and personal damages	10/23/2013	Up to R$ 200,000 /Vehicle	26	27
Collective life insurance – Personal Death and Accidents	12/31/2013	9,602	44	40
			146	**121**

Nominated Risks

The insurance policy specified the substations, buildings and equipment and the respective insured values and the indemnification limits. It has basic coverage including fire, lightning strike and explosions of any nature, electrical damages, hurricanes, aircraft crash, collision by air or ground vehicle, commotion, flooding/water damage, minor engineering work, extraordinary expenses inclusion / exclusion of assets and sites, mistakes and omissions.

Civil Liability

The insurance policy covers moral hazard, material and personal damages to third parties resulting from the Company's operations.

Vehicles

The Company has insurance coverage for RCF/V – Optional/Vehicle Civil Liability, guaranteeing coverage of personal and/or material damages incurred by third parties involved in accidents.

Collective Life Insurance and Personal Accidents

Guarantees insurance coverage for its employees in the event of death by any cause, full or partial permanent disability due to accidents and permanent and/or total disability due to illness.

27. Financial instruments and risk management

The book and fair values of financial instrument assets and liabilities have been compared below:

	2012		2011		1/1/2011	
ASSETS	**Book**	**Fair value**	**Book**	**Fair value**	**Book**	**Fair value**
Cash and cash equivalents	7,968	7,968	8,699	8,699	22,706	22,706
Money market and secured funds	6,015	6,015	5,331	5,331	4,540	4,540
Consumers and concessionaires	33,644	33,644	23,290	23,290	20,436	20,436
Credit receivables	6,987	6,987	5,760	5,760	4,178	4,178
Accounts receivable from the concession	19,527	19,527	5,556	5,556	2,650	2,650
LIABILITIES						
Suppliers payable	(14,491)	(14,491)	(12,038)	(12,038)	(11,957)	(11,957)
Loans, financing and debt charges	(43,456)	(44,611)	(30,471)	(30,151)	(31,508)	(31,508)

In compliance with CVM Instruction 475/2008 and Resolution 604/2009, the description of the book balances and the fair values of the financial instruments included in the balance sheet at December 31, 2012 and 2011 are shown below:

Nonderivatives - classification and measurement

Loans and receivables

Includes consumers and concession operators, outstanding receivables, other receivables and accounts receivable of the concession. They are initially measured at amortized cost using the effective interest rate, and their balances are approximated to fair value.

Money market and secured funds

The balances of short-term investments in Bank Deposit Certificates and investment funds are valued at fair value through profit and loss, market valuations and/or effective interest rates.

Financial liabilities measured at amortized cost:

Suppliers payable - stated at the known amounts or estimated, plus, when applicable, the corresponding charges and/or monetary and exchange variations incurred up to the balance sheet date, where the book value approximates fair value.

Loans, financing and debt charges - these financial instruments are classified as financial liabilities at amortized cost. The book values of the local-currency loans and financing obtained from Centrais Elétricas Brasileiras S.A. – Eletrobrás and BNDES , are compatible with the fair value of the transactions, as similar transactions are not available on the financial market, with comparable maturities and interest rates. In the case of the loan with Citibank and the Credit Receivables Investment Funds, the book value differs from the fair value as there are similar securities in the market. The company determined the fair value of financial instruments with no active market by using an appraisal technique based on discounting future flows to present value, according to rates available in the market. However, the fair value reflects the instrument's credit quality.

Derivatives

The Company has the policy of managing market risks, thereby avoiding assuming material positions exposed to fair value fluctuations. They therefore only seek to use instruments which provide greater risk control. The derivative contracts involve swap operations and options with interest and exchange rates for hedge transactions against adverse exchange variance in their US dollar denominated debt.

The hedge transactions against adverse exchange variance require constant monitoring in order to preserve the efficiency of their structures. The transactions in force are subject to restructuring at any time and can be reversed or subject to additional transactions in order to reduce potential material losses.

- *Limitations*

Note that the estimated fair values of the financial assets and liabilities at the reporting date were determined through information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to estimate the fair value. Consequently, the estimates used and presented below do not necessarily indicate the values that could be realized in the current exchange market.

- *Financial risk management*

The Board of Directors is generally responsible for establishing and supervising the risk management model of the Company. It has therefore implemented operating limits with pre-established amounts and indicators in the “Financial Risk Management policy” (available on the Company’s site) and in the internal regulations of the Company's Executive Board. The Executive Board issues a monthly report on budgetary performance and risk factors involving the Company.

The Company’s risk management policy was established to detect, analyze and monitor risks encountered, in order to establish limits and check compliance with them. Risk management policies and systems are reviewed regularly in order to evaluate changes in market conditions and the Company's activities.

The “Financial Market Risk Management Policy” was introduced on May 11, 2009 and was revised for the first time on April 27, 2010 and February 24, 2011; this policy can be viewed on the Company’s website.

The Company has been using the services of a specialized, independent company in cash and debt risk management, which means that the main macroeconomic indicators and their impact on results are monitored on a daily basis, in particular derivative transactions. This allows contracting and repositioning strategies to be devised, pursuing low risk and higher financial income.

a) Liquidity risk

By way of the projected cash flow, Management schedules its obligations to generate financial liabilities to the flow of receipts or sources of financing in order to ensure the greatest possible liquidity so as to honor its obligations, thereby avoiding default which hinders the operational progress of the Company.

The financial liabilities, including estimated interest payments, are as follows. Significant changes in the analyzed cash flows are not expected.

	Up to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	Over 5 years	Total
Suppliers payable	14,100	-	-	-	391	14,491
Loans, financing and debt charges	2,884	2,506	43,508	7,396	8,527	64,821

b) Credit risk

Management believes the risks posed by its short-term investments are minimal, as there is no concentration and the risk policy complies with the “Financial Risk Management policy”. The policy also gives priority to allocating the funds to short-term investments, with daily liquidity, whenever possible. It is also overseen by the Audit Committee of the Board of Directors, created in the first quarter of 2010.

The Company’s credit risk is posed by accounts receivable, which however is mitigated by sales to a broad consumer base and legal prerogatives which allow the provision of services to defaulting clients to be suspended. Part of the receivables referring to sales, energy acquisition and system service charges, incurred at CCEE, are also subject to change depending on the outcome of legal proceedings in progress, filed by a number of companies in the sector. These proceedings have resulted from the interpretation of market rules in force between June 2001 and February 2002, during which the Emergency Electricity Rationing Program was in force.

Exposure to credit risks

The book value of the financial assets denotes the maximum credit exposure. The maximum exposure to the credit risk at the reporting date was:

ASSETS	2012	2011	1/1/2011
Cash and cash equivalents	7,968	8,699	22,706
Money market and secured funds	6,015	5,331	4,540
Consumers and concessionaires	33,644	23,290	20,436
Credit receivables and other	6,987	5,760	4,178
Accounts receivable from the concession	19,527	5,556	2,650

Further information about these credits can be seen in notes 5, 6, 7 and 14.

c) Interest and exchange rate risk

Part of the local-currency loans and financing presented in note 17 consist of financing from several national development agencies (Eletrobrás, BNB and BNDES) and other financial institutions in the capital market. The interest rate is defined by these Agents, taking into account the underlying interest rate, the risk premium compatible with the financed companies, their guarantees and the sector they are engaged in. In the event it is not possible to acquire alternatives or different market hypotheses and/or methods for their estimates, in view of the subsidiaries’ business and sector specifics, these are measured by the amortized cost method at the contractual rates.

The Company’s income is susceptible to variations due to the volatility of the currency coupon and exchange rate on liabilities denominated in foreign currencies, mainly the US dollar, which lost 8.94% in the period ended December 31, 2012 as compared to December 31, 2011, quoted at R$ 2.0435 / USD.

R$ 20,801 of Energisa's bank debt as of December 31, 2012 totaling R$ 43,456 (R$ 30,471 in 2011 and R$ 31,508 as of 1/1/2011) is denominated in US dollars deriving from loans from Bank of America Merrill Lynch and Itaú BBA of USD 10.2 million (principal of USD 10 million). The loans have a long term maturity (in Jan/14 and Aug/15 respectively) and costs of up to USD plus 4.33% per annum.

The balance sheet as of December 31, 2012 presents R$ 1,621 in the noncurrent assets referring to the mark-to-market of the financial derivatives related to the foreign exchange rate and interest, resulting from a combination of factors usually adopted for the mark-to-market of these instruments, such as volatility, currency coupon, interest rates and the US dollar exchange rate. This is not a material liability, because the reversal value of derivatives at the calculation date is estimated, which does not correspond to the hedge objective. The mark-to-market entries made in the financial statements are reversed when the caps established for the existing operations are not exceeded, as shown below. Moreover, further deterioration of the volatility, the currency coupon and the f/x rate could result in the amounts recorded increasing.

The Company has hedged the aforementioned US dollar positions against adverse exchange variance. These hedges are split into the following instruments:

1) Hedge for the principal and interest of USD 4.1 million (principal of USD 4.0 million) of the loan taken out from Bank of America Merrill Lynch, via a currency swap with exchange-rate cap of R$/USD 2.65 (Jan-14) until 1/17/2014, in order to hedge the loan against adverse exchange variance, thereby conducting a swap of the cost of USD plus (LIBOR plus 2.150% per annum) for 98.0% of the CDI variance, hedging interest payments scheduled for 7/17/2012 until 1/17/2014 and the value of the principal at the latter date.

2) Hedge for the principal and interest of USD 6.1 million (principal of USD 6.0 million) of the loan taken out from Banco Itaú BBA, via a currency swap with exchange-rate cap of R$/USD 2.85 (Aug-15) until 8/17/2015, in order to hedge the loan against adverse exchange variance, thereby conducting a swap of the cost of USD plus 4.33% per annum for 100.0% of the CDI variance, hedging interest payments scheduled until 8/17/2015 and the value of the principal at the latter date.

In the year the foreign exchange hedges yielded a gain of R$ 1,366, due to the appreciation of the US dollar.

Company Management monitors changes in the market, so that these hedge transactions may be restructured and their terms even extended depending on the performance of the exchange rate (R$/USD), in terms of volatility and stabilization level. Company management sought to replace complex derivatives with simpler structures and greater liquidity, with a view to lower risk exposure.

In accordance with CPC 40, the values of the Company ’ derivative financial instruments as of December 31, 2012 and 2011 are summarized below:

	Notional (BRL)	Receivable Position		Receivable (Received)	Payable (Paid)
Swap with options – Itaú BBA and Merrill Lynch	26,600	Foreign Currency - USD and LIBOR	29,370	-	-
		Liability Position			
		CDI Interest Rate	(27,471)	-	-
		Foreign Currency Options (USD)	(278)	53	(228)
		Total Swap Position with Options	1,621	53	(228)

The Fair Value of the derivatives as of December 31, 2012 and December 31, 2011 was calculated based on the market price quotes for similar contracts. Their variance is directly associated with the variance of the debt balances listed in the note 17 and the positive performance of the hedge mechanisms used, as described above. These contracts do not stipulate interim payments before their maturity date. The Company does not intend to settle these contracts before maturity. It also has different expectations for the results presented as Fair Value – as shown below. To ensure perfect management, daily monitoring is conducted in order to keep risk to a minimum and obtain better financial results.

The mark-to-market (MtM) of the operations was calculated by an accepted method generally used by the market. The method basically consists of calculating the future value of the operations agreed in each contract, discounting the present value at market rates. A variant of the Black & Scholes formula is used to calculate the MtM of options. This formula is normally used to calculate the premium on currency options. The data used in these calculations was obtained from reliable sources. The market rates, such as the fixed rate and dollar coupon, were obtained directly from the BM&F site (Market Rates for Swaps). The Ptax exchange rate was obtained from the Central Bank's site. The implicit dollar volatility for options was obtained from other market sources.

Sensitivity Analysis

In accordance with CVM Resolution 603/09, the values of the Company's financial derivatives as of December 31, 2012 and 2011 have been summarized as follows:

(1) Exchange variance

If the exchange exposure as of December 31, 2012 were maintained, and the effects on the future financial statements simulated by type of financial instrument and for three different scenarios, the following results would be obtained (restated as for the reporting date):

Operation	Exposure	Risk	Scenario I (Probable) (*)	Scenario II (Deterioration of 25%)	Scenario III (Deterioration of 50%)
Financial instruments - Loans 4131			2,068	(2,862)	(7,793)
Swap with Options					
Receivable position - Foreign Currency - USD and LIBOR	29,370		19,721	24,651	29,581
Payable Position - CDI Interest Rate	(27,471)	Higher f/x rate	(19,889)	(19,889)	(19,889)
Foreign Currency Options - USD	(278)		-	-	(2,915)
Total	**1,621**		**1,900**	**1,900**	**(1,016)**

(*) Considers the macroeconomic scenario presented by the Focus Survey as of December 31, 2012 for the future dates until the final settlement of the operations.

In the "Probable Scenario", calculated based on the net analysis of the above operations until the maturity thereof, adjusted to present value by the fixed rate in Brazilian reais as of December 31, 2012, the derivatives are fully effective, which is reflected in the positive present value of R$ 1,900, that shows how the adverse exchange variance in existing debts was mitigated. The higher the exchange devaluation (risk variable considered), the higher the gain of the swaps will be, providing the derivative caps are not exceeded, which would leave the Company with no hedge protection. However, there would be a positive present value of R$ 1,900 and negative value of R$ 1,016 in the scenarios where the Brazilian real lost 25% and 50% against the US dollar, a scenario in which some of the current caps would be exceeded.

(2) Interest rate variance

Considering the exposure of financial instruments indexed to interest rates as of December 31, 2012 is maintained and the respective accumulated annual indexes are (CDI 7.25% p.a., LTIR 5% p.a. and North-East Constitutional Fund – FNE 8% p.a.) and if the indexes vary in accordance with the three scenarios defined, the net financial result would be affected by:

Instruments	Exposure (R$ thousand)	Risk	Scenario I (Probable) (1)	Scenario II (Deterioration of 25%)	Scenario III (Deterioration of 50%)
Receivable financial instruments:					
Money Market	9,989	Increase in CDI	716	896	1,075
Payable financial instruments:					
Loans and financing (2)	(5,035)	Increase in CDI	(404)	(35)	(587)
	(16,581)	Increase in FNE	(1,928)	(2,176)	(2,425)
Total	**(11,627)**		**(1,616)**	**(1,315)**	**(1,937)**

(1) Considers the CDI at December 31, 2013 (7.25% p.a.), quote of the estimates presented by the recent BACEN survey, dated December 31, 2012, TJLP of 5% p.a. and FNE of 8.0% p.a. (Loans contracted from Banco do Nordeste already reflecting the performance bonus).

(2) Does not include dollar transactions worth R$ 20,801.

Fair value hierarchy

The table below presents the financial instruments recorded at fair value by a valuation method.

The different levels were defined as follows:

- Level 1 - Prices quoted (in adjusted) in active markets for identical assets and liabilities
- Level 2 - Inputs, except for quoted prices, included in Level 1 that are observable for the assets and liabilities, directly (prices) or indirectly (derived from prices)
- Level 3 - Premises, for the asset or liability, that are not based on observable market data (unobservable inputs).

Financial instruments	Level	2012	2011	1/1/2011
Assets				
Money market and secured funds	2	6,015	5,331	4,540
Accounts receivable from the concession	3	19,527	5,556	2,650

We emphasize that we did not observe any Level 1 and 3 financial instruments during the year under analysis and no level transfers took place in this year.

28. Employee benefits

a) Retirement and pension supplementation plan

The Company sponsors fixed-benefit pension plans for its employees. The defined-benefit plan undergoes an actuarial assessment at the end of each financial year, in order to ascertain whether the contribution rates are sufficient to establish the reserves required to meet the current and future payment commitments.

	Annual contribution			Actuarial surplus	
Beneficiary Plan	2012	2011	% over payroll	2012	2011
BD Previdência	93	115	1.56	2,930	2,633

The Surplus referring to the plan has not been recorded.

The technical reserves required by the regulations laid down by SPC – Supplementary Pensions Office are determined by an actuary of BD Previdência.

The actuarial position of the liabilities related to the retirement plan as of December 31, 2012 and 2011 are shown below, in accordance with the rules established by CVM Resolution 600. The Projected Credit Unit Method was used to determine the actuarial deficit:

	2012	2011	1/1/2011
Present value of actuarial obligations	(4,081)	(3,695)	(3,536)
Fair value of the plan's assets	8,402	7,239	5,278
Present value of the obligations in excess of the fair value of the assets	4,321	3,544	1,742
Unrecognized actuarial losses (gains)	(1,391)	(911)	631
Net asset	**2,930**	**2,633**	**2,373**

Statement of the expenses for the 2013 financial year according to the criteria of CVM Resolution 600:

	2012	2011
Current service cost	205	183
Interest cost	367	398
Expected return on the plan's assets	(583)	(706)
Unrecognized actuarial gains	(34)	(12)
Employee contributions	(106)	(99)
Revenue projected for 2013	**(151)**	**(236)**

Statement of the change in the sponsor's net deficit in the year:

	2012	2011
Net actuarial asset at the start of the year	(2,633)	(2,373)
Current revenue	(236)	(170)
Company Contributions	(61)	(90)
Net actuarial asset at year-end	**(2,930)**	**(2,633)**

As of December 31, 2012 the statement of the fair value of the assets is presented as follows:

	2012	2011
Fair value of assets at start of year	7,239	5,278
Benefits paid	(448)	(260)
Participant contributions invested in the year	73	105
Sponsor contributions invested in the year	61	90
Effective return on assets	706	629
Actuarial gains (losses) of the assets	771	1,397
Fair value of the assets	**8,402**	**7,239**

As of December 31, 2012 the statement of the present value of the obligations is presented as follows:

	2012	2011	1/1/2011
Balance at beginning of year	3,695	3,536	2,807
Benefits paid in the year	(448)	(260)	(182)
Interest on actuarial obligation	398	421	303
Current service cost (including interest)	183	187	187
Gains (losses) on actuarial obligations	253	(189)	421
Balance at end of year	**4,081**	**3,695**	**3,536**

A description follows of the assumptions made in the actuarial appraisal:

Economic hypotheses

Actuarial discount rate	3.78% p.a. (does not include inflation)
Expected rate of return on assets	7.08% p.a. (includes inflation).
Benefit readjustment	Inflation only
Wage growth	0% p.a.
Projected inflation	4.50% p.a.

Demographic Hypotheses

Mortality table	AT-83
Mortality table of disabled people	IAPB-57
Disability rate table	IAPC

A summary follows of the data used to actuarially appraise the benefit plans offered by Energisa BO to its employees:

Description	
Active Members	
Number	57
Average Age	41.56
Participation time (years)	15.54
Participant's Average Salary	R$ 2.626
Assisted Participants	
Number	7
Average Age	66.71
Average Monthly Benefit	R$ 1.944
Pensioners	
Number of Pensioners	3
Average Benefit per Family Group	R$ 0.432

b) Healthcare plan

The Company sponsors its employees' health insurance plans, which are managed by operators regulated by the National Health Agency (ANS). Upon termination of employment or retirement, employees may retain their health insurance plans provided they assume all the costs; the Company has no post-employment ties with or obligations to employees.

Expenses were incurred on this benefit of R$ 650 in FY 2012 (R$ 649 in 2011).

29. Commitments

The Company has the following commitments under long-term energy acquisition contracts:

Term	2013	2014	2015	2016	2017	2017 onwards
2013 to 2046	65,193	55,240	59,426	60,521	63,159	970,476

The amounts referring to energy acquisition contracts lasting between 8 and 30 years represent the volume contracted at the current price at the end of FY 2012, which have been ratified by ANEEL.

30. Electricity distribution concession arrangement

ANEEL Concession Contract 08/2000 was executed on February 04, 2000 by which the concession authority awarded the electricity distribution concession in the municipalities of Campina Grande, Lagoa Seca, Queimadas, Fagundes, Massaranduba and Boa Vista, in the state of Paraíba, for the term of 30 years, as from execution of this contract.

31. Environment

The Company handles the social and environmental impacts caused by its services and facilities through programs and practices that evidence its concern about and responsibility for the environment, including:

1. Insulated grids: insulated cables are used in grids where trees could be more affected by contact with the low-voltage cables and the dimensions of paths try to preserve the ecological balance as far as possible. Protected cables are also used in medium-voltage grids close to trees, in order to avoid undesirable pruning.

2. Grids and lines: the company conducts environmental impact studies on grids and lines that cross areas of forest or other types of permanent preservation areas and presents any mitigating and/or compensatory measures to be implemented during installation, as stipulated in the Brazilian Distribution Regulations and those adopted by the Company.

3. In addition to the simplified environmental reports - RAS, for the construction of substations Environmental Feasibility Study - EVA, Environmental Control Plan - PCA and Environmental Inspections are conducted.

4. Fostering of environmental education, in order to raise awareness of employees and the community as to how to use natural resources more rationally and sustainably and to optimize the living standards of employees, suppliers and the community.

5. Operation of the Integrated Health, Safety and Environment Management System compliant with OHSAS 18001 – Health and Safety and ISO 14001 – the Environment, a tool for mitigating risks in our daily operations and preventing occupational injuries and health issues.

6. The systematic and permanent analysis of samples of insulating oil, ensuring there are no signs of askarel and/or impurities, in order to eliminate them from the company's equipment, thereby ensuring performance with legal requirements.

7. Waste disposal and treatment: in addition to ascertaining the nature and amount of waste generated during the production process, there are procedures for handling, transporting and disposing of products. The Company is aware of its environmental responsibilities, and is therefore regenerating insulating oil used in its equipment and recovering industrial lubricating oil, ensuring the recycling of this material and avoiding environmental pollution. We provide recycling bins for bulbs, batteries and cartridges for employees to deposit their waste in and adequately dispose of it through duly licensed companies.

8. Implementation of water and energy consumption reduction campaigns, education based on the 3Rs (Reduce, Reuse and Recycle) and education for conscious consumption by distributing leaflets and presenting lectures at schools (Water Day, Environmental Week) and internal disclosure (intranet, stickers and notices put up by the company and screensavers).

9. Retain suppliers that are proven to have good environmental conduct and inform partners and clients about the good practices implemented by the company to preserve and protect the environment and life.

10. Proceed in conjunction with the municipal authority to include tree compatibility in the planning of works and provide training for people in the correct procedures for pruning trees.

11. Proceed in conjunction with the municipal authority to include tree compatibility in the planning of works and in conjunction with universities and environmental authorities to provide support for training people in the correct procedures for pruning trees.

12. Energy Efficiency, which has helped educate the population about the rational and efficient use of electricity, cutting electricity consumption, by replacing bulbs, donating efficient equipment and adapting internal electric facilities, and in specific cases installing electricity meters in impoverished communities.

13. Conta Cidadã project: whereby recyclable waste is exchanged for credits on the electricity bills of consumers, the materials collected in the process going to supply the recycling industry.

14. The preventive and corrective maintenance program plays an important role in the reduction of the levels of atmospheric pollution.

15. Sponsorship of the CONTRAMAERE Cooperative organized by UFCG - the Federal University of Campina Grande, that operates in the central plateau region of Borborema, in Campina Grande. It has the mission of conducting research and recycling solid waste.

The nonfinancial information was not examined by our independent auditors.

In FY 2012 the investment in the aforesaid projects amounted to R$ 467 (R$ 1,593 in 2011), R$ 461 (R$ 1,589 in 2011) of which was allocated to property, plant and equipment and R$ 6 (R$ 4 in 2011) to operating expenses.

32. Additional information to the cash flows

In the financial year ended December 31, 2012 equity changes not affecting the Company's cash flows are as follows:

	2012	2011	1/1/2011
Restatement of accounts receivable from the concession - VNR	1,214	-	-
Accounts receivable from the concession	12,761	2,906	
Suppliers of intangible assets and property, plant and equipment	761	-	-
Dividends payable	4,000	3,487	132
Capitalization of reserves	4,778	5,404	-

33. Subsequent event

Reduction in electricity rates

On September 11, 2012 the Federal Government issued Preliminary Law 579, enacted as Law 12,783, which amongst other things reduced the sector charges: (i) elimination of the RGR (Global Reversal Reserve) and CCC – Fuel consumption cost and 75% reduction of CDE – Energy Development Account and minimum price increases.

The CCC - Fuel Consumption Account costs will be provided by the Energy Development Account - CDE created by the Federal Government for energy development of the States.

The lower electricity rates will not directly affect the Company's earnings as the lower revenue will be offset by the sector charges and taxes payable on sales.

An extraordinary rate review was conducted on January 24, 2013, which established new consumer rights.

See the reductions made to the rates:

Average effect for Group A

Subgroup/Class	Previous Average Rate	New Average Rate	Average Effect (%)
A3 (69 kV)	211.70	165.98	-21.60%
A4 (2.4 to 44 kV)	246.47	197.77	-19.76%

Average effect for Group B

Subgroup/Class	Previous Average Rate	New Average Rate	Average Effect (%)
B1 - Residential	322.89	264.77	-18.00%
B2 - Rural	190.04	155.82	-18.01%
B3 - Other Sectors	303.11	248.56	-18.00%
B4 - Public Lighting	170.36	139.71	-17.99%

Average Effect for Distribution Company

Subgroup/Class	Previous Average Rate	New Average Rate	Average Effect (%)
Captive Consumers	270.76	219.69	-18.86%