Interim Financial Statements

ISA Capital do Brasil S.A.

March 31, 2014
with Independent Auditor's Report

ISA Capital do Brasil S.A.

Interim financial statements

March 31, 2014

Contents

A free translation from Portuguese into English of Independent Auditor's Review Report on Individual Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, and on Consolidated Financial Statements prepared in Brazilian currency in accordance with International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB) and accounting practices adopted in Brazil

Independent auditor's review report on interim financial statements

The Shareholders, Board of Directors and Officers of
ISA Capital do Brasil S.A.
São Paulo - SP

Introduction

We have reviewed the accompanying individual and consolidated interim balance sheet of ISA Capital do Brasil S.A. ("Company") as at March 31, 2014, and the related income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the three-month period then ended, including a summary of significant accounting practices and other explanatory information.

Management is responsible for the preparation and presentation of these interim financial statements in accordance with accounting practices adopted in Brazil. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion on the individual and consolidated interim financial statements

As a consequence of the debt restructuring carried out in 2010, described in Note 17.a, the Company recognized issue of redeemable preferred shares, mentioned in Note 26.a, as an equity instrument, which, in our opinion, should be recognized as financial liability, according to accounting practices adopted in Brazil, specifically CPC 39 and IAS 32. In addition, the Company recognized remuneration of the referred to instrument as fixed cumulative dividend, as provided for by its Articles of Incorporation and Shareholders' Agreement, rather than financial expense as interest, in the form we believe it should be. Had the Company recognized the referred to share issue as financial liability and had the referred to remuneration been recognized as financial expense rather than dividend, equity as at March 31, 2014 would be reduced by R$891,692 thousand, from R$1,800,947 thousand to R$909,255 thousand, individual, and from R$4,799,110 thousand to R$3,907,418 thousand, consolidated. In addition, total liabilities would have increased, from R$484,740 thousand to R$1,376,432 thousand, individual, and from R$2,442,692 thousand to R$3,334,384 thousand, consolidated. Net income for the period ended March 31, 2014 would be reduced by R$23,960 thousand, from R$29,894 thousand to R$5,934 thousand, individual, and from R$82,899 thousand to R$58,939 thousand, consolidated, before noncontrolling interests.

Conclusion on individual interim financial statements

Based on our review, except for the effects of the matter discussed in our "Basis for qualified conclusion on the individual and consolidated interim financial statements" paragraph, we are not aware of any fact that would make us believe that the individual interim financial statements of ISA Capital do Brasil S.A. do not present fairly, in all material respects, the financial position of the Company as at March 31, 2014, its individual operating performance and its individual cash flows for the quarter then ended, in accordance with accounting practices adopted in Brazil.

Conclusion on the consolidated interim financial statements

Based on our review, except for the effects of the matter discussed in our "Basis for qualified conclusion on the individual and consolidated interim financial statements" paragraph, we are not aware of any fact that would make us believe that the consolidated interim financial statements of ISA Capital do Brasil S.A. do not present fairly, in all material respects, the financial position of the Company as at March 31, 2014, its consolidated operating performance and its consolidated cash flows for the quarter then ended, in accordance with the International Financial Reporting Standards (IRFS), issued by the International Accounting Standards Board (IASB), and accounting practices adopted in Brazil.

Emphasis of matter

Indemnification of amounts relating to assets classified as Existing Service (SE)

As described in Note 8, pursuant to Law No. 12783/13 and Technical Note No. 402/2013 of the National Electric Energy Agency (ANEEL), subsidiary CTEEP is preparing a valuation report to be submitted to the Granting Authority in 2014 for its approval of the amount to be received on account of the indemnification of reversible assets classified as Existing Service (SE). While the amount is not approved, subsidiary CTEEP maintains recorded, since 2012, a provision for impairment of the construction cost of this infrastructure, amounting to R$1,535,319 thousand, with a balance of R$1,490,986 thousand (historical value) remaining, equivalent to the regulatory property and equipment. The determination of the effective amount of indemnification for these assets, as well as conditions, remuneration method and terms for receipt are pending approval by the Granting Authority. Our conclusion is not modified in respect of this matter.

Law No. 4819/58

As described in Notes 9 and 36, subsidiary CTEEP has recorded a net balance receivable from São Paulo State amounting to R$676,658 thousand relating to the impacts of Law No. 4819/58, which granted to civil servants of companies under the São Paulo State control the advantages to which other public service employees were already entitled. Subsidiary CTEEP management has been monitoring new events relating to the legal and business aspects of this matter, as well as evaluating, on a continuous basis, any impacts on its interim financial information. Our conclusion is not modified in respect of this matter.

Other matters

Prior-year corresponding figures

The financial information corresponding to the balance sheet as at December 31, 2013, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the three-month period ended March 31, 2013, presented for comparison purposes, were audited and reviewed, respectively, by other independent auditors, who issued a modified opinion and a modified review report on March 12, 2014 and November 25, 2013, respectively, with the same emphases presented above.

São Paulo, June 27, 2014.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Marcos Alexandre S. Pupo
Accountant CRC-1SP221749/O-0

A free translation from Portuguese into English of Individual Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, and Consolidated Financial Statements prepared in Brazilian currency in accordance with International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB) and accounting practices adopted in Brazil

ISA Capital do Brasil S.A.

Balance sheets
March 31, 2014 and December 31, 2013
(In thousands of reais, unless otherwise stated)

		Company		Consolidated	
	Note	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**
Assets					
Current assets					
Cash and cash equivalents	6	**55,330**	61,472	**59,056**	65,742
Short-term investments	7	**19,814**	83,404	**518,260**	679,160
Accounts receivable (concession asset)	8	**-**	-	**768,014**	749,388
Inventories		**-**	-	**53,919**	61,767
Loans receivable	12 and 32	**54,320**	55,764	**54,320**	55,764
Interest on equity and dividends receivable	26.c and 32	**11,342**	75,611	**-**	-
Taxes and contributions to offset	10	**320**	14,984	**63,858**	87,749
Pledges and restricted deposits	13	**-**	3,262	**-**	3,262
Prepaid expenses		**-**	-	**17,130**	544
Receivables from subsidiaries		**-**	-	**101**	51
Other		**1**	4	**112,345**	105,632
		141,127	294,501	**1,647,003**	1,809,059
Noncurrent assets					
Accounts receivable (concession asset)	8	**-**	-	**3,097,125**	3,218,954
Receivables - State Finance Department (SEFAZ)	9	**-**	-	**676,658**	643,027
Tax benefit - merged goodwill	11	**-**	-	**52,888**	60,359
Deferred income and social contribution taxes	31.b	**32,507**	32,507	**237,814**	251,775
Pledges and restricted deposits	13	**-**	-	**69,646**	76,282
Taxes and contributions to offset	10	**30,089**	10,392	**30,089**	10,392
Inventories		**-**	-	**51,689**	47,748
Other		**-**	-	**22,303**	23,453
		62,596	42,899	**4,238,212**	4,331,990
Investments	14.b	**2,081,936**	2,060,743	**1,180,442**	1,075,009
Property and equipment	15	**28**	30	**13,287**	10,400
Intangible assets	16	**-**	-	**162,858**	157,651
		2,081,964	2,060,773	**1,356,587**	1,243,060
		2,144,560	2,103,672	**5,594,799**	5,575,050
Total assets		**2,285,687**	2,398,173	**7,241,802**	7,384,109

ISA Capital do Brasil S.A.

Balance sheets
March 31, 2014 and December 31, 2013
(In thousands of reais, unless otherwise stated)

		Company		Consolidated	
	Note	03/31/2014	12/31/2013	03/31/2014	12/31/2013
Liabilities and equity					
Current liabilities					
Trade accounts payable		**433**	434	**41,896**	50,790
Loans and financing	17	**1,051**	2,719	**194,209**	195,530
Debentures	18	**-**	-	**190,557**	184,884
Taxes and social charges payable	19	**279**	7,432	**19,161**	27,562
Taxes in installments - Law No. 11941	20	**-**	-	**14,161**	13,915
Regulatory charges payable	22	**-**	-	**49,160**	38,666
Fixed cumulative dividends payable		**-**	25,000	**-**	25,000
Interest on equity and dividends payable		**-**	-	**22,770**	128,481
Provisions	23	**-**	20	**20,036**	28,017
Payables - Law No. 4819/58 - State Finance Department (SEFAZ)	5.a	**7,194**	7,194	**7,194**	7,194
Payables - Law No. 4819/58 - OPA	5.b	**4,153**	4,153	**4,153**	4,153
Payables - Fundação CESP	24	**-**	-	**5,528**	6,091
Other		**4**	-	**13,570**	20,329
		13,114	46,952	**582,395**	730,612
Noncurrent liabilities					
Loans and financing	17	**71,626**	74,146	**460,072**	383,172
Debentures	18	**-**	-	**565,531**	552,756
Taxes in installments - Law No. 11941	20	**-**	-	**135,706**	136,827
Deferred PIS and COFINS	21	**-**	-	**95,866**	117,860
Deferred income and social contribution taxes	31.b	**-**	-	**32,005**	34,547
Regulatory charges payable	22	**-**	-	**26,041**	36,020
Provisions	23	**-**	-	**121,023**	127,898
Payables - Law No. 4819/58 - State Finance Department (SEFAZ)	5.a	**245,532**	245,532	**245,532**	245,532
Payables - Law No. 4819/58 - OPA	5.b	**154,468**	154,468	**154,468**	154,468
Special obligations - reversal/amortization	25	**-**	-	**24,053**	24,053
		471,626	474,146	**1,860,297**	1,813,133
Equity					
Capital	26.a	**840,378**	840,378	**840,378**	840,378
Capital reserves	26.d	**891,092**	983,400	**891,092**	983,400
Goodwill on capital transaction	26.e	**(7,468)**	(7,468)	**(7,468)**	(7,468)
Income reserves	26.f	**60,765**	60,765	**60,765**	60,765
Retained earnings		**16,180**	-	**16,180**	-
		1,800,947	1,877,075	**1,800,947**	1,877,075
Noncontrolling interests		**-**	-	**2,998,163**	2,963,289
Total equity		**1,800,947**	1,877,075	**4,799,110**	4,840,364
Total liabilities and equity		**2,285,687**	2,398,173	**7,241,802**	7,384,109

See accompanying notes.

ISA Capital do Brasil S.A.

Income statements
Quarters ended March 31, 2014 and 2013
(In thousands of reais, unless otherwise stated)

		Company		Consolidated	
	Note	03/31/2014	03/31/2013	03/31/2014	03/31/2013
Operating revenue, net	27	**-**	-	**225,287**	200,818
Cost of construction, operating and maintenance services	28	**-**	-	**(104,636)**	(142,978)
Gross profit		**-**	-	**120,651**	57,840
Operating income (expenses)					
General and administrative expenses	28	**(1,133)**	(1,037)	**(33,941)**	(39,054)
Other operating income (expenses), net	30	**-**	(17,126)	**(7,530)**	(10,067)
Equity pickup	14.c	**32,537**	27,034	**15,163**	20,760
		31,404	8,871	**(26,308)**	(28,361)
Income before financial income (expenses) and income taxes		**31,404**	8,871	**94,343**	29,479
Financial expenses	29	**(11,229)**	(13,217)	**(45,241)**	(67,864)
Financial income	29	**9,719**	11,326	**53,590**	105,003
		(1,510)	(1,891)	**8,349**	37,139
Income before income and social contribution taxes		**29,894**	6,980	**102,692**	66,618
Income and social contribution taxes					
Current	31.a	**-**	-	**(8,374)**	(63,712)
Deferred	31.a	**-**	-	**(11,419)**	48,062
		-	-	**(19,793)**	(15,650)
Net income for the period		**29,894**	6,980	**82,899**	50,968
Attributable to:					
Noncontrolling interests		**-**		**53,005**	43,988
Controlling interests		**29,894**	6,980	**29,894**	6,980
Basic and diluted earnings per share	26.g	**0.0229**	0.0049	**-**	-
Average number of shares in the period	26.g	**1,304,737,321**	1,434,469,504	**-**	-

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of comprehensive income
Quarters ended March 31, 2014 and 2013
(In thousands of reais, unless otherwise stated)

	Company		Consolidated	
	03/31/2014	**03/31/2013**	**03/31/2014**	**03/31/2013**
Net income for the period	**29,894**	6,980	**82,899**	50,968
Other comprehensive income	**-**	-	**-**	-
Comprehensive income for the period	**29,894**	6,980	**82,899**	50,968
Controlling interests	**-**	-	**29,894**	6,980
Noncontrolling interests	**-**	-	**53,005**	43,988

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of changes in equity
Quarters ended March 31, 2014 and 2013
(In thousands of reais, unless otherwise stated)

	Capital	Capital reserve	Goodwill on capital transaction	Income reserve: Legal reserve	Income reserve: Retained profits	Retained earnings	Total equity	Noncontrolling interests	Total consolidated equity
Balances at December 31, 2012	840,378	1,199,400	(7,468)	5,881	125,493	-	2,163,684	3,066,397	5,230,081
Net income for the period	-	-	-	-	-	6,980	6,980	43,988	50,968
Unclaimed dividends of the subsidiary	-	-	-	-	-	-	-	302	302
Other, in subsidiary	-	-	-	-	-	-	-	183	183
Balances at March 31, 2013	**840,378**	**1,199,400**	**(7,468)**	**5,881**	**125,493**	**6,980**	**2,170,664**	**3,110,870**	**5,281,534**
Balances at December 31, 2013	**840,378**	**983,400**	**(7,468)**	**5,881**	**54,884**	**-**	**1,877,075**	**2,963,289**	**4,840,364**
Income for the period	**-**	**-**	**-**	**-**	**-**	**29,894**	**29,894**	**53,005**	**82,899**
Dividends declared by the Company at the Special and Annual General Meeting held on March 31, 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,658)**	**(18,658)**
Unclaimed dividends of the subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**208**	**208**
Expired interest on equity of the subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**118**	**118**
Fixed cumulative dividends paid in February 2014 (Note 26.b)	**-**	**-**	**-**	**-**	**-**	**(13,714)**	**(13,714)**	**-**	**(13,714)**
Redemption of preferred shares (Note 26.d)	**-**	**(92,308)**	**-**	**-**	**-**	**-**	**(92,308)**	**-**	**(92,308)**
Other, in subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**201**	**203**
Balances at March 31, 2014	**840,378**	**891,092**	**(7,468)**	**5,881**	**54,884**	**16,180**	**1,800,947**	**2,998,163**	**4,799,110**

See accompanying notes.

ISA Capital do Brasil S.A.

Cash flow statements
Quarters ended March 31, 2014 and 2013
(In thousands of reais, unless otherwise stated)

	Subsidiary		Consolidated	
	03/31/2014	03/31/2013	03/31/2014	03/31/2013
Cash flow from operating activities				
Net income for the period	**29,894**	6,980	**82,899**	50,968
Adjustments to reconcile net income to cash provided by (used in) operating activities				
Depreciation and amortization (Note 28)	**2**	2	**2,020**	1,822
Deferred income and social contribution taxes (Note 31.b)	**-**	-	**11,419**	(48,062)
Deferred PIS and COFINS (Note 21)	**-**	-	**(21,994)**	4,021
Provision for contingencies (Note 23.a.v)	**-**	-	**(6,875)**	(3,505)
Net cost of permanent assets written off (Note 15)	**-**	-	**1**	2
Unrealized short-term investment yield	**-**	(4,083)	**-**	13,055
Equity pickup (Note 14.c)	**(32,537)**	(27,034)	**(15,163)**	(20,760)
Amortization of concession right (Note 30)	**-**	17,126	**-**	24,598
Tax benefit - merged goodwill (Notes 11 and 30)	**-**	-	**7,471**	-
Amortization of concession asset on acquisition of subsidiary Evrecy (Note 30)	**-**	-	**623**	-
Realization of loss in jointly-controlled subsidiary (Note 30)	**-**	-	**(600)**	(605)
Interest, monetary restatements and foreign exchange fluctuations on assets and liabilities	**(1,736)**	9,113	**33,089**	48,222
	(4,377)	2,104	**92,890**	69,756
(Increase) decrease in assets				
Accounts receivable (concession asset)	**-**	-	**103,803**	1,749,590
Inventories	**-**	-	**3,907**	(16,518)
Interest on equity and dividends received	**64,269**	-	**-**	-
Receivables	**-**	378	**(33,631)**	(45,275)
Taxes and contributions to be offset	**(5,033)**	(1,444)	**4,223**	3,498
Pledges and restricted deposits	**3,262**	2,846	**9,898**	1,130
Prepaid expenses	**-**	-	**(16,586)**	(15,628)
Other	**3**	-	**(5,614)**	(7,342)
	62,501	1,780	**66,000**	1,669,455
Increase (decrease) in liabilities				
Trade accounts payable	**(1)**	57	**(8,894)**	(5,385)
Taxes and social charges payable	**(7,153)**	(216)	**(8,402)**	(116,617)
Taxes in installments - Law No. 11941	**-**	-	**(3,520)**	(3,312)
Regulatory charges payable	**-**	-	**30**	(2,715)
Provisions	**-**	-	**(7,961)**	(7,932)
Payables - Law No. 4819 and Fundação CESP	**-**	-	**(563)**	(105)
Other	**4**	-	**(6,755)**	(5,501)
	(7,150)	(159)	**(36,065)**	(141,567)
Net cash provided by (used in) operating activities	**50,974**	3,725	**122,825**	1,597,644
Cash flow from investing activities				
Redemptions of short-term investment (Note 7)	**63,590**	90,339	**160,900**	(1,302,648)
Property and equipment (Note 15)	**-**	-	**(3,513)**	(2,071)
Intangible assets (Note 16)	**-**	-	**(7,225)**	(1,308)
Investments (Note 14.1.b)	**-**	-	**(90,270)**	(2,550)
Net cash provided by (used in) investing activities	**63,590**	90,339	**59,892**	(1,308,577)
Cash flow from financing activities				
Additions to loans (Note 17)	**-**	-	**124,468**	200,000
Loan repayments, including interest (Notes 17 and 18)	**(3,398)**	(2,827)	**(61,345)**	(693,731)
Redemptions of preferred shares	**(92,308)**	-	**(92,308)**	-
Gain (loss) on derivative financial instruments	**-**	-	**-**	(386)
Dividends and interest on equity paid	**(25,000)**	(21,334)	**(160,218)**	(21,340)
Net cash used in financing activities	**(120,706)**	(24,161)	**(189,403)**	(515,457)
Net increase (decrease) in cash and cash equivalents	**(6,142)**	69,903	**(6,686)**	(226,390)
Cash and cash equivalents at end of period	**55,330**	197,227	**59,056**	210,537
Cash and cash equivalents at beginning of period	**61,472**	127,324	**65,742**	436,927
Changes in cash and cash equivalents	**(6,142)**	69,903	**(6,686)**	(226,390)

See accompanying notes.

1. Operations

1.1. Business purpose

ISA Capital do Brasil S.A. (“ISA Capital” or “Company”) is a Brazilian holding incorporated as a limited liability company on April 28, 2006, and turned into a corporation on September 19, 2006. Subsequently, on January 4, 2007, the Brazilian Securities and Exchange Commission (CVM) approved its registration as a publicly-held company. ISA Capital was a publicly-held company until May 27, 2010, when the Company’s shareholders decided to cancel its registration with CVM.

The Company’s business purpose includes holding equity interest in other companies or ventures, as a member or shareholder, partnership in joint ventures, membership in consortiums, or any type of business cooperation.

At a privatization auction held on June 28, 2006 on the São Paulo Stock Exchange (BOVESPA), pursuant to Notice SF/001/2006, the São Paulo State Government, which was the majority shareholder of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista (“CTEEP”) up to then, sold 31,341,890,064 of its common shares, which account for 50.10% of the common shares issued by CTEEP. The winner of the auction was Interconexión Eléctrica S.A. E.S.P. (“ISA”).

The financial settlement of the transaction took place on July 26, 2006 with the resulting transfer of the ownership of the aforementioned shares to ISA Capital, a Brazilian company controlled by Interconexión Eléctrica S.A. E.S.P., established to operate in Brazil, thus becoming CTEEP’s controlling shareholder. This transaction was approved by the ANEEL on July 25, 2006, pursuant to Authorizing Resolution No. 642/06, published in the Official Gazette on July 26, 2006.

On September 12, 2006, the Company purchased another 10,021,687 common shares issued by CTEEP, held by the São Paulo State Government, thus holding 31,351,911,751 common shares.

On January 9, 2007, the Company acquired, through a public offering auction (OPA) for the acquisition of shares held on BOVESPA, 24,572,554,070 common shares issued by CTEEP, corresponding to 39.28% of the total of this type of shares, pursuant to the public offering notice published on December 4, 2006.

As a result of this acquisition the Company became the holder of 55,924,465,821 common shares, equivalent to 89.40% of the voting capital and 37.46% of the total capital of CTEEP. Thus, after the CTEEP’s reverse stock split on July 12, 2007, the Company became the holder of 55,924,465 common shares.

1. Operations (Continued)

1.1. Business purpose (Continued)

The Company later contributed with 1,727,517 common shares to CTEEP's capital, 574,927 of which on August 24, 2009, 594,477 on April 23, 2010 and 558,113 on December 21, 2011. That contribution results from the tax benefit granted to CTEEP for partial amortization of the special goodwill reserve for the years 2008, 2009 and 2010. By means of the public tender for excess shares held in 2011 by CTEEP, the Company acquired 63,146 common shares. On June 29, 2012 and July 5, 2012, ISA Capital sold 920 shares. Consequently, at March 31, 2014 and December 31, 2013, the Company holds 57,714,208 common shares (57,714,208 common shares at December 31, 2013), which are equivalent to 37.81% of CTEEP's total capital and 89.50% of its voting capital.

On March 9 and 19, 2010, in order to restructure its foreign-currency-denominated debt contracts (bonds), the Company increased capital twice by issuing preferred shares at the price of R$2.020731 per share, fully subscribed by HSBC Finance (Brasil) S.A. Banco Múltiplo, as follows:

(i) At the Special General Meeting held on March 9, 2010, under Board of Directors' Proposal terms dated March 8, 2010, Company's capital increase by R$840,000 was approved, R$420 of which were allocated to capital and R$839,580 allocated to capital reserve, by creating and issuing 415,691,162 redeemable preferred shares distributed into 13 classes, entitled to fixed cumulative dividends, which were subscribed and paid up on the same date. Accordingly, Company's capital increased from R$839,778 to R$840,198, represented by 1,256,316,162 shares. In the same meeting, mandatory dividend reduction from 25% to 1% and amendment to the Company's Articles of Incorporation were also approved; and

(ii) At the Board of Directors' Meeting held on March 19, 2010, a new capital increase was approved within authorized capital limit, by issuing 178,153,342 redeemable preferred shares distributed into 13 classes, entitled to fixed cumulative dividends, amounting to R$360,000, which were fully subscribed and paid up on the same date, R$180 of which were allocated to the Company's capital and R$359,820 to capital reserve.

In addition, on March 9, 2010, as an integral part of this operation, a Shareholders' Agreement was entered into between ISA and HSBC, as intermediated by ISA Capital, so that rights and obligations were established to be observed by the parties, including the Company.

1. **Operations** (Continued)

1.1. **Business purpose** (Continued)

Later, on May 14, 2010, shareholder HSBC, then holder of 593,844,504 preferred shares issued by the Company, sold 50% thereof to Banco Votorantim S.A. ("Votorantim") that on the same date adhered to said Shareholders' Agreement.

From 2013, as provided in the schedule for redemption of preferred shares contained in the Company's Articles of Incorporation, ISA Capital started to redeem these shares. Classes A, B, C and D shares were redeemed, respectively, on April 12, July 4, October 4, 2013 and January 6, 2014. Thus, after these redemptions, 441,272,148 preferred shares remained held by shareholders HSBC and Votorantim at the proportion of 50% each.

On February 25, 2014, the First Amendment to the Shareholders' Agreement was entered into by them, when ISA Capital held a Special General Meeting to approve (i) the conversion of redeemable preferred shares then existing into new classes; and (ii) change in articles 5 and 6 of the Articles of Incorporation, as well as its restatement. Further details are shown in Note 26.a.

On February 28, 2014, preferred shareholder HSBC transferred the entirety of its preferred shares to HSBC BANK BRASIL S.A. - Banco Múltiplo ("HSBC BANK").

On March 5, 2014, preferred shareholder Votorantim sold the entirety of its preferred shares to BV FINANCEIRA S.A. - Crédito, Financiamento e Investimento ("BV FINANCEIRA").

Subsidiary CTEEP shares are traded in the São Paulo Stock Exchange (BM&FBOVESPA). In addition, subsidiary CTEEP established the US program "American Depositary Receipts - ADRs" - Rule 144. The ADRs depositary is The Bank of New York and Banco Itaú S.A. is the custody bank.

(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

1.2. Concessions

The Company is entitled to explore, either directly or indirectly, the following Public Service Concession Arrangements for Electric Power Transmission:

					Periodic tariff review				Annual Revenue Allowed (RAP)	
Concession operator	Arrangement	Interest (%)	Term (years)	Maturity date	Term	Next	RAP in step	Restatement index	R$ thousand	Base month
CTEEP	059/2001		30	12/31/1942	5 years	2018	No	IPCA	524,952	06/13
CTEEP	143/2001		30	12/20/1931	N/a	n/a	Yes	IGPM	17,104	06/13
IEMG	004/2007	100	30	04/23/1937	5 years	2017	Yes	IPCA	14,636	06/13
Pinheiros	012/2008	100	30	10/15/1938	5 years	2014	No	IPCA	9,003	06/13
Pinheiros	015/2008	100	30	10/15/1938	5 years	2014	No	IPCA	17,874	06/13
Pinheiros	018/2008	100	30	10/15/1938	5 years	2014	No	IPCA	3,543	06/13
Pinheiros	021/2011	100	30	12/09/1941	5 years	2017	No	IPCA	4,886	06/13
Serra do Japi	026/2009	100	30	11/18/1939	5 years	2015	No	IPCA	29,340	06/13
Evrecy	020/2008	100	30	07/17/2025	4 years	2017	No	IGPM	8,821	06/13
IENNE	001/2008	25	30	03/16/1938	5 years	2018	No	IPCA	33,654	06/13
IESul	013/2008	50	30	10/15/1938	5 years	2014	No	IPCA	4,210	06/13
IESul	016/2008	50	30	10/15/1938	5 years	2014	No	IPCA	7,015	06/13
IEMadeira	013/2009	51	30	02/25/1939	5 years	2014	No	IPCA	233,173	06/13
IEMadeira (*)	015/2009	51	30	02/25/1939	5 years	2014	No	IPCA	200,812	06/13
IEGaranhuns (*)	022/2011	51	30	12/09/1941	5 years	2017	No	IPCA	76,521	06/13

(*) Subsidiaries IEMadeira (lot F) and IEGaranhuns are in preoperating phase.

All service concession arrangements above provide for the indemnification right on concession-related assets upon expiration thereof. Periodic tariff review arrangements provide for the remuneration right on investments under extension, reinforcements and improvements.

<u>Law No. 12783/2013</u>

On September 12, 2012, Provisional Executive Order No. 579/2012 (MP No. 579) was published, which governed the extension of electric power generation, transmission and distribution concessions, granted before publication of Law No. 8987 of 1995, and addressed by Law No. 9074 of 1995. On September 14, 2012, Decree No. 7805 was published, which governed MP No. 579.

1. Operations (Continued)

1.2. Concessions (Continued)

Law No. 12783/2013 (Continued)

Under MP No. 579, electric power generation, transmission and distribution concessions, overdue or falling due 60 months after publication of such MP, could mature in December 2012, extendable, at the Granting Authority's discretion, only once, for up to 30 years. However, for transmission activities, the extension would depend on express acceptance of the following main conditions, among others: i) revenue determined under ANEEL's criteria; ii) amounts established for assets subject to indemnification; and iii) Adopting the service quality standard established by ANEEL.

On November 1, 2012, the Ministry of Mines and Energy published:

(i) Interministerial Ruling No. 580, which determined the indemnification for energized facilities as from June 1, 2000 (NI), at the prices for October 2012 for electric power transmission concessions, totaling R$2,891,291 for service concession arrangement No. 059/2001 (single arrangement addressed by such MP), under Attachment II of such Ruling.

(ii) Interministerial Ruling No. 579, which determined RAP as from January 1, 2013, based on October 2012, amounting to R$515,621 (net of PIS and COFINS), for service concession arrangement No. 059/2001, under Attachment of such Ruling.

On November 29, 2012, Provisional Executive Order No. 591 (MP No. 591) was published, amending MP No. 579, in order to authorize the payment of amounts related to existing nondepreciated assets on May 31, 2000 (SE) by the Granting Authority, within 30 years. An opinion from the Granting Authority on the determination of the amount and payment method is pending. Pursuant to ANEEL Technical Note No. 402/2013, on December 20, 2013, subsidiary CTEEP registered the activity schedule, with delivery of the final report expected for 2014, by an approved advisor. Such report will be reviewed by ANEEL and serves as a basis for defining the amounts to be paid for the assets of the Existing Service (ES).

At the Special General Meeting held on December 3, 2012, CTEEP's shareholders in unanimously approved the extension of service concession arrangement No. 059/2001.

1. **Operations** (Continued)

1.2. **Concessions** (Continued)

Law No. 12783/2013 (Continued)

On December 4, 2012, the amendment to service concession arrangement No. 059/2001 was executed by CTEEP, with the option of receiving the indemnification, amounting to R$2,891,291 for NI, under Interministerial Ruling No. 580, as follows:

- 50% in cash, payable within 45 days after the execution of the amendment to the service concession arrangement, adjusted by reference to IPCA (Note 39(d)); On January 18, 2013, subsidiary CTEEP received the amount of R$1,477,987.
- 50% in monthly installments, payable until the expiration of the service concession arrangement in force on the date of publication of this Ruling, i.e., until July 7, 2015, adjusted by reference to IPCA, plus Weighted Average Cost of Capital (WACC) remuneration of 5.59% p.a., from the first day of the month the amendment to the service concession arrangement was executed.

On January 11, 2013, MPs No. 579 and No. 591 were signed into Law No. 12783/2013.

On April 4, 2013, the Provision Executive Order No. 612 was published, which reduced to zero the contribution for PIS/PASEP and COFINS on indemnifications addressed by Law No. 12786/2013.

Interest in consortium

(i) *Extremoz Transmissora do Nordeste - ETN*

On June 10, 2011, through ANEEL auction No. 001/2011, in a public session held on BM&FBOVESPA, Extremoz consortium, comprising CTEEP (51%) and Companhia Hidro Elétrica do São Francisco - Chesf (49%), bought batch A, comprising LT Ceará-Mirim - João Câmara II, of 500 kV with 64 km; LT Ceará-Mirim - Campina Grande III, of 500 kV with 201 km; LT Ceará-Mirim - Extremoz II, of 230 kV with 26 km; LT Campina Grande III - Campina Grande II, with 8.5 km; SE João Câmara II of 500 kV, SE Campina Grande III of 500/230 kV and SE Ceará-Mirim of 500/230 kV. On July 7, 2011, Extremoz Transmissora do Nordeste - ETN S.A. was organized, considering the same equity interest, in order to explore the service conceded.

1. **Operations** (Continued)

1.2. **Concessions** (Continued)

Interest in consortium (Continued)

(i) *Extremoz Transmissora do Nordeste - ETN* (Continued)

This project involves estimated investment of R$622.0 million and RAP of R$31.9 million, as of June 2011. CTEEP's equity interest in the venture is 51%. Subsidiary CTEEP expressed its intention to withdraw from the consortium, which was accepted by the other shareholders and will be carried out after ANEEL's approval.

2. Presentation of financial statements

2.1. Basis of preparation and presentation

The individual quarterly information identified as "Company" was prepared and is presented in accordance with accounting practices adopted in Brazil, which comprise provisions contained in the Brazilian Corporation Law, pronouncements, interpretations and guidance issued by the Brazilian Financial Accounting Standards Board ("CPC") and approved by the Brazilian Securities and Exchange Commission ("CVM"). In compliance with current Brazilian legislation, these individual quarterly information presents measurement of investments in subsidiaries and in joint ventures by the equity method. Accordingly, the individual quarterly information is not considered to be in accordance with International Financial Reporting Standards ("IFRS"), which require the measurement of these investments at fair value or cost of acquisition in separate financial statements.

The consolidated quarterly information identified as "Consolidated" was prepared and is presented in accordance with accounting practices adopted in Brazil, which comprise provisions contained in the Brazilian Corporation Law, pronouncements, interpretations and guidance issued by the Brazilian FASB (CPC) and approved by the CVM, which are in compliance with IFRS issued by the International Accounting Standards Board (IASB).

Both individual and consolidated quarterly information was prepared based on historical cost, unless otherwise stated, as described in the accounting practices of the annual financial statements for 2013. The historical cost is generally based on the fair value of the consideration paid in exchange for assets.

2. Presentation of financial statements (Continued)

2.1. Basis of preparation and presentation (Continued)

All amounts presented in this financial information are in thousands of reais, unless otherwise stated.

Nonfinancial data included in this financial information, such as power volume, projections or estimates and insurance have not been audited by the independent auditors.

2.2. Functional and reporting currency

The financial statements of the parent company and each subsidiary, included in the consolidated financial statements, are stated in Brazilian reais, which is the currency of the main economic environment in which the these companies operate (“functional currency”).

2.3. Significant accounting judgments, estimates and assumptions

According to CVM/SNC/SEP Memorandum Circular No. 03/2011, the Company declares that significant accounting judgments, estimates and assumptions, as well as significant accounting practices are the same as those disclosed in the annual financial statements for 2013. Therefore, the corresponding information must be read jointly with Notes 2.3 and 3 to those financial statements. In 2014, subsidiary Interligação Elétrica Pinheiros S.A. (Pinheiros) discontinued the taxable profit regime and elected the regime whereby profit is computed as a percentage of the company’s gross revenue for income and social contribution tax determination purposes.

2.4. Consolidation procedures

The consolidated quarterly information comprises the quarterly information of subsidiary CTEEP and its subsidiaries.

Control is obtained when the Company is entitled to control financial and operating policies of an entity to enjoy benefits arising from the activities thereof.

The subsidiaries are fully consolidated as from the date the full control begins up to the date it ceases. Note 14.1.a discloses more detailed information on these subsidiaries.

(In thousands of reais, unless otherwise stated)

2. Presentation of financial statements (Continued)

2.4. Consolidation procedures (Continued)

At March 31, 2014 and December 31, 2013, interest held in subsidiaries was as follows:

	Quarterly information reporting date	Interest % 03/31/2014	Interest % 12/31/2013
Direct			
CTEEP	03/31/2014	37.81	37.81
Indirect			
Interligação Elétrica Pinheiros S.A. (Pinheiros)	03/31/2014	37.81	37.81
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	03/31/2014	37.81	37.81
Interligação Elétrica de Minas Gerais S.A. (IEMG)	03/31/2014	37.81	37.81
Evrecy Participações Ltda. (Evrecy)	03/31/2014	37.81	37.81

The following procedures were adopted in preparing the consolidated quarterly information:

- Elimination of the subsidiaries' equity;
- Elimination of equity pickup; and
- Elimination of asset and liability balances, revenues and expenses among the consolidated companies.

Accounting practices were consistently applied in all consolidated subsidiaries and the fiscal year of these subsidiaries is the same of the Company.

Due to adoption of pronouncements CPC 19 (R2) and CPC 36 (R3), whose application was mandatory for January 1, 2013, investments in jointly-controlled subsidiaries are no longer proportionally consolidated by CTEEP and are now accounted for by the equity method.

At March 31, 2014 and December 31, 2013, indirect interest held in jointly-controlled subsidiaries was as follows:

	Quarterly information reporting date	Interest % 03/31/2014	Interest % 12/31/2013
Jointly-controlled subsidiary			
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	03/31/2014	9.45	9.45
Interligação Elétrica do Sul S.A. (IESul)	03/31/2014	18.91	18.91
Interligação Elétrica do Madeira S.A. (IEMadeira)	03/31/2014	19.28	19.28
Interligação Elétrica Garanhuns S.A. (IEGaranhuns)	03/31/2014	19.28	19.28

3. Summary of significant accounting practices

The Company declares that information on significant accounting practices remains valid for this Interim Financial Information and the content of this information can be found in Note 3 to the financial statements for 2013.

4. New and revised standards and interpretations not yet adopted

The Company and its subsidiaries have adopted all (new or revised) pronouncements and interpretations issued by the Brazilian FASB (CPC), which were effective at March 31, 2014.

No new pronouncements were disclosed, other than those mentioned in the financial statements for 2013.

5. Obligations assumed upon acquisition of subsidiary CTEEP

According to the share purchase and sale agreement, subject-matter of the privatization auction mentioned in Note 1, the Company is committed to supplementing payment for CTEEP share purchase price should CTEEP be released from the burden related to the supplementary retirement plan payments set forth in Law No. 4819/58, currently discussed in court.

At March 31, 2014, the amount to supplement purchase price comprises two different transactions, as follows:

(a) R$252,726 (R$252,726 at December 31, 2013), determined upon acquisition of the first equity interest through the privatization auction held on June 28, 2006, recorded in “Payables - Law No. 4819/58 - State Finance Department (SEFAZ)”, R$7,194 (R$7,194 at December 31, 2013) in current liabilities and R$245,532 (R$245,532 at December 31, 2013) in noncurrent liabilities, the matching entry of which, amounting to R$188,895, was “Investments - goodwill on acquisition of equity interest in subsidiary”, and the difference of R$63,831 was recognized in the income statement as monetary restatement of the obligation, in accordance with the Extended Consumer Price Index (IPC-A) as from December 31, 2005.

(In thousands of reais, unless otherwise stated)

5. Obligations assumed upon acquisition of subsidiary CTEEP (Continued)

R$158,621 (R$158,621 at December 31, 2013), determined upon acquisition of the third equity interest through public offering auction (OPA), held on January 9, 2007, recorded in "Payables - Law No. 4819/59 - OPA", R$4,153 (R$4,153 at December 31, 2013) in current liabilities and R$154,468 (R$154,468 at December 31, 2013) in noncurrent liabilities, the matching entry of which, amounting to R$120,306, was "Investments - goodwill on acquisition of equity interest in subsidiary", and the difference of R$38,315 was recognized in the income statement as monetary restatement of the obligation, in accordance with the Extended Consumer Price Index (IPC-A) as from December 31, 2005.

6. Cash and cash equivalents

	Company		Consolidated	
	03/31/2014	**12/31/2013**	**03/31/2014**	**12/31/2013**
Cash and banks	**271**	162	**1,440**	1,156
Cash equivalents	**55,059**	61,310	**57,616**	64,586
	55,330	61,472	**59,056**	65,742

i) Breakdown of cash equivalents is as follows:

		Company		Consolidated	
	% of CDI	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**
Bank Deposit Certificate (CDB)	95.0% to 106.0	**-**	-	**2,557**	2,645
Repurchase agreements (*)	95.0% to 104.0	**55,059**	61,310	**55,059**	61,941
		55,059	61,310	**57,616**	64,586

Short-term investments in CDB and repurchase agreements are measured at fair value through profit or loss and have daily liquidity.

Company management's analysis of the exposure of these assets to interest rate risks, among others, is disclosed in Note 33.c.

(*) Repurchase agreements are notes issued by banks, provided that the issuing bank repurchases such note and the customer sells it at predefined rates and periods, guaranteed by private or public notes, depending on the bank's availability, and are registered with the Clearing House for the Custody and Financial Settlement of Securities (CETIP).

(In thousands of reais, unless otherwise stated)

7. Short-term investments

		Company		Consolidated	
	% of CDI	03/31/2014	12/31/2013	03/31/2014	12/31/2013
Bank Deposit Certificate (CDB)	90.0% to 106.0%	**19,814**	83,404	**19,814**	83,404
Investment funds					
Financial Treasury Bills (LFT)		**-**	-	**99,724**	111,918
National Treasury Bills (LTN) / National Treasury Notes (NTN) (Over)		**-**	-	**222,343**	287,172
Finance Bill		**-**	-	**123,042**	145,661
Bank Deposit Certificate (CDB)		**-**	-	**19,590**	22,832
Debentures	102.0% to	**-**	-	**26,150**	19,011
Other private notes	103.0%	**-**	-	**7,597**	9,162
		-	-	**498,446**	595,756
		19,814	83,404	**518,260**	679,160

Subsidiary CTEEP and its subsidiaries concentrate their financial investments in investment funds, which refer to highly liquid investment fund shares, readily convertible into a known cash amount, irrespective of the maturity of assets.

Investment funds are:

Bandeirantes Investment Fund by reference to Interbank Deposit (DI) fund established for exclusive investment by subsidiary CTEEP and its subsidiaries, administered by Banco Bradesco, the portfolio of which is comprised of shares of Rubi Investment Fund by reference to Interbank Deposit (DI), which, in its turn, has portfolio comprising the following assets: investments in demand deposits, government securities and repurchase agreements in government securities. It has daily liquidity, irrespective of assets comprising Rubi Fund, as established in the Bandeirantes Fund regulation.

Xavantes Investment Fund by reference to Interbank Deposit (DI) fund established for exclusive investment by subsidiary CTEEP and its subsidiaries, administered by Banco Itaú-Unibanco, the portfolio of which is comprised of shares of Corp Investment Fund by reference to DI, which, in its turn, has portfolio comprising the following assets: government securities and repurchase agreements in government securities. It has daily liquidity, irrespective of assets comprising Corp Fund, as established in Xavantes Fund regulation.

(In thousands of reais, unless otherwise stated)

8. Accounts receivable (concession asset)

Contingencies are as follows:

	Consolidated	
	03/31/2014	**12/31/2013**
O&M		
Accounts receivable - O&M services (a)	**102,057**	86,541
	102,057	86,541
Financial assets		
Accounts receivable - construction services (b)	**1,438,510**	1,415,379
Accounts receivable for reversal (c)	**74,226**	73,698
	1,512,736	1,489,077
Indemnification asset - Law No. 12783		
Accounts receivable - Law No. 12783 (SE/NI) (d)	**3,785,665**	3,928,043
Provision for decrease in cost value (d)	**(1,535,319)**	(1,535,319)
	2,250,346	2,392,724
	3,865,139	3,968,342
Current	**768,014**	749,388
Noncurrent	**3,097,125**	3,218,954

(a) O&M - Operation and Maintenance refers to the portion of monthly billing reported by ONS allocated to compensation for operation and maintenance services, receivable within less than 60 days, on average.

(b) Receivables from construction, extension, reinforcement and improvement services of electric power transmission facilities up to the termination of each service concession arrangement in force, to which the Company and its subsidiaries are signatories, adjusted to present value and remunerated by the effective interest rate.

(c) Accounts receivable for reversal - these refer to the estimated portion of investments made and not amortized up to the termination of the service concession arrangements in force and for which subsidiary CTEEP and its subsidiaries will be entitled to receive cash or other financial asset, upon termination of the service concession arrangements.

(d) Accounts receivable - Law No. 12783 - these refer to the amount receivable for reversal of investments made and not amortized of the service concession arrangement No. 059/2001 subdivided into NI and SE:

Reversal of facilities for NI corresponds to R$2,949,121, R$2,891,291 of which for the New Replacement Cost (VNR) determined and R$57,830 for remuneration by IPCA + WACC of 5.59% p.a., as provided for by Interministerial Ruling No. 580. Fifty per cent (50%) of this amount was received on January 18, 2013 and the remaining 50% are currently received in 31 monthly installments until July 7, 2015 (Note 1.2).

Reversal of the facilities for SE, not yet disclosed by the Granting Authority, corresponds to estimated investments by the New Replacement Cost (VNR) adjusted by accumulated depreciation through December 31, 2012, amounting to R$3,026,305 based on an independent valuation report. As mentioned in Note 3.7 to the annual financial statements for 2013, a new report is being prepared. CTEEP understands that it is entitled to receive the amount determined by the VNR; however, a provision for infrastructure construction cost adjustment was set up, considering ANEEL's guidance under order No. 155 of January 23, 2013, which provides for the maintenance of the cost value, until the new report result, which will be delivered in 2014.

(In thousands of reais, unless otherwise stated)

8. Accounts receivable (concession asset) - Continued

The aging list of accounts receivable is as follows:

	Consolidated	
	03/31/2014	**12/31/2013**
Falling due	**3,835,683**	3,938,946
Overdue		
Within 30 days	**66**	127
From 31 to 60 days	**77**	30
From 61 to 360 days	**341**	1,616
Above 361 days (i)	**28,972**	27,623
	29,456	29,396
	3,865,139	3,968,342

(i) Certain system members challenged balances billed in connection with the Basic Electric Power Grid. By virtue of this challenge, judicial deposits were made of amounts owed by such members. Subsidiary CTEEP believes that the amounts billed are in line with regulators' authorizations. Therefore, it does not record any provision for losses related to such challenges.

Subsidiary CTEEP has no history of losses on accounts receivable, which are secured by structures of guarantees and/or access to current accounts operated by the National System Operator (ONS) or directly by subsidiary CTEEP. Therefore, it did not set up any allowance for doubtful accounts.

Changes in accounts receivable are as follows:

	Consolidated
Balances at December 31, 2013	**3,968,342**
Construction revenue (Note 27.1)	40,714
Financial income (Note 27.1)	38,159
Operation and maintenance revenue (Note 27.1)	168,114
Restatement of accounts receivable - IPCA/WACC reversal	30,204
Accounts received - NI reversal	(172,582)
Receipts	(207,812)
Balances at March 31, 2014	**3,865,139**

(In thousands of reais, unless otherwise stated)

9. Receivables - State Finance Department (SEFAZ)

	Consolidated	
	03/31/2014	**12/31/2013**
Payroll processing - Law No. 4819/58 (a)	**966,241**	933,501
Labor claims - Law No. 4819/58 (b)	**226,672**	225,781
Provision for losses on realization of credits (c)	**(516,255)**	(516,255)
Family allowance - Law No. 4819/58 (d)	**2,218**	2,218
Provision for losses on realization of credits - family allowance (d)	**(2,218)**	(2,218)
	676,658	643,027

(a) These refer to receivables to settle the payroll portion of the supplementary retirement plan governed by State Law No. 4819/58, from January 2005 to March 2014 (Note 36). Such balance is not monetarily restated and no yields are recorded until a final decision is handed down to the proceedings. Increase against the previous year is related to compliance with the decision handed down by the 49th Labor Court, on which subsidiary CTEEP, in the condition of party whom notice has been served, monthly pass on the amounts to Fundação CESP for retirees payroll processing.

(b) These refer to certain labor claims settled by Subsidiary CTEEP, relating to retired employees supported by State Law No. 4819/58, which are the responsibility of the São Paulo State Government. Such balance is not monetarily restated and no yields are recorded until all criteria are defined with SEFAZ-SP (State Finance Department).

(c) Due to the events occurred in subsidiary CTEEP over 2013, namely: (i) change in the expected time of realization of part of assets, on account of the dismissal, without prejudice, of the collection lawsuit of amounts due by São Paulo State Federal Government, as well as other changes occurred in the proceeding, as described in Note 36; (ii) the recognition of the Regular Legal Court as the competent court to discuss the matter under concern, based on the leading case at the Federal Supreme Court of Brazil (STF) under judgment of appeal in respect of legal discussions of other parties unrelated to this proceeding, as described in Note 36; and (iii) the legal progress of other proceedings relating to Law No. 4819/58, for instance, the recognition of the effective transfers from SEFAZ-SP to subsidiary CTEEP of certain amounts that had been disallowed until April 2013, as described in Note 36; management of subsidiary CTEEP reviewed the amounts receivable relating to Law No. 4819/58 and recorded a provision for losses on realization of part of receivables, corresponding to the portions not recognized as sole responsibility of SEFAZ-SP, described in item (iii) above.

(d) CESP made advances for payment of monthly expenses relating to family allowance, arising from State Law No. 4819/58 benefits, which were transferred to subsidiary CTEEP upon CESP split-off. Considering the expected loss, CTEEP management set up a provision for losses amounting to R$2,218.

10. Taxes and contributions to offset

	Company		Consolidated	
	03/31/2014	**12/31/2013**	**03/31/2014**	**12/31/2013**
Income tax recoverable	**-**	19,477	**34,538**	60,036
Social contribution tax recoverable	**-**	4,350	**16,507**	20,948
Withholding Income Tax (IRRF)	**30,286**	1,428	**40,482**	15,260
Withholding social contribution	**123**	121	**534**	524
COFINS	**-**	-	**1,394**	1,013
PIS	**-**	-	**256**	174
Other	**-**	-	**236**	186
	30,409	25,376	**93,947**	98,141
Current	**320**	14,984	**63,858**	87,749
Noncurrent	**30,089**	10,392	**30,089**	10,392

(In thousands of reais, unless otherwise stated)

11. Tax benefit - goodwill merged of the Company - consolidated

The goodwill paid by ISA Capital on acquisition of CTEEP's shareholding control is economically based on the expected profitability over the exploration of service concession arrangements No. 059/2001 and 143/2001, originating from acquisition of the concession right granted by the Granting Authority, under item b, second paragraph, article 14 of CVM Rule No. 247 of March 27, 1996, as amended by CVM Rule No. 285 of July 31, 1998.

CTEEP, for amortization of goodwill not to adversely impact the dividend flow to shareholders, set up a Provision for Maintenance of Equity Integrity (PMIPL) of its acquirer and a Special Merger Goodwill Reserve to CTEEP's financial statements, in accordance with CVM Rule No. 349 of March 6, 2001.

Accordingly, amortization of goodwill, net of reversal of such provision and corresponding tax credit, has no effect on P&L for the year or on the dividend calculation basis.

Goodwill, which at December 31, 2007 totaled R$ 689,435, will be substantially amortized up to July 2015, in monthly installments, as authorized by ANEEL Resolution No. 1164, of December 18, 2007, as follows:

	Amortization - % p.a.		
	Service concession arrangement		
Year	059/2001	143/2001	Total
2008 to 2012	12.20	0.10	12.30
2013 to 2015	12.73	0.02	12.75
2016 to 2031	-	0.25	0.25

In order to better present the financial position of subsidiary CTEEP in its consolidated quarterly information, net amount of R$52,888 (R$60,359 at December 31, 2013), which essentially represents the merged tax credit, was classified in the balance sheet in noncurrent assets - long-term receivables - as tax benefit - merged goodwill, based on its expected realization.

Changes in the quarter ended March 31, 2014 are as follows:

	Goodwill	Provision	Net
Balances at December 31, 2013	**177,531**	**(117,172)**	**60,359**
Realization for the period (Note 30)	(21,976)	14,505	(7,471)
Balances at March 31, 2014	**155,555**	**(102,667)**	**52,888**

(In thousands of reais, unless otherwise stated)

12. Loans receivable

Breakdown of loans and financing balances is as follows:

			Company	
Foreign currency	**Charges**	**Final maturity date**	**03/31/2014**	**12/31/2013**
Interconexión Elétrica S.A. E.S.P. ("ISA") (a)	LIBOR + 3% p.a.	12/28/2014	**54,320**	55,764
Total in foreign currency			**54,320**	55,764
Current			**54,320**	55,764
Noncurrent			**-**	-

(a) This refers to a loan granted by ISA CAPITAL to its parent company Interconexión Eléctrica S.A. ESP ("ISA"), for the full onlending of the loan obtained by the Company in 2006 denominated in US dollars, originally amounting to US$23,800 thousand, whose maturity in a lump sum was on July 19, 2007 and interest was calculated based on LIBOR, plus 3.00% p.a. The Company maintained the same assumptions for the restatement of such transaction, bearing semi-annual interest thereon; however, principal is to be repaid within eight years in a lump sum payable on December 28, 2014.

Changes in loans and financing are as follows:

	Company
Balances at December 31, 2013	**55,764**
Interest and exchange and monetary variations	(1,444)
Balances at March 31, 2014	**54,320**

13. Pledges and restricted deposits

Company

These refer to a deposit in Bank of New York to guarantee interest paid biannually, which are related to bonds remaining after debt restructure, and USD 1.4 million shall be maintained in the account. As provided for by agreement, the Company has used the funds from that account to make interest payments, in January and July, and after each payment the account balance is pushed back. The balance of R$3,262 recorded in current assets at December 31, 2013 was used for interest payment for January 2014.

Within the legal term contractually established, the account balance was pushed back with a deposit amounting to R$3,121 on April 14, 2014.

(In thousands of reais, unless otherwise stated)

13. Pledges and restricted deposits (Continued)

Consolidated

In noncurrent assets, in view of the uncertainties about the outcome of the lawsuits to which the deposits refer, subsidiary CTEEP and its subsidiaries maintain these deposits at their nominal value, not recording any type of monetary restatement or interest thereon. Breakdown of the balance is as follows:

	Company		Consolidated	
	03/31/2014	03/31/2013	03/31/2014	03/31/2013
Notice for violation - ANEEL	**-**	-	**9,545**	9,545
Judicial deposits				
Labor	**-**	-	**58,875**	65,511
Social security - INSS	**-**	-	**1,226**	1,226
Deposit - Bank of New York (guarantee)	**-**	3,262	**-**	3,262
	-	3,262	**69,646**	79,544
Current	**-**	3,262	**-**	3,262
Noncurrent	**-**	-	**69,646**	76,282

There was no change in the nature of judicial deposits in relation to those disclosed in the financial statements as at December 31, 2013.

14. Investments

a) Information on subsidiary CTEEP

	03/31/2014	12/31/2013
Number of outstanding shares at the balance sheet date		
Common registered shares	**64,484,433**	64,484,433
Preferred registered shares	**88,177,132**	88,177,132
Total	**152,661,565**	152,661,565
Equity		
Capital	**2,000,000**	2,000,000
Capital reserves	**1,217,661**	1,217,661
Special goodwill reserve	**147,912**	147,912
Income reserves	**1,516,874**	1,516,874
Additional dividends proposed	**-**	30,000
Retained earnings	**86,065**	-
Total	**4,968,512**	4,912,447
Net income for the period (quarter)	**85,542**	71,022

(In thousands of reais, unless otherwise stated)

14. Investments (Continued)

b) Information on investments of the Company

	03/31/2014	12/31/2013
Number of outstanding shares at the balance sheet date	**57,714,208**	57,714,208
CTEEP's equity	**4,968,512**	4,912,447
(-) Special goodwill reserve	**(147,912)**	(147,912)
CTEEP's equity (equity pickup base)	**4,820,600**	4,764,535
Percentage of ownership interest in CTEEP	**37,8053%**	37,8053%
Investment	**1,822,442**	1,801,249
Goodwill to be amortized (concession right)	**-**	-
Special goodwill reserve	**147,912**	147,912
Equity pickup adjustment – Law No. 4819/58 (a)	**111,582**	111,582
Total investments	**2,081,936**	2,060,743

(a) In 2013, subsidiary CTEEP recorded a provision for losses on realization of receivables for part of the amounts receivable from SERFAZ-SP, relating to the supplementary retirement plan governed by State Law No. 4819/58. For calculation of equity pickup on investment in this subsidiary, the Company made an adjustment amounting to R$111,582 disregarding the effect of the above-mentioned provision to align the time for recognition the obligations associated with Law No. 4819/58, since the Company already has a liability recorded of this same nature.

c) Changes in investments

Balance at December 31, 2013	**2,060,743**
Equity pickup	32,537
Interim dividends receivable in the quarter	(11,342)
Other	(2)
Balances at March 31, 2014	**2,081,936**

(In thousands of reais, unless otherwise stated)

14. Investments (Continued)

14.1. Investments in subsidiary CTEEP

a) Information on CTEEP's subsidiaries

	Investments in subsidiary CTEEP															
	IEMG		Pinheiros		Serra do Japi		Evrecy		IENNE		IESul		IEMadeira		IEGaranhuns	
Reporting date	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**	**03/31/2014**	**12/31/2013**
Number of common shares held	**83,055,292**	81,855,292	**269,360,000**	269,360,000	**86,748,000**	86,748,000	**21,512,367**	21,512,,367	**81,821,000**	81,821,000	**88,228,499**	88,228,499	**671,160,000**	632,910,000	**151,469,750**	99,450,000
Interest in paid-in capital - %	**100.0**	100.0	**100.0**	100.0	**100.0**	100.0	**100.0**	100.0	**25.0**	25.0	**50.0**	50.0	**51.0**	51.0	**51.0**	51.0
Paid-in capital	**83,055**	81,855	**269,360**	269,360	**86,748**	86,748	**21,512**	21,512	**327,084**	327,284	**176,457**	176,457	**1,316,000**	1,241,000	**297,000**	195,000
Equity	**108,013**	106,871	**322,647**	311,607	**141,850**	140,160	**37,846**	36,915	**341,422**	343,773	**187,648**	187,456	**1,651,612**	1,552,752	**311,649**	202,813
Net income	**(58)**	3,452	**11,040**	18,893	**1,690**	30,610	**931**	5,022	**(2,351)**	(41,521)	**192**	2,811	**23,860**	135,537	**6,836**	7,271

b) Changes in investments in CTEEP's subsidiaries

	Consolidated				
	IENNE	**IESul**	**IEMadeira**	**IEGaranhuns**	**Total**
Balances at December 31, 2013	**85,943**	**93,728**	**791,903**	**103,435**	**1,075,009**
Capital contribution to indirect subsidiaries	-	-	38,250	52,020	90,270
Equity pickup	(587)	96	12,169	3,485	15,163
Balances at March 31, 2014	**85,356**	**93,824**	**842,322**	**158,940**	**1,180,442**

(In thousands of reais, unless otherwise stated)

15. Property and equipment

These substantially refer to chattels used by the Company and its subsidiary CTEEP not related to the service concession arrangement:

	Company				
	Average annual depreciation rates - %	03/31/2014 Cost	03/31/2014 Accumulated depreciation	03/31/2014 Net	12/31/2013 Net
In operation					
Machinery and equipment	6%	**33**	**(17)**	**16**	17
Furniture and fixtures	6%	**31**	**(19)**	**12**	13
		64	**(36)**	**28**	30

	Consolidated				
	Average annual depreciation rates - %	03/31/2014 Cost	03/31/2014 Accumulated depreciation	03/31/2014 Net	12/31/2013 Net
In operation					
Land	0%	**2,060**	**-**	**2,060**	2,060
Machinery and equipment	6.25%	**2,895**	**(1,695)**	**1,200**	1,075
Furniture and fixtures	6%	**6,782**	**(4,744)**	**2,038**	2,111
IT equipment	24.8% (*)	**10,187**	**(3,569)**	**6,618**	4,125
Vehicles	21.0%	**798**	**(636)**	**162**	194
Other	4.0%	**2,141**	**(932)**	**1,209**	835
		24,863	**(11,576)**	**13,287**	10,400

(*) Including lease of IT equipment with a 33.3% rate.

Changes in property and equipment are as follows:

	Company		
	Balances at 12/31/2013	Depreciation	Balances at 03/31/2014
Machinery and equipment	17	(1)	**16**
Furniture and fixtures	13	(1)	**12**
	30	(2)	**28**

	Consolidated				
	Balances at December 31, 2013	Additions	Depreciation (Note 28)	Write-offs	Balances at March 31, 2014
Land	2,060	-	-	-	**2,060**
Machinery and equipment	1,075	158	(32)	-	**1,201**
Furniture and fixtures	2,111	-	(73)	(1)	**2,037**
IT equipment	4,125	2,980	(487)	-	**6,618**
Vehicles	194	-	(32)	-	**162**
Other	835	375	(1)	-	**1,209**
	10,400	3,513	(625)	(1)	**13,287**

(In thousands of reais, unless otherwise stated)

16. Intangible assets

These substantially refer to:

(a) Expenses incurred by CTEEP from April 2008 to February 2009 over implementation/structuring of ERP-SAP, which have been amortized on a straight-line basis for five years; and

(b) Goodwill amounting to R$28,223 generated in the acquisition of Evrecy by subsidiary CTEEP.

(c) Amount resulting from adjustment made in the equity pickup calculation on investment in subsidiary CTEEP, as mentioned in Note 14, letter b.

Changes in intangible assets are as follows:

	Consolidated		
	Goodwill	**Software**	**Total**
Balance at December 31, 2013	**111,584**	**46,067**	**157,651**
Additions	-	7,225	7,225
Software expense amortization (Note 28)	-	(2,018)	(2,018)
Balance at March 31, 2014	**111,584**	**51,274**	**162,858**

17. Loans and financing

Breakdown of loans and financing balances is as follows:

	Company			
	Charges	**Final maturity date**	**03/31/2014**	**12/31/2013**
Foreign currency				
Bonds (a)	8.80%	01/30/2017	**72,677**	76,865
Current			**1,051**	2,719
Noncurrent			**71,626**	74,146

(In thousands of reais, unless otherwise stated)

17. Loans and financing (Continued)

	Consolidated			
	Charges	**Final maturity date**	**03/31/2014**	**12/31/2013**
Bonds (a)	8.80%	01/30/2017	**72,677**	76,865
Total in foreign currency			**72,677**	76,865
Local currency				
BNDES (b) (i)	TJLP + 1.8% p.a.	03/15/2029	**69,607**	-
BNDES (b) (i)	3.5% p.a.	01/15/2024	**54,109**	-
BNDES (b) (ii)	TJLP + 1.8% p.a.	06/15/2015	**117,853**	84,488
BNDES (b) (iii)	TJLP + 2.3% p.a.	06/15/2015	**70,434**	141,217
BNDES (b) (iv)	TJLP + 2.1% p.a.	02/15/2028	**7,347**	7,303
BNDES (b) (iv)	3.5% p.a.	04/15/2023	**16,451**	16,502
BNDES (b) (v)	TJLP + 2.6% p.a.	05/15/2026	**43,275**	44,210
BNDES (b) (v)	5.5% p.a.	01/15/2021	**68,577**	71,128
BNDES (b) (vi)	TJLP + 1.9% p.a.	05/15/2026	**45,197**	46,083
BNDES (b) (vi)	TJLP + 1.5% p.a.	05/15/2026	**39,071**	39,829
BNDES (b) (vii)	TJLP + 2.4% p.a.	04/15/2023	**46,152**	47,432
BNDES/Finame PSI	4.0% p.a.	08/15/2018	**339**	-
Eletrobras	8.0% p.a.	11/15/2021	**277**	290
Finance lease agreements			**2,915**	3,355
Total local currency			**581,604**	501,837
Total local and foreign currency			**654,281**	578,702
Current			**194,209**	195,530
Noncurrent			**460,072**	383,172

(a) Issue of bonds on January 29, 2007 amounting to US$554 million

For bonds outstanding in the market, the same conditions agreed on issue were maintained, however without any type of covenants. The final maturity of the principal remains in January 2017 and interest is still paid on a semiannual basis, in January and July of every year, at a rate of 8.8% p.a. In 2013, ISA Capital paid the total amount of R$5,772 to bondholders.

There was no change in the nature of loans in relation to December 31, 2013.

(b) National Bank for Economic and Social Development (BNDES)

(i) On December 23, 2013, subsidiary CTEEP entered into a loan agreement with BNDES amounting to R$391.3 million, of which R$284.2 million were at the cost of TJLP plus 1.80% p.a.; R$1.9 million at the cost of TJLP; and R$105.2 million at the cost of 3.50% p.a. This loan is intended for implementation of the Multiannual Investment Plan relating to the period 2012-2014, comprising construction works referring to the modernization of the electric power transmission system, system improvements, new project reinforcements and implementation, as well as implementation of social investments within the community. The first release of funds amounting to R$124.1 million took place on January 29, 2014.

Interest will be paid on a quarterly basis (March, June, September and December) and on a monthly basis from April 2015 onwards. The debt principal arising from this agreement will be paid from April 2015 onwards in equal and successive monthly installments, up to 168 installments. Subsidiary CTEEP offered bank guarantee valid for at least 2 years, taken out from Bradesco and Safra banks, at the cost of 0.94% p.a. and 0.80% p.a., respectively, payable on a quarterly basis.

17. Loans and financing (Continued)

(b) National Bank for Economic and Social Development (BNDES) - Continued

(ii) On November 18, 2008, subsidiary CTEEP entered into a R$329.1 million loan agreement with BNDES. Repayment is in 54 monthly installments as from January 2011. Until the beginning of repayment, charges were paid on a quarterly basis. As guarantee, CTEEP has given bank sureties, effective until June 15, 2015, taken out from Bradesco and Santander, at the cost of 1.2% p.a. and 0.6% p.a., respectively, payable on a quarterly basis.

(iii) On September 17, 2007, subsidiary CTEEP entered into a loan agreement with BNDES amounting to R$764.2 million, reduced to R$601.7 million in December 2008. This amount accounts for 70% of total investment, which includes system improvements, reinforcements, modernization of the current transmission system and new projects, and is part of the 2006/2008 Multiannual Investment Plan. Repayment is in 78 monthly installments beginning in January 2009. As guarantee, CTEEP has given bank sureties, effective until December 15, 2015, taken out from Bradesco, Santander and Banco do Brasil, at the cost of 0.7% p.a., payable on a quarterly basis.

The agreements mentioned in items (i), (ii) and (iii) have the following maximum financial ratios, calculated on an annual basis: Net debt/Adjusted EBITDA = 3.5 and Net Debt/(Net Debt + Equity) = 0.6.

For calculation and proof purposes of said ratios, subsidiary CTEEP must consolidate all subsidiaries and jointly-controlled subsidiaries (proportionally to the interest held by it), provided that it holds interest equal to or higher than 10%. There is no accelerated maturity of the debt relating to covenants.

(iv) On August 13, 2013, Pinheiros entered into a loan agreement amounting to R$23.5 million with BNDES. On September 12 and December 11, 2013, R$21.6 million and R$1.9 million, respectively, were drawn down corresponding total funds. The amount is intended to finance the construction of the transmission lines and substations provided for by the service concession arrangement No. 021/2011. Repayment is in 168 monthly installments from March 15, 2014 onwards. Pinheiros shall maintain, over repayment and after giving the bank sureties, a Debt Coverage Ratio (ICSD) of at least 1.3%, determined annually.

(v) On December 30, 2010, Pinheiros entered into a loan agreement amounting to R$119.9 million with BNDES. On January 28 and April 27, 2011, R$91.3 million and R$28.6 million, respectively, were drawn down corresponding to total funds. The amount is intended to finance the construction of the transmission lines and substations provided for by in service concession arrangements. Repayment is in 168 monthly installments from September 15, 2011 onwards. Pinheiros shall maintain, over repayment and after giving the bank sureties, a Debt Coverage Ratio (ICSD) of at least 1.3%, determined annually.

(vi) On October 28, 2011, Serra do Japi entered into a loan agreement amounting to R$93.3 million with BNDES. On November 18 and December 12, 2011, and February 27, 2012, R$75.0 million, R$15.0 million and R$3.3 million, respectively, were drawn down corresponding to total funds. The amount is intended to finance the construction of the transmission lines and substations provided for by the service concession arrangement. Repayment is in 168 monthly installments from June 15, 2012 onwards. Serra do Japi shall maintain, over repayment and after giving the bank sureties, a Debt Coverage Ratio (ICSD) of at least 1.2%, determined annually.

(vii) On January 14, 2009, IEMG, entered into a R$ 70.6 million loan agreement with BNDES, drawn down on March 27, 2009. This amount is aimed at financing approximately 50% of the Transmission Line (LT) between Neves 1 and Mesquita substations. Repayment is in 168 monthly installments as from May 15, 2009. The need for bank sureties was dispensed with by BNDES on March 15, 2011. IEMG, shall maintain, over repayment, a Debt Coverage Ratio (ICSD) of at least 1.3%, determined annually.

(In thousands of reais, unless otherwise stated)

17. Loans and financing (Continued)

The aging list of noncurrent portions is as follows:

	Company		Consolidated	
	03/31/2014	12/31/2013	03/31/2014	12/31/2013
2015	-	-	**66,598**	102,527
2016	-	-	**37,689**	26,542
2017	**71,626**	74,146	**109,315**	100,688
2018	-	-	**37,658**	26,536
2019	-	-	**37,587**	26,517
2020 to 2024			**135,180**	74,891
2025 to 2029			**36,045**	25,471
	71,626	74,146	**460,072**	383,172

Changes in loans and financing are as follows:

	Company	Consolidated
Balances at December 31, 2013	**76,865**	**578,702**
Additions	-	124,468
Payments (principal and interest)	(3,398)	(57,744)
Interest and exchange and monetary variations	(790)	8,855
Balances at March 31, 2014	**72,677**	**654,281**

Subsidiary CTEEP participates as intervening guarantor to the subsidiaries in their financing agreements, as follows:

Subsidiary	Interest held in subsidiary	Bank	Type of debt	Debt balance at March 31, 2014	Type of guarantees	Balance guaranteed by CTEEP	Guarantee termination date
IEMG (b, viii)	100%	BNDES	FINEM	46,152	None	46,152	03/15/2023
Serra do Japi (b, vi)	100%	BNDES	FINEM	84,268	Bank surety	84,268	08/15/2026
Pinheiros (b, v)	100%	BNDES	FINEM and PSI	111,852	Bank surety	111,852	02/13/2015
Pinheiros (b, iv)	100%	BNDES	FINEM e PSI	23,794	Bank surety	23,794	08/23/2015
IESul	50%	BNDES	FINEM e PSI	15,922	Bank surety	7,961	10/05/2014
IESul	50%	BNDES	FINEM e PSI	21,686	Bank surety	10,843	08/10/2015
IENNE	25%	Banco do Nordeste	FNE	213,054	Bank surety	53,264	06/01/2014
IENNE	25%	Banco do Brasil	Secured account	18,081	None	4,520	05/04/2014
IEMadeira	51%	Banco da Amazônia	Bank Credit Bill (CCB)	285,030	Bank surety	145,365	30/062016
IEMadeira	51%	BNDES	FINEM and PSI	1,797,751	Bank surety	916,853	06/30/2016
IEMadeira	51%	Itaú/BES	Infrastructure debentures	380,032	Secured account	193,816	03/18/2025
IEGaranhuns	51%	BNDES	FINEM and PSI	232,032	Secured account	118,336	12/15/2028

There is a back bond of subsidiary CTEEP in the bank surety and intervening contracts in BNDES financing agreements, up to the limit of its interest held in subsidiaries.

(In thousands of reais, unless otherwise stated)

17. Loans and financing (Continued)

BNDES agreements and debentures of subsidiaries and jointly-controlled subsidiaries have covenants that require the compliance with financial indicators similarly to those mentioned in item (a) (iii), as well as cross-default clauses, which establish the accelerated maturity of debts in the event of accelerated maturity of the debts of subsidiary CTEEP.

At March 31, 2014, all requirements and covenants established in the agreements have been duly observed and met by subsidiary CTEEP and its subsidiaries.

18. Debentures

				Consolidated	
	Maturity date	Number	Charges	03/31/2014	12/31/2013
1st series (i)	12/15/2014	49,100	CDI + 1.3% p.a.	**167,102**	162,518
2nd series (i)	12/15/2017	5,760	IPCA + 8.1% p.a.	**78,266**	75,147
Single series CTEEP (ii)	12/26/2018	50,000	116.0% of CDI p.a.	**510,720**	499,975
				756,088	737,640
Current				**190,557**	184,884
Noncurrent				**565,531**	552,756

(i) In December 2009, subsidiary CTEEP issued 54,860 debentures amounting to R$548.6 million, with cash inflow in January 2010.

- The 1st series will be repaid on an annual basis, upon termination of the 5-year term from the issue date, on the following dates: December 15, 2012, 2013 and 2014; remuneration is paid on a semi-annual basis, on June 15 and December 15 each year.

- The 2nd series will be repaid on the following dates: June 15, 2014, December 15, 2015, 2016 and 2017; and remuneration is paid on a semiannual basis, on the following dates: June 15 2011, 2012, 2013 and 2014, and December 15, 2015, 2016 and 2017 each year.

Financial indicators established in the agreement are as follows: Net Debt/Adjusted EBITDA < = 3.5 and Adjusted EBITDA/Financial Income/Expenses > = 3.0 determined annually.

At March 31, 2014, all requirements and covenants established in the agreements have been duly observed and met by subsidiary CTEEP and its subsidiaries.

(ii) In December 2013, subsidiary CTEEP issued 50,000 single series debentures amounting to R$500.0 million. Debentures will mature on an annual basis on December 26, 2016, 2017 and 2018; and remuneration is paid on a semiannual basis in June and December each year, the first one maturing on June 26, 2016 and the last one on December 26, 2018.

(In thousands of reais, unless otherwise stated)

18. Debentures (Continued)

The aging list of noncurrent portions is as follows:

	03/31/2014	12/31/2013
2015	**17,561**	17,580
2016	**188,636**	184,245
2017	**188,663**	184,269
2018	**170,671**	166,662
	565,531	552,756

Changes in debentures are as follows:

Balances at December 31, 2013	**737,640**
Payment of interest	(3,601)
Interest and exchange and monetary variations	22,049
Balances at March 31, 2014	**756,088**

19. Taxes and social charges payable

	Company		Consolidated	
	03/31/2014	12/31/2013	03/31/2014	12/31/2013
Corporate Income Tax (IRPJ)	**224**	418	**663**	665
Social Contribution Tax on Net Profit (CSLL)	**-**	-	**300**	160
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	**-**	5,746	**5,079**	10,323
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	**-**	1,248	**1,103**	2,241
Social Security Tax (INSS)	**53**	17	**4,875**	5,402
Service Tax (ISS)	**-**	-	**2,633**	2,530
Other	**2**	3	**4,508**	6,241
	279	7,432	**19,161**	27,562

20. Taxes in installments - Law No. 11941

Due to completion issues, subsidiary CTEEP amended its Federal Tax Debt and Credit Returns (DCTFs) for the years 2004-2007, determining tax debts related to PIS and COFINS. With a view to settling its tax debt, subsidiary CTEEP opted to participate in the Special Tax Installment Payment Program created by Law No. 11941 of May 27, 2009, and paid R$141,162 in cash, on November 30, 2009, using the benefit of reduced fine and interest, totaling R$42,257. The remaining balance has been paid in 180 months since November 2009.

(In thousands of reais, unless otherwise stated)

20. Taxes in installments - Law No. 11941 (Continued)

On June 30, 2011, subsidiary CTEEP consolidated its tax debts with the Brazilian IRS and opted to pay them in 180 months for calculating the installments payable as from June 30, 2011. The prepayments made from November 30, 2009 to May 31, 2011 were deducted from total installments, representing 19 installments already paid. After deducting the prepayments, there remained 161 installments payable as from June 30, 2011, the first amounting to R$975, subject to monetary restatement by reference to accumulated SELIC as from December 2009.

Changes in the quarter ended March 31, 2014 are as follows:

	03/31/2014
Opening balance	150,742
Monetary restatement on debt	2,645
Payments made	(3,520)
	149,867
Current	14,161
Noncurrent	135,706

21. Deferred PIS and COFINS

	Consolidated	
	03/31/2014	12/31/2013
Deferred PIS	17,090	21,019
Deferred COFINS	78,776	96,841
	95,866	117,860

Deferred PIS and COFINS refer to construction revenue and financial income recorded on construction financial assets of subsidiary CTEEP. The payment is made upon effective RAP billing and amortization of financial assets. In this quarter deferred PIS and COFINS amounted to R$21,994.

(In thousands of reais, unless otherwise stated)

22. Regulatory charges payable

	Consolidated	
	03/31/2014	12/31/2013
Research and development - R&D (i)	**67,021**	65,742
Energy Development Account (CDE)	**419**	504
Global Reversal Reserve (RGR) (ii)	**6,263**	6,684
Alternative Electric Power Source Incentive Program (PROINFA)	**955**	1,257
Inspection fee - ANEEL	**543**	499
	75,201	74,686
Current	**49,160**	38,666
Noncurrent	**26,041**	36,020

(i) CTEEP and its subsidiaries recognized liabilities related to amounts billed through tariffs (1% of Operating Revenue, Net), but not applied to the Research and Development Program (R&D), which are restated on a monthly basis as from the second month subsequent to their recognition up to the effective realization thereof, based on SELIC rate, according to ANEEL Resolutions 300/2008 and 316/2008. The amounts payable are settled upon completion of each project.

(ii) According to Article 21 of Law No. 12783, as from January 1, 2013, electric power transmission service concession operators with extended service concession arrangements under such Law are not required to pay annual RGR portion. The service concession arrangement No. 059/2001 is applicable to subsidiary CTEEP. At December 31, 2013, RGR balance payable refers to additional charge referring to years 2011 and 2012.

23. Provisions

	Company		Consolidated	
	03/31/2014	12/31/2013	03/31/2014	12/31/2013
Vacation pay and social charges	**-**	20	**16,886**	19,616
Profit sharing	**-**	-	**3,150**	8,401
Contingencies (a)	**-**	-	**121,023**	127,898
	-	20	**141,059**	155,915
Current	**-**	20	**20,036**	28,017
Noncurrent	**-**	-	**121,023**	127,898

(a) Provision for contingencies

Contingencies are assessed and classified on a quarterly basis as regards the likelihood of an unfavorable outcome to subsidiary CTEEP, as follows:

	Consolidated	
	03/31/2014	12/31/2013
Labor (i)	**103,999**	103,234
Civil (ii)	**9,934**	15,855
Tax - Real Estate Tax (IPTU) (iii)	**5,270**	7,042
Social security - INSS (iv)	**1,820**	1,767
	121,023	127,898

(i) *Labor*

Subsidiary CTEEP assumed responsibility for certain lawsuits at different courts, mainly arising from the split-off of CESP and EPTE. Subsidiary CTEEP has labor-related judicial deposits amounting to R$58,875 (R$65,511 at December 31, 2013), according to Note 13.

(In thousands of reais, unless otherwise stated)

23. Provisions (Continued)

(a) Provision for contingencies (Continued)

(ii) *Civil*

Subsidiary CTEEP is involved in civil proceedings relating to the establishment of right-of-way and expropriation of properties where transmission lines pass through, arising from its ordinary business, inasmuch as to build transmission lines, the service concession operator obtains the Public Utility Declaration for execution of the construction works and has to indemnify the property owners.

(iii) *Tax - IPTU*

Subsidiary CTEEP recognizes a provision to cover debts with various City Administration in the State of São Paulo, related to lawsuits for regularization of areas amounting to R$5,270.

(iv) *Social security - INSS*

On August 10, 2001, the National Institute of Social Security (INSS) served subsidiary CTEEP a notice of violation for nonpayment of social security tax on compensation paid to its employees in the form of meal tickets, morning snack, basket of food staples and transportation voucher from April 1999 to July 2001. Management began the defense procedures and the corresponding judicial deposit currently amounts to R$1,226 (Note 13).

(v) *Changes in provisions for contingences:*

	Consolidated				
	Labor	Civil	Tax - IPTU	Social security - INSS	Total
Balances at December 31, 2013	**103,234**	**15,855**	**7,042**	**1,767**	**127,898**
Provision	1,969	-	-	-	1,969
Reversal/payment	(2,411)	(6,283)	(1,933)	-	(10,627)
Restatement	1,207	362	161	53	1,783
Balances at March 31, 2014	**103,999**	**9,934**	**5,270**	**1,820**	**121,023**

(b) Proceedings whose likelihood of loss was assessed as possible

Subsidiary CTEEP and its subsidiaries are parties to tax, labor and civil proceedings assessed by management as involving risk of possible loss, based on the opinion of its legal advisors, for which a provision in the estimated amount of R$221,182 was recorded at March 31, 2014 (R$ 171,001 at December 31, 2013), mainly consisting of labor and tax proceedings, which totaled R$206,618.

Classification	Number	Total
Labor	257	30,209
Civil	22	14,564
Tax - social contribution tax loss (i)	1	19,541
Tax - MANAD (ii)	1	16,638
Tax - goodwill amortization (iii)	2	123,500
Tax - (IRPJ and CSLL (iv)	1	15,619
Tax - other	19	1,111
Plan of Law No. 4819/58 (v)	1	-
		221,182

(i) *Tax - social contribution tax loss*

Process arising from tax deficiency notice drawn in 2007 due to the lack of proof for CSLL tax loss, arising from the balance sheet of CESP's split-off. This proceeding is pending judgment at the Administrative Board of Tax Appeals (CARF).

23. Provisions (Continued)

(b) Proceedings whose likelihood of loss was assessed as possible (Continued)

(ii) *Tax - Digital File Standards Manual (MANAD)*

Proceedings arising from tax delinquency notices drawn in 2011 by the Brazilian IRS against subsidiary CTEEP due to compliance with an accessory obligation comprising the filing of digital files referring to the Digital File Standards Manual (MANAD). This proceeding is pending appeal judgment.

(iii) *Tax - goodwill amortization*

Proceeding arising from delinquency notices drawn in 2013 and 2014 by the Brazilian IRS referring to the transaction of goodwill paid by the Company in the acquisition of the ownership control of subsidiary CTEEP. This proceeding is pending judgment.

(iv) *Tax - income and social contribution taxes (IRPJ and CSLL)*

This refers to the offset request submitted by subsidiary CTEEP in May 2003 relating to the negative balance of income and social contribution taxes (year 2002), amounting to R$16.9 million offset against income and social contribution tax debts, calculated from January to March 2003, which was partially deferred. This proceeding is pending judgment at the Administrative Board of Tax Appeals (CARF).

(v) *Plan of Law No. 4819/58*

This refers to the supplementary retirement plan governed by Law No. 4819/58, please refer to Note 36.

(c) Proceedings whose likelihood of loss was assessed as remote - consolidated

a) *Collection lawsuit by Eletrobras against Eletropaulo and EPTE*

In 1989, Centrais Elétricas Brasileiras S.A. - ELETROBRAS filed a collection lawsuit against Eletropaulo - Eletricidade de São Paulo S.A. (currently Eletropaulo Metropolitana Eletricidade de São Paulo S.A. - “Eletropaulo”) referring to the balance of a certain financing agreement. Eletropaulo did not agree with the criterion for monetary restatement of said financing agreement and made judicial deposits for the amounts it understood to be due to ELETROBRAS. In 1999, a judgment was issued on the aforementioned lawsuit, ordering Eletropaulo to pay the balance determined by ELETROBRAS.

Under the split-off explanatory record of Eletropaulo, made on December 31, 1997 and that resulted in the establishment of EPTE and other companies, Eletropaulo is solely liable for obligations of any kind referring to acts until the spin-off date, except for contingent liabilities whose provisions had been allocated to the acquirers. In the case under concern, at the time of the split-off, there was no allocation to EPTE of any provision for such purpose, leaving it clear to CTEEP management and its legal advisors that Eletropaulo was solely liable for said contingency. At the time of the spin-off there was only the transfer to EPTE’s assets of a judicial deposit in the historical amount of R$ 4.00, made in 1988 by Eletropaulo, corresponding to the amount that it understood to be owed to ELETROBRAS regarding the balance of the aforementioned financing agreement, and allocation to EPTE’s liabilities of the same amount referring to this debt.

As a result of the Eletropaulo’s split-off agreement, EPTE would own the assets transferred and Eletropaulo would be responsible for contingent liability related to the amount in dispute by ELETROBRAS. In October 2001, ELETROBRAS promoted the execution of the decision related to such financing agreement, collecting R$429 million from Eletropaulo and R$49 million from EPTE, understanding that EPTE would pay its part with the restated funds of the judicial deposit. Subsidiary CTEEP acquired EPTE on November 10, 2001, becoming the successor in its relevant rights and obligations.

On September 26, 2003, an appellate decision of the Court of Justice of the State of Rio de Janeiro was published excluding Eletropaulo from the execution of such decision. Due to these facts, ELETROBRAS filed a Special Appeal to the High Court of Justice (STJ) and an Extraordinary Appeal to the Federal Supreme Court of Brazil (STF), aiming at maintaining the aforementioned collection against Eletropaulo. Appeals similar to those of ELETROBRAS were filed by subsidiary CTEEP.

On June 29, 2006, STJ granted CTEEP’s Appeal to review the decision of the Court of Justice of the State of Rio de Janeiro that had excluded Eletropaulo as defendant in the execution action filed by ELETROBRAS.

23. Provisions (Continued)

(c) Proceedings whose likelihood of loss was assessed as remote - consolidated (Continued)

a) *Collection lawsuit by Eletrobras against Eletropaulo and EPTE* (Continued)

As a result of said grant by STJ, on December 4, 2006, Eletropaulo filed a motion for clarification, which was denied according to appellate decision published on April 16, 2007, as well as the Special and Extraordinary Appeals to STJ and STF that maintained the decision of STJ, which became final on October 30, 2008. As such decisions understood that the challenges prior to procedures to determine grounds for execution filed by Eletropaulo were unreasonable, the execution action filed by ELETROBRAS follows its normal course as originally proposed.

On December 14, 2012, a decision was published dismissing the provision of evidence required by the parties, closing the liquidated claim, determining that Eletropaulo is liable for such payment, and discounting the judicial deposit for payment into court. Eletropaulo filed an appeal so that the lawsuit returned to the fact-finding phase for performance of expert evidence examination. At March 31, 2014, the expert examination work is pending.

In connection with this debt and given the formal documents relating to the split-off of Eletropaulo, subsidiary CTEEP, based on the opinion of its management and legal advisors, owns only the judicial deposit transferred as assets set up in 1988, and should continue defending such right. On the other hand, subsidiary CTEEP has not recognized a provision for the contingency, which it considers responsibility of Eletropaulo, and is thus being collected by ELETROBRAS and accepted in court.

24. Payables - Fundação CESP

Subsidiary CTEEP sponsors supplementary retirement/pension and health care plans maintained with Fundação CESP. At March 31, 2014, their balance plus administrative costs of the fund amounts to R$5,528 (R$6,091 at December 31, 2013) referring to monthly installments payable as contribution to the fund.

a) Plan “A” – Type-1 supplementary retirement plan

Governed by State Law No. 4819/58, applied to employees hired up to May 13, 1974, it establishes supplementary retirement plan benefits, additional leave entitlements and family allowance. Funds required to cover liabilities assumed in this plan are full responsibility of the applicable São Paulo State Government authorities, thus having no risk and additional cost to CTEEP (Note 36).

b) Plan “B” and “B1” - Type-2 supplementary retirement plans

Plans “B” and “B1”, governed by Law No. 6435/77 and managed by Fundação CESP, are sponsored by subsidiary CTEEP, providing supplementary retirement plan benefits, reserves of which are established under the fully-funded system.

24. Payables - Fundação CESP (Continued)

b) Plan “B” and “B1” – Type-2 supplementary retirement plans (Continued)

Plan “B” refers to Vested Supplementary Benefit Payout (BSPS), calculated at December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), in accordance with current regulations, and its actuarial asset-liability matching was duly adjusted at the time. CTEEP is fully liable for the annual technical actuarial deficit or surplus of this plan.

On January 1, 1998 (CTEEP) and April 1, 1998 (EPTE), subsidiary CTEEP implemented Plan “B1”, which defines contributions and related matching responsibilities between CTEEP and the participants, so as to ensure the plan’s appropriate actuarial asset-liability management. This plan provides pension benefits to employees, former employees and related beneficiaries, in order to supplement the benefits provided by the official Social Security system. The main characteristic is the mixed model, composed of 70% as Defined Benefit (DB) and 30% as Defined Contribution (DC). Upon retirement, the Defined Contribution (DC) Benefit Plan becomes Defined Benefit (DB). Plans “B” and “B1” were financially merged and formed the Plan “PSAP - Transmissão Paulista”.

c) Plan PSAP - Transmissão Paulista

On January 1, 2004, the plans sponsored by subsidiary CTEEP, as well as those of the extinguished EPTE, were financially merged, and the individual characteristics of the related plans maintained, thus forming the Plan PSAP - Transmissão Paulista.

In this quarter, there were no significant changes in the number of plan participants and assumptions used by subsidiary CTEEP in relation to those informed in the financial statements as at December 31, 2013.

25. Special obligations - reversal/amortization

At March 31, 2014, the balance of R$24,053 refers to funds arising from the reversal, amortization and portion held at Subsidiary CTEEP reserve of the monthly shares of the Global Reversal Reserve (RGR), related to investments of funds for expansion of the public electric power service and amortization of loans obtained for the same purpose, up to December 31, 1971. According to resolution issued by ANEEL, subsidiary CTEEP pays 5% on RGR as interest, on an annual basis. The manner of settlement of these obligations has not been defined by the Granting Authority.

26. Equity

a) Capital

On March 9 and 19, 2010, the Company increased capital twice by issuing redeemable preferred shares at the price of R$ 2.020731 each, redemption of which is scheduled to start on April 12, 2013 and end on April 9, 2016, and which were fully subscribed and paid up by HSBC Finance (Brasil) S.A. Banco Múltiplo ("HSBC"), as follows:

(i) At the Special General Meeting held on March 9, 2010, under Board of Directors' Proposal terms dated March 8, 2010, Company's capital increase by R$840,000 was approved, R$420 of which were allocated to capital and R$839,580 allocated to capital reserve, by creating and issuing 415,691,162 redeemable preferred shares distributed into 13 classes, entitled to fixed cumulative dividends, which were subscribed and paid up on the same date. Accordingly, Company's capital increased from R$839,778 to R$840,198, represented by 1,256,316,162 shares; In the same meeting, mandatory dividend reduction from 25% to 1% and amendment to the Company's Articles of Incorporation were also approved; and

(ii) At the Board of Directors' Meeting held on March 19, 2010, a new capital increase was approved within authorized capital limit, by issuing 178,153,342 redeemable preferred shares distributed into 13 classes, entitled to fixed cumulative dividends, amounting to R$360,000, which were fully subscribed and paid up on the same date, R$180 of which were allocated to the Company's capital and R$359,820 to capital reserve. Accordingly, Company's capital increased from R$840,198 to R$840,378, represented by 1,398,838,834 shares.

As from 2013, as provided for in the schedule for redemption of preferred shares contained in the Articles of Incorporation, ISA Capital started to redeem these shares. Classes A, B, C and D shares were redeemed, respectively, on April 12, July 4, October 4, 2013 and January 6, 2014. Thus, after these redemptions 441,272,148 preferred shares remained, held by shareholders HSBC and Votorantim, at the proportion of 50% each.

(In thousands of reais, unless otherwise stated)

26. **Equity** (Continued)

a) Capital (Continued)

On February 25, 2014, the First Amendment to the Shareholders' Agreement was entered into by them, whereupon ISA Capital held a Special General Meeting to approve (i) the conversion of redeemable preferred shares then existing into new classes; and (ii) change in articles 5 and 6 of the Articles of Incorporation, as well as its consolidation. Among the changes introduced by the Shareholders' Agreement, the following are to be highlighted: (i) new schedule for redemption of preferred shares and payment of fixed cumulative dividends, whose distribution was made on a quarterly basis and now are made on a semiannual basis; and (ii) fixed cumulative dividends which as from February 25, 2014 are calculated based on 100% of the CDI variation plus 1.5% p.a., and formerly were calculated based on 100% of the CDI variation plus 1.0% p.a.

Accordingly, at March 31, 2014, the Company's subscribed and paid-up capital amounted to R$840,378 and is represented by 840,625,000 common shares and 441,272,148 preferred shares (486,952,494 preferred shares at December 31, 2013). On account of the change in the preferred shareholders structure as mentioned in Note 1, the new Company's shareholders structure is as follows:

Shareholder	Number of common shares	Number of preferred shares	Total	%
Interconexión Eléctrica S.A. E.S.P.	840,625,000	-	840,625,000	65.58%
HSBC Bank Brasil S.A. - Banco Múltiplo	-	220,636,074	220,636,074	17.21%
BV Financeira S.A. - Crédito, Financiamento e Investimento	-	220,636,074	220,636,074	17.21%
Total	**840,625,000**	**441,272,148**	**1,281,897,148**	**100.00%**

b) Fixed cumulative dividends

As set forth in article 35 of the Company's Articles of Incorporation, mandatory dividends are calculated at 1% of Net Income for the year, adjusted under article 202 of Law No. 6404/76, and are allocated to redeemable preferred shares up to the amount equivalent to fixed cumulative dividends to which such shares are entitled.

(In thousands of reais, unless otherwise stated)

26. Equity (Continued)

b) Fixed cumulative dividends (Continued)

As established in clause II of the First Amendment to Shareholders' Agreement entered into on February 25, 2014, fixed cumulative dividends which were formerly calculated and paid on a quarterly basis, from that date, are calculated and paid on a semiannual basis, based on 100% of the CDI variation plus 1.5% p.a. By virtue of this First Amendment, on February 28, 2014, the Company had to pay fixed cumulative dividends to preferred shareholders amounting to R$13,174, calculated based on the former criterion, i.e., at 100% of the CDI variation plus 1.5% p.a., comprising the period from January 6, 2014 to February 25, 2014.

The Board of Directors approved the distribution of fixed cumulative dividends to preferred shareholders, HSBC Finance (Brasil) S.A. Banco Múltiplo and Banco Votorantim S.A., as follows:

Payment	Amount	Amount per Share - R$	Number of of shares	Approval date	Accrual period
01/06/2014	25,000	0.051339	441,272,148	01/06/2014	2013
02/28/2014	13,714	0.031077	441,272,148	02/25/2014	2014
Total	**38,714**				

c) Dividends and interest on equity of subsidiary CTEEP

At December 31, 2013, management of subsidiary CTEEP proposed payment of proposed additional dividends amounting to R$30,000. At the Special General Meeting held on March 31, 2014 at subsidiary CTEEP, the payment of such amount was approved for July 31, 2014, corresponding to R$0.196514 per share. As such, the portion of dividends receivable recorded by the Company in the first quarter amounted to R$11,342.

d) Capital reserve

After the approvals on March 9 and 19, 2010 mentioned above, the Company's "Capital reserve" account amounted to R$1,199,400 at December 31, 2012. As previously scheduled, this amount will be used for the redemption of preferred shares, and as established in the shareholders' agreement and the Brazilian Corporation Law (Law No. 6404/76), as amended, may also be used for payment of dividends to which redeemable preferred shares are entitled.

(In thousands of reais, unless otherwise stated)

26. Equity (Continued)

d) Capital reserve (Continued)

Further to the share redemptions started in 2013, on January 6, 2014, there was the redemption of 45,680,346 class D redeemable preferred shares issued by the Parent Company, amounting to R$92,308. Those preferred shares were cancelled, and the respective amount paid for the redemption was fully charged to the "Capital reserve" account. Accordingly, at March 31, 2014, "Capital reserve" account remained with a balance of R$891,092 (R$983,400 at December 31, 2013).

e) Goodwill on capital transaction

After subscription of shares issued by CTEEP in December 2011, for capital increase in that year, the Company recorded a gain on percentage variation in interest in CTEEP's capital and also a loss on shares against equity value amounting to R$7,488. After deducting the amount from R$20 due to the sale of 920 shares of CTEEP occurred during June and July 2012. At March 31, 2014, the account is equivalent to R$7,468 (R$ 7,468 at 31.12.2013).

f) Income reserves

	03/31/2014	12/31/2013
Legal reserve (i)	**5,881**	5,881
Retained profit reserve (ii)	**54,884**	54,884
	60,765	60,765

(i) Legal reserve

The legal reserve is set up at 5% of net income for the year, limited to 20% of capital, before any allocation. In the event legal reserve balance plus capital reserves exceed 30% (thirty percent) of capital, allocation of a part of net income for the year to legal reserve will not be mandatory, as provided for by article 182, first paragraph, of the Brazilian Corporation Law.

(ii) Retained profit reserve

The remaining portion of net income for the year after allocation of fixed cumulative dividends to redeemable preferred shares shall be allocated to this account, in light of the limits established in the Company's Articles of Incorporation. While there are outstanding redeemable preferred shares, this account will only be used for payment of fixed cumulative dividends to which the redeemable preferred shares are entitled and, if applicable, also for redemption of the redeemable preferred shares.

(In thousands of reais, unless otherwise stated)

26. **Equity** (Continued)

g) Earnings per share

Basic and diluted earnings per share are calculated based on the net income attributable to Company's controlling and noncontrolling interests by the weighted average number of outstanding common and preferred shares for the corresponding period.

The table below presents the net income and share information used in calculating basic and diluted earnings per share:

	03/31/2014	03/31/2013
Basic earnings		
Net income – R$ thousand	29,894	6,980
Weighted average number of shares		
Common shares	840,625,000	840,625,000
Preferred shares	464,112,321	593,844,504
	1,304,737,321	**1,434,469,504**
Total basic and diluted earnings per share - R$	**0.0229**	**0.0049**

27. Operating revenue, net

27.1. Breakdown of operating revenue, net

	Consolidated	
	03/31/2014	03/31/2013
Gross revenue		
Construction (Note 8)	**40,714**	46,512
Operation and maintenance (Note 8)	**168,114**	143,675
Financial revenue (Note 8)	**38,159**	38,817
Rent	**4,162**	3,644
Rendering of services	**1,138**	1,410
Total gross revenue	**252,287**	234,058
Taxes on revenues		
COFINS	**(16,182)**	(17,867)
PIS	**(3,515)**	(3,879)
ISS	**(92)**	(81)
	(19,789)	(21,827)
Regulatory charges		
Fuel Consumption Account (CCC)	**-**	(892)
Energy Development Account (CDE)	**(1,435)**	(3,525)
Global Reversal Reserve (RGR)	**(695)**	(599)
Research and Development (R&D)	**(1,810)**	(1,594)
Alternative Electric Power Source Incentive Program (PROINFA)	**(3,271)**	(4,803)
	(7,211)	(11,413)
	225,287	200,818

There was no change in the nature of operating revenues in relation to December 31, 2013.

(In thousands of reais, unless otherwise stated)

28. Costs of construction, operation and maintenance services and general and administrative expenses

	Company		Consolidated			
	03/31/2014	03/31/2013	03/31/2014			03/31/2013
	Total	Total	Costs	Expenses	Total	Total
Personnel	**(418)**	**(428)**	**(49,389)**	**(9,982)**	**(59,371)**	(71,430)
Services	**(578)**	**(479)**	**(30,817)**	**(8,241)**	**(39,058)**	(45,565)
Depreciation and amortization of intangible assets (Note 15 and 16)	**(2)**	**(2)**	**-**	**(2,020)**	**(2,020)**	(1,822)
Materials	**-**	**-**	**(14,428)**	**(249)**	**(14,677)**	(41,696)
Leases and rents	**(79)**	**(71)**	**(2,331)**	**(1,643)**	**(3,974)**	(3,608)
Contingencies	**-**	**-**	**-**	**(8,468)**	**(8,468)**	(7,381)
Other	**(56)**	**(57)**	**(7,671)**	**(3,338)**	**(11,009)**	(10,530)
	(1,133)	**(1,037)**	**(104,636)**	**(33,941)**	**(138,577)**	(182,032)

Consolidated

Considering the costs above, subsidiary CTEEP's construction costs totaled R$36,948 at March 31, 2014 and R$41,893 at March 31, 2013. The corresponding construction revenue, stated in Note 27.1, is calculated by adding PIS and COFINS rates to investment cost. For subsidiaries in the preoperating phase, general, administrative and financial expenses are added to investment cost. The projects include sufficient margin to cover construction costs.

29. Financial income (expenses)

	Company		Consolidated	
	03/31/2014	03/31/2013	03/31/2014	03/31/2013
Revenues				
Short-term investment yield	**1,604**	6,936	**14,848**	26,373
Interest income	**466**	793	**12,232**	27,430
MTM (mark to market) adjustment (International CCB and Commercial Paper)	**-**	-	**-**	864
SELIC interest - income tax - recoverable	**355**	517	**355**	517
Monetary gains	**-**	-	**18,629**	30,584
Exchange gains	**7,294**	3,080	**7,294**	3,080
Exchange gains (International CCB and Commercial Paper)	**-**	-	**-**	10,197
Coverage transaction adjustment (swap - International CCB and Commercial Paper)	**-**	-	**-**	4,919
Other	**-**	-	**232**	1,039
	9,719	11,326	**53,590**	105,003

(In thousands of reais, unless otherwise stated)

29. Financial income (expenses) - Continued

	Company		Consolidated	
	03/31/2014	03/31/2013	03/31/2014	03/31/2013
Expenses				
Interest on loans	**(1,630)**	(1,387)	**(11,779)**	(13,137)
Commissions and rates	**(2,675)**	-	**(2,675)**	-
Interest expenses	**-**	-	**(2,953)**	(2,261)
Charges on promissory notes	**-**	-	**-**	(1,115)
Charges on debentures	**-**	-	**(20,564)**	(20,391)
Charges (International CCB and Commercial Paper)	**-**	-	**-**	(2,132)
IRRF on remittance of interest	**(247)**	(200)	**(247)**	(200)
Monetary losses	**-**	(8,754)	**-**	(8,754)
Exchange losses	**(6,649)**	(2,865)	**(6,649)**	(2,865)
Exchange losses (International CCB and Commercial Paper)	**-**	-	**-**	(6,457)
Coverage transaction adjustment (swap - International CCB and Commercial Paper)	**-**	-	**-**	(9,103)
Other	**(28)**	(11)	**(374)**	(1,449)
	(11,229)	(13,217)	**(45,241)**	(67,864)
	(1,510)	(1,891)	**8,349**	37,139

30. Other operating income (expenses)

	Company		Consolidated	
	03/31/2014	03/31/2013	03/31/2014	03/31/2013
Revenues				
Amortization - IEMG loss	**-**	-	**600**	605
Other	**-**	-	**-**	14,062
	-	-	**600**	14,667
Expenses				
Amortization of concession right (Note 11)	**-**	(17,126)	**(7,471)**	(24,598)
Amortization of concession asset in acquisition of subsidiary (i)	**-**	-	**(623)**	-
Other	**-**	-	**(36)**	(136)
	-	(17,126)	**(8,130)**	(24,734)
	-	(17,126)	**(7,530)**	(10,067)

(i) This refers to the acquisition of subsidiary Evrecy.

(In thousands of reais, unless otherwise stated)

31. Income and social contribution taxes

a) Current

The Company monthly provisions its income and social contribution taxes on an accrual basis.

Income and social contribution tax expenses for the year can be reconciled with book profit as follows:

	Company	
	03/31/2014	**03/31/2013**
Income before income and social contribution taxes	**29,894**	6,980
Current statutory rates	**34%**	34%
Expected income and social contribution tax expense	**(10,164)**	(2,373)
Income and social contribution taxes on permanent differences		
Amortization of concession right	**-**	(5,823)
Equity pickup	**11,062**	9,192
Other	**(898)**	(996)
Effective income and social contribution tax	**-**	-
Income and social contribution taxes		
Current	**-**	-
Deferred	**-**	-
	-	-
Effective rate	**-**	-

	Consolidated	
	03/31/2014	**03/31/2013**
Income before income and social contribution taxes	**102,692**	66,618
Current statutory rates	**34%**	34%
Expected income and social contribution tax expense	**(34,915)**	(22,650)
Income and social contribution taxes on permanent differences		
Interest on Equity (IOE)	**64**	-
Loss realized	**(17)**	(19)
Amortization of concession right	**-**	(5,823)
Reversal of the provision for maintenance of equity integrity (Note 11)	**4,931**	4,931
Equity pickup	**9,780**	7,058
Effect of adoption of taxable profit computed as a percentage of gross sales - subsidiaries (i)	**1,067**	593
Other	**(703)**	260
Effective income and social contribution taxes	**(19,793)**	(15,650)
Income and social contribution taxes		
Current	**(8,374)**	(63,712)
Deferred	**(11,419)**	48,062
	(19,793)	(15,650)
Effective rate	**19.3%**	23.5%

(i) Subsidiaries IEMG, Pinheiros, Serra do Japi and Evrecy

The rate used for 2013 and 2012 is 34%, payable by legal entities in Brazil on taxable profit, as provided for by applicable tax legislation prevailing in this jurisdiction.

(In thousands of reais, unless otherwise stated)

31. Income and social contribution taxes (Continued)

b) Deferred taxes

In 2011, the Company recorded deferred tax assets on income and social contribution tax losses of R$53,000, based on projected future profitability, previously not expected. Due to the tax loss offset used for deduction from taxable profit calculation basis, in 2013, the Company recognized the amount of R$7,047 as deferred income and social contribution taxes. As such, Company management reviewed the amounts and the balance at March 31, 2014 amounting to R$32,507 is expected to be used until 2015, as follows:

Tax credit used annually	2014	2015	Total
Corporate Income Tax (IRPJ)	**5,614**	18,318	23,932
Social Contribution tax on Net Profit (CSLL)	**2,021**	6,554	8,575
	7,635	24,872	32,507

In addition, at March 31, 2014, the Company presents credits on income and social contribution tax losses of R$192,284 (R$192,284 at December 31, 2013), not accounted for, as such credits are not yet expected to be recovered in the foreseeable future.

Breakdown of deferred income and social contribution tax assets and liabilities are as follows:

	Company		Consolidated	
	03/31/2014	**12/31/2013**	**03/31/2014**	**12/31/2013**
Provision - SEFAZ (Note 9)	**-**	-	**175,527**	175,527
Provision for contingencies	**-**	-	**41,148**	43,485
Service concession arrangement (ICPC 01)	**-**	-	**(40,918)**	(38,797)
Assets subject to indemnification (ICPC 01) (i)	**-**	-	**13,528**	16,063
Assets subject to indemnification (i)	**-**	-	**(22,063)**	(26,199)
Deferred income tax loss	**23,932**	23,932	**23,932**	23,932
Deferred social contribution tax loss	**8,575**	8,575	**8,575**	8,575
Derivative financial instruments	**-**	-	**-**	-
Other temporary differences	**-**	-	**6,080**	14,642
Net	**32,507**	32,507	**205,809**	217,228
Noncurrent assets	**32,507**	32,507	**237,814**	251,775
Noncurrent liabilities	**-**	-	**32,005**	34,547

(i) CTEEP presented capital gain, for tax purposes, due to reversal and disposal of property and equipment, as provided for by Law No. 12783 and fifth amendment to service concession arrangement No. 059/2001, executed on December 4, 2012, amounting to R$ 250,231 (which for corporate purposes correspond to R$97,497). Based on Decree-Law No. 1598/77, capital gain may be recognized for determination of taxable profit proportionally to the price received if such price received, in whole or in part, is higher than the current fiscal year. The portions received up to March 31, 2014 amount to approximately 74.0% of total receivables from NI facilities.

(In thousands of reais, unless otherwise stated)

31. Income and social contribution taxes (Continued)

b) Deferred taxes (Continued)

CTEEP management estimates that the deferred income and social contribution tax assets arising from temporary differences will be realized proportionally to the contingencies and causal events underlying the provisions for losses.

c) Measurement of impacts from Provisional Executive Order (MP) No. 627

The Provisional Executive Order No. 627 (MP No. 627) of November 11, 2013, signed into Law No. 12973 of May 13, 2014, and the Brazilian Internal Revenue Service (RFB) Revenue Procedure No. 1397 (IN No. 1397) of September 16, 2013 brought significant changes to the federal tax legislation. The provisions of MP No. 627 will become mandatorily effective for calendar year 2015, and its early adoption from calendar year 2014.

Subsidiary CTEEP did not early adopt said MP, since the amounts distributed as dividends and interest on equity for the period in which the Transition Tax Regime (RTT) was in force do not significantly differ from those that would have been distributed had the Company calculated them in accordance with accounting practices effective at December 31, 2007.

32. Transactions with related parties

Significant balances and transactions with related parties are as follows:

a) Parent Company - ISA Capital

		03/31/2014		12/31/2013		03/31/2014	03/31/2013
Nature of transaction	**Related party**	**Assets**	**Liabilities**	**Assets**	**Liabilities and equity**	**Revenue / (expense)**	**Revenue / (expense)**
Consolidated							
Short-term benefits (*)	Key management personnel	**-**	**-**	-	-	**(418)**	(1,882)
Cash and cash equivalents (Note 6)	HSBC Finance (Brasil) S.A. Banco Múltiplo	**1**	**-**	1	-	**-**	-
Short-term investments (Note 7)	Banco Votorantim S.A.	**29,276**	**-**	15,992	-	**556**	-
	Interconexión Electrica	**54,320**	**-**	55,764	-	**466**	(291)
Loans (Note 12 and 29)	Internexa Brasil	**-**	**-**	-	-	**-**	378
Interest on equity and dividends receivable (Note 26.c)	Subsidiary CTEEP	**11,342**	**-**	75,611	-	**-**	-
		94,939	**-**	147,368	-	**604**	(1,795)

(In thousands of reais, unless otherwise stated)

32. Transactions with related parties (Continued)

b) Subsidiary CTEEP

		03/31/2014		12/31/2013		03/31/2014	03/31/2013
Nature of transaction	**Related party**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Revenue/ (expense)**	**Revenue/ (expense)**
Sublease	Subsidiary CTEEP	**-**	**(25)**	-	(24)	**(79)**	(79)
	IEMG	**8**	**-**	6	-	**20**	19
	Pinheiros	**13**	**-**	13	-	**49**	35
	Serra do Japi	**10**	**-**	12	-	**40**	38
	Evrecy	**5**	**-**	5	-	**18**	-
	IENNE	**9**	**-**	8	-	**29**	25
	IESul	**5**	**-**	5	-	**17**	15
		50	**(25)**	49	(24)	**94**	53
Rendering of services	Subsidiary CTEEP	**-**	**-**	-	(12)	**(35)**	(35)
	Pinheiros	**92**	**-**	88	-	**270**	159
	Serra do Japi	**24**	**-**	23	-	**106**	67
	Evrecy	**56**	**-**	-	-	**399**	-
	IEMadeira	**87**	**-**	38	-	**88**	304
		259	**-**	149	(12)	**828**	495

(*) This refers to management compensation.

Short-term benefits

The Company's compensation policy does not include post-employment benefits, other long-term benefits, employment termination benefits or share-based payments.

Sublease

The sublease agreement encompasses the area occupied by ISA Capital and CTEEP's subsidiaries at the CTEEP's headquarter building, as well as the apportionment of condominium-related and maintenance expenses, among others.

Rendering of services

In 2008, a service agreement was entered into with CTEEP including, among others, delivery of bookkeeping, tax calculation and payroll processing services.

(In thousands of reais, unless otherwise stated)

32. Transactions with related parties (Continued)

Intercompany loan

Under an agreement that came into effect in 2011, subsidiary CTEEP renders operation and maintenance services to the facilities of its subsidiary Pinheiros.

Under an agreement that came into effect in 2011, subsidiary CTEEP renders Technical Advisory Services to Support the Owner's Engineering Service Management, to be performed by IEMadeira and/or its contractors.

Under an agreement that came into effect in 2012, subsidiary CTEEP renders operation and maintenance services to the facilities of Serra do Japi.

Under an agreement that came into effect in 2013, subsidiary CTEEP renders operation and maintenance services to the facilities of its subsidiary Evrecy.

These transactions are carried out under specific conditions agreed upon by the parties.

33. Financial Instruments

a) Identification of significant financial instruments

	Company		Consolidated	
	03/31/2014	12/31/2013	03/31/2014	12/31/2013
Fair value through profit or loss				
Cash and cash equivalents	**55,330**	61,472	**59,056**	65,742
Short-term investments	**19,814**	83,404	**518,260**	679,160
Loans and receivables				
Accounts receivable				
Current	**-**	-	**768,014**	749,388
Noncurrent	**-**	-	**3,097,125**	3,218,954
Receivables - State Finance Department (SEFAZ)				
Noncurrent	**-**	-	**676,658**	643,027
Loans receivable				
Current	**54,320**	55,764	**54,320**	55,764
Interest on equity and dividends receivable	**11,342**	75,611	**-**	-
Pledges and restricted deposits				
Current	**-**	3,262	**-**	3,262
Noncurrent	**-**	-	**69,646**	76,282
Financial liabilities				
Amortized cost				
Loans and financing				
Current	**1,051**	2,719	**194,209**	195,530
Noncurrent	**71,626**	74,146	**460,072**	383,172

(In thousands of reais, unless otherwise stated)

33. Financial instruments (Continued)

a) Identification of significant financial instruments (Continued)

	Company		Consolidated	
	03/31/2014	12/31/2013	03/31/2014	12/31/2013
Debentures				
Current	**-**	-	**190,557**	184,884
Noncurrent	**-**	-	**565,531**	552,756
Trade accounts payable	**433**	434	**41,896**	50,790
Interest on equity and dividends payable	**-**	-	**22,770**	128,481
Payables - Law No. 4819/58				
Current	**11,347**	11,347	**11,347**	11,347
Noncurrent	**400,000**	400,000	**400,000**	400,000

Book values of asset and liability financial instruments, when compared with amounts that could be obtained in their trading in an active market or, when there is no active market, with adjusted net present value based on market interest rate in force, substantially approximate their corresponding market values. Financial instruments traded in an active market are measured according to Level I, and financial instruments not traded in an active market are measured according to Level II, as required by the CPC pronouncement in force.

b) Financing

The rates of book value of loans and financing and debentures are linked to the variation in the TJLP, CDI and IPCA and book value approximates market value.

Debt-equity-ratio

Debt-equity-ratio at the end of the period is as follows:

	Company		Consolidated	
	03/31/2014	12/31/2013	03/31/2014	12/31/2013
Loans and financing				
Current	**1,051**	2,719	**194,209**	195,530
Noncurrent	**71,626**	74,146	**460,072**	383,172
Debentures				
Current	**-**	-	**190,557**	184,884
Noncurrent	**-**	-	**565,531**	552,756
Total debt	**72,677**	76,865	**1,410,369**	1,316,342
Cash and cash equivalents and short-term investments	**75,144**	144,876	**577,316**	744,902
Net debt	**(2,467)**	(68,011)	**833,053**	571,440
Equity	**1,800,947**	1,877,075	**4,799,110**	4,840,364
Net debt-to-equity ratio	**(0.1%)**	(3.6%)	**17.4%**	11.8%

33. Financial instruments (Continued)

c) Risk management

The main risk factors inherent in subsidiary CTEEP and its subsidiaries' transactions may be identified as follows:

(i) Credit risk - subsidiary CTEEP and its subsidiaries have executed and maintain agreements containing a bank guarantee clause with ONS, concession operators and other agents, governing the provision of their Basic Electric Power Grid services to 216 users. Also, the Company and its subsidiaries have executed and maintain agreements containing a bank guarantee clause with 30 concession operators and other agents, governing the provision of their services to Other Transmission Facilities (DIT). Since the electric power industry is highly regulated with ensured revenue and guarantees, the risk of default is minimized.

(ii) Price risk - Under the terms of the service concession arrangement, the revenues of subsidiary CTEEP and its subsidiaries are adjusted annually by ANEEL, based on IPCA and IGP-M variation, while part of the revenue is subject to periodic review (Note 27.2).

(iii) Interest rate risk - Financing agreements are monetarily restated based on TJLP, IPCA and CDI variation (Notes 17 and 18).

(iv) Currency risk - subsidiary CTEEP and its subsidiaries do not have financing, accounts receivable and other assets in foreign currency. Other exposures to foreign exchange fluctuation effects are considered immaterial and correspond to import of equipment, if any.

ISA Capital has loans receivable and payable in foreign currency and, for such exposures, the Company did not take out financial instruments to hedge possible currency risks. Company management does not consider significant the exposure to foreign exchange fluctuation effects.

(v) Funding risk - subsidiary CTEEP and its subsidiaries may face difficulties in the future regarding fundraising with repayment periods and costs adjusted to their cash generating profile and/or their debt repayment obligations.

33. Financial instruments (Continued)

c) Risk management (Continued)

(vi) Liquidity risk - The primary cash sources of subsidiary CTEEP and its subsidiaries arise from:

- Their operating activities, notably the use of their electric power transmission system by other concession operators and agents of the sector. Under current legislation, the annual revenue amount, represented by RAP, related to Basic Electric Power Grid facilities and Other Transmission Facilities (DIT), is defined by ANEEL; and
- Rights on receivables for the term extension of the service concession arrangement No. 059/2001 governed by Law No. 12783/2013, whose determination of part of value and the payment method are pending definition by the Granting Authority (Note 1.2).

Subsidiary CTEEP manages liquidity risk by maintaining bank credit facilities and funding facilities so as to raise loans as it deems appropriate, through ongoing monitoring of projected and actual cash flows, and matching of the maturity profiles of financial assets and liabilities.

d) Sensitivity analysis

Pursuant to CVM Rule No. 475 of December 17, 2008, subsidiary CTEEP conducts interest rate and currency risk sensitivity analysis. CTEEP management does not consider significant its exposure to the other previously described risks.

For the purpose of defining a probable scenario of the interest rate and price rate risk sensitivity analysis, we used the same assumptions established for long-term financial planning of subsidiary CTEEP. These assumptions are based, among other aspects, on the Brazilian macroeconomic scenario and the opinion of market experts.

As such, in order to assess the effects of CTEEP's cash flow variation, the sensitivity analysis below deems as probable scenario the interest rates at March 31, 2014, reported in the interest rate risk tables. Such rates were appreciated and depreciated by 25% and 50%.

(In thousands of reais, unless otherwise stated)

33. Financial instruments (Continued)

d) Sensitivity analysis (Continued)

Interest rate risk - effects on cash flow - consolidated

Transaction	Risk	Probable scenario	Rate appreciation risk Scenario II	Rate appreciation risk Scenario III	Rate depreciation risk Scenario II	Rate depreciation risk Scenario III
Financial assets						
Short-term investments	96.5% to 103.00% CDI	13,657	16,911	20,106	10,116	6,809
Financial liabilities						
Debentures – 1st series	CDI+1.30%	(4,902)	(5,942)	(6,964)	(3,843)	(2,763)
Debentures – 2nd series	IPCA+8.10%	(2,739)	(3,030)	(3,319)	(2,444)	(2,145)
Debentures - single series	116.0% CDI p.a.	(25,665)	(29,365)	(32,991)	(21,887)	(18,027)
FINEM BNDES (i) and (ii)	TJLP+1.80% to 2.30%	(4,479)	(5,273)	(6,046)	(3,706)	(2,912)
BNDES (subsidiaries)	TJLP + 1.55% to 2.62% p.a.	(3,656)	(4,203)	(4,746)	(3,104)	(2,547)
Net effect of change		**(27,784)**	**(30,902)**	**(33,960)**	**(24,868)**	**(21,585)**
Reference for financial assets and liabilities						
100% CDI (June 2014)		10.82% p.a.	13.53% p.a.	16.23% p.a.	8.12% p.a.	5.41% p.a.

34. Commitments - operating lease agreements

The significant commitments assumed by subsidiary CTEEP and its subsidiaries refer to operating leases of vehicles and IT equipment, minimum future payments of which, in total and for each period, are as follows:

	Consolidated 03/31/2014	Consolidated 12/31/2013
Within 1 year	**6,906**	7,346
More than 1 year up to 5 years	**18,165**	12,871
	25,071	20,217

35. Insurance

Breakdown of insurance lines is as follows:

Consolidated			
Insurance line	**Effective period**	**Insured amount in thousands of reais**	**Premium in thousands of reais**
Property (a)	09/01/12 to 03/01/14	2,662,316	3,510
General civil liability (b)	09/01/13 to 09/01/14	20,000	162
Domestic transportation (c)	09/30/13 to 09/30/14	90,987	8
Personal accidents - Group (d)	05/01/13 to 05/01/14	50,643	2
Automobile (e)	03/02/13 to 03/02/14	Market value	22
Court-ordered guarantee (f)	11/29/13 to 04/11/17	17,083	293
			3,997

(a) Property - Coverage against risks of fire and electrical damage to the main equipment installed in transmission substations, buildings and respective contents, storerooms and facilities, according to service concession arrangement No. 059/2001, clause four, sub-clause eight, item II, letter D, whereby the transmission company shall maintain insurance policies to ensure adequate coverage of the most important equipment of the transmission system facilities, in addition to defining the items and facilities to be insured.

(b) General civil liability - coverage to repair unintentional damage, personal and/or property damage caused to third parties as a result of subsidiary CTEEP's operations.

(c) Domestic transportation - coverage against damage caused to CTEEP's items and equipment, transported throughout the Brazilian territory.

(d) Personal accidents - Group - coverage against personal accidents to executives, interns and trainees.

(e) Vehicles - coverage against collision, fire, theft and third parties.

(f) Court-ordered guarantee - replacement of collaterals and/or judicial deposits made to the Granting Authority.

There is no coverage for any damage in transmission lines against fire, lightning, explosions, short-circuits and power outages.

Given their nature, assumptions adopted to take out insurance coverage are not part of the scope of a review. As a result, these were not reviewed by our independent auditors.

36. Supplementary retirement plan governed by Law No. 4819/58

The supplementary retirement plan governed by State Law No. 4819/58, which addressed the creation of the State Social Assistance Fund, is applicable to employees of government agencies, of corporations in which the State held the majority of shares, and of industrial services owned and managed by the state, hired until May 13, 1974, and provided for supplementary retirement and pension benefits, additional leave entitlement and family allowance. Funds required to cover liabilities assumed in this plan are full responsibility of the applicable São Paulo State Government authorities, and the implementation took place under an agreement between SEFAZ-SP and CTEEP, on December 10, 1999, effective until December 31, 2003.

This procedure was carried out regularly until December 2003 by Fundação CESP, with funds from SEFAZ-SP, transferred by CESP and later by subsidiary CTEEP. From January 2004, SEFAZ-SP started to directly process those payments, without the intervention of subsidiary CTEEP and Fundação CESP, at amounts historically lower than those paid until December 2013.

a) Lawsuit of the 2nd Public Finance Court

This event caused the filing of legal proceedings by retirees, with emphasis on the Civil Class Action whose decision was handed down by the 2nd Tax Court in June 2005, whereby the requesting for supplementary pension was deemed unfounded and SEFAZ was held liable for the supplementary pension. In October 2013, the Federal Supreme Court of Brazil (STF) recognized the Regular Legal Court as the competent court for matters relating to the social security, thus the procedural stages were maintained.

b) Lawsuit of the 49th Labor Court

In contrast to the decision previously handed down, a decision issued by the 49th Labor Court of São Paulo State was communicated to CTEEP on July 11, 2005 granting interim relief for Fundação CESP to process again the payments of benefits arising from State Law No. 4819/58, according to respective rules, as performed until December 2003, with funds transferred by subsidiary CTEEP.

In order to fulfill the aforementioned court decisions, subsidiary CTEEP requests the necessary funds to SEFAZ-SP, on a monthly basis, to transfer them to Fundação CESP, which must process the respective payments to the beneficiaries. This lawsuit resulted in an unfavorable decision against SEFAZ-SP, CESP, Fundação CESP and subsidiary CTEEP.

36. Supplementary retirement plan governed by Law No. 4819/58 (Continued)

b) Lawsuit of the 49th Labor Court (Continued)

Due to the existence of proceedings at Courts of different jurisdictions, the decision that will prevail is to be defined, which may annul the Labor Court decision.

c) Conflict of jurisdiction

On February 20, 2013, under judgment of appeal concerning legal discussions of other parties not related to this lawsuit, the STF consolidated the case law for the jurisdiction of the Regular Legal Court to judge proceedings on supplementary pension. The position of the STF Full Bench was that "the jurisdiction to process lawsuits filed against supplementary pension private entities is of the Regular Legal Court, given the autonomy of the Social Security Law in relation to the Labor Law".

In this case, the STF decision mentioned in the paragraph above confirmed the jurisdiction of the Regular Legal Court to process lawsuits filed against supplementary pension private entities. This decision will serve as leading case for the conflict of jurisdiction judgment, which involves the specific case of subsidiary CTEEP in relation to Law No. 4819/58, which according to the STF Judge is concluded since April 9, 2013. In November 2013, STF judged the conflict of jurisdiction and denied it; this judgment is still pending appeal.

d) Collection lawsuit

Since September 2005, the SEFAZ-SP has been transferring to subsidiary CTEEP an amount lower than that required for the faithful compliance with such decision of the 49th Labor Court.

As a consequence this decision, subsidiary CTEEP transferred to Fundação CESP, from January 2005 to March 2014, R$ 2,676,425 for the payment of benefits provided for by State Law No. 4819/58, having received from SEFAZ-SP R$ 1,799,184 for such purpose. The difference between the amounts transferred to Fundação CESP and refunded by SEFAZ-SP, amounting to R$966,241 (Note 9 a), has been required by subsidiary CTEEP for refund by SEFAZ-SP. In addition, there are amounts relating to labor claims settled by the Company which are the responsibility of State Government, amounting to R$226,672 (Note 9.b), thus totaling R$1,192,913.

36. Supplementary retirement plan governed by Law No. 4819/58 (Continued)

d) Collection lawsuit (Continued)

In December 2010, subsidiary CTEEP filed a collection lawsuit against SEFAZ-SP to recover the amounts until then not received in regard to this matter. On May 13, 2013, a decision was handed down dismissing the collection lawsuit, without prejudice, for which a motion for clarification was presented, which on August 27, 2013 was granted to remedy the omission contained in said decision. The appeal so that the lawsuit returns to the Court of origin with prejudice was filed on September 2013 and is pending judgment. This procedural incident postpones the term for realization of the asset disputed in such lawsuit.

e) Lawsuit from retirees' association

In the second quarter of 2012, Associação dos Aposentados da Fundação CESP filed lawsuit No. 0022576-08.2012.8.26.0053 against SEFAZ-SP, seeking reimbursement of the supplementary retirement plan governed by Law No. 4819/58 so that said plan may honor retirement and pension payouts.

f) Writ of mandamus - Campinas City Union

On April 19, 2013, by means of a Notice, SEFAZ-SP recognized the effective transfers to subsidiary CTEEP of the amounts previously disallowed, relating to certain accounts that partially comprise the amount not transferred and required for due compliance with the decision awarded by the 49^{th} Labor Court. SEFAZ-SP recognition was due to the unappealable decision handed down in the records of the Collective Petition for Writ of Mandamus filed by Sindicato dos Trabalhadores da Indústria de Energia Elétrica de Campinas, which determined that SEFAZ-SP shall maintain the payments of supplementary retirement and pension of retirees without eliminating such amounts.

36. Supplementary retirement plan governed by Law No. 4819/58 (Continued)

f) Writ of mandamus - Campinas City Union (Continued)

On account of this decision, as from April 19, 2013, payments to retirees registered at the above-mentioned union have been assumed by SEFAZ-SP. Supported by a favorable position of its legal advisors, Subsidiary CTEEP management understands that this decision provides an important leading case so that amounts of same nature, both for the group of retirees of that union and for other retirees, are recognized as responsibility of SEFAZ-SP. Subsidiary CTEEP will analyze measurers, with its legal advisors, so that SEFAZ-SP recognizes the responsibility for amounts of same nature for all retirees population.

Subsidiary CTEEP's view

Subsidiary CTEEP remains committed to voiding the decision of the 49th Labor Court in order to allow the return of the procedure of payment direct from payroll of benefits of State Law No. 4819/58 by SEFAZ-SP.

In view of the new events occurred in 2013, especially those related to the legal progress of the lawsuit relating to the collection of amounts due by SEFAZ-SP as mentioned above, and considering the legal progress of other proceedings and lawsuits also aforementioned, subsidiary CTEEP management reviewed its position, recognizing in 2013 a provision for losses on realization of part of receivables, whose realization term is expected to be extended, and it is yet not sure that these amounts are sole responsibility of SEFAZ-SP.

Management has been monitoring new events relating to the legal and business aspects underlying this matter, as well as any impact on subsidiary CTEEP interim financial information.

37. Subsequent events

Company

a) *Escrow deposit*

On April 24, 2014, by way of an exchange contract entered into with Banco Santander, the Company made a deposit at Bank of New York ("BONY") amounting to R$3,121, and this fund will be used for payment of interest on bonds in July 2014.