Financial statements

ISA Capital do Brasil S.A.

December 31, 2014
with Independent Auditor's Report

ISA Capital do Brasil S.A.

Financial statements

December 31, 2014

Contents

ISA Capital do Brasil S.A.

Management Report - Fiscal Year 2014

Dear Shareholders,

In compliance with the provisions of applicable laws and bylaws, the Management of ISA Capital do Brasil S.A. ("ISA Capital" or "Company") submits to your consideration its Management Report and individual and consolidated financial statements for the year ended December 31, 2014, together with the Independent Auditors' Report.

Message from Management

ISA Capital is a domestic holding company controlled by Interconexión Eléctrica S.A. E.S.P. ("ISA"), a Colombian government-run private corporation, whose primary business purpose is to operate and maintain the electric power transmission network.

As the controlling shareholder of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista since July 26, 2006, ISA Capital holds, at December 31, 2014, 57,714,208 common shares in CTEEP, representing 89.50% of its voting capital, and 3,496,456 preferred shares, totaling 61,210,664 CTEEP-issued shares, which is equivalent to 37.96% of its total capital. The equity interest held in CTEEP is recorded as "Investments" in the financial statements of ISA Capital in the amount of R$2.1 billion. In 2014, the Company received R$108.6 million in proceeds from its investment in CTEEP.

ISA Capital and its parent ISA are committed to ensuring, fostering and improving the quality of the electric power transmission services provided by subsidiary CTEEP and its subsidiaries, also aiming to improve their economic and financial results by adopting the world's best management practices and models for the benefit of their shareholders and the community.

1. Company profile

ISA Capital do Brasil S.A. ("ISA Capital" or "Company") is a domestic holding company organized as a limited liability company on April 28, 2006, which went public on September 19, 2006. Then, the Company obtained its public company registration from the Brazilian Securities and Exchange Commission ("CVM") on January 4, 2007, and remained as such until May 27, 2010, when the registration was cancelled by a decision of its shareholders.

The Company's business purpose is to own shares in other companies or business ventures as a partner or shareholder, joint venturer, consortium member or any other form of business partnership.

ISA Capital is controlled by Interconexión Eléctrica S.A. E.S.P. ("ISA"), a Colombian government-run private corporation, whose primary business purpose is to operate and maintain the electric power transmission network, as well as to participate in activities involving the provision of electric power services.

ISA Capital has been the controlling shareholder of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista ("subsidiary" or "CTEEP") since July 26, 2006, when the public auction held by the São Paulo Government on June 28, 2006 at the São Paulo Stock Exchange (BOVESPA) for the sale of the controlling block of shares in CTEEP financial settled.

For the acquisition of 31,341,890,064 common shares representing 50.1% of CTEEP common shares and 21.0% of its total capital, the Company paid to the São Paulo State Government the amount of R$1.2 billion corresponding to R$38.09 per thousand shares. In addition to this payment, ISA Capital paid R$19.4 million to the São Paulo State Government in the form of an accretion in the share price paid in the Auction, so as to make up for the discount offered to CTEEP employees for the purchase of a certain number of shares. The amount paid for the acquisition of control in CTEEP is subject to adjustments, as defined in the CTEEP stock purchase and sale agreement, to be determined on the basis of the amounts actually paid by CTEEP relating to supplementary benefit and pension of former employees pursuant to State Law No. 4819/58.

As part of the privatization process, on September 12, 2006, the Company acquired another 10,021,687 common shares in CTEEP, representing 0.016% of the common stock, for the price of R$229 thousand. These shares were acquired by reason of unsold shares remaining after the offering of CTEEP common shares made by the São Paulo State Government to CTEEP employees, according to the terms of CTEEP Privatization Notice SF/001/2006.

Under article 254-A of the Brazilian Corporate Law and pursuant to the Privatization Notice and the share purchase and sale agreement, ISA Capital held a public tender offer to purchase the outstanding shares of CTEEP at the São Paulo Stock Exchange (BOVESPA) on January 9, 2007, for an amount equivalent to 80% of the amount paid for the controlling block of shares of CTEEP. This Auction resulted in the Company acquiring 24,572,554,070 common shares in CTEEP, representing 39.28% of the total common stock, for R$30.74 per thousand shares, totaling R$755.4 million.

As a result of this acquisition, ISA Capital owned a total 55,924,465,821 CTEEP-issued common shares representing 89.40% of its voting capital and 37.46% of its total capital. After CTEEP reverse stock split in August 2007, the number of common shares owned by the Company changed to 55,924,465.

Later, the Company made contributions to CTEEP capital in an amount equivalent to 1,727,517 common shares, as follows: 574,927 shares on August 24, 2009, 594,477 shares on April 23, 2010 and 621,259 shares on December 21, 2011. On June 29, 2012 and July 5, 2012, ISA Capital disposed of 920 common shares. On September 26, 2014, 3,496,456 preferred shares were paid up in a new capitalization process. These capital contributions arise from the tax benefit obtained by CTEEP with the partial amortization of the special goodwill reserve in fiscal years 2008 to 2013.

Accordingly, at December 31, 2014, the Company holds 57,714,208 common shares and 3,496,456 preferred shares, equivalent to 37.96% of CTEEP total capital and 89.50% of CTEEP voting capital.

Also in 2014, aiming at improving the cash flow of the obligations assumed before the preferred shareholders in 2010 and keeping it consistent with the Company's new financial reality and capacity after the extension of subsidiary CTEEP concession term in December 2013, the First Amendment to the Shareholders' Agreement was executed on February 25, 2014, when the Extraordinary General Meeting was held to resolve on (i) the conversion of then existing redeemable preferred shares into new classes, and (ii) the amendment to Articles 5 and 6 of the Articles of Incorporation, as well as its consolidation. The changes brought to the Shareholders' Agreement include (i) the new redemption schedule for preferred shares and payment of fixed cumulative dividends from a quarterly to a half-yearly basis; and (ii) fixed cumulative dividends, which were determined by reference to 100% of CDI rate plus 1.0% per annum (p.a.), have been calculated, as of February 25, 2014, by reference to 100% of CDI rate plus 1.5% p.a.

2. Debt in foreign currency - bonds

The Company has a foreign currency-denominated debt (bonds) in the amount of US$31.6 million, equivalent to R$76.8 million, which matures in 2017. This is the balance remaining after the restructuring process in March 2010, when ISA Capital repurchased US$522.4 million, equivalent to R$935.6 million and 94.3% of the total bonds outstanding.

3. Commitments assumed

In the process of CTEEP control acquisition, the Company assumed various commitments and obligations under Notice SF/001/2006, which were or have been fulfilled as applicable. The CTEEP share purchase and sale agreement entered into on July 26, 2006 also required the Company and its Parent to comply with some obligations in connection with CTEEP management insofar as they refer to the fulfillment of prior agreements, corporate governance rules, protecting the rights of CTEEP's employees, sustaining and continuing the quality of electric power transmission services, among others

As a result of the restructuring of the foreign currency-denominated debt in 2010, the main commitments and obligations under the indentures, the so-called covenants, which prevented the implementation of certain operating activities of the Company, were eliminated. Thus, in addition to better managing its business, ISA Capital continues to strictly comply with all other commitments assumed before the remaining bondholders.

Additionally, the Company has been fulfilling all of the commitments defined in the Shareholders' Agreement as a result of the issuance of redeemable preferred shares in March 2010, and in its First Amendment in February 2014, as previously mentioned, especially with regard to fixed cumulative dividends on such preferred shares that in 2014 received an amount equivalent to R$97.3 million (2013 - R$96.2 million), as well as shares redeemed in 2014 totaling R$142.3 (2013 - R$216.0).

4. Proceeds from subsidiary

In 2014, ISA Capital recorded R$144.1 million (2013 - R$124.5 million) in equity pickup, and received proceeds amounting to R$108.6 million (2013 - R$75.6 million), including R$97.3 million in dividends and R$11.3 million (2013 - R$75.6 million) in interest on equity.

5. Economic and financial performance - consolidated

The revenue of ISA Capital is directly associated with the equity interest held in subsidiary CTEEP, which amounts to R$144.1 million in 2014. Operating revenue of subsidiary CTEEP derives mainly from rendering electric power transmission services and equity interests held in subsidiaries and jointly-controlled subsidiaries.

In 2014, **Gross Operating Revenue** of subsidiary CTEEP was R$1,234.3 million, up 10.4% from the R$1,118.3 million reported for same period in 2013. This change was mainly due to the 26.3% increase in operating and maintenance revenue, together with the 14.5% decrease in financial income. Total **Gross Operating Revenue** is broken down as follows:

- **Construction revenue** totaled R$265.1 million in 2014 and remained virtually stable as compared to the R$267.9 million reported for 2013. This refers to an increase in the number of projects involving reinforcement and reconstruction of transmission lines and implementation of an autotransformer bank, negatively offset by the start-up of operations, in the third quarter of 2013, of Lot K acquired by subsidiary IEPinheiros at Auction 004/2011.

- **Operation and maintenance revenue** totaled R$740.6 million, a 26.3% increase over the R$586.6 million reported in 2013. The main impacts were: (i) recognition of the positive adjustment amount of R$24.5 million (negative adjustment amount of R$43.6 million in 2013); (ii) receipt of the system surplus attributable to the Company in 2014 totaling R$42.0 million (R$13.9 million in 2013); (iii) 6.9% increase in IGPM/IPCA on Annual Allowed Revenue (RAP) for 2013/2014 over 2014/2015; and (iv) deployment of new reinforcement projects.

- **Financial income** amounted to R$207.5 million in 2014, a 14.5% decrease over 2013, which recorded a total R$242.7 million, reflecting the cash flow change expected for the realization of construction and compensation amounts recognized using the effective interest rate on the outstanding principal amount. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to the initial net carrying amount of the asset.

- **Other revenue** this refers to rentals to a fixed-line telephone company and services rendered to third parties in connection with technical maintenance and analyses. In 2014, other revenue totaled R$21.2 million, in line with 2013, when the amount recorded was also R$21.2 million, reflecting a 10.8% growth in rental revenue offset by a 23.8% fall in service revenue, due to a review in the scope of agreements.

Deductions from operating revenue were R$131.5 million in 2014, a 4.1% decrease compared to the R$137.2 million in 2013. The change substantially reflects: (i) 0.8% increase in income taxes, in line with the change in operating revenue, offset by the change in deferred PIS and COFINS rates applicable to subsidiary IEPinheiros, as a result of the change in its taxation method from computing taxable profit based on accounting records (the so-called *lucro real)* to computing taxable profit as a percentage of gross sales (*lucro presumido*); and (ii) 17.8% decrease in regulatory charges, especially CDE and PROINFA, given the consumption of free consumers.

As a result of the aforementioned aspects, **Net operating revenue** of subsidiary CTEEP was R$1,102.9 in 2014, a 12.4% increase over 2013, which reported R$981.2 million.

In 2014, the **costs of construction, operation and maintenance services** totaled R$541.6 million, down 4.0% from 2013, which totaled R$563.9 million. These costs are broken down as follows:

- **Costs of operation and maintenance services** reduced by 6.5%, with R$299.3 million posted in 2014 over R$320.2 million posted in 2013. This decrease refers mainly to third party supplies and services and is due to: (i) reprogramming of some operation and maintenance activities for compliance with technical requirements and limited system interventions; (ii) internalization of part of operation and maintenance services; and (iii) efforts to cut costs when renegotiating existing contracts in order to adjust them to the new reality.

- **Costs of construction services** were virtually stable during the year, with R$242.3 million posted in 2014 and R$243.7 million posted in 2013, followed by changes in construction revenue.

Net operating revenue (expenses) reduced by 72.8%, with expenses totaling R$207.4 million in 2014 and R$762.8 in 2013, especially because of: (i) reversal of the amount of construction services that did not generate additional revenue, totaling R$19.2 million; (ii) use of PIS and COFINS credits, in the second quarter of 2014, on machinery and equipment acquired over the latest 5 years for the operation electric power transmission, not previously recorded, in the amount of R$21.4 million; (iii) sale of unusable materials, in a total R$8.2 million; (iv) in 3Q2013, recognition of a provision for losses on receivables from SeFaz - SP in the amount of R$516.2 million, and (v) ISA Capital amortized R$68.5 million of goodwill recorded in 2013.

Equity pickup for 2014 was represented by revenue in the amount of R$90.9 million, up 42.2% from the R$63.9 million revenue posted in 2013. This was due especially to the start-up of operations of Lot D (Transmission Line) and Lot F (Substations) of indirect subsidiary IEMadeira in August 2013 and May 2014, respectively. Likewise, indirect subsidiary IENNE, which reported R$10.4 million in losses in 2013 because of the tariff review, posted R$3.9 million in profits for 2014. This was also impacted by a R$14.9 million increase in profits due to changes in financial income of indirect subsidiary IEGaranhuns.

Financial income fell by 90.6% and totaled R$6.5 million in 2014, as compared to R$69.0 million posted in 2013, due to the following aspects: (i) recognition of foreign exchange gains and interest received in the amount of R$78.6 million in 2014, over R$143.2 million in 2013, referring to IPCA adjustment + 5.59% of Accounts Receivable from Returnable Assets – Law No. 12783; (ii) decrease in investment yield given the less amounts invested in the period; and (iii) decrease in monetary adjustments and interest and charges on loans and financing due to the settlement of agreements.

The total for **Corporate Income Tax (IRPJ) and Social Contribution Tax (CSLL)** had a significant change from R$81.3 million recorded as expenses in 2014 to R$145.7 million posted as credits in 2013. The main impact was on deferred taxes substantially because of the recognition, in 2013, of credits referring to the provision recorded that year for losses on part of receivables from SeFaz-SP. Current IRPJ and CSLL decreased 29.2% in 2014 over 2013, especially because of less financial income posted in 2014. Accordingly, the effective IRPJ and CSLL tax rate was 18.0% in 2014.

As a result of the foregoing, **Net income** for 2014 totaled R$369.8 million, up 729.1% from the R$44.6 million reported for 2013.

EBITDA of subsidiary CTEEP, pursuant to CVM Rule No. 527/12, was R$488.0 million in 2014, up R$657.8 million from negative R$169.8 million recorded in 2013. The change refers to the provision for losses on receivables from SeFaz-SP included in Other Operating Revenue/Expenses.

As at December 31, 2014, the **Gross debt** of subsidiary CTEEP was R$1,191.9 million, down 3.8% from 2013, when the total was R$1,239.5 million. **Net debt**, conversely, totaled R$707.6 million, a 10.7% increase over the previous year. The main impact was a 19.3% decrease in **Cash and cash equivalents**, from R$484.3 million in 2014 to R$600.0 million in 2013.

6. Independent auditors

With respect to the provision of independent audit services, ISA Capital represents that Ernst & Young Auditores Independentes ("EY") was engaged in 2014 only to provide Audit services related to the Individual and Consolidated Financial Statements for the fiscal year ended 2014. ISA Capital follows principles that preserve auditors' independence, which establish that auditors shall not audit their own work, function in the role of management or act as an advocate for a client.

Management

Building a better
working world

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Independent auditor's report on financial statements

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

Introduction

We have audited the accompanying individual and consolidated financial statements of ISA Capital do Brasil S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2014, and the related income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

As a consequence of the debt restructuring process carried out in 2010, as described in Note 17.a, the Company recognized the amount relating to the issue of redeemable preferred shares mentioned in Note 26.a as an equity instrument, which, in our opinion, should be recognized as a financial liability instrument, according to accounting practices adopted in Brazil, specifically CPC 39 and IAS 32. In addition, the Company recognized return on the referred to instrument as a fixed cumulative dividend, as defined in its Articles of Incorporation and Shareholders' Agreement, rather than as a financial expense in the form of interest, as we believe it should be. Had the Company recognized that share issue as a financial liability instrument and had the related return been recognized as a financial expense rather than as a dividend, equity as at December 31, 2014 would be reduced by R$841,692 thousand, from R$1,773,432 thousand to R$931,740 thousand, individual, and from R$5,004,054 thousand to R$4,162,362 thousand, consolidated (at December 31, 2013, equity would be reduced by R$983,400 thousand, from R$1,877,075 thousand to R$893,675 thousand, individual, and from R$4,840,364 thousand to R$3,856,964 thousand, consolidated). Moreover, total liabilities would have increased from R$499,407 thousand to R$1,341,099 thousand, individual, and from R$2,401,155 thousand to R$3,242,847 thousand, consolidated (at December 31, 2013, total liabilities would have increased from R$521,098 thousand to R$1,504,498 thousand, individual, and from R$2,543,745 thousand to R$3,527,145 thousand, consolidated). The net income for the year ended December 31, 2014 would be reduced by R$105,171 thousand from R$134,247 thousand to R$29,076 thousand, individual, and from R$369,844 thousand to R$264,673 thousand, consolidated, before noncontrolling interests (for the year ended December 31, 2013, the net income would be reduced by R$96,448 thousand from R$25,603 thousand in income to R$70,845 thousand in losses, individual, and from R$44,588 thousand in income to R$51,860 thousand in losses, consolidated, before noncontrolling interests).

Qualified opinion

In our opinion, except for the effects of the matter discussed in our "Basis for qualified opinion" paragraph, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of ISA Capital do Brasil S.A. at December 31, 2014, and its individual and consolidated operating performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Emphasis of a matter

Compensation of amounts relating to assets classified as an 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), the Company prepared a valuation report on assets classified as an Existing Service (SE), which resulted in R$5,186,018 thousand, equivalent to investments using the so-called Optimized Replacement Cost (VNR), adjusted for cumulative depreciation through December 31, 2012. This amount is subject to approval by ANEEL.

As described in Notes 8 and 37, on January 8, 2015, subsidiary CTEEP received a report from ANEEL's Economic and Financial Oversight Authority (SFF), pursuant to the material news release published on the same date, whereby SFF expressed its opinion on the amount of compensation to which subsidiary CTEEP would be entitled, namely R$3,604,982 thousand. Subsidiary CTEEP filed an appeal challenging the amount informed by SFF. The impacts and the accounting treatment of these assets on the financial statements depend on ANEEL's approval of the final figure, as well as on how and when the amount will be received, which will be defined by the Ministry of Mines and Energy and the Ministry of Finance. While the final amount is not approved, subsidiary CTEEP has recorded this infrastructure at the construction cost since 2012, in the amount of R$1,490,996 thousand, which is equivalent to the regulatory fixed asset (historical cost). The determination of the effective compensation for these assets, as well as the terms, conditions, and form of payment are pending approval by the Granting Authority. Our opinion 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 in the amount of R$802,102 thousand relating to the impacts of Law No. 4819/58, which offers that entity's civil servants, while within the control of the São Paulo State government, the same advantages to which other public service employees were already entitled. Management of subsidiary CTEEP has monitored the new events relating to the legal and business aspects of this matter, as well as continuously evaluated any impacts on its financial statements. Our opinion is not modified in respect of this matter.

Other matters

Audit of prior-year corresponding figures

The financial statements for the year ended December 31, 2013 were audited by other independent auditors who expressed an audit opinion thereon on March 12, 2014, with the same modification and emphasis described above.

São Paulo, March 6, 2015.

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

Marcos Antonio Quintanilha
Accountant CRC-1SP132776/T-1

Alessandra Aur Raso
Accountant CRC-1SP248878/O-7

ISA Capital do Brasil S.A.

Balance sheets
December 31, 2014 and 2013
(In thousands of reais - R$)

		Company		Consolidated	
	Note	2014	2013	2014	2013
Assets					
Current assets					
Cash and cash equivalents	6	**20,551**	61,472	**25,247**	65,742
Short-term investments	7	**-**	83,404	**479,601**	679,160
Accounts receivable (concession assets)	8	**-**	-	**729,946**	749,388
Inventories	-	**-**	-	**45,696**	61,767
Loans receivable	12 and 32	**-**	55,764	**-**	55,764
Interest on equity and dividends receivable	-	**-**	75,611	**-**	-
Accrued dividends receivable	26.d and 32	**11,778**	-	**-**	-
Taxes and contributions recoverable	10	**31,623**	14,984	**66,103**	87,749
Deferred income and social contribution taxes	31.b	**32,237**	-	**32,237**	-
Pledges and restricted deposits	13	**3,699**	3,262	**3,699**	3,262
Prepaid expenses	-	**-**	-	**948**	544
Receivables from subsidiaries	-	**-**	-	**37,429**	51
Other	-	**8**	4	**101,579**	105,632
		99,896	294,501	**1,522,485**	1,809,059
Noncurrent assets					
Accounts receivable (concession assets)	8	**-**	-	**3,165,656**	3,218,954
Loans receivable	12 and 32	**63,229**	-	**63,229**	-
Receivables - State Finance Department (SEFAZ)	9	**-**	-	**802,102**	643,027
Tax benefit – goodwill on merger	11	**-**	-	**30,473**	60,359
Deferred income and social contribution taxes	31.b	**-**	32,507	**188,556**	251,775
Taxes and contributions recoverable	10	**-**	10,392	**-**	10,392
Pledges and restricted deposits	13	**-**	-	**62,353**	76,282
Inventories	-	**-**	-	**37,993**	47,748
Other	-	**-**	-	**24,395**	23,453
		63,229	42,899	**4,374,757**	4,331,990
Investments	14.b	**2,109,574**	2,060,743	**1,315,669**	1,075,009
Property and equipment	15	**34**	30	**24,588**	10,400
Intangible assets	16	**106**	-	**167,710**	157,651
		2,109,714	2,060,773	**1,507,967**	1,243,060
		2,172,943	2,103,672	**5,882,724**	5,575,050
Total assets		**2,272,839**	2,398,173	**7,405,209**	7,384,109

ISA Capital do Brasil S.A.

Balance sheets
December 31, 2014 and 2013
(In thousands of reais - R$)

		Company		Consolidated	
	Note	2014	2013	2014	2013
Liabilities and equity					
Current liabilities					
Loans and financing	17	**3,083**	2,719	**135,133**	195,530
Debentures	18	**-**	-	**83,846**	184,884
Trade accounts payable	-	**411**	434	**75,880**	50,790
Taxes and social charges payable	19	**495**	7,432	**27,016**	27,562
Taxes in installments - Law No. 11941	20	**-**	-	**14,950**	13,915
Regulatory charges payable	22	**-**	-	**59,705**	38,666
Fixed cumulative dividends payable	-	**-**	25,000	**-**	25,000
Interest on equity and dividends payable	-	**-**	-	**21,925**	128,481
Provisions	23	**-**	20	**27,469**	28,017
Payables - Law No. 4819/58 - State Finance Department (SEFAZ)	5.a	**252,726**	7,194	**252,726**	7,194
Payables - Law No. 4819/58 - OPA	5.b	**158,621**	4,153	**158,621**	4,153
Payables - Fundação CESP	24	**-**	-	**5,375**	6,091
Other	-	**-**	-	**16,215**	20,329
		415,336	46,952	**878,861**	730,612
Noncurrent liabilities					
Loans and financing	17	**84,071**	74,146	**524,651**	383,172
Debentures	18	**-**	-	**535,399**	552,756
Taxes in installments - Law No. 11941	20	**-**	-	**132,061**	136,827
Deferred PIS and COFINS	21	**-**	-	**117,972**	117,860
Deferred income and social contribution taxes	31.b	**-**	-	**33,956**	34,547
Regulatory charges payable	22	**-**	-	**22,610**	36,020
Provisions	23	**-**	-	**131,592**	127,898
Payables - Law No. 4819/58 - State Finance Department (SEFAZ)	5.a	**-**	245,532	**-**	245,532
Payables - Law No. 4819/58 - OPA	5.b	**-**	154,468	**-**	154,468
Special obligations - reversal/amortization	25	**-**	-	**24,053**	24,053
		84,071	474,146	**1,522,294**	1,813,133
Equity					
Capital	26.a	**840,378**	840,378	**840,378**	840,378
Capital reserves	26.d	**841,092**	983,400	**841,092**	983,400
Goodwill on equity transaction	26.e	**(5,679)**	(7,468)	**(5,679)**	(7,468)
Income reserves	26.f	**97,641**	60,765	**97,641**	60,765
Retained earnings	-	**-**	-	**-**	-
		1,773,432	1,877,075	**1,773,432**	1,877,075
Noncontrolling interests		**-**	-	**3,230,622**	2,963,289
Total equity		**1,773,432**	1,877,075	**5,004,054**	4,840,364
Total liabilities and equity		**2,272,839**	2,398,173	**7,405,209**	7,384,109

See accompanying notes.

ISA Capital do Brasil S.A.

Income statements
Years ended December 31, 2014 and 2013
(In thousands of reais -R$, except earnings per share)

	Note	Company 2014	Company 2013	Consolidated 2014	Consolidated 2013
Net operating revenue	27	**-**	-	**1,102,788**	981,168
Cost of construction, operation and maintenance services	28	**-**	-	**(541,618)**	(563,934)
Gross profit		**-**	-	**561,170**	417,234
Operating income (expenses)					
General and administrative expenses	28	**(3,674)**	(3,720)	**(168,077)**	(162,619)
Other operating income (expenses), net	30	**-**	(68,504)	**(39,356)**	(600,182)
Equity pickup	14.1.(b)	**144,135**	124,518	**90,905**	175,439
		140,461	52,294	**(116,528)**	(587,362)
Profit (loss) before financial income (expenses) and income taxes		**140,461**	52,294	**444,642**	(170,128)
Financial expenses	29	**(36,229)**	(52,978)	**(178,563)**	(285,039)
Financial income	29	**30,888**	49,752	**185,113**	354,031
Financial income (expenses)		**(5,341)**	(3,226)	**6,550**	68,992
Profit (loss) before income and social contribution taxes		**135,120**	49,068	**451,192**	(101,136)
Income and social contribution taxes					
Current taxes	31.a	**(604)**	(16,418)	**(50,958)**	(71,974)
Deferred taxes	31.a	**(269)**	(7,047)	**(30,390)**	217,698
		(873)	(23,465)	**(81,348)**	145,724
Net income for the year		**134,247**	25,603	**369,844**	44,588
Attributable to:					
Noncontrolling interests		**-**	-	**235,597**	18,985
Net income for the year attributable to controlling shareholders		**134,247**	25,603	**134,247**	25,603
Basic and diluted earnings per share	26.g	**0,10679**	0,01929	**-**	-
Average number of shares in the year	26.g	**1,257,153,628**	1,327,577,494	**-**	-

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of comprehensive income
Years ended December 31, 2014 and 2013
(In thousands of reais - R$)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Net income for the year	**134,247**	25,603	**369,844**	44,588
Other comprehensive income	**-**	-	**-**	-
Comprehensive income for the year	**134,247**	25,603	**369,844**	44,588
Controlling shareholders	**134,247**	25,603	**134,247**	25,603
Noncontrolling interests	**-**	-	**235,597**	18,985

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of changes in equity
Years ended December 31, 2014 and 2013
(In thousands of reais - R$)

				Income reserve					
	Capital	Capital reserve	Goodwill on equity transaction	Legal reserve	Retained profits	Retained earnings	Total equity	Noncontrolling interests	Total consolidated equity
Balance 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 year	-	-	-	-	-	25,603	25,603	18,985	44,588
Redemption of preferred shares	-	(216,000)	-	-	-	-	(216,000)	-	(216,000)
Fixed cumulative dividends paid in 2013	-	-	-	-	-	(71,212)	(71,212)	-	(71,212)
Fixed cumulative dividends paid in January 2014	-	-	-	-	-	(25,000)	(25,000)	-	(25,000)
Reversal of retained profits reserve					(70,609)	70,609	-	-	-
Interest on equity - subsidiary	-	-	-	-	-	-	-	(124,389)	(124,389)
Expired dividends - subsidiary	-	-	-	-	-	-	-	1,077	1,077
Expired interest on equity - subsidiary	-	-	-	-	-	-	-	351	351
Other events - subsidiary	-	-	-	-	-	-	-	868	868
Balance at December 31, 2013	**840,378**	**983,400**	**(7,468)**	**5,881**	**54,884**	**-**	**1,877,075**	**2,963,289**	**4,840,364**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**134,247**	**134,247**	**235,597**	**369,844**
Redemption of preferred shares (Note 26.e)	**-**	**(142,308)**	**-**	**-**	**-**	**-**	**(142,308)**	**-**	**(142,308)**
Gain on investment in subsidiary (Note 26.f)	**-**	**-**	**1,789**	**-**	**-**	**-**	**1,789**	**-**	**1,789**
Capital increase in subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**133,571**	**133,571**
Fixed cumulative dividends paid in the year (Note 26.c)						**(97,371)**	**(97,371)**	**-**	**(97,371)**
Recognition of retained profits reserve (Note 26.b)	**-**	**-**	**-**	**-**	**36,876**	**(36,876)**	**-**	**-**	**-**
Additional proposed dividends - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,613)**	**(18,613)**
Interest on equity - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,613)**	**(18,613)**
Interim dividends - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(102,369)**	**(102,369)**
Accrued dividends - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,473)**	**(7,473)**
Expired dividends - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,189**	**1,189**
Expired interest on equity - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**468**	**468**
Acquisition of additional interest in subsidiary from noncontrolling shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**39,438**	**39,438**
Dilution of noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,439**	**4,439**
Other events - subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(301)**	**(301)**
Balance at December 31, 2014	**840,378**	**841,092**	**(5,679)**	**5,881**	**91,760**	**-**	**1,733,432**	**3,230,622**	**5,004,054**

See accompanying notes.

ISA Capital do Brasil S.A.

Statements of cash flows
Years ended December 31, 2014 and 2013
(In thousands of reais - R$)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Cash flow from operating activities				
Net income for the year	**134,247**	25,603	**369,844**	44,588
Adjustments to reconcile net income to cash provided by (used in) operating activities				
Depreciation and amortization (Note 28)	**10**	9	**8,870**	7,348
Deferred income and social contribution taxes (Note 31.b)	**269**	7,047	**30,390**	(217,698)
Deferred PIS and COFINS (Note 21)	**-**	-	**112**	33,155
Provision for contingencies (Note 23.a)	**-**	-	**3,694**	6,947
Net book value of property and equipment written off (Note 15)	**-**	-	**423**	15
Amortization of concession right (Note 30)	**-**	68,504		68,504
Tax benefit - goodwill on merger (Notes 11 and 30)	**-**	-	**29,886**	29,888
Amortization of concession assets on acquisition of subsidiary (Note 30)	**-**	-	**2,490**	2,491
Realization of loss on jointly-controlled subsidiary (Note 30)	**-**	-	**(2,386)**	(2,418)
Provision for receivables from SEFAZ	**-**	-		516,255
Equity pickup (Note 14.c)	**(144,135)**	(124,518)	**(90,905)**	(175,439)
Interest, monetary adjustments and exchange rate changes on assets and liabilities	**7,392**	19,684	**148,075**	208,696
	(2,217)	(3,671)	**500,493**	522,332
(Increase) decrease in assets				
Accounts receivable (concession assets)	**-**	-	**75,126**	1,847,966
Inventories	**-**	-	**25,826**	(18,834)
Interest on equity and dividends received (Note 26.c)	**147,882**	-	**-**	
Receivables - State Finance Department (SEFAZ)	**-**	-	**(159,075)**	(172,796)
Taxes and contributions recoverable	**6,796**	10,566	**45,192**	(47,943)
Pledges and restricted deposits	**(437)**	(416)	**13,492**	(2,008)
Other	**(4)**	(5)	**(18,728)**	(18,799)
	154,237	10,145	**(18,167)**	1,587,586
Increase (decrease) in liabilities				
Trade accounts payable	**(23)**	133	**25,091**	(12,779)
Taxes and social charges payable	**(6,937)**	7,033	**(547)**	(111,888)
Taxes in installments - Law No. 11941	**-**	-	**(14,463)**	(13,531)
Regulatory charges payable	**-**	-	**6,027**	(7,186)
Provisions	**(20)**	-	**(548)**	628
Payables - Law No. 4819 and Fundação CESP	**-**	-	**(716)**	(135)
Other	**-**		**(4,114)**	(1,448)
	(6,980)	7,166	**10,730**	(146,339)
Net cash provided by operating activities	**145,040**	13,640	**493,056**	1,963,579

ISA Capital do Brasil S.A.

Statements of cash flows (Continued)
Years ended December 31, 2014 and 2013
(In thousands of reais - R$)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Cash flow from investing activities				
Redemptions (investments), net (Note 7)	**83,404**	211,079	**263,126**	(384,677)
Loan payments received	**-**	20,510	**-**	20,510
Interest on loans received (Note 12)	**1,938**	3,426	**1,938**	3,426
Property and equipment (Note 15)	**(13)**	-	**(17,358)**	(4,415)
Intangible assets (Note 16)	**(106)**	-	**(18,670)**	(11,204)
Investments (Note 14.1(b))	**-**	-	**(165,700)**	(243,666)
Net cash provided by investing activities	**85,223**	235,015	**63,336**	(620,026)
Cash flow from financing activities				
Additions to loans (Note 17)	**-**	-	**251,236**	723,498
Loan repayments (principal) (Notes 17 and 18)	**-**	-	**(359,578)**	(1,952,588)
Loan repayments (interest) (Notes 17 and 18)	**(6,504)**	(5,961)	**(75,629)**	(232,820)
Redemption of preferred shares (Note 26.d)	**(142,308)**	(216,000)	**(142,308)**	(216,000)
Capital increase	**-**	-	**127,740**	-
Derivative financial instruments received	**-**	-	**-**	55,752
Dividends and interest on equity paid (Note 26.b)	**(122,372)**	(92,546)	**(398,348)**	(92,580)
Net cash used in financing activities	**(271,184)**	(314,507)	**(596,887)**	(1,714,738)
Net increase (decrease) in cash and cash equivalents	**(40,921)**	(65,852)	**(40,495)**	(371,185)
Cash and cash equivalents at end of year	**20,551**	61,472	**25,247**	65,742
Cash and cash equivalents at beginning of year	**61,472**	127,324	**65,742**	436,927
Changes in cash and cash equivalents	**(40,921)**	(65,852)	**(40,495)**	(371,185)

Company

Total interest paid by ISA Capital in 2014 was R$6,504 (R$5,961 in 2013), relating to loans and financing described in Notes 17 and 18. The Company used existing tax credits and, thus, did not pay income and social contribution taxes in the year.

Consolidated

The total income and social contribution tax amount computed by the Company and its subsidiary in 2014 was R$50,958, which was offset against existing tax credits. Total income and social contribution taxes paid by subsidiary CTEEP in 2013 was R$163,360.

Total income and social contribution taxes paid by subsidiary CTEEP in the year was R$2,731 (R$165,881 in 2013).

See accompanying notes.

(In thousands of Brazilian reais, unless otherwise stated)

1. Operations

1.1. Business purpose

ISA Capital do Brasil S.A. ("ISA Capital" or "Company") is a domestic holding company organized under private law as a limited liability company on April 28, 2006, which went public on September 19, 2006. Then, the Company obtained its public company registration from the Brazilian Securities and Exchange Commission ("CVM") on January 4, 2007, and remained as such until May 27, 2010, when the registration was cancelled by a decision of its shareholders.

The Company's business purpose is to own shares in other companies or business ventures as a partner or shareholder, joint venturer, consortium member or any other form of business partnership.

The Company is controlled by Interconexión Eléctrica S.A. E.S.P. and holds a 37.9579% stake in CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("CTEEP"), represented by 57,714,208 common shares and 3,496,456 preferred shares.

1.2. Concession Arrangements

Subsidiary CTEEP has the right to operate, either directly or indirectly, the following Public Service Concession Arrangements for Electric Power Transmission services:

					Periodic tariff review				Annual Allowed Revenue (RAP)	
Concessionaire	Contract	Interest (%)	Term (years)	Maturity (dd/mm/yy)	Valid for	Next	Escalated RAP	Adjustment index	R$ thousand	Base month
CTEEP	059/2001		30	31/12/42	5 years	2018	No	IPCA	640,694	06/14
CTEEP (**)	143/2001		30	20/12/31	n/a	n/a	Yes	IGPM	19,218	06/14
IEMG	004/2007	100	30	23/04/37	5 years	2017	Yes	IPCA	14,314	06/14
Pinheiros	012/2008	100	30	15/10/38	5 years	2019	No	IPCA	9,479	06/14
Pinheiros	015/2008	100	30	15/10/38	5 years	2019	No	IPCA	24,921	06/14
Pinheiros	018/2008	100	30	15/10/38	5 years	2019	No	IPCA	5,089	06/14
Pinheiros	021/2011	100	30	09/12/41	5 years	2017	No	IPCA	4,043	06/14
Serra do Japi	026/2009	100	30	18/11/39	5 years	2015	No	IPCA	32,623	06/14
Evrecy	020/2008	100	30	17/07/25	4 years	2017	No	IGPM	12,506	06/14
IENNE	001/2008	25	30	16/03/38	5 years	2018	No	IPCA	37,899	06/14
IESul	013/2008	50	30	15/10/38	5 years	2019	No	IPCA	5,180	06/14
IESul	016/2008	50	30	15/10/38	5 years	2019	No	IPCA	9,587	06/14
IEMadeira	013/2009	51	30	25/02/39	5 years	2019	No	IPCA	251,184	06/14

(In thousands of Brazilian reais, unless otherwise stated)

IEMadeira	015/2009	51	30	25/02/39	5 years	2019	No	IPCA	213,614	06/14
IEGaranhuns (*)	022/2011	51	30	09/12/41	5 years	2017	No	IPCA	81,399	06/14

(*) Subsidiary IEGaranhuns is in a pre-operating phase.

(**) The Board of Directors' meeting held on April 7, 2014, approved the transfer of the Electric Power Transmission Concession Agreement No. 143/2001, through contribution of its assets and related operations to subsidiary Serra do Japi, by means of capital increase. The amount involved is to be confirmed by an appraisal report prepared by a specialized company. On January 20, 2015, ANEEL approved the transaction by means of Authorization No. 5036 (Note 37(b)) and the Company must implement the transaction within 120 days.

All of these service concession arrangements establish compensation rights on concession-related assets upon expiration thereof. Periodic tariff review arrangements establish the right to compensation for investments in expansion, enforcements and improvements.

1. **Operations** (Continued)

1.2. **Concession Arrangements** (Continued)

Law No. 12783/2013

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

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 of June 1, 2000 (NI), based on October 2012 prices for electric power transmission concessions, totaling R$2,891,291 for service concession arrangement No. 059/2001 (single arrangement covered by such MP), pursuant to Attachment II of such Ruling.

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

On November 29, 2012, Executive Order No. 591 (MP No. 591) was published as an amendment to MP No. 579 to authorize the payment of amounts related to existing undepreciated assets on May 31, 2000 (SE) by the Granting Authority, within 30 years. Subsidiary CTEEP filed the independent appraisal report on August 13, 2014. On January 8, 2015, subsidiary CTEEP received the Inspection Report from ANEEL's Economic and Financial Oversight Authority (SFF), whereby this agency expressed its opinion regarding the compensation amount (Note 8). Subsidiary CTEEP awaits approval from ANEEL's Director and a definition by the Ministry of Mines and Energy and the Ministry of Finance of how and when the amounts will be received.

1. **Operations** (Continued)

1.2. **Concession Arrangements** (Continued)

Law No. 12783/2013 (Continued)

At the Special General Meeting (AGE) held on December 3, 2012, CTEEP's shareholders approved, in a unanimous decision, the extension of service concession arrangement No. 059/2001.

On December 4, 2012, an amendment to service concession arrangement No. 059/2001 was executed by CTEEP, with an option to receive compensation amounting to R$2,891,291, in connection with the New Investment (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. 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. The remaining amount receivable as at December 31, 2014 totals R$486,850.

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

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

Interest held in consortia

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.

1. **Operations** (Continued)

1.2. **Concession Arrangements** (Continued)

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.

Equity holding 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 Company's individual financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise provisions contained in the Brazilian Corporation Law (Law No. 6404/76), as amended by Laws No. 11638/07 and No. 11941/09, and the accounting pronouncements, interpretations and guidelines issued by the Brazilian Financial Accounting Standards Board ("CPC"). Until December 31, 2013, these practices differ from IFRS - applicable to separate financial statements - solely with respect to the measurement of investments in subsidiaries, associates and jointly-controlled entities under the equity method, while such investments would be measured at cost or fair value for IFRS purposes.

The introduction of IAS 27 (Separate Financial Statements), as revised by the IASB in 2014, has allowed entities to use the equity method to account for investments in subsidiaries, associates and jointly-controlled entities in their separate financial statements. In December 2014, the Brazilian Securities and Exchange Commission (CVM) issued Rule No. 733/2014, which approved the Technical Pronouncement Review Document No. 07 referring to CPC Pronouncements CPC 18, CPC 35 and CPC 37 issued by the Brazilian Accounting Pronouncements Committee (CPC), and incorporated the referred to IAS 27 review, allowing the adoption thereof as of the year ended December 31, 2014. Consequently, the Company's individual financial statements are in accordance with the IFRS as of that year.

2. Presentation of the financial statements (Continued)

2.1. Basis of preparation and presentation (Continued)

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), implemented in Brazil by the Brazilian Financial Accounting Standards Board (CPC) through its interpretations (ICPC) and guidelines (OCPC).

Except for net income for the year, the Company has no other comprehensive income.

The individual and consolidated financial statements were prepared on a historical cost basis, unless otherwise stated, as described in the following accounting practices. The historical cost is generally based on the fair value of the consideration paid in exchange for assets.

Nonfinancial data included in the accompanying financial statements, such as power volume and capacity, contractual data, economic projections, insurance and environment, have not been audited by the independent auditors.

The financial statements were approved and authorized for publication by the Board of Directors on March 17, 2015 and will be available on the Company's website from March 23, 2015 on.

2.2. Functional and reporting currency

The financial statements of the parent company and of its subsidiary included in the consolidated financial statements are stated in Reais, currency of the principal economic environment in which the entities operate.

2.3. Significant accounting judgments, estimates and assumptions

The preparation of individual and consolidated financial statements requires management to make judgments using estimates and assumptions based on objective and subjective factors and on the opinion of legal advisors to determine the adequate amounts to record certain transactions that affect assets, liabilities, revenue and expenses. Actual results of such transactions may differ from these estimates.

2. Presentation of the financial statements (Continued)

2.3. Significant accounting judgments, estimates and assumptions (Continued)

These judgments, estimates and assumptions are reviewed at least annually and adjustments, if any, are recognized in the period in which the estimates are reviewed.

Critical judgments, estimates and assumptions refer to the following aspects: accounting for concession arrangements, time of recognition of financial assets, determination of construction, operation and maintenance revenues, determination of effective interest rate of financial assets, recognition of deferred tax assets or liabilities, analysis of credit risk and other risks to determine whether a provision is needed, including a provision for tax, civil and labor contingencies.

Accounting for concession arrangements (ICPC 01 and OCPC 05)

In accounting for concession arrangements, subsidiary CTEEP makes analyses involving Management's judgment substantially concerning the applicability of the interpretation of concession arrangements, determination and classification of construction, expansion, upgrade and improvement costs as a financial asset. The accounting treatment for each concession arrangement of subsidiary CTEEP and their characteristics are described in Notes 3.23 and 8.

Timing of recognition of financial assets

Subsidiary CTEEP's management assesses the timing of recognition of financial assets based on the economic characteristics of each concession arrangement. Any subsequent additions to existing financial assets will only be accounted for upon completion of construction services related to infrastructure expansion/improvement/upgrade that potentially generate additional revenue. The financial asset is recorded against construction revenue, which is recognized according to costs incurred. The indemnification financial asset is recognized upon completion of the construction service.

Determination of effective interest rate of financial assets

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument. This interest rate is determined per concession arrangement, and may vary for new investments. When the entity reviews its estimated payments, receipts or interest rates, the amount recognized in financial assets is adjusted to reflect the actual and reviewed estimated cash flows, and the adjustment is recognized in the income statement as income or expense.

2. Presentation of the financial statements (Continued)

2.3. Significant accounting judgments, estimates and assumptions (Continued)

Determination of construction revenue

When the concessionaire provides construction services, construction revenue is recognized at fair value and the related costs are included in expenses related to the construction service provided and, thus, a profit margin is determined. In accounting for construction revenue, subsidiary CTEEP's management evaluates issues related to the primary responsibility for the provision of construction services, even where services are outsourced, construction work management and/or monitoring costs, taking into account that the projects include a sufficient margin to cover construction costs and charges. All assumptions described are used for purposes of determining the fair value of the construction activities.

Value of returnable assets

As defined in the concession arrangements, the termination of the concession will lawfully determine the return of the assets related to the service to the Concession Grantor, with subsequent surveys and valuations as well as determination of the amount of compensation payable to the concessionaire, observing the amounts and the dates of their incorporation into the electric power system (notes 3.7 and 8).

Determination of operation and maintenance revenues

When the concessionaire provides operation and maintenance services, the revenue is recognized at fair value and the related costs are recognized by reference to consideration for the services.

2.4. Consolidation procedures

The consolidated financial statements comprise the financial statements of ISA Capital and its subsidiaries.

Control is obtained when the Company has the power to control the financial and operating policies of an entity to derive benefits from its activities.

These subsidiaries are fully consolidated, respectively, from the date on which control is obtained until such control ceases.

(In thousands of Brazilian reais, unless otherwise stated)

2. Presentation of the financial statements (Continued)

2.4. Consolidation procedures (Continued)

At December 31, 2014 and 2013, interests held in subsidiaries were as follows:

	Interim reporting date	Interest held % 2014		Interest held % 2013
Direct subsidiaries				
CTEEP	12/31/2014	37.96		37.81
Indirect subsidiaries				
Interligação Elétrica Pinheiros S.A. (Pinheiros)	12/31/2014	37.96		37.81
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	12/31/2014	37.96		37.81
Interligação Elétrica de Minas Gerais S.A. (IEMG)	12/31/2014	37.96		37.81
Evrecy Participações Ltda. (Evrecy)	12/31/2014	37.96		37.81
Fundo de Investimento Referenciado DI Bandeirantes	12/31/2014	31.51	(*)	-
Fundo de Investimento Xavantes Referenciado DI	12/31/2014	36.06	(*)	-

(*) Includes both direct and indirect interests.

The following procedures were adopted in preparing the consolidated financial statements:

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

The accounting practices were consistently applied in all subsidiaries included in the consolidated financial statements and the fiscal year of these subsidiaries is the same of the Company.

Noncontrolling interests are shown as part of equity and net income, and are separately stated in the consolidated financial statements.

Upon adoption of CPC 19 (R2) and CPC 36 (R3), which became mandatory beginning January 1, 2013, investments in jointly-controlled entities are no longer proportionately consolidated by subsidiary CTEEP and are now accounted for using the equity method.

(In thousands of Brazilian reais, unless otherwise stated)

2. Presentation of the financial statements (Continued)

2.4. Consolidation procedures (Continued)

At December 31, 2014 and 2013, indirect interests held in jointly-controlled subsidiaries were as follows:

		Interest held %	
	Interim reporting date	2014	2013
Jointly-controlled subsidiaries			
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12/31/2014	**9.49**	9.45
Interligação Elétrica do Sul S.A. (IESul)	12/31/2014	**18.98**	18.91
Interligação Elétrica do Madeira S.A. (IEMadeira)	12/31/2014	**19.36**	19.28
Interligação Elétrica Garanhuns S.A. (IEGaranhuns)	12/31/2014	**19.36**	19.28

3. Summary of significant accounting practices

3.1. Determination of profit and loss

Profit and loss are recorded on an accrual basis.

3.2. Revenue recognition

Revenue is recognized in accordance with the provisions of ICPC 01 (IFRIC 12 and OCPC 05, see note 3.23). The concessionaires must record and measure from service rendering in accordance with technical pronouncements CPC 17 (IAS 11) – Construction Contracts and CPC 30 (IAS 18) – Revenue (Operation and maintenance services), even when services are provided under a single concession contract. Subsidiary CTEEP's revenues comprise:

a) Construction revenue

This refers to services involving the construction, expansion and improvement of the electric power transmission facilities. Beginning January 1, 2013, in view of the extension of concession arrangement 059/2001, as regulated by Law No. 12783/2013, subsidiary CTEEP has recognized construction revenue from improvements of electric power facilities, as established by ANEEL Decision 4413 of December 27, 2013 and Normative Resolution 443 of July 26, 2011. Construction revenue is recognized as the related costs are incurred, and calculated adding PIS and COFINS to the investment amount, since the projects include a sufficient margin to cover construction costs and charges, considering that most of the facilities are constructed through outsourced contracts with unrelated parties.

3. Summary of significant accounting practices (Continued)

3.2. Revenue recognition (Continued)

b) Revenue from compensation

This refers to amounts receivable from the Concession Grantor at the end of the concession for compensation for undepreciated or unamortized investments, which are recognized upon completion of each project.

c) Financial income

This refers to interest recognized using the straight-line method based on the effective interest rate on the amount receivable from construction revenue and compensation revenue. The effective interest rate is determined by discounting the estimated future cash flows through the expected life of the financial asset on the initial book value of the financial asset.

d) Operation and maintenance revenue

This refers to the operation and maintenance of the electric power transmission facilities in order to ensure uninterrupted services.

3.3. Current and deferred income and social contribution taxes

Corporate income tax (IRPJ) and Social contribution tax (CSLL) are calculated in accordance with applicable legislation, based on net profit adjusted for inclusion of nondeductible expenses, exclusion of nontaxable income and inclusion and/or exclusion of temporary differences.

As of 2013, subsidiary CTEEP opted for computing taxable profit based on accounting records (the so-called “lucro real” taxation method). Taxation on income comprises current and deferred taxes. Income tax (IRPJ) is calculated on taxable profit at a 15% rate, plus an additional 10% on income in excess of R$240 for a period of 12 months; social contribution tax (CSLL) is computed on taxable profit at 9%. This calculation takes into account income and social contribution tax loss carryforwards, if any, limited to 30% of taxable profit. Indirect subsidiaries Pinheiros, IEMG, Serra do Japi and Evrecy opted for computing taxable profit based on a percentage of gross revenue (the so-called “lucro presumido” method).

Deferred tax assets arising from temporary differences were recognized in conformity with CVM Rule No. 371 of June 27, 2002 and CPC 32 (IAS 12) –Taxes on Income, and take into account the history of profitability and the expectation of future taxable profits based on a technical feasibility study approved by management.

3. Summary of significant accounting practices (Continued)

3.3. Current and deferred income and social contribution taxes (Continued)

The recovery of the balance of deferred tax assets is reviewed at each year-end and, when future taxable profits may no longer be available to allow recovering the whole asset or a portion thereof, the asset balance is adjusted for the amount expected to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the liabilities are expected to be settled or the assets are expected to be realized, based on tax rates established in tax legislation effective at each year-end, or when new legislation has been substantively enacted.

Deferred tax assets and liabilities are only offset when there is the legal right to offset current tax assets against current tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority and the Company and its subsidiaries intends to settle the net value of their current tax assets and liabilities.

3.4. Income taxes and regulatory charges

a) Sales taxes

Revenues, expenses and assets are recognized net of the amount of sales tax except when the sales tax incurred on a purchase of assets or services is not recoverable from taxation authority, in which case the sales tax is recognized as part of the cost of acquiring the asset or as part of the expense item, as applicable.

b) Regulatory charges

Sector charges, as described below, are part of the government's policies for the electric power industry and are all legally defined. The amounts of the charges are established by ANEEL Resolutions or Decisions to the effect that concessionaries must collect the amounts charged to consumers by means of electricity supply tariffs, and are recorded in the balance sheet as regulatory charges payable.

3. Summary of significant accounting practices (Continued)

3.4. Income taxes and regulatory charges (Continued)

b) Regulatory charges **(Continued)**

i) *Fuel Consumption Account (CCC)*

Introduced by Decree no. 73102, of November 7, 1973, this charge is intended to reimburse part of the total cost of generating electricity in isolated systems. This cost includes costs related to the energy price and the associated energy contracted by the distribution agents, unrecoverable charges and taxes, provision of electricity services in remote locations and capacity reserve to ensure electricity supply. The related amount is set annually by ANEEL based on the amount of electric power used by consumers connected to the transmission facilities. This amount is payable to Centrais Elétricas Brasileiras S.A. - Eletrobras (Eletrobras) and passed on to consumers through TUST (tariff for use of transmission system). Pursuant to article 23 of Law No. 12783/2013, CCC will be supported with funds from the Energy Development Account (CDE) beginning January 1, 2013.

ii) *Energy Development Account (CDE)*

This charge was introduced by Law No. 10438, of April 26, 2002, for the purpose of providing funds for: i) energy development in the States; ii) competitiveness of electricity produced from wind power plants, small hydroelectric power plants, biomass, natural gas and mineral coal, in the areas served by the interconnected electricity systems; iii) promoting access to electricity all over the domestic national territory. The related amount is set annually by ANEEL based on the amount of electric power used by consumers connected to the transmission facilities. This amount is payable to Eletrobras and passed on to consumers through TUST (tariff for use of transmission system).

iii) *Alternative Electric Power Sources Incentive Program (PROINFA)*

This program was established by Law No. 10438, of April 26, 2002, for the purpose of increasing the share of alternative renewable energy sources in Brazil's electricity production such as: wind power, biomass and small hydroelectric power plants. The related amount is set based on the estimate of electricity generation from the power plants that participate in PROINFA. This amount is payable to Eletrobras and passed on to consumers through TUST (tariff for use of transmission system).

3. Summary of significant accounting practices (Continued)

3.4. Income taxes and regulatory charges (Continued)

b) Regulatory charges (Continued)

iv) *Global Reversal Reserve (RGR)*

Created by Decree No. 41019, of February 26, 1957, this charge refers to an annual amount established by ANEEL, paid monthly in twelfths by concessionaires, in order to provide resources for compensation and/or expropriation of electricity public services, as well as finance the expansion and improvement of these services. Pursuant to article 21 of Law no. 12783/2013, beginning January 1, 2013, the electricity transmission concessionaires that have their concession arrangements extended according to the provisions of said Law are released from paying the annual RGR amount.

v) *Research and Development (R&D)*

The electricity distribution, transmission or generation concessionaires, electricity distribution permittees and authorized independent electricity producers, excluding by exemption those which generate electricity solely from wind, solar, biomass, qualified cogeneration and small hydroelectric power plants, shall annually invest a percentage of their net operating revenue in projects of Technological Research and Development of the Electricity Sector, according to regulations established by ANEEL.

vi) *Electricity Public Service Inspection Fee (TFSEE)*

Created by Law No. 9427/1996, this fee is levied on the production, transmission, distribution and sale of electric energy. It is equivalent to 0.5% of the gross operating revenue from the Basic Network and Other Transmission Facilities (DIT). Pursuant to article 29 of Law No. 12783, of January 11, 2013, TFSEE is now equivalent to 0.4% of the amount of the annual economic benefit.

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments

a) Financial assets

i) *Classification and measurement*

Financial assets are classified in the following specific categories: financial assets measured at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. When an equity instrument is not quoted in an active market and its fair value cannot be measured reliably, this equity instrument is measured at cost and tested for impairment.

Classification depends on the purpose for which the financial assets were acquired and is determined upon initial recognition. All regular way trades (purchases or sales) of financial assets are recognized or derecognized on the trade date. A regular way trade refers to the purchase or sale of financial assets that requires delivery of the asset within a time frame established by regulation or convention in the marketplace.

The effective interest method is used to calculate the amortized cost of a debt instrument and allocate interest income over the applicable period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the debt instrument or a shorter period, where appropriate, to the net carrying amount of the financial instrument at the date of the initial recognition. Revenue is recognized based on the effective interest rate for debt instruments not classified as financial assets at fair value through profit or loss.

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments (Continued)

a) Financial assets (Continued)

i) *Classification and measurement* (Continued)

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss. Financial assets at fair value through profit or loss are measured at fair value, and any gains or losses arising from changes in fair value are recognized in the income statement. Net gains or net losses recognized in profit or loss include dividend income or interest earned by the financial asset, and are included in “Other gains and losses” in the income statement.

Financial assets are classified as held for trading if: (i) they are primarily acquired for the purpose of selling in the near term; or (ii) on initial recognition, they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) they are derivatives that not designated as effective hedging instruments).

A financial asset other than those held for trading may be designated at fair value through profit or loss on initial recognition if (i) doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (ii) the financial asset is part of a group of financial assets or financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy of subsidiary CTEEP, and information about the group is provided internally on that basis; or (iii) is part of a contract containing one or more embedded derivatives and CPC 38 and IAS 39 allow to designate the entire hybrid contract as measured at fair value through profit or loss.

At December 31, 2014 and 2013, financial assets classified into this category are cash equivalents and short-term investments.

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments (Continued)

a) Financial assets (Continued)

i) *Classification and measurement* (Continued)

Held-to-maturity financial assets

Held-to-maturity investments include non-derivative financial assets with fixed or determinable payments and fixed maturity that subsidiary CTEEP has the positive intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method, less impairment losses, if any.

At December 31, 2014 and 2013, subsidiary CTEEP had no financial assets classified as held to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are any non-derivative financial assets designated as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

Gains or losses arising from fair value changes on available-for-sale financial assets, when applicable, are recorded as a separate component of equity in “Other comprehensive income” until the financial asset is settled, at which time the gain or loss previously reported in other comprehensive income is transferred to the income statement.

At December 31, 2014 and 2013, subsidiary CTEEP had no financial assets classified as available for sale.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those maturing after 12 months from the balance sheet date, which are classified as noncurrent assets.

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments (Continued)

a) Financial assets (Continued)

Loans and receivables (Continued)

i) *Classification and measurement* (Continued)

Loans and receivables are measured at amortized fair value, using the effective interest rate method, less any impairment loss. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

At December 31, 20134 and 2013, the financial assets of subsidiary CTEEP classified into this category are principally accounts receivable (concession assets) and receivables – Finance Department.

ii) *Impairment of financial assets*

Financial assets, except for those designated at fair value through profit or loss, are tested for impairment at the end of each reporting period. Impairment losses are recognized if, and only if, there is objective evidence of impairment of the financial asset as a result of one or more events that occurred after the initial recognition of the asset, with an impact on estimated future cash flows of the asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the income statement.

iii) *Derecognition of financial assets*

A financial asset is derecognized when contractual rights to cash flows of the asset expire, or when there is a transfer of the rights to receive contractual cash flows on a financial asset in a transaction in which essentially all the risks and rewards of ownership of the financial asset are transferred. Any right created or retained by subsidiary CTEEP over the transferred financial assets is recognized separately in assets or liabilities.

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments (Continued)

b) Financial liabilities

Financial liabilities are classified at fair value through profit or loss when they are held for trading or designated at fair value through profit or loss. Other financial liabilities (including loans) are measured at amortized cost using the effective interest method.

3.6. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and short-term investments.

Short-term investments qualify as cash equivalents when they are readily convertible into a known cash amount and subject to a low risk of change in market value. Therefore, an investment normally qualifies as a cash equivalent when it has a short-term maturity, e.g. three months or less from the transaction date.

3.7. Accounts receivable (concession assets)

Financial assets classified as loans and receivables include receivables from construction services, financial income and operation and maintenance services, as well as the amount of returnable assets.

The returnable asset recorded upon completion of the construction services refers to the estimated amount of investments made and not amortized until the end of the concession and in return for which subsidiary CTEEP will have the right to receive cash or another financial asset upon concession termination. As defined in the concession arrangements, the termination of the concession will lawfully determine the return of the assets related to the service to the Concession Grantor, with subsequent surveys and valuations as well as determination of the amount of compensation payable to the concessionaire, observing the amounts and the dates of their incorporation into the electric power system.

Subsidiary CTEEP considers that the amount of the compensation to which it will be entitled shall be equivalent to the Optimized Replacement Cost (VNR) adjusted for the accumulated depreciation of each item. With the execution of an addendum that extends concession arrangement 059/2001 (note 1.2), the compensation amount relating to the New Investments (NI) facilities, equivalent to the Optimized Replacement Cost (VNR), was determined by Interministerial No. Rule 580.

3. Summary of significant accounting practices (Continued)

3.7. Accounts receivable (concession assets) (Continued)

For the Existing Service (SE) facilities whose compensation amount was not authorized by the Concession Grantor, subsidiary CTEEP believes that it is entitled to receive the Optimized Replacement Cost (VNR) adjusted for accumulated depreciation, determined on the basis of the independent appraisal report filed with ANEEL on August 12, 2014. Subsidiary CTEEP records such infrastructure at construction cost, pursuant to ANEEL Decision 155, of January 23, 2013, which determines that the cost amount should be maintained until approval is given by the regulatory agency (Note 7).

For other returnable assets, subsidiary CTEEP estimated the compensation amounts based on their related acquisition cost less depreciation.

Since subsidiary CTEEP's management continuously monitors the industry regulation, if any changes in this regulation changes the estimated compensation amount of the returnable assets, the related accounting impacts from these changes will be addressed prospectively in the financial statements. However, subsidiary CTEEP's management reiterates its commitment to continue defending the interests of CTEEP's shareholders in the realization of these assets with a view to maximizing the return on the capital invested in the concession, within legal limits.

3.8. Inventories

Inventories include storeroom supplies and are carried at the lower of cost and net realizable value. Inventory costs are determined using the average cost method.

3.9. Investments

The Company recognizes and states its investments in subsidiaries using the equity method.

3.10. Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition-date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred and included in expenses.

3. Summary of significant accounting practices (Continued)

3.10. Business combinations (Continued)

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured as the excess of the consideration transferred for the net assets acquired (net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss.

Amortization of the intangible assets arising from the acquisition of the right of operation, concession or permission granted by the Federal Government will occur over the estimated or agreed period of use, contractual term or impairment, or write-off for investment disposal or extinction.

3.11. Property and equipment

Property and equipment consist basically of administrative assets. Depreciation is computed using the straight-line method over the estimated economic useful lives of the assets.

Other expenditures are capitalized only when they enhance the future economic benefits of the property and equipment item. All other expenditures are recognized in the income statement as expenses as incurred.

3.12. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of intangible assets are assessed as either finite or indefinite, as follows: (i) intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. (ii) intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

3. Summary of significant accounting practices (Continued)

3.13. Leases

a) Subsidiary CTEEP as a lessee

Operating leases

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern over which the economic benefits of the leased asset are consumed. Contingent payments under an operating lease are recognized as an expense in the period in which they are incurred.

Finance leases

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognized as an asset.

3.14. Other current and noncurrent assets

These are stated at net realizable values.

Allowances are recognized for amounts considered unlikely to be realized at the balance sheet date.

3.15. Current and noncurrent liabilities

Current and noncurrent liabilities are stated at known or estimable amounts plus, where applicable, related charges and monetary adjustments and/or exchange fluctuations incurred through the balance sheet date.

3. Summary of significant accounting practices (Continued)

3.16. Provisions

Provisions are recognized for a present obligation (legal or constructive) as a result of a past event, the amount can be estimated reliably, and payment is probable.

The amount recognized as a provision is the best estimate of the expenditure required to settle the obligation at the end of each reporting period, taking into account the risks and uncertainties underlying the obligation. When a provision is measured based on the estimated cash flows to settle the obligation, its carrying amount is equivalent to the present value of these cash flows.

When some or all of the expenditures required to settle a provision are expected to be reimbursed by a third party, an asset is recognized is, and only if, it is virtually certain that reimbursement will be received and the amount can be measured reliably.

Provisions are measured at the present value of expected costs to settle the obligation, using an adequate discount rate that reflects the risks specific to the liability. They are adjusted through the balance sheet dates for the estimated probable losses, based on their nature and on the opinion of the legal advisors of subsidiary CTEEP and its subsidiaries.
A provision for contingencies is recorded when subsidiary CTEEP and its subsidiaries have a present obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits in an amount that can be reliably estimated.

The basis and the nature of the provisions for tax, civil and labor contingencies are described in note 23 (a).

3.17. Employee benefits

Subsidiary CTEEP offers its employees, former employees, and their beneficiaries post-retirement and pension plans for the purpose of supplementing the post-retirement and pension benefits ensured by the Brazilian Social Security. The benefit plans are administered by Fundação CESP.

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

3. Summary of significant accounting practices (Continued)

3.17. Employee benefits (Continued)

The projected unit credit method was adopted for the actuarial valuation of the plan commitments, pursuant to CPC 33 (R1).

Actuarial valuations are performed on an annual basis, and remeasurements, which include actuarial gains and losses, the effect of changes in the asset ceiling (if applicable) and the return on plan assets (excluding interest), are immediately reflected in the balance sheet, and the related debit or credit is posted to other comprehensive income in the period in which they occur.

At December 31, 2014 and 2013, subsidiary CTEEP did not record actuarial assets or liabilities, as mentioned in Note 24.

3.18. Dividends and interest on equity

The dividend recognition policy is in line with CPC 24 (IAS 10) and ICPC 08, which determine that proposed dividends should be defined in an entity's Bylaws and should be recorded in current liabilities. The Bylaws of Subsidiary CTEEP establish mandatory minimum dividends equivalent to 10% of paid-in capital, subject to profits being reported.

The amount of dividends in excess of the mandatory minimum dividends declared by the management of subsidiary CTEEP after the accounting period to which the financial statements refer but before the date of authorization for issue of said financial statements is recorded as a separate component of equity in "Proposed additional dividends".

Subsidiary CTEEP distributes interest on equity, which is deductible for tax purposes and is considered part of the mandatory dividends and recorded directly in equity as allocation of profit.

3.19. Operating segment

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available, and whose operating results are reviewed regularly by management in the decision-making process.

Subsidiary CTEEP's management believes that, although it recognizes construction revenue and operation and maintenance revenue, these revenues derive from concession arrangements that are associated with only one business segment: electric power transmission.

3. Summary of significant accounting practices (Continued)

3.20. Statement of cash flows

The statement of cash flows was prepared under the indirect method and is presented in accordance with CVM Rule No. 547, of August 13, 2008, which approved accounting pronouncement CPC 03 (R2) - Statement of Cash Flows, issued by the Brazilian Accounting Pronouncements Committee (CPC).

3.21. Present value adjustment of assets and liabilities

Noncurrent monetary assets and liabilities are discounted to present value and so are current monetary assets and liabilities whenever the effects are considered significant on the overall financial statements.

The present value adjustment is calculated using contractual cash flows and the explicit interest rate, and in certain cases the implicit interest rate, of the related assets and liabilities. Accordingly, the interest rates accrued on revenues, expenses and costs associated with these assets and liabilities are discounted with a view to recognizing them on an accrual basis. This interest is subsequently reallocated to financial income and expenses in profit or loss by using the effective interest rate method in relation to contractual cash flows. Implicit interest rates applied were determined based on assumptions, and accounting estimates are considered. At the reporting dates, subsidiary CTEEP and its subsidiaries had no significant amounts adjusted to present value.

3.22. Earnings per share

Pursuant to accounting pronouncement CPC 41 (IAS 33), the Company calculates earnings per share using the weighted average number of total common and preferred shares outstanding during the year.

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of Company-issued shares. Diluted earnings calculation is affected by convertible instruments, as mentioned in Note 24(e).

3.23. Concession arrangements (ICPC 01 and OCPC 05 - IFRIC 12)

Beginning January 1, 2009, subsidiary CTEEP adopted and used the provisions of interpretation ICPC 01 issued by the Brazilian Accounting Pronouncements Committee (equivalent to IFRIC 12 issued by the IASB) for purposes of classification and measurement of concession activities. This Interpretation provides guidance on concessionaires' accounting by for public-to-private service concession arrangements.

3. Summary of significant accounting practices (Continued)

3.23. Concession arrangements (ICPC 01 and OCPC 05 - IFRIC 12) (Continued)

For concession arrangements that qualify for application of ICPC 01 (IFRIC 12), the infrastructure that the operator constructs, expands or improves is not recognized as property and equipment of the operator because the contractual concession arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator is given access to the assets for purposes of provision of public services and must return them (property and equipment) to the Grantor after the end of the arrangement. The operator has access to operate the infrastructure to provide the public service on behalf of the Grantor in accordance with the terms specified in the contract.

Under the terms of contractual arrangements within the scope of ICPC 01 (IFRIC 12), the operator acts a service provider. The operator constructs, expands, upgrades or improves the infrastructure (construction services) used to provide the public service, in addition to operating and maintaining the infrastructure (operation and maintenance services) during a certain period. The operator must record and measure revenue for the services it performs in accordance with technical pronouncements CPC 17 – Construction Contracts (equivalent to IAS 11 issued by the IASB) and CPC 30 – Revenue (equivalent to IAS 18 issued by the IASB). If the operator performs more than one service (for example: construction services or operation services) under a single contract or arrangement, the consideration received or receivable shall be allocated by reference to the relative fair value of the services performed, when the amounts are separately identifiable. Thus, the consideration for the construction services on the concession assets is classified as financial asset, intangible asset or both.

A financial asset must be recognized if the operator has an unconditional contractual right to receive cash or another financial asset from the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the contract is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified and determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements. An intangible asset must be recognized to the extent that the operator receives a right (license) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator’s consideration. The consideration received or receivable for both components shall be recognized initially at the fair value of the consideration received or receivable.

3. Summary of significant accounting practices (Continued)

3.23. Concession arrangements (ICPC 01 and OCPC 05 - IFRIC 12) (Continued)

The criteria for adoption of the interpretation for service concession arrangements held by subsidiary CTEEP are described below:

Interpretation ICPC 01 (IFRIC 12) was considered applicable to all public-to-private service concession arrangements to which subsidiary CTEEP is a party.
All concessions were classified under the financial asset model, and revenue and costs of the works related to the recognition of the financial asset are recognized based on costs incurred. The financial asset for compensation is recognized when the construction is completed and is included as compensation for the construction services.
The provisions of ICPC 01 (IFRIC 12) were applied to the concessions of indirect subsidiaries IEMG, Pinheiros, Serra do Japi and Evrecy. As it is impossible to obtain again the historical data in a reliable manner, the prospective application from January 1, 2009 was adopted for the concession arrangements executed by subsidiary CTEEP existing at that date.

As defined in the concession arrangements, the termination of the concession will lawfully determine the return of the assets related to the service to the Concession Grantor, with subsequent surveys and valuations as well as determination of the amount of compensation payable to the concessionaire, observing the amounts and the dates of their incorporation into the electric power system. This compensation is part of the consideration for the construction services and is recognized upon completion of construction work.

Subsidiary CTEEP determined the fair value of construction services considering that the projects include sufficient margin to cover construction costs and related charges. The effective interest rate on the financial asset from the construction services was determined considering the shareholders' expected return on an asset with those characteristics.

The financial assets were classified as loans and receivables and the finance income determined monthly is recorded directly in the income statement.

Construction revenues and financial income earned on the financial asset from construction services are subject to deferral of cumulative Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS), recorded in noncurrent liabilities as "Deferred taxes".

4. New and revised standards and interpretations not yet adopted

The Company has adopted all (new or revised) standards and interpretations issued by the Brazilian FASB (CPC), which were effective at December 31, 2014.

a) New and/or revised accounting pronouncements, guidance and interpretations

The adoption of the standards and interpretations listed below, which became effective from January 1, 2014, did not impact the Company's individual and consolidated financial statements as at December 31, 2014:

- Revised CPC No. 04 - This revision brings changes to the following Technical Pronouncements: CPC 03 (R2), CPC 05 (R1), CPC 15 (R1), CPC 21 (R1), CPC 31, CPC 32, CPC 35 (R2), CPC 36 (R3), CPC 37 (R1), CPC 38, CPC 39, CPC 40 (R1) and CPC 45 - CVM Rule No. 723, of August 14, 2014.
- Revised CPC No. 05 - This revision brings changes to the following Technical Pronouncements: CPC 01 (R1) and CPC 38 - CVM Rule No. 724, of August 14, 2014.
- OCPC 07 - Evidence in disclosure of general purpose accounting and financial reports - CVM Rule No. 727, of November 11, 2014.
- Revised CPC No. 06 - This revision brings changes to the following Technical Pronouncements: CPC 04, CPC 05, CPC 10, CPC 15, CPC 22, CPC 25, CPC 26, CPC 27, CPC 28, CPC 33, CPC 38, CPC 39 and CPC 46 - CVM Rule No. 728, of November 27, 2014.
- ICPC 09 (R2) - Individual Financial Statements, Separate Financial Statements, Consolidated Financial Statements and Equity Method - CVM Rule No. 729, of November 27, 2014.
- ICPC 19 - Levies - CVM Rule No. 730, of November 27, 2014.
- ICPC 20 - The limit on a defined benefit asset - CVM Rule No. 731, of November 27, 2014.
- OCPC 08 - Recognition of certain assets and liabilities in general purpose accounting and financial reports of electric power distribution companies issued in accordance with Brazilian and International accounting standards - CVM Rule No. 732, of December 9, 2014.

4. New and revised standards and interpretations not yet adopted (Continued)

b) <u>New and revised IFRS already issued but not yet effective:</u>

- IFRS 9 - Financial Instruments
- IFRS 14 - Regulatory Deferral Accounts
- IFRS 15 - Revenue from Contracts with Customers
- IFRS 11 - Accounting for acquisitions of interests in joint operations
- IAS 16 and IAS 38 - Clarification of acceptable methods for depreciation and amortization
- IAS 16 and IFRS 41 - Agriculture: bearer plants
- IAS 19 - Defined benefit plans: employee contributions

The following IFRS, issued by the IASB, are mandatorily applicable for annual periods beginning on or after January 1, 2014:

- IFRIC 21 - Levies - Provides guidance on when to recognise a liability for a levy imposed by a government.
- IFRS 10, IFRS 12 and IAS 27 - Investment Entities - The amendments to IFRS 10 define investment entities and introduce an exception to the consolidation requirement for entities that meet the definition of an investment entity. The amendments to IFRS 12 and IAS 27 introduced new disclosure requirements for investment entities.
- IAS 32 - Financial instruments: offsetting financial assets and financial liabilities - The amendments to IAS 32 clarify the requirements for offsetting financial assets and financial liabilities.
- IAS 36 - Recoverable Amount Disclosures for Non-financial Assets - The amendments to IAS 36 eliminate the disclosure requirement of the recoverable amount of a cash-generating unit (CGU).
- IAS 39 - Financial Instruments: Novation of Derivatives and Continuation of Hedge Accounting - The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

The Company did not early adopt these IFRS in its individual and consolidated financial statements as at December 31, 2014.

5. Obligations assumed on acquisition of subsidiary CTEEP

Pursuant to item 2 of the share purchase agreement and item 1.5 of the Tender Offer for Share Acquistion (OPA), by means of the privatization auction described in note 1, the Company undertakes to make an additional payment for the purchase price of CTEEP shares in the event subsidiary CTEEP is released from the charges related to the supplementary pension plan established by Law No. 4.819/58 that are being discussed in court. However, it should be noted that as defined in Clause 2 of referred to agreement, if until June 30, 2015 subsidiary CTEEP is not discharged of those payments, ISA Capital will no longer be liable to the São Paulo State Government for these amounts due and, consequently, to the noncontrolling interest holders who joined the Tender Offer (OPA) under the terms of the related Statement.

At December 31, 2014, the amount to supplement purchase price recognized by ISA Capital is as follows:

a) São Paulo State Government: the amount of R$252,726 (R$252,726 in 2013), recorded in “Payables - Law No. 4819/58 - State Finance Department (SEFAZ), is the total payable to São Paulo State Government due to acquisition of shares through the privatization auction held on June 28, 2006. The matching entry of this obligation, which at the time of acquisition of shares amounted R$188,895, was recorded under “Investments - goodwill on acquisition of equity interest in subsidiary”, and the difference of R$ 63,831 has been recognized in the income statement as monetary adjustment of the obligation based on the Extended Consumer Price Index (IPC-A) from December 31, 2005, under the terms of the arrangement.

b) Noncontrolling interests (OPA): the amount of R$158,621 (R$158,621 in 2013), recorded under “Payables - Law No. 4819/59 - OPA”, is the total payable to minority interest holders who sold their shares to ISA Capital through the public offering auction (OPA) held on January 9, 2007. The matching entry of this obligation, which at the time of acquisition of shares amounted R$120,306, was recorded under “Investments - goodwill on acquisition of equity interest in subsidiary”, and the difference of R$ 38,315 has been recognized in the income statement as monetary adjustment of the obligation based on the Extended Consumer Price Index (IPC-A) from December 31, 2005, under the terms of the arrangement.

(In thousands of Brazilian reais, unless otherwise stated)

6. Cash and cash equivalents

	Company		Consolidated	
	2014	2013	2014	2013
Cash and banks	**264**	162	**1,806**	1,156
Cash equivalents (i)	**20,287**	61,310	**23,441**	64,586
	20,551	61,472	**25,247**	65,742

(i) Breakdown of cash equivalents is as follows:

		Company		Consolidated	
	% of CDI	2014	2013	2014	2013
Bank Deposit Certificate (CDB)	92.0% to 100.0%	**-**	-	**1,333**	2,645
Repurchase agreements (*)	93.0% to 97.0%	**20,287**	61,310	**22,108**	61,941
		20,287	61,310	**23,441**	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).

7. Short-term investments

		Company		Consolidated	
	% of CDI	2014	2013	2014	2013
Bank Deposit Certificate (CDB)	92.0% to 100.0%	**-**	83,404	**-**	83,404
Investment funds (*)	102.5% to 103.5%	**-**	-	**479,601**	595,756
		-	83,404	**479,601**	679,160

(*) Consolidation of investment funds is described in Note 2.4.

Consolidated

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.

(In thousands of Brazilian reais, unless otherwise stated)

7. Short-term investments (Continued)

Consolidated (Continued)

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 Coral Investment Fund by reference to Interbank Deposit (DI), which, in its turn, has portfolio comprising the following assets: investments in demand deposits, CDBs, government securities, debentures, financial bills and repurchase agreements in government securities. It has daily liquidity, irrespective of assets comprising Coral Fund, as established in the Bandeirantes Fund regulation. Balance at December 31, 2014: R$258,001. (R$289,273 at December 31, 2013).

- 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: demand deposits, floating rate CDBs, debentures, financial bills, government securities and repurchase agreements in government securities. It has daily liquidity, irrespective of assets comprising Corp Fund, as established in the Xavantes Fund regulation. Balance at December 31, 2014: R$221,600. (R$289,274 at December 31, 2013).

8. Accounts receivable (concession assets)

Accounts receivable are as follows:

	Consolidated	
	2014	**2013**
Operation and maintenance services (O&M)		
Accounts receivable - O&M services (a)	**142,042**	86,541
	142,042	86,541
Financial assets		
Accounts receivable - construction services (b)	**1,697,446**	1,413,726
Accounts receivable - compensation (c)	**78,268**	75,351
	1,775,714	1,489,077
Returnable asset - Law No. 12783		
Accounts receivable - Law No. 12783/13 (NI) (d)	**486,850**	901,728
Accounts receivable - Law No. 12783/13 (SE) (d)	**1,490,996**	1,490,996
	1,977,846	2,392,724
	3,895,602	3,968,342
Current assets	**729,946**	749,388
Noncurrent assets	**3,165,656**	3,218,954

8. Accounts receivable (concession assets) (Continued)

(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, of which subsidiary CTEEP and its subsidiaries are signatories, adjusted to present value and remunerate by the effective interest rate.

(c) Accounts receivable - compensation - 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 the return of investments made and not amortized of the service concession arrangement No. 059/2001 subdivided into NI and SE:

- Return of facilities for NI corresponds to R$2,949,121, including R$2,891,291 of Optimized Replacement Cost (VNR) determined and R$57,830 for remuneration by IPCA + WACC of 5.59% p.a., as defined in Interministerial Ruling No. 580. Fifty per cent (50%) of this amount was received on January 18, 2013 and the remaining 50% was split into 31 monthly installments, with the last four installments still pending receipt in a total R$154,635 (Note 1.2). As defined in ANEEL Note No. 14/2015, at December 31, 2014, the total compensation amount under Law No. 12783/2013 is included in the 2015 budget as a pass-on item of the Energy Development Account (CDE).

- Return of the facilities for SE corresponds to the infrastructure construction cost, considering ANEEL Order No. 155 of January 23, 2013, which suggests recording this item at cost until approval by the Grantor. As disclosed in a material news release on August 12, 2014, a new independent valuation report was prepared, amounting to R$5,186,018, which corresponds to estimated investments at the Optimized Replacement Cost (VNR) adjusted for accumulated depreciation through December 31, 2012. On January 8, 2015, the Company received a report from ANEEL's Economic and Financial Oversight Authority (SFF), pursuant to the material news release published on the same date, whereby SFF defined SE facilities amount at R$3,604,982 (Note 35). On February 6, 2015, the Company filed an appeal challenging the amount informed by SFF. The impacts and the accounting treatment of these assets depend on ANEEL's approval of the final figure, as well as on how and when the amount will be received, which will be defined by the Ministry of Mines and Energy and the Ministry of Finance.

(In thousands of Brazilian reais, unless otherwise stated)

8. Accounts receivable (concession assets) (Continued)

- The aging list of accounts receivable is as follows:

	Consolidated	
	2014	**2013**
Falling due	**3,864,576**	3,938,946
Overdue		
Within 30 days	**307**	127
From 31 to 60 days	**205**	30
From 61 to 360 days	**1,475**	1,616
Above 361 days (a)	**29,039**	27,623
	31,026	29,396
	3,895,602	3,968,342

(a) Certain system members challenged balances billed in connection with the Basic Electric Power Grid. As a result of this dispute, the amounts were deposited by these members with the courts. 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 establish any allowance for doubtful accounts.

Changes in accounts receivable for the year ended December 31, 2014 are as follows:

	Consolidated
Balance in 2012	5,812,577
Construction revenue (Note 27.1)	267,908
Financial income (Note 27.1)	242,654
Operation and maintenance revenue (Note 27.1)	586,599
Adjustment of compensation receivables - IPCA/WACC	143,216
NI compensation received	(2,190,610)
Receipts	(894,002)
Balance in 2013	**3,968,342**
Construction revenue (Note 27.1)	**265,058**
Financial income (Note 27.1)	**207,457**
Operation and maintenance revenue (Note 27.1)	**740,613**
Adjustment of compensation receivables - IPCA/WACC	**78,568**
NI compensation received	**(493,445)**
Receipts	**(870,991)**
Balances in 2012	**3,895,602**

(In thousands of Brazilian reais, unless otherwise stated)

9. Receivables - State Finance Department (SEFAZ)

	Consolidated	
	2014	**2013**
Payroll processing - Law No. 4819/58 (a)	**1,087,560**	933,501
Labor claims - Law No. 4819/58 (b)	**230,797**	225,781
Provision for losses on realization of receivables (c)	**(516,255)**	(516,255)
Family allowance - Law No. 4819/58 (d)	**2,218**	2,218
Provision for losses on realization of receivables - Family allowance (d)	**(2,218)**	(2,218)
	802,102	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 September 2014 (Note 36). 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 capacity of the party served, monthly pass on the amounts to Fundação CESP for retirees payroll processing.

(b) These refer to some labor disputes settled by subsidiary CTEEP filed by retirees covered by State Law No. 4819/58, in the responsibility of the São Paulo State Government.

(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, in year 2013, the amounts receivable relating to Law No. 4819/58 and recorded a provision for losses on realization of part of receivables, based on events occurred in the period. Subsidiary CTEEP follows up on how this matter evolves in court, and no events occurred that would indicate the provision requires any review.

(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, subsidiary CTEEP management set up a provision for losses, amounting to R$2,218.

10. Taxes and contributions recoverable

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Income tax recoverable	**30,197**	19,477	**30,318**	60,036
Social contribution tax recoverable	**132**	4,350	**185**	20,948
Negative IRPJ	**954**	-	**954**	-
Negative CSLL	**340**	-	**340**	-
Withholding Income Tax (IRRF)	**-**	1,428	**5,817**	15,260
Withholding social contribution tax (CSRF)	**-**	121	**330**	524
COFINS (i)	**-**	-	**22,996**	1,013
PIS (i)	**-**	-	**4,791**	174
Other	**-**	-	**372**	186
	31,623	25,376	**66,103**	98,141
Current assets	**31,623**	14,984	**66,103**	87,749
Noncurrent assets	**-**	10,392	**-**	10,392

(In thousands of Brazilian reais, unless otherwise stated)

10. Taxes and contributions recoverable (Continued)

(i) In the second quarter of 2014, subsidiary CTEEP recognized PIS and COFINS previously unused credits on acquisition of the last 5 years of machinery and equipment intended for the electric power transmission operation, which had not been previously calculated. The credit amount totals R$31,954 (adjusted - R$36,221), including credits relating to projects received for compensation in a total R$21,398, recorded as “Other operating income (expenses)”, and the remaining R$10,556 recorded as a reduction of financial assets in “Receivables for construction services”.

11. Tax benefit - goodwill merged of the Company consolidated

The goodwill paid by the Company on acquisition of CTEEP’s ownership control is economically based on the expected profitability over the operation 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 the net income 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

The net amount of goodwill, 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.

(In thousands of Brazilian reais, unless otherwise stated)

11. Tax benefit - goodwill merged of the Company consolidated (Continued)

Changes for the year ended December 31, 2014 are as follows:

	Goodwill	Provision	Net
Balance in 2012	265,434	(175,187)	90,247
Amount realized in the year	(87,903)	58,015	(29,888)
Balance in 2013	**177,531**	**(117,172)**	**60,359**
Amount realized in the year (Note 30)	**(87,903)**	**58,017**	**(29,886)**
Balance in 2014	**89,628**	**(59,155)**	**30,473**

Amortization is recorded in the income statement as “Other revenues (expenses), net” (Note 30).

12. Loans receivable

Breakdown of loans and financing balances at December 31, 2014 is as follows:

			Company	
Foreign currency	**Charges**	**Final maturity date**	**2014**	**2013**
Interconexión Elétrica S.A ESP ("ISA") (a)	LIBOR + 3% p.a.	12/28/2016	**63,229**	55,764
Total in foreign currency			**63,229**	55,764
Current assets			**-**	55,764
Noncurrent assets			**63,229**	-

(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 December 2006, denominated in US dollars, originally amounting to US$23,800, 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 used the same assumptions for interest calculation as well as semi-annual receipt thereof. In an administrative decision, the agreement was extended for an additional two years, maturing on December 28, 2016.

(In thousands of Brazilian reais, unless otherwise stated)

12. **Loans receivable** (Continued)

Changes in loans receivable for the year ended December 31, 2014 are as follows:

	Company
Balance in 2012	69,155
Principal received	(20,510)
Interest received	(3,426)
Interest, monetary adjustments and foreign exchange fluctuations	10,545
Balance in 2013	**55,764**
Interest received	**(1,938)**
Interest, monetary adjustments and foreign exchange fluctuations	**9,403**
Balance in 2014	**63,229**

13. Pledges and restricted deposits

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Violation notices - ANEEL (a)	**-**	-	**9,602**	9,545
Judicial deposits				
Labor (Note 23 (a) (i))	**-**	-	**51,525**	65,511
Social security - INSS (Note 23 (a) (iii))	**-**	-	**1,226**	1,226
Deposit - BANK of NEW YORK (guarantee)	**3,699**	3,262	**3,699**	3,262
	3,699	3,262	**66,052**	79,544
Current assets	**3,699**	3,262	**3,699**	3,262
Noncurrent assets	**-**	-	**62,353**	76,282

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 defined in the 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$3,699 recorded in current assets at December 31, 2014 was used for interest payment for January 2015.

(In thousands of Brazilian 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 maintains these deposits at their nominal value, not recording any type of monetary adjustment or interest thereon.

(a) These refer to deposits in order to void ANEEL notices, which have been challenged by subsidiary CTEEP.

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

	2014	**2013**
Number of outstanding shares at the balance sheet date		
Common registered shares	**64,484,433**	64,484,433
Preferred registered shares	**96,775,022**	88,177,132
Total	**161,259,455**	152,661,565
Equity		
Capital	**2,215,291**	2,000,000
Capital reserves	**1,190,471**	1,217,661
Special goodwill reserve	**87,551**	147,912
Income reserves	**1,671,732**	1,516,874
Additional dividends proposed	**-**	30,000
Noncontrolling interests	**63,567**	-
Total	**5,228,612**	4,912,447
Net income for the year	**378,215**	31,921

(In thousands of Brazilian reais, unless otherwise stated)

14. Investments (Continued)

b) Information on Company investments

	2014	2013
Number of outstanding common registered (ON) shares at the balance sheet date	**57,714,208**	57,714,208
Number of outstanding preferred registered (PN) shares at the balance sheet date	**3,496,456**	-
CTEEP's Equity	**5,165,045**	4,912,447
(-) Special goodwill reserve	**(60,361)**	(147,912)
CTEEP's equity (equity pickup base)	**5,104,684**	4,764,535
Percentage of ownership interest in CTEEP	**37.9579%**	37.8053%
Investment	**1,937,631**	1,801,249
Special goodwill reserve	**60,361**	147,912
Equity pickup adjustment - Law No. 4819/58 (i)	**111,582**	111,582
Total investment	**2,109,574**	2,060,743

(i) 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 post-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, for disregarding the effect of the above-mentioned provision, in order to align the time to 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 for the year ended December 31, 2014:

Balance at December 31, 2013	2,060,743
Realization of special goodwill reserve - paid-in shares (Note 26.f)	**(87,551)**
Subscription of shares - special goodwill reserve (Note 26.f)	**87,551**
Adjustment to book value on share subscription	**1,789**
Equity pickup	**144,135**
Interim dividends and interest on equity received in the year (Note 26.d)	**(85,315)**
Accrued dividends receivable	**(11,778)**
Balance at December 31, 2014	**2,109,574**

(In thousands of Brazilian reais, unless otherwise stated)

14. Investments (Continued)

14.1. Investment in subsidiary CTEEP

a) Information on subsidiary CTEEP

INVESTMENTS - SUBSIDIARY CTEEP

	IEMG		Pinheiros		Serra do Japi		Evrecy		IENNE		IESul		IEMadeira		IEGaranhuns	
Reporting date	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Number of common shares held	**83,055,292**	81,855,292	**283,310,000**	269,360,000	**86,748,000**	86,748,000	**21,512,367**	21,512,367	**81,821,000**	81,821,000	**100,928,499**	88,228,499	**717,060,000**	632,910,000	**168,300,000**	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	**283,310**	269,360	**86,748**	86,748	**21,512**	21,512	**327,284**	327,284	**201,857**	176,457	**1,406,000**	1,241,000	**330,000**	195,000
Equity	**108,318**	106,871	**338,656**	311,607	**168,639**	140,160	**47,441**	36,915	**359,435**	343,773	**215,272**	187,456	**1,818,153**	1,552,752	**374,352**	202,813
Net Income (loss)	**247**	3,452	**13,099**	18,893	**28,479**	30,610	**10,526**	5,022	**15,662**	(41,521)	**2,416**	2,811	**131,660**	135,537	**36,539**	7,271

b) Changes in investments of subsidiary CTEEP for the year ended December 31, 2014:

	Consolidated				
	IENNE	**IESul**	**IEMadeira**	**IEGaranhuns**	**Total**
Balance in 2012	96,324	78,222	577,430	15,577	767,553
Capital payment	-	14,100	145,350	84,149	243,599
Equity pickup	(10,381)	1,406	69,123	3,709	63,857
Balance in 2013	**85,943**	**93,728**	**791,903**	**103,435**	**1,075,009**
Capital payment	**-**	**12,700**	**84,150**	**68,850**	**165,700**
Dividends receivable	**-**	**-**	**(15,945)**	**-**	**(15,945)**
Equity pickup	**3,916**	**1,208**	**67,146**	**18,635**	**90,905**
Balance in 2014	**89,859**	**107,636**	**927,254**	**190,920**	**1,315,669**

(In thousands of Brazilian reais, unless otherwise stated)

15. Property and equipment

These substantially refer to chattels used by the Company and its subsidiaries not related to the service concession arrangement.

	Company				
	Annual average depreciation rates	2014			2013
	%	Cost	Accumulated depreciation	Net	Net
In operation					
Machinery and equipment	6%	**46**	**(23)**	**23**	17
Furniture and fixtures	6%	**32**	**(21)**	**11**	13
		78	**(44)**	**34**	30

	Consolidated				
	Annual average depreciation rates	2014			2013
	%	Cost	Accumulated depreciation	Net	Net
In operation					
Land	-	**2,060**	**-**	**2,060**	2,060
Machinery and equipment	6.44%	**2,980**	**(1,769)**	**1,211**	1,075
Furniture and fixtures	6.25%	**7,072**	**(4,941)**	**2,131**	2,111
IT equipment	24.1%(*)	**10,187**	**(5,249)**	**4,938**	4,125
Vehicles	31.5% (**)	**10,867**	**(13)**	**10,854**	194
Other	4.0%	**4,328**	**(934)**	**3,394**	835
		37,494	**(12,906)**	**24,588**	10,400

(*) Including lease of IT equipment at 33.3%.

(**) Including lease of vehicles at 33.3% and 25.0%.

Changes in property and equipment for the year ended December 31, 2014 are as follows:

	Company			
	Balance in 2013	Additions	Depreciation	Balance in 2014
Machinery and equipment	17	12	(6)	**23**
Furniture and fixtures	13	1	(3)	**11**
	30	13	(9)	**34**

(In thousands of Brazilian reais, unless otherwise stated)

15. Property and equipment (Continued)

	Consolidated				
	Balance in 2013	Additions	Depreciation (Note 28)	Write-offs	Balance in 2014
Land	2,060	-	-	-	**2,060**
Machinery and equipment	1,075	296	(144)	(16)	**1,211**
Furniture and fixtures	2,111	322	(299)	(3)	**2,131**
IT equipment	4,125	2,994	(2,181)	-	**4,938**
Vehicles	194	10,867	(119)	(88)	**10,854**
Other	835	2,879	(4)	(316)	**3,394**
	10,400	17,358	(2,747)	(423)	**24,588**

16. Intangible assets (Consolidated)

These substantially refer to:

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

b) Goodwill 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.b).

Changes in intangible assets for the year ended December 31, 2014 are as follows:

	Consolidated		
	Goodwill	Software	Total
Balance in 2012	-	42,290	42,290
Additions	111,582	11,204	122,786
Amortization	-	(7,425)	(7,425)
Balance in 2013	**111,582**	**46,069**	**157,651**
Additions	**-**	**18,670**	**18,670**
Amortization (*)	**(2,490)**	**(6,121)**	**(8,611)**
Balance in 2014	**109,092**	**58,618**	**167,710**

(*) R$2.490 refers to amortization of goodwill generated in indirect subsidiary Evrecy.

(In thousands of Brazilian reais, unless otherwise stated)

17. Loans and financing

Breakdown of loans and financing is as follows:

	Company			
	Charges	**Final maturity date**	**2014**	**2013**
Foreign currency				
Bonds (a)	8.80% p.a.	1/30/2017	**87,154**	76,865
Current			**3,083**	2,719
Noncurrent			**84,071**	74,146

	Consolidated			
	Charges	**Final maturity date**	**2014**	**2013**
Foreign currency				
Bonds (a)	8.80% p.a.	1/30/2017	**87,154**	76,865
Total in foreign currency			**87,154**	76,865
Local currency				
BNDES (b) (i)	TJLP + 1.8% p.a.	3/15/2029	**175,751**	-
BNDES (b) (i)	3.5% p.a.	1/15/2024	**64,154**	-
BNDES (b) (ii)	TJLP + 1.8% p.a.	6/15/2015	**28,129**	84,488
BNDES (b) (iii)	TJLP + 2.3% p.a.	6/15/2015	**46,901**	141,217
BNDES (b) (iv)	TJLP + 2.1% p.a.	2/15/2028	**6,942**	7,303
BNDES (b) (iv)	3.5% p.a.	4/15/2023	**15,072**	16,502
BNDES (b) (v)	TJLP + 2.6% p.a.	5/15/2026	**40,548**	44,210
BNDES (b) (v)	5.5% p.a.	1/15/2021	**60,999**	71,128
BNDES (b) (vi)	TJLP + 1.9% p.a.	5/15/2026	**42,327**	46,083
BNDES (b) (vi)	TJLP + 1.5% p.a.	5/15/2026	**36,575**	39,829
BNDES (b) (vii)	TJLP + 2.4% p.a.	4/15/2023	**42,358**	47,432
BNDES / Finame PSI	4.0% p.a.	8/15/2018	**281**	-
BNDES / Finame PSI (c)	6.0% p.a.	11/18/2019	**10,346**	-
Eletrobras	8.0% p.a.	11/15/2021	**240**	290
Finance lease agreements	-	-	**2,007**	3,355
Total in local currency			**572,630**	501,837
Total in local and foreign currency			**659,784**	578,702
Current			**135,133**	195,530
Noncurrent			**524,651**	383,172

17. Loans and financing (Continued)

(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 2014, ISA Capital paid total interest of R$6,504 (R$5,772 in 2013) to bond holders.

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

(b) Brazilian Development Bank (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 2012-2015, 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 release of funds amounting to R$124.1 million, R$26.9 million and R$89.0 million took place on January 29, June 26, 2014 and December 26, 2014, respectively. Next release is expected for the second quarter of 2015.

Interest will be paid on a quarterly 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 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 1.25% p.a. and 0.80% p.a., respectively, payable on a quarterly basis.

(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 a guarantee, subsidiary 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.

17. Loans and financing (Continued)

(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 a guarantee, subsidiary 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 $\leq$ 6.0 and Net Debt/Net Debt + Equity $\leq$ 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%.

(iv) On August 13, 2013, Indirect subsidiary 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. Indirect subsidiary Pinheiros shall maintain, over repayment and after giving the bank sureties, a Debt Service Coverage Ratio (ICSD) of at least 1.3%, determined annually.

(v) On December 30, 2010, indirect subsidiary 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. Indirect subsidiary Pinheiros shall maintain, over repayment and after giving the bank sureties, a Debt Service Coverage Ratio (ICSD) of at least 1.3%, determined annually.

(In thousands of Brazilian reais, unless otherwise stated)

17. Loans and financing (Continued)

(vi) On October 28, 2011, indirect subsidiary 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. Indirect subsidiary Serra do Japi shall maintain, over repayment and after giving the bank sureties, a Debt Service Coverage Ratio (ICSD) of at least 1.2%, determined annually, and during all financing period, the Equity Ratio defined by the Equity-to-Total Assets, equal to or higher than 20% of the project's total investment.

(vii) On January 14, 2009, indirect subsidiary 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 (TL) between Neves 1 and Mesquita substations. Repayment is in 168 monthly installments as from May 15, 2009. The need for bank sureties was dispensed by BNDES on March 15, 2011. Indirect subsidiary IEMG, shall maintain, over repayment, a Debt Service Coverage Ratio (ICSD) of at least 1.3%, determined annually.

(c) BNDES / Finame PSI

On November 4, 2014, CTEEP entered into 18 loan agreements with Santander bank totaling R$10,346, subject to interest of 6.0% p.a., using BNDES line of credit Finame PSI (Investment Support Program). The line of credit will finance machinery and equipment. The first payment totaling R$10,096 was disbursed by Santander to suppliers on December 30, 2014. Next disbursement is expected for the first quarter of 2015

The aging list of noncurrent portions is as follows:

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
2015	**-**	-	**-**	102,527
2016	**-**	-	**48,850**	26,542
2017	**84,071**	74,146	**132,910**	100,688
2018	**-**	-	**48,675**	26,536
2019	**-**	-	**48,402**	26,517
2020 to 2024	**-**	-	**177,626**	74,891
2025 to 2029	**-**	-	**68,188**	25,471
	84,071	74,146	**524,651**	383,172

(In thousands of Brazilian reais, unless otherwise stated)

17. Loans and financing (Continued)

Changes in loans and financing for the year ended December 31, 2014 are as follows:

	Company	Consolidated
Balance in 2012	67,051	1,464,680
Additions	-	223,498
Payment of principal	-	(1,088,921)
Payment of interest	(5,961)	(90,041)
Interest, monetary adjustments and foreign exchange fluctuations	15,775	69,486
Balance in 2013	**76,865**	**578,702**
Additions	**-**	**251,236**
Payment of principal	**-**	**(177,027)**
Payment of interest	**(6,504)**	**(46,631)**
Interest, monetary adjustments and foreign exchange fluctuations	**16,793**	**53,504**
Balance in 2014	**87,154**	**659,784**

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

Subsidiary	Interest held in subsidiary	Bank	Type of debt	Debit balance at 12/31/2014	Type of guarantee	Balance guaranteed by CTEEP	Guarantee termination date
IEMG	100%	BNDES	FINEM	**42,358**	None	42,358	-
Serra do Japi	100%	BNDES	FINEM	**78,902**	Bank surety	78,902	-
Pinheiros	100%	BNDES	FINEM and PSI	**101,536**	Bank surety	101,536	12/9/2015
Pinheiros	100%	BNDES	FINEM and PSI	**22,025**	Bank surety	22,025	8/23/2015
IESul	50%	BNDES	FINEM and PSI	**14,535**	Bank surety	7,268	10/4/2016
IESul	50%	BNDES	FINEM and PSI	**20,173**	Bank surety	10,086	8/10/2015
IENNE	25%	Banco do Nordeste	FNE	**208,018**	Bank surety	52,005	6/1/2015
IENNE	25%	Banco do Brasil	Overdraft facilities	**17,048**	None	4,262	-
IEMadeira	51%	Banco da Amazônia	Bank Credit Bill	**295,017**	Bank surety	150,458	6/30/2016
IEMadeira	51%	BNDES	FINEM and PSI	**1,728,227**	Bank surety	881,396	6/30/2016
IEMadeira	51%	Itaú/BES	Infrastructure debentures	**412,481**	Back bond	210,366	3/18/2025
IEGaranhuns	51%	BNDES	FINEM and PSI	**362,379**	Back bond	184,813	12/15/2028

Subsidiary CTEEP provides back bonds in bank surety contracts and intervention in BNDES financing agreements to the extent of its interest held in subsidiaries.

(In thousands of Brazilian 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 (b) (iii), as well as cross default clauses, which establish the accelerated maturity of debts in the event of noncompliance with indicators by subsidiary CTEEP.

There is no accelerated maturity of the debt relating to covenants.

18. Debentures

				Consolidated	
	Maturity	**Number**	**Charges**	**2014**	**2013**
1st series (i)	12/15/2014	49,100	CDI + 1.3% p.a.	**-**	162,518
2nd series (i)	12/15/2017	5,760	IPCA + 8.1% p.a.	**58,692**	75,147
Single series CTEEP (ii)	12/26/2018	50,000	116.0% of CDI p.a.	**560,553**	499,975
				619,245	737,640
Current				**83,846**	184,884
Noncurrent				**535,399**	552,756

(i) In December 2009, subsidiary CTEEP issued 54,860 debentures in two series 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 semiannual 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.

Financial indicators established in the agreement are as follows: Net Debt/Adjusted EBITDA ≤ = 3.5 and Adjusted EBITDA/Financial Income/Expenses > = 3.0, determined on a quarterly basis.

(In thousands of Brazilian reais, unless otherwise stated)

18. Debentures (Continued)

To date, 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.

The aging list of noncurrent portions is as follows:

	2014	**2013**
2015	**-**	17,580
2016	**184,715**	184,245
2017	**184,739**	184,269
2018	**165,945**	166,662
	535,399	552,756

Changes in debentures for the year ended December 31, 2014 are as follows:

Balance in 2012	1,123,350
Additions	500,000
Payment of principal	(863,667)
Payment of interest	(142,779)
Interest, monetary adjustments and foreign exchange fluctuations	120,736
Balance in 2013	**737,640**
Additions	**-**
Payment of principal	**(182,551)**
Payment of interest	**(28,998)**
Interest, monetary adjustments and foreign exchange fluctuations	**93,154**
Balance in 2014	**619,245**

(In thousands of Brazilian reais, unless otherwise stated)

19. Taxes and social charges payable

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Corporate Income Tax (IRPJ)	**469**	418	**4,131**	665
Social contribution tax (CSLL)	**-**	-	**1,765**	160
Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	**-**	5,746	**5,663**	10,323
Social Contribution Tax on Gross Revenue for Social Integration Program (PIS)	**-**	1,248	**1,229**	2,241
Scholarship Program	**-**	-	**-**	36
Social Security Tax (INSS)	**19**	17	**5,079**	5,402
Service Tax (ISS)	**6**	-	**3,031**	2,530
Other	**1**	3	**6,118**	6,205
	495	7,432	**27,016**	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. In order to settle its tax debt, subsidiary CTEEP joined the Special Tax Installment Payment Program created by Law No. 11941 of May 27, 2009, and opted for the 180-month payment schedule ending in October 2024. Each installment amounts to R$975 and is subject to monetary adjustment based on the Selic rate.

Changes for the year ended December 31, 2014 and 2013 are as follows:

	Company and Consolidated	
	2014	**2013**
Opening balance	**150,742**	155,455
Monetary adjustment of debt	**10,732**	8,818
Payments made	**(14,463)**	(13,531)
	147,011	150,742
Current	**14,950**	13,915
Noncurrent	**132,061**	136,827

(In thousands of Brazilian reais, unless otherwise stated)

21. Deferred PIS and COFINS

	Consolidated	
	2014	**2013**
Deferred PIS	**21,032**	21,019
Deferred COFINS	**96,940**	96,841
	117,972	117,860

Deferred PIS and COFINS refer to construction revenue and financial income recorded on construction financial assets. The payment is made upon effective RAP billing and amortization of financial assets.

22. Regulatory charges payable

	Consolidated	
	2014	**2013**
Research and development - R&D (i)	**70,879**	65,742
Energy Development Account (CDE)	**761**	504
Global Reversion Reserve (RGR)	**9,164**	6,684
Alternative Electric Power Sources Incentive Program (PROINFA)	**903**	1,257
Inspection fee - ANEEL	**608**	499
	82,315	74,686
Current	**59,705**	38,666
Noncurrent	**22,610**	36,020

(i) Subsidiary CTEEP and its subsidiaries recognized liabilities related to amounts billed through tariffs (1% of Operating income, 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 No. 300/2008 and No. 316/2008. The amounts used in R&D are accounted for under assets and upon completion of projects, they are submitted to ANEELS's final audit and evaluation for later recognition of the obligation settlement. The total amount used up to December 31, 2014 amounts to R$45,842.

(ii) According to Article 21 of Law No. 12783, beginning January 1, 2013, electric power transmission service concession operators with extended service concession arrangements under such Law are not required to pay annual RGR amount. For subsidiary CTEEP, it is applicable to the service concession arrangement No. 059/2001. At December 31, 2014, RGR balance payable refers to additional charge referring to years 2012 and 2013.

(In thousands of Brazilian reais, unless otherwise stated)

23. Provisions

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Vacation pay and social charges	**-**	20	**19,728**	19,616
Profit sharing	**-**	-	**7,741**	8,401
Contingencies (a)	**-**	-	**131,592**	127,898
	-	20	**159,061**	155,915
Current	**-**	20	**27,469**	28,017
Noncurrent	**-**	-	**131,592**	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	
	2014	**2013**
Labor (i)	**114,446**	103,234
Civil (ii)	**9,656**	15,855
Tax - Real Estate Tax (IPTU) (iii)	**5,501**	7,042
Social security - INSS (iv)	**1,989**	1,767
	131,592	127,898

(i) Labor

Subsidiary CTEEP is a defendant in 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$51,525 (R$65,511 in 2013), according to Note 13.

(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 Administrations in the State of São Paulo, related to lawsuits for regularization of areas.

(In thousands of Brazilian reais, unless otherwise stated)

23. Provisions (Continued)

(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 of subsidiary CTEEP began the defense procedures and the corresponding judicial deposit currently amounts to R$1,226 (R$1,226 in 2013). See Note 13. In 2014, the case records were concluded and are pending judgment.

Changes in provisions for contingences for the year ended December 31, 2014 are as follows:

	Consolidated				
	Labor	**Civil**	**Tax - IPTU**	**Social security - INSS**	**Total**
Balance in 2012	108,331	3,474	7,506	1,571	120,882
Recognition	11,148	15,273	-	-	26,421
Reversal/payment	(21,019)	(4,454)	(1,227)	-	(26,700)
Adjustment	4,774	1,562	763	196	7,295
Balance in 2013	**103,234**	**15,855**	**7,042**	**1,767**	**127,898**
Recognition	**24,811**	**682**	**-**	**-**	**25,493**
Reversal/payment	**(19,001)**	**(8,019)**	**(1,933)**	**-**	**(28,953)**
Adjustment	**5,402**	**1,138**	**392**	**222**	**7,154**
Balance in 2014	**114,446**	**9,656**	**5,501**	**1,989**	**131,592**

(In thousands of Brazilian reais, unless otherwise stated)

23. Provisions (Continued)

(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$ 354,661 was recorded in 2014 (R$ 171,001 in 2013), mainly consisting of labor and tax proceedings, which totaled R$ 199,631.

Classification	Number	Total
Labor	303	31,646
Civil	37	47,300
Civil - Merger of EPTE into CTEEP declared null (i)	1	108,000
Tax - social contribution tax loss (ii)	1	20,360
Tax - goodwill amortization (iii)	2	130,014
Tax - IRPJ and CSLL (iv)	1	16,169
Tax - other	14	1,172
Plan of Law No. 4819/58 (v)	1	-
		354,661

(i) Civil - Merger of EPTE into CTEEP declared null and void

Common civil action filed by minority shareholders seeking to declare the merger of Empresa Paulista de Transmissão de Energia Elétrica (EPTE) into Companhia de Transmissão de Energia Elétrica Paulista (CTEEP) null and void, or alternatively, to exercise their right of withdrawal and determine the payment of share refund amounts. This action is at the execution stage, and the challenge filed to determine the grounds for its execution is pending final appreciation. Subsidiary CTEEP filed an appeal and obtained a preliminary order subjecting the amounts to be determined by the plaintiffs to the production of adequate guarantees.

(ii) Tax - social contribution tax loss

Proceeding 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).

(iii) Tax - goodwill amortization

Proceeding arising from delinquency notices drawn in 2013 and 2014 by the Brazilian IRS, referring to goodwill paid by the Company in the acquisition of the ownership control of subsidiary CTEEP (Note 11). This proceeding is pending judgment.

23. Provisions (Continued)

(iv) Tax - 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) offset against income and social contribution tax debts, calculated from January to March 2003, which was partially granted. 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 post-retirement plan governed by Law No. 4819/58. Please refer to Note 36.

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

(i) 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 adjustment 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

23. Provisions (Continued)

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.

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 ordinary course as originally proposed.

In December 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 December 31, 2014, the expert examination work is pending.

23. Provisions (Continued)

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 post-retirement and pension plans maintained with Fundação CESP. In 2014, their balance plus administrative costs of the fund amounts to R$5,375 (R$6,091 in 2013) referring to monthly installments payable as contribution to the fund.

a) Supplementary post-retirement plan (Plan “A”)

Governed by State Law No. 4819/58, applied to employees hired up to May 13, 1974, it establishes supplementary post-retirement 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) PSAP CTEEP

PSAP CTEEP includes the following subplans:

- Vested Supplementary Benefit Payout (BSPS) - (Plan “B”);
- Defined Benefit (DB) - (Plan “B1”);
- Variable contribution (VC) - (Plan “B1”).

PSAP/CTEEP Plan, governed by Supplementary Law No. 109/2001 and administered by Fundação CESP, is sponsored by subsidiary CTEEP itself and provides supplementary post-retirement and pension benefits, with the related reserves being computed using the fully-funded system.

24. Payables - Fundação CESP (Continued)

b) PSAP CTEEP (Continued)

PSAP CTEEP was created after the split of PSAP/CESP B1 on September 1, 1999 and covers all Participants transferred to subsidiary CTEEP. On January 1, 2004, PSAP/EPTE was merged into PSAP/Transmissão, and the plan name changed to PSAP - Transmissão Paulista on that date, and to PSAP CTEEP on December 1, 2014.

Subplan “BSPS” refers to the Vested Supplementary Benefit Payout and derives from the Supplementary Post-Retirement and Pension Plan PSAP/CESP B, transferred to this plan on September 1, 1999 and from PSAP/Eletropaulo Alternativo, transferred to this plan after the merger of PSAP/EPTE on January 1, 2004, calculated on December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), based on effective regulations, with the actuarial asset-liability balance being obtained at the time.

Subplan “DB” defines contributions and related matching responsibilities between subsidiary CTEEP and the participants on 70% of employees’ Actual Contribution Salary in order to obtain the plan’s actuarial asset-liability balance. This subplan ensures annuity post-retirement and pension benefits to employees, former employees and beneficiaries in order to supplement the benefits provided by the official Social Security system.

Subplan “VC” defines voluntary contributions by Participants, with limited matching contributions by subsidiary CTEEP on 30% of employees’ Actual Contribution Salary for purposes of additional supplementary benefits in case or retirement or death. On the vesting date, Subplan Variable Contribution (VC) may turn into a Defined Benefit (DB) plan, in case the Participant elects to receive the related supplementary benefit in the form of annuity payments.

(In thousands of Brazilian reais, unless otherwise stated)

24. Payables - Fundação CESP (Continued)

c) Actuarial valuation

The projected unit credit method was adopted for the independent actuarial valuation of PSAP CTEEP plan.

At December 31, 2014, PSAP CTEEP posted actuarial surplus totaling R$569,609, which was not accounted for because the National Supplementary Pension Agency (PREVIC), through CGPC Ruling No. 26/2008, establishes that an asset may only be recognized, among other criteria, when the contingency reserve is recognized at its ceiling, which is equivalent to 25% of total mathematical reserves, in order to ensure the plan's asset-liability balance considering the volatile nature of the related obligations. Only the surplus amount in excess of that ceiling would represent an economic benefit to subsidiary CTEEP. The actuarial report at December 31, 2014 does not show any actuarial asset or liability.

Based on the actuarial reports, the main economic and financial information in accordance with CPC 33 (R1) and CVM Rule No. 695 (IAS 19R) is as follows:

i) *Reconciliation of assets and liabilities:*

	2014	2013
Fair value of plan assets (ii)	**2,967,520**	2,845,070
Present value of the defined benefit obligation (iii)	**(2,397,911)**	(2,102,790)
Actuarial surplus	**569,609**	742,280
Limit on asset recognition	**(569,609)**	(742,280)
Net asset	**-**	-

ii) *Changes in plan assets*

	2014	2013
Fair value of plan assets at beginning of year	**2,845,070**	3,290,144
Employer's contributions	**2,850**	2,452
Employees' contributions	**2,702**	3,014
Return on investments	**249,206**	(319,082)
Benefits paid	**(132,308)**	(131,458)
Fair value of plan assets at end of year (i)	**2,967,520**	2,845,070

(In thousands of Brazilian reais, unless otherwise stated)

24. Payables - Fundação CESP (Continued)

c) Actuarial valuation (Continued)

iii) *Changes in actuarial liability*

	2014	2013
Present value of net actuarial obligation at beginning of year	**2,102,790**	2,678,356
Cost of current services	**(564)**	2,092
Interest cost	**233,803**	248,562
Participants' contributions	**2,702**	3,014
Actuarial gain/loss	**191,488**	(697,776)
Benefits paid	**(132,308)**	(131,458)
Present value of net actuarial obligation at end of year (i)	**2,397,911**	2,102,790

iv) *Plan participants (number of persons)*

	2014	2013
Active participants	**1,407**	1,426
Beneficiaries	**154**	164
Inactive participants		
Retirees	**2,051**	2,000
Retirees for disability	**42**	40
Pensioners	**130**	122
	2,223	2,162
	3,784	3,752

v) *Actuarial assumptions used*

	2014	2013
Discount rate of present value of actuarial liability (nominal)	**11.51%**	11.50%
Future salary increase rate (nominal)	**7.10%**	6.30%
Adjustment rate for life annuity benefits	**5.00%**	4.75%
General mortality table	**AT-00**	AT-83
Disability table	**Light-Fraca**	Light-Fraca
Disability mortality table	**AT-49**	AT-49

25. Special obligations - reversal/amortization

At September 30, 2014, the balance of R$24,053 (R$24,053 at December 31, 2013) refers to funds arising from the reversal and amortization reserve and portion held at subsidiary CTEEP of the monthly portions of the Global Reversion Reserve (RGR), related to investments of funds for expansion of the public electric power service and amortization of loans taken out 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 preferred shares at the redeemable price of R$2.020731 each - redemption of these shares began on April 12, 2013 and will finish on April 9, 2016, which were fully subscribed and paid in by HSBC Finance (Brazil) S.A. Banco Múltiplo (“HSBC”), as follows:

(i) The Special General Meeting held on March 9, 2010 approved the Company’s capital increase by R$840,000, R$420 of which were allocated to capital and R$839,580 allocated to capital reserve. Accordingly, the Company’s capital increased from R$839,778 to R$840,198, represented by 1,256,316,162 shares.

(ii) At the Board of Directors’ Meeting held on March 19, 2010, a new capital increase was approved within authorized capital limit, amounting to R$360,000 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, the Company’s capital increased from R$840,198 to R$840,378, represented by 1,398,838,834 shares.

(In thousands of Brazilian 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, 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 consolidation. The changes brought to the Shareholders' Agreement include (i) the new redemption schedule for preferred shares and payment of fixed cumulative dividends from a quarterly to a half-yearly basis; and (ii) fixed cumulative dividends, which were determined by reference to 100% of CDI rate plus 1.0% per annum (p.a.), have been calculated, as of February 25, 2014, by reference to 100% of CDI rate plus 1.5% p.a.

Accordingly, at December 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 416,528,628 preferred shares (486,952,494 preferred shares in 2013). The Company's shareholders structure is as follows:

Shareholder	Number of common shares	Number of preferred shares	Total	%
Interconexión Eléctrica S.A ESP	840,625,000	-	840,625,000	66.86%
HSBC Bank Brasil S.A. - . Banco Múltiplo	-	208,264,314	208,264,314	16.57%
BV Financeira S.A. - Crédito, Financiamento e Investimento.	-	208,264,314	208,264,314	16.57%
Total	**840,625,000**	**416,528,628**	**1,257,153,628**	**100.00%**

b) Allocation of profits

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 Brazilian reais, unless otherwise stated)

26. Equity (Continued)

b) Allocation of profits (Continued)

As of the current fiscal year, fixed cumulative dividends have been calculated and paid on a half-yearly basis, pursuant to article 6 of the Bylaws. Based on the net income for 2014, totaling R$134,247, the Company paid cumulative fixed dividends of R$97,371 on redeemable preferred shares.
Also pursuant to that article, an amount equivalent to 100% of the net income remaining after the recognition of the legal reserve, within legal limits, and payments of mandatory dividends and fixed cumulative dividends on preferred shares, shall be transferred to the income reserve until this reserve equals 50% of the amount redeemable related to redeemable preferred shares plus 120% of fixed cumulative dividends and/or amounts related to due and unpaid redemptions of preferred shares. Profits are allocated on an annual basis.

Thus, in conformity with article 35 of the Bylaws, the profit for the year will be allocated as follows:

Allocation of profits

	2014	2013
Net income for the year	**134,247**	25,603
Recognition of legal reserve	**-**	-
Base income for dividend calculation	**134,247**	25,603
Mandatory dividends paid in the year	**(13,425)**	(256)
Fixed cumulative dividends paid in 2013	**-**	(347)
Fixed cumulative dividends paid in 2014	**-**	(25,000)
Fixed cumulative dividends paid from Feb/14 to Dec/14	**(83,946)**	-
Total dividends paid out of net income for the year	**(97,371)**	(25,603)
Dividends paid out of the earnings retention reserve	**-**	(70,609)
Total dividends paid out	**(97,371)**	(96,212)
Recognition of remaining earnings retention reserve	**36,876**	-

c) Fixed cumulative dividends

In accordance with section II of the First Amendment to the Shareholders' Agreement executed on February 25, 2014, fixed cumulative dividends, which were calculated and paid on a quarterly basis, have now been calculated and paid on a half-yearly basis, subject to 100% of the CDI rate fluctuation 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$13,713, calculated based on the former criterion, i.e., at 100% of the CDI variation plus 1% p.a., comprising the period from January 6, 2014 to February 25, 2014.

(In thousands of Brazilian reais, unless otherwise stated)

26. Equity (Continued)

c) Fixed cumulative dividends (Continued)

In 2014, the Board of Directors approved the distribution of fixed cumulative dividends to preferred shareholders HSBC Bank Brasil S.A. and BV Financeira S.A. as follows:

Payment date	Amount	Amount per share (R$)	Number of shares	Approval date	Accounting period
28/02/2014	13,713	0.031077	441,272,148	2/25/2014	2014
01/09/2014	54,608	0.123751	441,272,148	9/1/2014	2014
08/12/2014	29,050	0.067731	428,900,388	12/8/2014	2014
Total	**97,371**				

d) Dividends and interest on equity of subsidiary CTEEP

Dividends

In 2014, subsidiary CTEEP approved dividends in the amount of R$195,000. Accordingly, the Company recognized the following amounts:

Approval date	Amount approved by subsidiary CTEEP	Amount per share (R$)	Amount received by the Company	Payment date
31/03/2014	30,000	0.196514	11,342	7/31/2014
01/09/2014	165,000	1.023196	62,631	12/5/2014
Total	**195,000**		**73,973**	

Additionally, subsidiary CTEEP's management proposed dividends amounting to R$31,029 to be included as part of mandatory dividends, which is to approved at a General and Special Shareholders' Meeting. Accordingly, the Company recognized the amount of R$11,778 of "accrued dividends receivable" in 2014.

Interest on equity

On August 11, 2014, the Board of Directors of subsidiary CTEEP approved the distribution of interest on equity amounting to R$30,000, the financial settlement of which took place on August 29, 2014. Accordingly, the Company recognized the amount of R$11,342 and received R$9,640, net of taxes.

(In thousands of Brazilian reais, unless otherwise stated)

26. Equity (Continued)

e) Capital reserve

After the approvals on March 9 and 19, 2010 mentioned in Note 26.a, 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 2014, the Company approved the redemption of preferred shares as follows:

Redemption date	Class	Number of redeemed shares	Amount redeemed
06/01/2014	D	45,680,346	92,308
01/09/2014	A1 and A2	12,371,760	25,000
08/12/2014	B1 and B2	12,371,760	25,000
Total			**142,308**

These preferred shares were cancelled and the amount paid for their redemption was fully charged to the capital reserve account. Accordingly, the capital reserve account amounted to R$841,092 at the end of 2014 (R$983,400 in 2013).

f) Goodwill on equity transaction

After the subscription of CTEEP-issued shares in December 2011 in connection with its capital increase in that year, the Company recorded a gain on the change in the equity interest held in CTEEP and also a loss on the share's value in relation to its book value, resulting in a loss of R$7,488. After deducting the amount of R$20 on account of the sale of 920 CTEEP shares in June and July 2012, the balance of the account is R$7,468. On September 26, 2014, in view of the R$87,551 capital increase in subsidiary CTEEP, the Company determined a gain on investment amounting to R$1,789. Therefore, at December 31, 2014, this account totals R$5,679 (R$7,468 in 2013).

(In thousands of Brazilian reais, unless otherwise stated)

26. Equity (Continued)

g) Income reserves

	2014	2013
Legal reserve (i)	**5,881**	5,881
Retained profit reserve (ii)	**91,760**	54,884
	97,641	60,765

(i) Legal reserve

The legal reserve is recognized at 5% of net income for the year, limited to 20% of capital, before any profit 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 defined in 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 Bylaws. 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. At December 31, 2014, after retention of R$36,876 relating to remaining profit for the year, the retained profit reserve amounts to R$91,760 (R$54,884 in 2013).

h) Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to controlling and noncontrolling equity holders of the Company based on the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations:

	2014	2013
Basic earnings		
Net income - R$ thousand	**134,247**	25,603
Weighted average number of shares		
Common shares	**840,625,000**	840,625,000
Preferred shares	**416,528,628**	486,952,494
	1,257,153,628	1,327,577,494
Total basic earnings per share - R$	**0.10679**	0.01929

(In thousands of Brazilian reais, unless otherwise stated)

27. Net operating revenue

27.1. Breakdown of net operating revenue

	Consolidated	
	2014	**2013**
Gross revenue		
Construction (a) (Note 8)	**265,058**	267,908
Operation and maintenance (a) (Note 8)	**740,613**	586,599
Financial income (b) (Note 8)	**207,457**	242,654
Rent	**16,385**	14,851
Service rendering	**4,827**	6,333
Total gross revenue	**1,234,340**	1,118,345
Taxes on revenues		
COFINS	**(83,329)**	(82,601)
PIS	**(18,090)**	(17,931)
ISS	**(337)**	(376)
	(101,756)	(100,908)
Regulatory charges		
Fuel Consumption Account (CCC)	**-**	(892)
Energy Development Account (CDE)	**(6,555)**	(9,116)
Global Reversion Reserve (RGR)	**(3,334)**	(2,677)
Research and Development (R&D)	**(7,904)**	(6,456)
Alternative Electric Power Sources Incentive Program (PROINFA)	**(12,003)**	(17,128)
	(29,796)	(36,269)
	1,102,788	981,168

(a) Construction, operation and maintenance services

The revenue related to construction services under the service concession arrangement is recognized as expenditures are incurred. The revenues from operation and maintenance services are recognized in the period in which the services are provided by subsidiary CTEEP, and when it provides more than one service under a service concession arrangement, the amount received is allocated by reference to the fair values relating to the services delivered.

(b) Financial income

Interest income is recognized by the effective interest rate on the outstanding principal. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to the initial net carrying amount of the asset.

27. Net operating revenue (Continued)

27.2. Periodic tariff review of the Annual Allowed Revenue (RAP)

In compliance with the service concession arrangements, through ANEEL, every four and five years after the execution date of the arrangements, ANEEL may perform a periodic tariff review of the RAP of electric energy transmission to foster efficiency while permitting reasonably priced tariffs. According to the 5th Amendment to the Service Concession Arrangement No. 059/2001, executed on December 4, 2012, the next periodic tariff review will take place in July 2018.
In 2013, subsidiary CTEEP started recognizing construction revenue for improvements in the electric energy facilities, as defined in ANEEL Order No. 4413 of December 27, 2013 and ANEEL Normative Resolution No. 443 of July 26, 2011, which will be considered in the base of the next periodic tariff review.

The bid revenue associated with the Service Concession Arrangement No. 143/2001 is not subject to the periodic tariff review.

The periodic tariff review comprises the reposition of revenue upon determining:

(a) Regulatory remuneration base for Basic Electric Power Grid New Investments (RBNI);
(b) Efficient operating costs;
(c) Optimal capital structure and definition of transmission companies' remuneration;
(d) Identification of the amount to be considered as tariff reducer - other revenues.

The first periodic tariff review of indirect subsidiary IEMG was defined by ANEEL Ratification Ruling No. 1299 of June 19, 2012, thus reducing RAP by 5.0%, effective as of July 1, 2012.

The first periodic tariff review of indirect subsidiary IENNE was defined by ANEEL Ratification Ruling No. 1540 of June 18, 2013, thus reducing the RAP by 8.9%, effective as from July 1, 2013.

The latest periodic tariff review of subsidiary EVRECY was defined by ANEEL Ratification Ruling No. 1538 of June 18, 2013, thus reducing RAP by 16%, effective as from July 1, 2013. By means of Order No. 562 of May 11, 2014, the Collegiate Board of Directors of ANEEL granted partial approval to the request for reconsideration lodged by indirect subsidiary Evrecy against REH No. 1538/2013, which approved the result of its second periodic review. Therefore, RAP of subsidiary Evrecy referring to the facilities reviewed was repositioned with a reduction by 3.9%.

27. Net operating revenue (Continued)

27.2. Periodic tariff review of the Annual Allowed Revenue (RAP) (Continued)

The first periodic tariff review of indirect subsidiary Pinheiros was defined by ANEEL Ratification Ruling No. 1755 and No. 1762 of June 24 and July 9, 2014, respectively, thus reducing RAP by 4.6% for the service concession arrangement No. 018/2008; 6.8% for the service concession arrangement No. 012/2008; and 2.8% for the service concession arrangement No. 015/2008, effective as of July 1, 2014.

The first periodic tariff review of indirect subsidiary IESul was defined by ANEEL Ratification Ruling No. 1755 of June 24, 2014, thus reducing RAP by 4.6%, effective as of July 1, 2014.

The first periodic tariff review of indirect subsidiary IEMadeira was defined by ANEEL Ratification Ruling No. 1755 of June 24, 2014, thus reducing RAP by 4.5% for the service concession arrangement No. 013/2009 and 3.81% for the service concession arrangement No. 015/2009, effective as of July 1, 2014. Indirect subsidiary IEMadeira filed an application with ANEEL seeking to restore the economic and financial balance of the RAP under Concession Agreement No. 013/2009. In support of this application, indirect subsidiary IEMadeira presented additional costs and the amount of lost revenue incurred during the Line Transmission implementation under its concession, due to factors such as: (i) delay in obtaining Environmental Licensing; (ii) land embargoes; and (iii) design changes required by the licensing authority. Indirect subsidiary IEMadeira seeks an actual increase in RAP by 26.8%. The application is being analyzed by ANEEL.

The next periodic tariff reviews of RAP are described in Note 1.2.

27.3. Variable Portion (PV), Additional Amount to RAP and Adjustment Portion (PA)

Normative Resolution No. 270 of July 9, 2007 regulates the Variable Portion (PV) and the Additional Amount to RAP. The Variable Portion is the discount on RAP of transmission companies due to downtime or operational restriction of the facilities integrating the Basic Grid. The Additional Amount to RAP corresponds to the amount to be added to the transmission companies' revenues as an incentive to improve the availability of transmission facilities. These are recognized as revenue and/or reduction to revenue from operation and maintenance services in the period they occur.

Normative Resolution (REN) No. 512 of October 30, 2012 amended REN No. 270/07, including paragraph 3 of article 3, which extinguishes the additional amount to RAP for the transmission functions addressed by Law No. 12783/2013.

(In thousands of Brazilian reais, unless otherwise stated)

27. Net operating revenue (Continued)

27.3. Variable Portion (PV), Additional Amount to RAP and Adjustment Portion (PA) (Continued)

The Adjustment Portion (PA) is the portion of revenue arising from application of a mechanism established by contract used in periodic annual adjustments, which is added to or deducted from RAP to offset surplus or deficit in collection for the period prior to the adjustment.

27.4. Annual revenue adjustment

On June 24, 2014, Ratification Ruling No. 1756 was published, establishing the annual revenues allowed (RAPs) of subsidiary CTEEP and its subsidiaries due to the availability of the transmission facilities comprising the Basic Grid and other transmission facilities, for the 12-month cycle, comprising the period from July 1, 2014 to June 30, 2015.

Pursuant to Ratification Ruling No. 1756 , the RAP and amounts corresponding to the adjustment portion of subsidiary CTEEP (Service Concession Arrangements No. 143 and 059/2001), net of PIS and COFINS (denominated Total Revenue), which amounted to R$542,056 on July 1, 2013, increased to R$659,912 on July 1, 2014, an increase of R$117,856, equivalent to 21.7%, of which 6.9% refers to the IPCA/IGPM; 11.2% to the portion adjustment variation; and 3.6% to RAP's additional amount for new investments.

Total Revenue of subsidiary CTEEP jointly with its subsidiaries, which amounted to R$630,159 on July 1, 2013, increased to R$753,071 on July 1, 2014, an increase of R$122,912, equivalent to 19.5%, of which 6.9% refers to the IPCA/IGPM; 9.9% to the portion adjustment variation; and 2.7% to RAP's additional amount for new investments.

Total Revenue of subsidiary CTEEP, net of PIS and COFINS, to be earned in twelfths in the period from July 1, 2014 up to June 30, 2015, is broken down as follows:

Service Concession Arrangement	Basic Grid				Other transmission facilities (DIT)			Total
	Existing assets	New investments	Bid	Adjustment portion	Existing assets	New investments	Adjustment portion	
059/2001	403,615	26,027	-	26,948	169,876	20,288	(6,060)	640,694
143/2001	-	-	19,017	201	-	-	-	19,218
	403,615	**26,027**	**19,017**	**27,149**	**169,876**	**20,288**	**(6,060)**	**659,912**

(In thousands of Brazilian reais, unless otherwise stated)

27. Net operating revenue (Continued)

27.4. Annual revenue adjustment (Continued)

Total Revenue of subsidiary CTEEP and its subsidiaries, net of PIS and COFINS, to be earned in twelfths in the period from July 1, 2014 up to June 30, 2015, is broken down as follows:

Service Concession Arrangement	Basic Grid				Other transmission facilities (DIT)				Total
	Existing assets	New investments	Bid	Adjustment portion	Existing assets	New investments	Bid	Adjustment portion	
059/2001	403,615	26,027	-	26,948	169,876	20,288	-	(6,060)	640,694
143/2001	-	-	19,017	201	-	-	-	-	19,218
004/2007	-	-	15,281	(967)	-	-	-	-	14,314
012/2008	-	-	7,635	17	-	676	1,151	-	9,479
015/2008	-	4,159	14,502	(1,235)	-	1,170	355	(4)	18,947
018/2008	-	-	3,730	(26)	-	-	45	(1)	3,748
021/2011	-	-	3,803	(1,155)	-	-	1,395	-	4,043
026/2009	-	-	24,420	2,313	-	-	5,554	336	32,623
020/2008	-	7,271	-	398	-	2,150	-	186	10,005
	403,615	**37,457**	**88,388**	**26,494**	**169,876**	**24,284**	**8,500**	**(5,543)**	**753,071**

In view of the periodic tariff review of indirect subsidiary Pinheiros (item 27.2), total revenue of subsidiary CTEEP and its subsidiaries was reduced by 0.2%, from R$753,071 to R$751,565.

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

	Company			Consolidated			
	2014		2013	2014			2013
	Expenses	Total	Total	Costs	Expenses	Total	Total
Personnel	**(2,005)**	**(2,005)**	(2,015)	**(219,505)**	**(51,411)**	**(270,916)**	(262,251)
Services	**(1,302)**	**(1,302)**	(1,326)	**(182,666)**	**(39,686)**	**(222,352)**	(215,104)
Depreciation and amortization of intangible assets (Notes 15 and 16)	**(10)**	**(10)**	(9)	**-**	**(8,868)**	**(8,868)**	(7,348)
Supplies	**-**	**-**	-	**(108,537)**	**(1,287)**	**(109,824)**	(148,632)
Lease and rent	**(275)**	**(275)**	(284)	**(7,970)**	**(6,459)**	**(14,429)**	(14,648)
Contingencies	**-**	**-**	-	**-**	**(42,788)**	**(42,788)**	(51,056)
Other	**(82)**	**(82)**	(86)	**(22,940)**	**(17,578)**	**(40,518)**	(27,514)
	(3,674)	**(3,674)**	(3,720)	**(541,618)**	**(168,077)**	**(709,695)**	(726,553)

(In thousands of Brazilian reais, unless otherwise stated)

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

Consolidated

Of the costs shown above, subsidiary CTEEP's construction costs totaled R$242,324 in 2014 and R$243,766 in 2013. The corresponding construction revenue, stated in Note 27.1, is calculated by adding PIS and COFINS rates and other charges to the investment cost. For subsidiaries in the preoperating stage, in 2014 general and administrative expenses and financial expenses are added to the investment cost. The projects include sufficient margin to cover construction costs.

29. Financial income (expense)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Income				
Short-term investment yield	**5,550**	21,497	**70,863**	118,665
Interest income	**1,883**	3,497	**41,307**	79,076
MTM (mark to market) adjustment (International CCB and Commercial Paper)	**-**	-	**-**	2,471
SELIC interest - income tax - recoverable	**911**	2,225	**911**	2,225
Monetary adjustments			**48,404**	66,105
Exchange rate fluctuations	**22,544**	22,533	**22,544**	22,533
Exchange rate fluctuations (International CCB and Commercial Paper)	**-**	-	**-**	30,183
Coverage transaction adjustment (*swap* - International CCB)	**-**	-	**-**	29,606
Other	**-**	-	**1,084**	3,167
	30,888	49,752	**185,113**	354,031
Expenses				
Interest on loans	**(6,573)**	(6,056)	**(45,958)**	(50,080)
Commissions and fees	**(2,675)**	-	**(2,675)**	-
Interest expense	**-**	-	**(12,064)**	(10,087)
Charges on promissory notes	**-**	-	**-**	(1,115)
Charges on debentures	**-**	-	**(89,070)**	(98,118)
Charges (International CCB and Commercial Paper)	**-**	-		(4,787)
IRRF on remittance of interest	**(981)**	(902)	**(981)**	(902)
PIS on Interest on Equity (IOE)	**(187)**	(1,248)	**(187)**	(1,248)
COFINS on Interest on Equity (IOE)	**(862)**	(5,746)	**(862)**	(5,746)
Monetary adjustments	**-**	(14,455)	**-**	(14,455)
Exchange rate fluctuations	**(24,884)**	(24,525)	**(24,884)**	(24,525)
Exchange rate fluctuations (International CCB and Commercial Paper)	**-**	-	**-**	(38,326)
Coverage transaction adjustment (swap - International CCB)	**-**	-	**-**	(33,541)
Other	**(67)**	(46)	**(1,882)**	(2,109)
	(36,229)	(52,978)	**(178,563)**	(285,039)
Total financial income (expenses)	**(5,341)**	(3,226)	**6,550**	68,992

(In thousands of Brazilian reais, unless otherwise stated)

29. Financial income (expenses) (Continued)

Consolidated

International fundraising at subsidiary CTEEP for April and October 2011, resulted in a net exchange loss of R$8,143 and charges of R$4,787 for the year ended 2014. The swap adjustment generated net revenue of R$3,935. These fundraising transactions were settled on April 26, 2013 and October 21, 2013.

30. Other operating income (expenses)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Income				
PIS and COFINS previously unused credits (Note 10)	**-**	-	**21,398**	-
Reversal of loss - IEMG	**-**	-	**2,386**	-
Other income	**-**	-	**1,832**	-
	-	-	**25,616**	-
Expenses				
Goodwill amortization (Note 11)	**-**	(68,504)	**(29,886)**	(68,504)
Amortization of concession assets on acquisition of subsidiary (a)	**-**	-	**(2,490)**	-
Impairment loss	**-**	-	**-**	(531,679)
Reversal of construction service portion	**-**	-	**(19,224)**	-
Disposal of unserviceable assets	**-**	-	**(8,213)**	-
Other	**-**	-	**(5,159)**	1
	-	(68,504)	**(64,972)**	(600,182)
	-	(68,504)	**(39,356)**	(600,182)

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

31. Income and social contribution taxes

a) Current

Corporate income tax (IRPJ) and social contribution tax (CSLL) are monthly provisioned on an accrual basis.

The Company and subsidiary CTEEP opted for computing taxable profit based on accounting records (the so-called “lucro real” taxation method), while indirect subsidiaries opted for computing taxable profit based on a percentage of gross revenue (the so-called “lucro presumido” taxation method).

(In thousands of Brazilian reais, unless otherwise stated)

31. Income and social contribution taxes (Continued)

a) Current (Continued)

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

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Income (loss) before income and social contribution taxes	**135,120**	49,068	**451,193**	(101,136)
Effective tax rates	**34%**	34%	**34%**	34%
Expected income and social contribution tax credit (expense)	**(45,941)**	(16,683)	**(153,405)**	34,386
Income and social contribution taxes on permanent differences	**-**	-	**-**	-
Interest on equity	**(3,856)**	(25,708)	**6,087**	42,100
Loss realized	**-**	-	**(294)**	(1,634)
Amortization of concession right	**-**	(23,291)	**-**	(23,291)
Reversal of the provision for maintaining equity integrity (Note 11)	**-**	-	**19,725**	19,725
Equity pickup	**49,005**	42,336	**30,908**	59,649
Effect of adoption of taxable profit computed as a percentage of gross revenue - subsidiaries	**-**	-	**16,099**	11,290
Other	**(81)**	(119)	**(468)**	3,499
Effective income and social contribution tax credit (expense)	**(873)**	(23,465)	**(81,348)**	145,724
Income and social contribution taxes				
Current	**(604)**	(16,418)	**(50,958)**	(71,974)
Deferred	**(269)**	(7,047)	**(30,390)**	217,698
	(873)	(23,465)	**(81,348)**	145,724
Effective rate	**0.65%**	47.8%	**18.0%**	144.1%

The rate used for 2014 and 2013 is 34%, payable by legal entities in Brazil on taxable profit, as provided for by applicable tax legislation prevailing in this jurisdiction. For indirect subsidiaries that opt for computing taxable profit based on a percentage of gross revenue, the gross revenue percentage is 8% for IRPJ and 12% for CSLL.

(In thousands of Brazilian 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 2014, the Company recognized the amount of R$269 as deferred income and social contribution taxes. As such, Company management reviewed the amounts and the balance at December 31, 2014 amounting to R$32,237, which is expected to be used until 2015, as follows:

Tax credit used annually	**2014**	**2015**	**Total**
Income tax	198	23,535	23,733
Social contribution tax	71	8,433	8,504
	269	**31,968**	**32,237**

In addition, at December 31, 2014, the Company has unrecorded tax credits on income and social contribution tax losses of R$192,284 (R$192,284 in 2013), 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 is as follows:

	Company		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Provision - SEFAZ (Note 9)	**-**	-	**175,527**	175,527
Provision for contingencies	**-**	-	**44,742**	43,485
Service concession arrangements - ICPC 01 (ii)	**-**	-	**(58,785)**	(22,734)
Assets returned (i)	**-**	-	**(13,789)**	(26,199)
Deferred income tax loss	**23,733**	23,932	**23,733**	23,932
Deferred social contribution tax loss	**8,504**	8,575	**8,504**	8,575
Other temporary differences	**-**	-	**6,905**	14,642
Net	**32,237**	32,507	**186,837**	217,228
Current assets	**32,237**	-	**32,237**	-
Noncurrent assets	**-**	32,507	**188,556**	251,775
Noncurrent liabilities	**-**	-	**33,956**	34,547

(i) Subsidiary CTEEP recorded capital gain, for tax purposes, due to the return of property and equipment, as defined in 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 gains may be recognized for determination of taxable profit proportionally to the price portion received if such portion received, in whole or in part, is higher than the current fiscal year. The portions received up to December 2014 amount to approximately 84.0% of total receivables from new investments facilities.

(In thousands of Brazilian reais, unless otherwise stated)

31. Income and social contribution taxes (Continued)

b) Deferred taxes (Continued)

(ii) This reflects amounts to be subjected to IRPJ and CSLL taxation considering the initial impact from the end of RTT, pursuant to Law No. 12973/14 (item (c).

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

(c) Measurement of impacts from Law No. 12973

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

The Company and its subsidiaries completed the studies regarding the adoption of Law No. 12973/14, having not opted for its early adoption, and no significant impacts were identified.

32. Transactions with related parties

Significant balances and transactions with related parties are as follows:

		2014		2013		2014	2013
a) Parent Company - ISA CAPITAL						**Revenue/**	**Revenue/**
Nature of transaction	**Related party**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**(expense)**	**(expense)**
Consolidated							
Short-term benefits (*)	Key management personnel	**-**	**-**	-	-	**(2,005)**	(2,015)
Cash and cash equivalents	HSBC Finance (Brasil) S.A. Banco Múltiplo	**1**	**-**	1	-	**-**	-
Short-term investments (Note 7)	Banco Votorantim S.A.	**8,548**	**-**	15,992	-	**2,002**	4,864
Loans (Note 12 and 29)	Interconexión Electrica	**63,229**	**-**	55,764	-	**(1,883)**	(1,784)
	Internexa Brasil	**-**	**-**	-	-	**-**	(1,712)
Accrued dividends receivable	Subsidiary CTEEP	**11,778**	**-**	-	-	**-**	-
Interest on equity and dividends receivable		**-**	**-**	75,611	-	**-**	-
		83,556	**-**	147,368	-	**(1,886)**	(647)
b) Subsidiary - CTEEP							
Future capital contribution	IEGaranhus	**21,471**	**-**	-	-	**-**	-
		21,471	**-**	-	-	**-**	-
Service rendering	Subsidiary CTEEP	**-**	**(12)**	-	(12)	**(140)**	(140)
	IEMG	**10**	**-**	-	-	**52**	-
	Pinheiros	**93**	**-**	88	-	**1,104**	917
	Serra do Japi	**24**	**-**	23	-	**286**	271
	Evrecy	**61**	**-**	-	-	**933**	-
	IEMadeira	**-**	**-**	38	-	**238**	1,152
		188	**(12)**	149	(12)	**2,473**	2,200

*This refers to management compensation.

32. Transactions with related parties (Continued)

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.

Accrued dividends receivable

This refers to supplementary minimum mandatory dividends accrued by subsidiary CTEEP.

Sublease

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

Service rendering

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

Intercompany loan

Subsidiary CTEEP renders Technical Advisory Services to Support the Owner's Engineering Service Management, to be performed by indirect subsidiary IEMadeira and/or its contractors.

Subsidiary CTEEP renders operation and maintenance services to the facilities of its indirect subsidiaries IEMG, Pinheiros, Serra do Japi and Evrecy.

Future capital contribution

On November 24, 2014, subsidiary CTEEP and Chesf (Companhia Hidro Elétrica do São Francisco) entered into a private instrument for the advance of funds to indirect subsidiary IEGaranhuns totaling R$ 71,000 in proportion to their equity holdings. The advance will be converted into capital within 120 days from the date of transfer of funds from shareholders to indirect subsidiary IEGaranhuns, and formalization by the Board of Directors. The total value of the advance of funds will be adjusted by reference to the IPCA through the date of conversion.

These transactions are performed under specific conditions contractually negotiated between the parties.

(In thousands of Brazilian reais, unless otherwise stated)

33. Financial instruments

a) Identification of significant financial instruments

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Financial assets				
Fair value through profit or loss				
Cash and cash equivalents	**20,551**	61,472	**25,247**	65,742
Short-term investments	**-**	83,404	**479,601**	679,160
Loans and receivables				
Accounts receivable				
Current	**-**	-	**729,946**	749,388
Noncurrent	**-**	-	**3,165,656**	3,218,954
Receivables - State Finance Department (SEFAZ)				
Noncurrent	**-**	-	**802,102**	643,027
Receivables from subsidiaries	**-**	-	**37,429**	51
Loans receivable				
Current	**-**	55,764	**-**	55,764
Noncurrent	**63,229**	-	**63,229**	-
Interest on equity and dividends receivable	**-**	75,611	**-**	-
Accrued dividends receivable	**11,778**	-	**-**	-
Pledges and restricted deposits				
Current	**3,699**	3,262	**3,699**	3,262
Noncurrent		-	**62,353**	76,282
Financial liabilities				
Amortized cost				
Loans and financing				
Current	**3,083**	2,719	**135,133**	195,530
Noncurrent	**84,071**	74,146	**524,651**	383,172
Debentures				
Current	**-**	-	**83,846**	184,884
Noncurrent	**-**	-	**535,399**	552,756
Trade accounts payable	**411**	434	**75,880**	50,790
Interest on equity and dividends payable		-	**21,925**	128,481
Payables - Law No. 4819/58				
Current	**411,347**	11,347	**411,347**	11,347
Noncurrent	**-**	400,000	**-**	400,000

Consolidated

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.

(In thousands of Brazilian reais, unless otherwise stated)

33. Financial instruments (Continued)

a) Identification of significant financial instruments (Continued)

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-to-equity-ratio

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

	Company		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Loans and financing				
Current	**3,083**	2,719	**135,133**	195,530
Noncurrent	**84,071**	74,146	**524,651**	383,172
Debentures				
Current	**-**	-	**83,846**	184,884
Noncurrent	**-**	-	**535,399**	552,756
Total debt	**87,154**	76,865	**1,279,029**	1,316,342
Cash and cash equivalents and short-term investments	**20,551**	144,876	**504,848**	744,902
Net debt	**66,603**	-68,011	**774,181**	571,440
Equity	**1,773,432**	1,877,075	**5,004,054**	4,840,364
Net debt-to-equity ratio	**3.80%**	(3.60%)	**15.50%**	11.80%

Subsidiary CTEEP and its subsidiaries have loan and financing agreements with covenants based on debt-to-equity-ratios (Notes 17 and 18). Subsidiary CTEEP complies with the covenant requirements.

33. Financial instruments (Continued)

b) 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 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, subsidiary CTEEP and its subsidiaries 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, by reference to IPCA and IGP-M variation, while part of the revenues is subject to periodic tariff review (Note 27.2).

(iii) *Interest rate risk* - Financing agreements of subsidiary CTEEP are monetarily restated by reference to 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) *Fundraising 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)

b) 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 is compensated for the transmission system availability, and energy rationing, if any, will not impact revenue or receipts.

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.

c) 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 subsidiary CTEEP's cash flow variation, the sensitivity analysis below deems as probable scenario the interest rates at March 31, 2015, reported in the interest rate risk tables. Such rates were appreciated and depreciated by 25% and 50%.

(In thousands of Brazilian reais, unless otherwise stated)

33. Financial instruments (Continued)

c) 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	92% to 103.5% CDI	14,129	17,480	20,764	10,412	7,014
Financial liabilities						
Debentures – 2nd series	IPCA+8.10%	2,091	2,318	2,543	1,861	1,628
Debentures - single series	116.0% CDI p.a.	29,771	34,190	38,512	25,251	20,623
FINEM BNDES (i), (ii) and (iii)	TJLP+1.80% to 2.30%	4,574	5,402	6,222	3,738	2,893
BNDES (subsidiaries)	TJLP + 1.55% to 2.62% p.a.	3,614	4,173	4,726	3,050	2,480
Net effect of change		**(25,921)**	**(28,603)**	**(31,239)**	**(23,488)**	**(20,610)**
Reference for financial assets and liabilities						
100% CDI (March 2015)		11.88%	14.85%	17.82%	8.91%	5.94%

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 2014	Consolidated 2013
Within 1 year	**6,747**	7,346
From 1 to 5 years	**11,048**	12,871
	17,795	20,217

35. Insurance coverage

Breakdown of insurance lines is as follows:

Consolidated			
Type	**Effective period**	**Insured amount in thousands of reais**	**Premium in thousands of reais**
Property (a)	03/01/14 to 03/01/15	2,655,922	3,471
General civil liability (b)	09/01/14 to 09/01/15	20,000	162
Domestic transportation (c)	09/30/14 to 09/30/15	52,634	4
Personal accidents - Group (d)	05/01/14 to 05/01/15	50,643	2
Automobile (e)	03/02/14 to 03/02/15	Market value	46
Court-ordered guarantee (f)	11/29/13 to 06/11/17	24,033	387
			4,072

(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 arrangements, whereby the transmission companies 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 subsidiary 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, lightening, explosions, short-circuits and power outages.

Given their nature, assumptions adopted to take out insurance coverage are not part of the scope of an audit. As a result, these were not audited 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, 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 subsidiary 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 2003.

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 subsidiary 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.

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.

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

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. An appeal was filed against the decision and a decision is awaited.

d) Collection lawsuit

Since September 2005, 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 of this decision, subsidiary CTEEP transferred to Fundação CESP, from January 2005 to December 2014, R$ 3,085,867 for the payment of benefits provided for by State Law No. 4819/58, having received from SEFAZ-SP R$ 1,998,307 for such purpose. The difference between the amounts transferred to Fundação CESP and refunded by SEFAZ-SP, amounting to R$1,087,560 (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$230,797 (Note 9.b), totaling R$1,318,357.

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 in September 2013 and is pending judgment. The appeal was judged on December 15. 2014. 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 49th 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)

In view 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. Subsidiary CTEEP also stresses the understanding of its legal department and external legal advisors that costs arising from State Law No. 4819/58 and its regulation are the full responsibility of SEFAZ-SP and continues adopting additional measures to protect its interests.

In view of the 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 financial information.

37. Subsequent events

Company

a) *Sale of Preferred Shares in Subsidiary*

Between January 23 and March 6, 2015, the Company sold 1,059,100 preferred shared at an auction held at Bovespa. Accordingly, as of that date, its interest stake held in subsidiary CTEEP decreased from 37.9% to 37.3%.

Consolidated

a) *Accounts receivable (concession assets)*

On January 8, 2015, subsidiary CTEEP received Inspection Report No. 077/2014 from ANEEL's Economic and Financial Oversight Authority (SFF) regarding the Assets not Amortized and/or Depreciated of subsidiary CTEEP existing as at May 31, 2000. In that report, SFF expressed its opinion on the amount of compensation – as defined in article 15, paragraph 2, of Law No. 12783/13 (from Executive Order MP 579) – to which subsidiary CTEEP would be entitled to receive, namely R$3,604,982 thousand as at December 31, 2012.

Subsidiary CTEEP will file an appeal challenging the amount informed by SFF, based on the appraisal report prepared by Delos Consultoria Ltda., an independent firm approved by ANEEL. After receiving and analyzing the appeal filed by subsidiary CTEEP, SFF will issue a Decision stating its position, which can still be appealed to the Board of ANEEL, for this agency's deliberation regarding the amount of compensation. The adjustment amount, as approved by the Board of ANEEL, through to the date of approval, as well as how and when the amount will be received by subsidiary CTEEP will be defined by the Ministry of Mines and Energy and the Ministry of Finance.

The economic and financial impacts on subsidiary CTEEP and the recognition of the related accounting impacts from the compensation on the financial statements will depend on the outcome of the foregoing.

Subsidiary CTEEP will keep the market informed of any progress in the status of these events.

a) *Transfer of assets*

On January 20, 2015, ANEEL approved the transfer of concession agreement No. 143/2001 by means of Authorization Ruling No. 5036.

Executive Board

Fernando Augusto Rojas Pinto
CEO

Alex Enrique Olano Nieto
CFO

Board of Directors

Luiz Fernando Alarcón Mantilla
Chairman

Bernardo Vargas Gibsone
Vice-Chair

Carlos Alberto Rodríguez López
César Augusto Ramírez Rojas
Juan Ricardo Ortega López

Members

Accountant

Ana Luisa Antunes Iogui
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