ISA CAPITAL DO BRASIL S.A.

2013 Financial Statements

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ISA CAPITAL DO BRASIL S.A.

Management Report – Fiscal Year 2013

To our Shareholders:

In compliance with the provisions of the applicable laws and the bylaws, the Management of ISA Capital do Brasil S.A. ("ISA Capital" or "Company") submits to your consideration the Management Report and the individual and consolidated Financial Statements, accompanied by the Independent Auditors' Report, as of and for the year ended December 31, 2013.

MESSAGE FROM MANAGEMENT

ISA Capital is a domestic holding company controlled by Interconexión Eléctrica S.A. E.S.P. ("ISA"), a Colombian quasi-public corporation controlled by the Colombian government, whose primary business is the operation and maintenance of electric power transmission network.

ISA Capital is the controlling shareholder of CTEEP – Companhia de Transmissão de Energia Elétrica Paulista since July 26, 2006, and owns 57,714,208 common shares of CTEEP, representing 89.50% of the voting capital and 37.81% of the total capital. This equity interest in CTEEP as of December 31, 2013 is recorded in the line item "Investments" in the financial statements of ISA Capital in the amount of R$2.1 billion. In 2013, the Company received earnings of R$75.6 million from this investment.

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

1. COMPANY PROFILE

ISA Capital do Brasil S.A. ("ISA Capital" or "Company") is a domestic holding company incorporated as a limited liability company on April 28, 2006 and converted into a joint stock company on September 19, 2006. Subsequently on January 4, 2007, the Company obtained its registration as a publicly traded company from the Brazilian Securities and Exchange Commission ("CVM") and remained as such until May 27, 2010, when it cancelled the registration by a decision of its shareholders.

The primary purpose of the Company is to own shares of other companies or businesses 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 quasi-public company controlled by the Colombian government, whose primary business is the operation and maintenance of electric power transmission network, in addition to participating in activities related to the provision of electric power services.

ISA Capital is the controlling shareholder of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("subsidiary" or "CTEEP") since July 26, 2006, at which date there was financial settlement of 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.

For the acquisition of 31,341,890,064 common shares, representing 50.1% of CTEEP common shares and 21.0% of the 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. Besides this payment, ISA Capital paid to the São Paulo State Government the amount of R$19.4 million for additional price of the shares acquired in the Auction, so as to offset the discount offered to the employees of CTEEP for the purchase of a certain block of shares. This amount paid for the acquisition of the control of CTEEP is subject to adjustments, as set forth in the CTEEP stock purchase 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 4.819/58.

As part of the privatization process, the Company acquired on September 12, 2006 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 the employees of CTEEP, according to the terms of CTEEP Privatization Notice SF/001/2006.

By force of article 254-A of the Brazilian Corporate Law and pursuant to said Notice and the CTEEP share purchase agreement, ISA Capital held on January 9, 2007 on the São Paulo Stock Exchange (BOVESPA) a public tender offer to purchase the outstanding shares of CTEEP, for an amount corresponding 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, at the price of R$30.74 per thousand shares, totaling R$755.4 million.

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

Later, the Company made contributions to the capital of CTEEP 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 558,113 shares on September 21, 2011. These capital contributions have derived from the tax benefit gained by CTEEP with the partial amortization of the special goodwill reserve in fiscal years 2009, 2010 and 2011. By means of the auction of remaining unsold shares held in 2011 by subsidiary CTEEP, ISA Capital acquired 63,146 common shares. On June 29, 2012 and July 5, 2012, ISA Capital sold 920 shares. Thus, at December 31, 2013 the Company owned 57,714,208 common shares, equivalent to 37.81% of the total capital and 89.50% of the voting capital of CTEEP.

2. DEBT IN FOREIGN CURRENCY – BONDS

At present the Company has a debt in foreign currency (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 made in 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 acquisition of control of CTEEP, the Company assumed various commitments and obligations under Notice SF/001/2006, which were or are being fulfilled as applicable. The CTEEP share purchase agreement entered into on July 26, 2006 also imposed on the Company and on its Parent Company some obligations to be met in management of CTEEP with respect to the fulfillment of prior agreements, corporate governance rules, protection of the rights of CTEEP's employees, maintenance and continuance of the quality of electric power transmission services, among others.

With the restructuring of the debt in foreign currency in 2010, the main commitments and obligations called covenants that hindered certain operating activities of the Company were eliminated. Thus, ISA Capital can better manage its business and continues rigorously meeting all other commitments assumed relating to the remaining bondholders.

Additionally, the Company has been fulfilling all of the new commitments specified in the Shareholders' Agreement arising from the issuance of redeemable preferred shares in March 2010, especially cumulative fixed dividends on such preferred shares that in 2013 received an amount equivalent to R$96.2 million (R$107.9 million in 2012).

4. RECEIPT OF EARNINGS FROM SUBSIDIARY

As a result of the 37.81% stake in the capital of CTEEP, in 2013 ISA Capital recognized equity in subsidiary in the amount of R$124.5 million (R$319.6 million in 2012). At the end of 2013, ISA Capital recorded on its balance sheet interest on capital distributed by the subsidiary CTEEP in the amount of R$ 75.6 million the receipt of which occured in January 2014.

5. ECONOMIC AND FINANCIAL PERFORMANCE - Consolidated

The revenue of ISA Capital is directly associated with the equity in subsidiary relating to the investment in CTEEP, whose revenue derives from the provision of electric power transmission services and the equity interests in subsidiaries and jointly-controlled entities.

Consolidated Gross Operating Revenue in 2013 was R$1,118.3 million, down 51.1% from the R$2,287.2 million reported in 2012. This decrease was mainly due to the extension of the concession arrangement of the subsidiary CTEEP. The main variances in gross operating revenue were:

(i) **Construction revenues** amounted to R$267.9 million in 2013, an increase of 28.7% compared with R$208.1 million in 2012. The increase was mainly due to the recognition of revenues from investments in improvements, as set forth in ANEEL Resolution 443/2011 and Closing Decision 4413, and improvements on the set of transformers of some substations of the subsidiary CTEEP;

(ii) **Operation and maintenance (O&M) revenues** were R$586.6 million in 2013 compared with R$592.3 million in 2012, reflecting the stability of the O&M revenue set forth on extension of concession arrangement 059/2001 of the subsidiary CTEEP;

(iii) **Finance income** arising from concession arrangements was R$242.7 million, a decrease of 83.5% compared with the R$1,467.3 million recorded in 2012, reflecting the expected financial flow variation for the realization of the construction and indemnification amounts. With the extension of concession arrangement 059/2001 of the subsidiary CTEEP, the financial asset at the end of 2013 represents only the investments made and not included in the compensation set forth in Law 12783/2013.

Deductions from operating revenue were R$137.2 million in 2013, a decrease of 49.6% compared with R$272.2 million in 2012. The variance reflects a 79.3% decrease in regulatory charges following the reduction in RAP as a result of the extension of concession arrangement 059/2001 of the subsidiary CTEEP and discontinuance of the RGR and CCC charges in 2013 pursuant to Law 12783/2013.

In view of the variances mentioned above, net operating revenue was R$981.2 million in 2013, which represents a decrease of 51.3% compared with the R$2,015.0 million posted in 2012.

Consolidated operating costs (*) and expenses declined 9.6% compared with the same period last year, totaling R$726.5 million in 2013 versus R$804.0 million in 2012.

The decrease in costs and expenses for the last 12 months is primarily due to: (i) 28.3% decrease in costs and expenses of supplies on account of the completion of upgrade and improvement works in the Company; (ii) 8.1% decrease in outside services, reflecting the advanced stage of the major works of the subsidiary CTEEP; (iii) 4.5% increase in personnel costs by reason of severance pay for terminations which occurred in January 2013, and a salary increase of 6.5% in July 2013; and (iv) increase in provisions for contingencies resulting principally from a revision of loss estimates for some lawsuits.

(*) Costs of construction (43.2% of total costs in 2013 and 29.3% in 2012) and operation and maintenance were R$563.9 million, down 9.5% from the R$623.0 million reported in 2012. Construction costs follow the variance in construction revenue, which now accounts for a greater share of total costs, since, with the recognition of the construction revenue from improvements, the portion of costs related to these improvements is recorded as construction cost and no longer as cost of operation and maintenance. Such effect increases construction cost and reduces cost of operation and maintenance.

The net result of **other operating income (expenses) was negative** at R$600.2 million, primarily due to the recognition of the provision for losses on unrealizable receivables from the São Paulo State Finance Department in the third quarter of 2013, in the amount of R$516.3 million. This provision reflects principally the change in the expected time of realization of part of the assets, in view of the dismissal without judgment of merit of the collection lawsuit for amounts owed by the São Paulo State Government, judged by the state civil court.

The financial result was income of R$69.0 million in 2013 versus costs of R$135.1 million in 2012. The variance reflects the recognition in 2013 of income from inflation adjustment and interest in the amount of R$143.2 million, relating to the adjustment based on IPCA+5.59% of receivables from indemnification of assets of concession arrangement 059/2001 subsequent to May 2000, pursuant to Interministerial Rule 580, coupled with a decrease in interest and charges on borrowings and a decrease in exchange rate change expenses.

In 2013, the subsidiary CTEEP reduced its debt by 50.8%, recording R$1,239.5 million compared with the R$2,521.0 million in 2012, by settling the 6th issue of promissory notes in the amount of R$400.0 million, the international bank credit note with Itaú BBA Nassau, in the amount of R$132.3 million (SWAP of R$100.0 million) and the debt owed to JP Morgan Chase – Commercial Paper in the amount of R$187.2 million (SWAP of R$150.0 million). Also in 2013, CTEEP carried out the early redemption of single series debentures in the total amount of R$700.0 million and issued in December 2013 single series debentures in the amount of R$500.0 million, with a final maturity in 2018.

The provision for losses on receivables from the São Paulo State Finance Department in the amount of R$516.3 million represents the main factor for the determination of the income tax asset recorded in 2013 in the amount of R$169.2 million, reflecting recognition of deferred income tax and social contribution asset. Excluding this effect, the tax burden reflected a substantial fall as a result of the new profit level after the extension of concession arrangement 059/2001 of the subsidiary CTEEP.

In view of the factors mentioned above, profit for the year was R$44.6 million, down 93.3% from the R$667.6 million achieved in 2012.

Excluding the amount relating to the provision for losses on unrealizable receivables from the São Paulo State Finance Department in the third quarter of 2013 and included in “Other operating income (expenses)” from the adjusted Ebitda of the subsidiary CTEEP calculated in accordance with CVM Instruction 527/12, the **Ebitda excluding Finance Department provision** would be R$346.5 million in 2013, a decrease of 74.7% compared with the R$1,370.5 million in 2012.

6. INDEPENDENT AUDITORS

With respect to the provision of services related to the external audit, ISA Capital states that Deloitte Touche Tohmatsu Auditores Independentes (Deloitte) has only provided services related to the Audit of the Individual and Consolidated Financial Statements for the fiscal year 2013. ISA Capital follows principles that preserve the independence of the auditor, who cannot audit its own work, cannot function in the role of management, and cannot serve in an advocacy role for its client.

Management

ISA Capital do Brasil

Balance Sheets
As of December 31, 2013 and 2012
In thousands of Brazilian reais, unless otherwise stated

		Company		Consolidated		
	Note	2013	2012	2013	Restated 2012	Restated 01/01/2012
Assets						
Current assets						
Cash and cash equivalents	6	61,472	127,324	65,742	436,927	234,076
Short-term investments	7	83,404	294,483	679,160	294,483	293,450
Accounts receivable (concession asset)	8	-	-	749,388	2,425,203	1,462,345
Inventories	-	-	-	61,767	48,814	50,052
Loans receivable	12 and 32	55,764	20,510	55,764	20,510	9,393
Interest on capital receivable	32	75,611	-	-	-	-
Receivables – Finance Department	-	-	-	-	-	14,906
Recoverable taxes and contributions	10	14,984	6,678	87,749	20,852	54,073
Collaterals and restricted deposits	13	3,262	2,846	3,262	2,846	2,612
Prepaid expenses	-	-	-	544	3,133	1,910
Derivative financial instruments	33.a	-	-	-	63,455	-
Due from subsidiaries	-	-	-	51	168	3,239
Other	-	4	1	105,632	86,137	74,422
		294,501	**451,842**	**1,809,059**	**3,402,528**	**2,200,478**
Noncurrent assets						
Accounts receivable (concession asset)	8	-	-	3,218,954	3,387,374	4,113,123
Receivables – Finance Department	9	-	-	643,027	986,486	810,750
Goodwill tax benefit	11	-	-	60,359	90,247	119,079
Deferred income tax and social contribution	31.b	32,507	39,553	251,775	39,553	45,058
Collaterals and restricted deposits	13	-	-	76,282	74,690	61,886
Recoverable taxes and contributions	10	10,392	29,264	10,392	29,264	-
Loans receivable	12 and 32	-	48,645	-	48,645	44,653
Inventories	-	-	-	47,748	41,867	145,395
Derivative financial instruments	-	-	-	-	-	53,736
Other	-	-	-	23,453	21,353	23,752
		42,899	**117,462**	**4,331,990**	**4,719,479**	**5,417,432**
Investments	14.b	2,060,743	2,080,340	1,075,009	767,553	534,281
Property, plant and equipment	15	30	39	10,400	8,414	8,707
Intangible assets	16	-	-	157,651	110,795	240,100
		2,060,773	**2,080,379**	**1,243,060**	**886,762**	**783,088**
		2,103,672	**2,197,841**	**5,575,050**	**5,606,241**	**6,200,520**
Total assets		**2,398,173**	**2,649,683**	**7,384,109**	**9,008,769**	**8,400,998**

The accompanying notes are an integral part of these financial statements.

ISA Capital do Brasil

Balance Sheets
As of December 31, 2013 and 2012
In thousands of Brazilian reais, unless otherwise stated

		Company		Consolidated		
	Note	2013	2012	2013	Restated 2012	Restated 01/01/2012
Liabilities						
Current liabilities						
Trade payables	-	434	301	50,790	63,569	79,108
Borrowings and financing	17	2,719	2,372	195,530	938,917	701,684
Debentures	18	-	-	184,884	166,667	168,217
Taxes and social security obligations	19	7,432	399	27,562	139,451	87,242
Taxes in installments - Law 11941	20	-	-	13,915	13,137	12,273
Regulatory charges payable	22	-	-	38,666	40,344	28,406
Cumulative fixed dividends payable	26.c and 37.a	25,000	21,334	25,000	21,334	36,004
Derivative financial instruments	33.a	-	-	-	3,770	27,226
Dividends and interest on capital payable	-	-	-	128,481	6,340	147,328
Provisions	23	20	19	28,017	27,457	23,125
Payables – Law 4.819/58 – Finance Department	5.a	7,194	7,194	7,194	7,194	6,335
Payables – Law 4.819/58 – Tender offer	5.b	4,153	4,153	4,153	4,153	3,715
Payables – Fundação CESP	24	-	-	6,091	6,226	6,244
Other	-	-	2	20,329	21,779	29,613
		46,952	**35,774**	**730,612**	**1,460,338**	**1,356,520**
Noncurrent liabilities			-			
Borrowings and financing	17	74,146	64,679	383,172	525,763	980,133
Debentures	18	-	-	552,756	956,683	389,636
Taxes in installments - Law 11941	20	-	-	136,827	142,318	145,236
Deferred PIS and COFINS	21	-	-	117,860	84,705	115,461
Deferred income tax and social contribution	31.b	-	-	34,547	38,932	18,108
Regulatory charges payable	22	-	-	36,020	39,468	32,334
Provisions	23	-	-	127,898	120,882	101,832
Payables – Law 4.819/58 – Finance Department	5.a	245,532	236,746	245,532	236,746	232,549
Payables – Law 4.819/58 – Tender offer	5.b	154,468	148,800	154,468	148,800	146,068
Special obligations – reversal/ amortization	25	-	-	24,053	24,053	24,053
		474,146	**450,225**	**1,813,133**	**2,318,350**	**2,185,410**
Equity						
Share capital	26.a	840,378	840,378	840,378	840,378	840,378
Capital reserves	26.e	983,400	1,199,400	983,400	1,199,400	1,199,400
Goodwill on equity transaction	26.f	(7,468)	(7,468)	(7,468)	(7,468)	(7,488)
Earnings reserves	26.g	60,765	131,374	60,765	131,374	95,510
Retained earnings		-	-	-	-	-
		1,877,075	**2,163,684**	**1,877,075**	**2,163,684**	**2,127,800**
Noncontrolling interests		**-**	**-**	**2,963,289**	**3,066,397**	**2,731,268**
Total equity		**1,877,075**	**2,163,684**	**4,840,364**	**5,230,081**	**4,859,068**
Total liabilities and equity		**2,398,173**	**2,649,683**	**7,384,109**	**9,008,769**	**8,400,998**

The accompanying notes are an integral part of these financial statements.

ISA Capital do Brasil

Income Statements
Years ended December 31, 2013 and 2012
In thousands of Brazilian reais, unless otherwise stated

	Note	Company 2013	Company 2012	Consolidated 2013	Consolidated Restated 2012
Net operating revenue	27	-	-	981,168	2,014,998
Cost of construction and O&M services	28	-	-	(563,934)	(623,023)
Gross profit		**-**	**-**	**417,234**	**1,391,975**
Operating income (expenses)					
General and administrative expenses	28	(3,720)	(3,648)	(162,619)	(180,978)
Other operating income (expenses), net	30	(68,504)	(162,634)	(600,182)	(104,766)
Equity in subsidiaries	14.c	124,518	319,618	175,439	64,138
		52,294	**153,336**	**(587,362)**	**(221,606)**
Profit (loss) before finance income (costs) and taxes		**52,294**	**153,336**	**(170,128)**	**1,170,369**
Finance income	29	49,752	59,212	354,031	224,817
Finance costs	29	(52,978)	(50,447)	(285,039)	(359,944)
		(3,226)	**8,765**	**68,992**	**(135,127)**
Profit (loss) before taxes on income		**49,068**	**162,101**	**(101,136)**	**1,035,242**
Income tax and social contribution					
Current	31	(16,418)	(12,821)	(71,974)	(341,271)
Deferred	31	(7,047)	(5,505)	217,698	(26,325)
		(23,465)	**(18,326)**	**145,724**	**(367,596)**
Profit for the year		**25,603**	**143,775**	**44,588**	**667,646**
Attributable to:					
Noncontrolling interests		-	-	**18,985**	**523,871**
Controlling shareholders		**25,603**	**143,775**	**25,603**	**143,775**
Basic earnings per share	26.h	0.01929	0.10023		
Average number of shares in the period	26.h	1,327,577,494	1,434,469,504		

The accompanying notes are an integral part of these financial statements.

ISA Capital do Brasil

Statements of Comprehensive Income
Years ended December 31, 2013 and 2012
In thousands of Brazilian reais, unless otherwise stated

	Company		Consolidated	
	2013	2012	2013	Restated 2012
Profit for the year	25,603	143,775	44,588	667,646
Other comprehensive income	-	-	-	-
Comprehensive income for the year	**25,603**	**143,775**	**44,588**	**667,646**
Controlling shareholders	-	-	25,603	523,871
Noncontrolling interests	-	-	18,985	143,775

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

ISA Capital do Brasil

Statements of Changes in Equity
Years ended December 31, 2013 and 2012
In thousands of Brazilian reais, unless otherwise stated

				Earnings reserve					
	Share capital	**Capital reserve**	**Goodwill on equity transaction**	**Legal reserve**	**Earnings retention reserve**	**Retained earnings**	**Total equity**	**Noncontrolling interests**	**Consolidated total equity**
Balances at December 31, 2011	**840,378**	**1,199,400**	**(7,488)**	**5,881**	**89,629**	**-**	**2,127,800**	**2,731,268**	**4,859,068**
Profit for the year	-	-	-	-	-	143,775	143,775	523,871	667,646
Goodwill on equity transaction (note 26.f)	-	-	20	-	-	-	20	-	20
Cumulative fixed dividends paid in 2012 (note 26.c)	-	-	-	-	-	(86,577)	(86,577)	-	(86,577)
Cumulative fixed dividends paid in January 2013	-	-	-	-	-	(21,334)	(21,334)	-	(21,334)
Distribution of dividends in subsidiary	-	-	-	-	-	-	-	(91,663)	(91,663)
Distribution of expired dividends in subsidiary	-	-	-	-	-	-	-	736	736
Proposed additional dividends in subsidiary	-	-	-	-	-	-	-	(19,497)	(19,497)
Interest on capital in subsidiary	-	-	-	-	-	-	-	(79,546)	(79,546)
Expired interest on capital in subsidiary	-	-	-	-	-	-	-	470	470
Recognition of earnings retention reserve (note 26.b)	-	-	-	-	35,864	(35,864)	-	-	-
Other – subsidiary	-	-	-	-	-	-	-	758	758
Balances at December 31, 2012	**840,378**	**1,199,400**	**(7,468)**	**5,881**	**125,493**	**-**	**2,163,684**	**3,066,397**	**5,230,081**
Profit for the year	-	-	-	-	-	25,603	25,603	18,985	44,588
Redemption of preferred shares		(216,000)	-	-	-	-	(216,000)	-	(216,000)
Cumulative fixed dividends paid in 2013 (note 26.c)	-	-	-	-	-	(71,212)	(71,212)	-	(71,212)
Expired dividends in subsidiary	-	-	-	-	-	-	-	1,077	1,077
Interest on capital in subsidiary	-	-	-	-	-	-	-	(124,389)	(124,389)
Interest on capital in subsidiary	-	-	-	-	-	-	-	351	351
Cumulative fixed dividends paid in January 2014 (note 26.c)	-	-	-	-	-	(25,000)	(25,000)	-	(25,000)
Reversal of earnings retention reserve (note 26.b)	-	-	-	-	(70,609)	70,609	-	-	-
Other – subsidiary								868	868
Balances at December 31, 2013	**840,378**	**983,400**	**(7,468)**	**5,881**	**54,884**	**-**	**1,877,075**	**2,963,289**	**4,840,364**

The accompanying notes are an integral part of these financial statements.

ISA CAPITAL DO BRASIL

Statements of Cash Flows
for the years ended December 31, 2013 and 2012
In thousands of Brazilian reais, unless otherwise stated

	Company		Consolidated	
	2013	**2012**	**2013**	**Restated 2012**
Cash flows from operating activities				
Profit for the year	25,603	143,775	44,588	667,646
Adjustments to reconcile profit for the year to net cash provided by (used in) operating activities		-	-	-
Depreciation and amortization (notes 15,16 and 28)	9	11	7,348	4,984
Deferred income tax and social contribution (note 31.a)	7,047	5,505	(217,698)	26,326
Deferred PIS and COFINS	-	-	33,155	(30,757)
Provision for contingencies	-	-	6,947	19,038
Residual cost of permanent assets written off (note 15)	-	5	15	4,657
Residual cost of investment written off	-	(35)	-	(35)
Income from short-term investment (note 29)	-	(15,062)	-	(15,062)
Equity in subsidiaries (note 14.c)	(124,518)	(319,618)	(175,439)	(64,138)
Effects of indemnification of assets – (Existing Service – SE) due to extension of concession arrangement 059/2001	-	-	-	596,375
Amortization of concession right (notes 16 and 30)	68,504	162,649	68,504	162,649
Goodwill tax benefit	-	-	29,888	28,832
Amortization of concession-related asset on acquisition of subsidiary	-	-	2,491	-
Realization of loss on jointly-controlled entity	-	-	(2,418)	(2,437)
Provision – Finance Department	-	-	516,255	-
Interest, inflation adjustment and exchange rate changes on assets and liabilities	19,684	21,730	208,696	236,790
	(3,671)	**(1,040)**	**522,332**	**1,634,868**
(Increase) decrease in assets				
Accounts receivable	-	-	1,847,966	(810,242)
Inventories	-	-	(18,834)	104,766
Receivables	-	(8,640)	(172,796)	(169,470)
Recoverable taxes and contributions	10,566	13,474	(47,943)	8,651
Collaterals and restricted deposits	(416)	(234)	(2,008)	(13,038)
Prepaid expenses	-	-	-	-
Other	(5)	-	(18,799)	(7,357)
	10,145	**4,600**	**1,587,586**	**(886,690)**
Increase (decrease) in liabilities				
Trade payables	133	(23)	(12,779)	(15,810)
Taxes and social security obligations	7,033	(7,679)	(111,888)	52,017
Taxes in installments - Law 11.941	-	-	(13,531)	(12,779)
Regulatory charges payable	-	-	(7,186)	18,948
Provisions	-	-	628	4,241
Payables – Law 4.819 and Fundação CESP	-	(11,411)	(135)	(11,429)
Other	-	25	(1,448)	(7,825)
	7,166	**(19,088)**	**(146,339)**	**27,363**
Net cash provided by (used in) operating activities	**13,640**	**(15,528)**	**1,963,579**	**775,541**

The accompanying notes are an integral part of these financial statements.

ISA CAPITAL DO BRASIL

Statements of Cash Flows
for the years ended December 31, 2013 and 2012
In thousands of Brazilian reais, unless otherwise stated

	Company		Consolidated	
	2013	2012	2013	Restated 2012
Cash flows from investing activities				
Short-term investments (note 7)	211,079	8,364	(384,677)	8,364
Loan repayments received (note 12)	20,510	-	20,510	-
Interest received on loans (note 12)	3,426	-	3,426	-
Property, plant and equipment (note 15)	-	(3)	(4,415)	(5,656)
Intangible assets (note 16)	-	-	(11,204)	(39,356)
Investments	-	62	(243,666)	(199,271)
Result of subsidiary on acquisition	-	-	-	3,431
Opening balance of cash and cash equivalents of Evrecy on acquisition of control	-	-	-	8,646
Interest on capital and dividends received (26.d)	-	200,752	-	-
Net cash provided by (used in) investing activities	**235,015**	**209,175**	**(620,026)**	**(223,842)**
Cash flows from financing activities				
Additions to borrowings (note 17)	-	-	723,498	1,107,789
Repayments of borrowings (including interest) (notes 17 and 18)	(5,961)	(5,236)	(2,185,408)	(1,002,390)
Redemption of preferred shares	(216,000)	-	(216,000)	-
Receipt of derivative financial instruments	-	-	55,752	(5,288)
Dividends and interest on capital paid (note 26.c)	(92,546)	(122,581)	(92,580)	(653,088)
Interest on capital (note 26.d)	-	-	-	200,752
Net cash provided by (used in) financing activities	**(314,507)**	**(127,817)**	**(1,714,738)**	**(352,225)**
Net increase (decrease) in cash and cash equivalents	**(65,852)**	**65,830**	**(371,185)**	**199,474**
Cash and cash equivalents at the end of the year	61,472	127,324	65,742	436,927
Cash and cash equivalents at the beginning of the year	127,324	61,494	436,927	237,453
Increase (decrease) in cash and cash equivalents	**(65,852)**	**65,830**	**(371,185)**	**199,474**

Company

Total interest paid by ISA Capital in 2013 was R$5,961 (R$5,236 in 2012), relating to borrowings and financing described in notes 17 and 18.

Consolidated

Total interest paid by the Company and its subsidiaries in 2013 was R$232,820 (R$177,266 in 2012), relating to borrowings and financing described in note 17. Total income tax and social contribution paid by the Company and its subsidiaries in 2013 was R$335,486 (R$260,625 in 2012).

1. Operations

1.1 Primary Purpose

The primary purpose of ISA Capital do Brasil S.A. ("ISA Capital" or "Company") is to own shares of other companies or businesses as a partner or shareholder, joint venturer, consortium member or any other form of business partnership.

At a privatization auction held on June 28, 2006 on the São Paulo Stock Exchange (BOVESPA) in accordance with Invitation to Bid SF/001/2006, the São Paulo State Government, the then controlling shareholder of CTEEP - Companhia de Transmissão de Energia Elétrica Paulista ("CTEEP"), sold 31,341,890,064 common shares held by it, corresponding to 50.10% of the common shares issued by CTEEP. The company that won the auction was Interconexión Eléctrica S.A. E.S.P ("ISA").

The transaction was financially settled on July 26, 2006, with the consequent transfer of ownership of the shares to ISA Capital, a Brazilian company controlled by Interconexión Eléctrica S.A. E.S.P. and which was established to operate in Brazil and thereby became the controlling shareholder of CTEEP. The aforementioned transaction was approved by ANEEL on July 25, 2006, as set forth in Authorizing Resolution 642/06, published in the Official Gazette dated July 26, 2006.

On September 12, 2006, the Company acquired another 10,021,687 common shares in CTEEP, held by the State of São Paulo, and thus became owner of 31,351,911,751 common shares.

On January 9, 2007 the Company acquired, by means of a public tender offer on the São Paulo Stock Exchange (BOVESPA), pursuant to the terms of the notice published on December 4, 2006, 24,572,554,070 common shares in CTEEP, representing 39.28% of the total common stock.

After this acquisition, the Company owned an interest equivalent to 89.40% of the voting capital and 37.46% of the total capital of CTEEP. On July 12, 2007, CTEEP made a reverse stock split and the number of shares owned by the Company was 55,924,465 common shares.

Later, the Company made contributions to the capital of CTEEP 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 558,113 shares on September 21, 2011. These capital contributions have derived from the tax benefit gained by CTEEP with the partial amortization of the special goodwill reserve in fiscal years 2009, 2010 and 2011. By means of the auction of remaining unsold shares held in 2011 by subsidiary CTEEP, ISA Capital acquired 63,146 common shares. On June 29, 2012 and July 5, 2012, ISA Capital sold 920 shares. Thus, at December 31, 2013 the Company owned 57,714,208 common shares (57,715,128 common shares at December 31, 2012), equivalent to 37.81% of the total capital and 89.50% of the voting capital of CTEEP.

On March 9 and 19, 2010, with the aim of restructuring its debt in foreign currency (bonds), the Company made two capital increases with issuance of preferred shares at the price of R$2.020731 per share, which were fully subscribed by HSBC Finance (Brasil) S.A. Banco Múltiplo, as follows:

(i) At the Extraordinary General Meeting held on March 9, 2010, according to the terms of the Board of Directors' proposal dated March 8, 2010, an increase in the Company's capital was approved in the amount of R$840,000, of which R$420 was destined to the share capital and R$839,580 to the capital reserve, with creation and issuance of 415,691,162 redeemable preferred shares distributed in 13 classes, with cumulative fixed dividend rights, which were subscribed and paid up at the same date, thereby increasing the share capital of the Company from R$839,778 to R$840,198, represented by 1,256,316,162 shares. The same meeting approved a reduction in mandatory dividend from 25% to 1% and an amendment to the Company's bylaws; and

In thousands of Brazilian reais, unless otherwise stated

ii) At a meeting held on March 19, 2010, the Board of Directors approved a new capital increase for the Company within the limit of its authorized capital, with issuance of 178,153,342 redeemable preferred shares distributed in 13 classes, with cumulative fixed dividend rights, in the total amount of R$360,000, which were subscribed and paid up at the same date. Of that amount, R$180 was destined to the share capital and R$359,820 to the capital reserve.

In 2013, as set forth in the schedule of redemption of preferred shares, a total of 106,892,010 preferred shares were redeemed. Thus, the subscribed and paid-in capital of the Company as of December 31, 2013 was R$840,378, represented by 840,625,000 common shares and 486,952,494 preferred shares (note 26.a).

By a decision of its shareholders, the Company cancelled on May 27, 2010 its registration as a publicly-traded company with the Brazilian Securities and Exchange Commission (CVM).

The shares of the subsidiary CTEEP are traded on BOVESPA. Furthermore, the subsidiary CTEEP has an American Depositary Receipts (ADRs) program under Rule 144 A in the United States.

1.2 Concessions

The subsidiary CTEEP is authorized to directly or indirectly operate the following concession arrangements relating to the electric energy transmission services:

					Periodic Tariff Review				Allowed Annual Revenue - RAP	
Concessionaire	Contract	Interest (%)	Term (years)	Maturity	Term	Next	Phased RAP	Adjustment index	R$ thousand	Base month
CTEEP	059/2001 (*)		30	12/31/42	5 years	2018	No	IPCA	524,952	06/13
CTEEP	143/2001		30	12/20/31	n/a	n/a	Yes	IGPM	17,104	06/13
IEMG	004/2007	100	30	04/23/37	5 years	2017	Yes	IPCA	14,636	06/13
Pinheiros	012/2008	100	30	10/15/38	5 years	2014	No	IPCA	9,003	06/13
Pinheiros	015/2008	100	30	10/15/38	5 years	2014	No	IPCA	17,874	06/13
Pinheiros	018/2008	100	30	10/15/38	5 years	2014	No	IPCA	3,543	06/13
Pinheiros	021/2011	100	30	12/09/41	5 years	2017	No	IPCA	4,886	06/13
Serra do Japi	026/2009	100	30	11/18/39	5 years	2015	No	IPCA	29,340	06/13
Evrecy	020/2008	100	30	07/17/25	4 years	2017	No	IGPM	8,821	06/13
IENNE	001/2008	25	30	03/16/38	5 years	2018	No	IPCA	33,654	06/13
IESul	013/2008	50	30	10/15/38	5 years	2014	No	IPCA	4,210	06/13
IESul	016/2008	50	30	10/15/38	5 years	2014	No	IPCA	7,015	06/13
IEMadeira	013/2009	51	30	02/25/39	5 years	2014	No	IPCA	233,173	06/13
IEMadeira (**)	015/2009	51	30	02/25/39	5 years	2014	No	IPCA	200,812	06/13
IEGaranhuns (**)	022/2011	51	30	12/09/41	5 years	2017	No	IPCA	76,521	06/13

(*)An addendum to concession arrangement 059/2001 was signed on December 4, 2012 and became effective on January 1, 2013, changing the expiration date from July 7, 2015 to December 31, 2042 and reducing the Allowed Annual Revenue (RAP) to consider only the operation and maintenance of the existing infrastructure.

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

All concession arrangements above provide for indemnification right on assets related to the concession upon their termination. The concession arrangements with tariff review provide for the right to compensation for investments in expansion, upgrade and improvements.

Law 12783/2013

On September 12, 2012, Provisional Act 579/2012 (MP 579) was published, regulating the extension of power generation, transmission and distribution concessions granted before the enactment of Law 8987 of 1995, and addressed by Law 9074 of 1995. On September 14, 2012, Decree 7805 was published to regulate Provisional Act 579.

Under Provisional Act 579, the power generation, transmission and distribution concessions expired or expiring within 60 months after the enactment of the aforesaid Provisional Act could have their expiration date advanced to December 2012, with extension, at the discretion of the Concession Grantor, one single time for a period of up to 30 years; however, for the transmission activity, the extension would be contingent on the express acceptance of the following main conditions: i) revenue fixed based on the criteria set by ANEEL; ii) amounts determined by the return of assets; and iii) fulfillment of the service quality standards set by ANEEL.

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

(i) Interministerial Rule 580, which established the indemnification amounts for power facilities beginning June 1, 2000 (New Investments - NI), based on prices in October 2012 for power transmission concessions, with the amount of R$2,891,291 being related to concession arrangement 059/2001 (single arrangement covered by the aforesaid Provisional Act), according to Exhibit II of the aforementioned Rule.

(ii) Interministerial Rule 579, which established the RAP amount beginning January 1, 2013, based on prices in October 2012, in the amount of R$515,621 (net of PIS and COFINS) relating to concession arrangement 059/2001, according to Exhibit of the aforementioned Rule.

On November 29, 2012, Provisional Act 591 (MP 591) was published, changing Provisional Act 579 so as to authorize the Concession Grantor to pay the amount relating to non-depreciated assets as at May 31, 2000 (SE), within a period of 30 years. The Company is awaiting the decision of the Concession Grantor with respect to the determination of the amount and payment method. In compliance with ANEEL Technical Note 402/2013, the subsidiary CTEEP filed on December 20, 2013 a schedule of activities with estimate of delivery of the final report by qualified advisor until June 30, 2014. Said report will be reviewed by ANEEL and will serve as a basis to determine the amounts to be paid for the assets of the Existing Service (SE).

At the Extraordinary General Meeting (EGM) held on December 3, 2012, the Company’s shareholders unanimously approved the extension of concession arrangement 059/2001.

An addendum to concession arrangement 059/2001 was signed on December 4, 2012, with an option to receive the indemnification, in the amount of R$2,891,291, relating to the New Investments (NI), as set forth in Interministerial Rule 580 as follows:

- 50% on cash, payable within 45 days from the execution date of the addendum to the concession arrangement, adjusted based on the IPCA. On January 18, 2013, the Company received R$1,477,987.

- 50% in monthly installments, payable up to the expiration of the concession arrangement prevailing on the date of publication of such Rule, i.e., up to July 7, 2015, adjusted based on the IPCA, plus a compensation based on the real Weighted Average Cost of Capital (WACC) of 5.59% per year from the first day of the month of execution of the addendum to the concession arrangement.

On January 11, 2013, Provisional Acts 579 and 591 were converted into Law 12783/2013.

On April 4, 2013, Provisional Act 612 was published to reduce to zero the PIS/PASEP and COFINS rates levied on indemnities referred to in Law 12783/2013.

Participation in consortium

(i) Extremoz Transmissora do Nordeste - ETN

On June 10, 2011, consortium Extremoz, comprised of CTEEP (51%) and Companhia Hidro Elétrica do São Francisco - Chesf (49%), acquired in a public session conducted at BM&FBovespa the lot A of ANEEL auction 001/2011, consisting of LT Ceará-Mirim - João Câmara II, with 500 kV and 64 km; LT Ceará-Mirim - Campina Grande III, with 500 kV and 201 km; LT Ceará-Mirim - Extremoz II, with 230 kV and 26 km; LT Campina Grande III - Campina Grande II, with 8.5 km; SE João Câmara II 500 kV, SE Campina Grande III 500/230 kV and SE Ceará-Mirim 500/230 kV. On July 7, 2011, Extremoz Transmissora do Nordeste - ETN S.A. was established, based on the same ownership interests, so as to operate the service granted.

The estimated investment in this project is R$622.0 million and RAP of R$31.9 million in June 2011. The Company’s stake in the project is 51%. The subsidiary CTEEP has expressed its intent to withdraw from the consortium, which was accepted by the other shareholders; the withdrawal will be consummated only after ANEEL’s approval.

2. Presentation of financial statements

2.1. Basis of preparation and presentation

The individual financial statements, identified as “Company”, have been prepared in accordance with accounting practices adopted in Brazil, which comprise the provisions set out in the Brazilian Corporate Law, the pronouncements, interpretations and guidelines issued by the Brazilian Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (“CVM”). In these individual financial statements, investments in subsidiaries and jointly-controlled entities are accounted for under the equity method in accordance with prevailing laws in Brazil. Therefore, these individual financial statements are not considered to be compliant with the International Financial Reporting Standards (IFRSs), since IFRS require that investments in subsidiaries be measured in the separate financial statements either at fair value or at cost.

The consolidated financial statements, identified as “Consolidated”, have been prepared in accordance with accounting practices adopted in Brazil, which comprise the provisions set out in the Brazilian Corporate Law, the pronouncements, interpretations and guidelines issued by the Brazilian Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (“CVM”), which are in conformity with the IFRS issued by the International Accounting Standards Board (IASB).

The individual and consolidated financial statements have been prepared based on the historical cost, except if otherwise stated, as described in the accounting practices below. The historical cost is generally based on the fair value of the consideration paid in exchange for an asset.

All amounts in these financial statements are expressed in thousands of Brazilian reais (R$), unless otherwise stated.

The financial statements were approved and authorized for publication by the Board of Directors on March 19, 2014.

These financial statements will be available at the website of the Company (www.isacapital.com.br) as from March 24, 2014.

2.2. Functional and reporting currency

The financial statements of the Company and its subsidiaries included in the consolidated financial statements are presented in Brazilian reais, the currency of the main economic environment where the companies operate ("functional currency").

2.3. Critical accounting judgments and key estimates and assumptions

The preparation of the individual and consolidated financial statements requires Management to make judgments, using estimates and assumptions based on objective as well as subjective factors and on legal counsel's opinion, in order to determine the adequate amounts to record certain transactions that affect assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Judgments, estimates and assumptions are reviewed at least annually and adjustments, if any, are recorded in the period in which estimates are reviewed.

Judgments, estimates and estimates considered to be critical are related to the following: accounting for concession arrangements, time of recognition of financial assets, determination of construction, O&M revenues, determination of effective interest rate on financial assets, recognition of deferred tax asset or liability, 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)

To account for concession arrangements the Company 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 financial asset. The accounting treatment for each concession arrangement of the Company and their characteristics are described in notes 3.23 and 8.

- Time of recognition of financial assets

The Company's Management assesses the time to recognize financial assets based on the economic characteristics of each concession arrangement. Any additions to the existing financial assets will only be accounted for upon completion of construction services related to infrastructure expansion/improvement/upgrade that have potential to generate additional revenue. In these cases, the construction obligation is not recognized. 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 and is included as compensation for construction services.

- Determination of effective interest rate on financial assets

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

- Determination of construction revenues

In thousands of Brazilian reais, unless otherwise stated

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, profit margin is determined. To account for construction revenue, Management evaluates issues related to the primary responsibility for the provision of construction services, even in cases of outsourcing of services, work management and/or monitoring costs, taking into account that the projects provide for sufficient margin to cover construction costs. All assumptions described are used for purposes of determining the fair value of the construction activities.

- Value of indemnification assets

As set forth 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 its incorporation to the electric power system (notes 3.7 and 8).

- Determination of O&M 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 the stage of completion of the contract.

2.4. Consolidation procedures

The consolidated financial statements include the financial statements of ISA Capital and its subsidiaries as of and for the years ended December 31, 2013 and 2012.

(i) Subsidiaries and respective ownership percentage:

		Equity interest %	
	Reporting date	**12/31/2013**	**12/31/2012**
Direct subsidiary			
CTEEP	12/31/2013	37.81	37.81
Indirect subsidiaries			
Interligação Elétrica Pinheiros S.A. (Pinheiros)	12/31/2013	37.81	37.81
Interligação Elétrica Serra do Japi S.A. (Serra do Japi)	12/31/2013	37.81	37.81
Interligação Elétrica de Minas Gerais S.A. (IEMG)	12/31/2013	37.81	37.81
Evrecy Participações Ltda. (Evrecy)	12/31/2013	37.81	37.81

Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
Subsidiaries are fully consolidated from the date control is obtained to the date control is lost.

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

- elimination of equity of subsidiaries;
- elimination of equity in earnings (loss) of subsidiaries; and
- elimination of assets and liabilities, and income and expenses between consolidated entities.

In thousands of Brazilian reais, unless otherwise stated

The accounting practices were consistently applied to all consolidated companies and the fiscal year of these companies is equal to that of the Parent.

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

(ii) Jointly-controlled entities and respective ownership percentage:

		Equity interest %	
	Reporting date	**12/31/2013**	**12/31/2012**
Jointly-controlled entities			
Interligação Elétrica Norte e Nordeste S.A. (IENNE)	12/31/2013	9.45	9.45
Interligação Elétrica do Sul S.A. (IESul)	12/31/2013	18.91	18.91
Interligação Elétrica do Madeira S.A. (IEMadeira)	12/31/2013	19.28	19.28
Interligação Elétrica Garanhuns S.A. (IEGaranhuns)	12/31/2013	19.28	19.28

3. Significant accounting practices

3.1. Determination of profit and loss

The result of operations is determined 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 revenue from the rendering of services 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. The Company’s revenues are:

(a) Construction revenue

Refers to the services of construction, expansion and improvement of the electric power transmission facilities.
Beginning January 1, 2013, in view of the extension of concession arrangement 059/2001 regulated by Law 12783/2013, the subsidiary CTEEP is recognizing 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. They are recognized according to costs incurred and calculated adding PIS and COFINS to the investment amount, since the projects provide for sufficient margin to cover construction costs, considering that most of the facilities are constructed through outsourced contracts with unrelated parties.

(b) Revenue from compensation

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) Finance income

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

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

3.3. Current and deferred income tax and social contribution

Income tax and social contribution are calculated on net profit adjusted for inclusion of nondeductible expenses, exclusion of nontaxable income and inclusion and/or exclusion of temporary differences, in accordance with applicable legislation. The Company always adopted the Annual Taxable Income regime with monthly estimate and, as from 2013, its subsidiary CTEEP opted for the Annual Taxable Income regime.

Current and deferred income tax is calculated at the rate of 15% plus a surtax of 10% on taxable income exceeding R$240 and current and deferred social contribution is calculated at the rate of 9% on net profit, considering tax loss carryforwards up to the limit of 30% of the taxable income, if any.

The subsidiaries Pinheiros, IESul, IENNE and IEMadeira opted for the Taxable Income regime. IEMG, Serra do Japi and Evrecy opted for the Presumed Profit regime and the other subsidiaries are considered, for tax purposes, to be in the preoperating stage and accordingly current taxes are not determined on income.

Deferred tax assets arising from temporary differences were recognized in conformity with CVM Instruction 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 income based on a technical feasibility study approved by Management.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that if it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of that deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset only if the Company has the legal right to settle current tax assets against current tax liabilities and the deferred tax amounts are levied by the same taxing authority and the Company intends to settle current tax amounts on a net basis.

3.4. Taxes and regulatory fees on revenue

(a) Taxes on sales

Revenues, expenses and assets are recognized net of taxes on sales, except when taxes on sales incurred on the purchase of goods or services are not recoverable from the tax authorities, in which case the sales tax is recognized as part of the acquisition cost of the asset or the expense item, as applicable.

(b) Regulatory fees

Sector charges, as described below, are part of the government’s policies for the electricity sector and are all established by law. 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.

(i) Fuel Consumption Account (CCC)

Created by Decree 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. Amount set annually by ANEEL based on the amount of electric power used by consumers connected to the transmission facilities. This amount is collected by 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 12783/2013, as from January 1, 2013, CCC will be borne by resources from the Energy Development Account (CDE).

(ii) Energy Development Account (CDE)

This charge was created by Law 10438 of April 26, 2002, with the objective of providing resources for: i) energy development in the States; ii) competitiveness of electricity produced from wind, 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. Amount set annually by ANEEL based on the amount of electric power used by consumers connected to the transmission facilities. This amount is collected by 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 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. Amount is set based on the estimate of electricity generation from the power plants that participate in PROINFA. This amount is collected by Eletrobras and passed on to consumers through TUST (tariff for use of transmission system).

(iv) Global Reversal Reserve (RGR)

Created by Decree 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 12783/2013, as from 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 amount of RGR.

(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 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 12783 of January 11, 2013, TFSEE is now equivalent to 0.4% of the amount of the annual economic benefit.

3.5. Financial instruments

(a) Financial assets

(i) Classification and measurement

Financial assets are classified into the following specific categories: financial assets 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*.

The classification depends on the purpose for which the financial assets were acquired and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized or derecognized based on the trade date. A regular way purchase or sale is a purchase or sale of financial assets which requires delivery of the asset within the time frame established by regulation or convention in the marketplace concerned.

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

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the Company has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously.

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

Financial assets are classified as financial assets at fair value through profit or loss if 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 profit or loss. 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.

A financial asset is classified as held for trading if: (i) it is acquired principally for the purpose of selling in the near term; or (ii) on initial recognition it is 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) it is a derivative (except for a derivative that is a designated and effective hedging instrument).

A financial asset other than those held for trading may be designated as measured 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, 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, 2013 and 2012, financial assets classified into this category are cash equivalents, short-term investments and derivative financial instruments.

- *Held-to-maturity financial assets*

Held-to-maturity investments include non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company 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 method less any impairment loss.

At December 31, 2013 and 2012, the Company 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 through “Other comprehensive income” until the financial asset is collected, at which time the gain or loss previously reported in other comprehensive income is transferred to the income statement.

At December 31, 2013 and 2012, the Company and its subsidiary CTEEP had no financial assets classified as available for sale.

- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as noncurrent assets.

Loans and receivables are measured at amortized cost using the effective interest 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, 2013 and 2012, the financial assets of the subsidiary CTEEP classified into this category are principally accounts receivable (concession asset) and receivables – Finance Department.

(ii) Impairment of financial assets

Financial assets, except for those designated at fair value through profit or loss, are assessed for impairment at the end of each reporting period. Impairment losses are recognized only if there is objective evidence of impairment 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. In 2012, an allowance was recorded for writing down the amount of the assets related to Existing Service (SE) facilities to their construction cost until a definitive decision is rendered by the regulatory agency about the amounts of indemnification (notes 3.7 and 8).

(iii) Derecognition of financial assets

The subsidiary CTEEP derecognizes a financial asset only when the contractual rights to receive the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the subsidiary CTEEP neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but continues to control the transferred asset, the subsidiary recognizes the interest retained in the asset and an associated liability for amounts it may have to pay. If the subsidiary CTEEP retains substantially all the risks and rewards of ownership of a transferred financial asset, the subsidiary continues to recognize the financial asset and also recognizes a borrowing collateralized by the proceeds received.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and receivable and any cumulative gain or loss will be recognized in "Other gains and losses". In 2012, there was derecognition of financial assets under Provisional Acts 579 and 591 (notes 1.2 and 8).

(b) Financial liabilities

Financial liabilities are classified at fair value through profit or loss if 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.

(c) Derivative instruments and hedge activities

In 2011 the subsidiary CTEEP began to use derivative financial instruments.

Derivative financial instruments designated as hedging instruments are initially recognized at fair value at the date on which the subsidiary enters into a derivative contract and are subsequently reassessed to their fair value. Any gains or losses resulting from changes in fair value of derivatives during the year are entered directly in the income statement under "finance income (costs)".

As of December 31, 2012 until October 2013, the subsidiary CTEEP had derivative instruments classified as fair value hedge.

The following conditions must be met for a hedging relationship to qualify for hedge accounting:

- At the inception of the hedge, there is formal documentation of the hedging relationship specifying its classification, and the risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged, the nature of the risks excluded from the hedging relationship, prospective hedge effectiveness tests and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows will be assessed and measured;
- The hedge is expected to be highly effective;
- The effectiveness of the hedge can be reliably measured; and
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the *hedge* was designated.

An instrument is classified at fair value through profit or loss if held for trading or if so designated upon initial recognition. Financial instruments are recorded at fair value through profit or loss if the Company and/or its subsidiaries manage these investments until the settlement of the hedged transaction in accordance with a documented risk management and investment strategy. After initial recognition, the changes in the fair value of the hedging instrument and the changes in the fair value of the hedged item attributable to the risk being hedged are recorded in the same line of the income statement as the hedged item. The Company adopted the hedge accounting for its transactions.

3.6. Cash and cash equivalents

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

For an investment to qualify as a cash equivalent, it must be readily convertible into a known amount of cash and be subject to an insignificant risk of changes in values. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the acquisition date.

3.7. Accounts receivable (concession asset)

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

The indemnification asset recorded upon the completion of the construction refers to the estimated portion of the investments made and not amortized until the end of the concession and in return for which the subsidiary CTEEP will have the right to receive cash or another financial asset at the end of the term of the arrangement. As set forth 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 its incorporation to the electric power system.

The subsidiary CTEEP considers that the amount of the compensation to which it will be entitled shall be equivalent to the New Replacement Value adjusted for the accumulated depreciation of each item. With the signature of the addendum to extend concession arrangement 059/2001 (note 1.2), the compensation amount relating to the New Investments (NI) facilities at December 31, 2012 is equivalent to the New Replacement Value already determined by Interministerial Rule 580.

For the Existing Service (SE) facilities whose compensation amount was not disclosed by the Concession Grantor, the subsidiary CTEEP understands that it is entitled to receive the New Replacement Value adjusted for accumulated depreciation, determined on the basis of the independent appraisal report dated November 14, 2012. The subsidiary CTEEP recorded an allowance for writing down such infrastructure to its construction cost, pursuant to ANEEL Decision 155 of January 23, 2013 that determines that the cost amount should be maintained until approval is given by the regulatory agency (note 8). In compliance with ANEEL Technical Note 402/2013, a new report is being prepared according to the requirements of submodule 9.1 of the Tariff Regulation Procedures (PRORET).

For other assets subject to indemnification, the subsidiary CTEEP estimated the compensation amounts based on the respective book values.

Since Management constantly monitors the regulation of the electricity sector, in the event of any changes in this regulation that may change the estimate of the compensation for the assets, the accounting effects of these changes will be addressed prospectively in the Financial Statements. However, Management reiterates its commitment to continue defending the interests of CTEEP's shareholders for 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 recorded at the lower of cost or net realizable value. Inventory costs are determined under the average cost method.

3.9. Investments

In the individual financial statements the subsidiary CTEEP recognizes 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 sum of the consideration transferred measured at acquisition-date fair value and any noncontrolling interests in the acquiree. The costs directly attributable to the acquisition are expensed as incurred.

When the Company acquires a business, it evaluates the financial assets acquired and liabilities assumed in order to make classifications or designations on the basis of the contractual terms, economic conditions, and other pertinent conditions as they exist at the acquisition date.

Goodwill is measured initially as the excess of the consideration transferred over the net assets acquired (net identifiable assets acquired and liabilities assumed). If the consideration is less than the fair value of the net assets acquired, the difference shall be recognized as a gain in the income statement.

Amortization of the intangible assets arising from the acquisition of the right of operation, concession or permission granted by the Public Authority will occur over the estimated or agreed period of use, duration or loss of economic substance, or through write-off due to disposal or deterioration of the investment.

3.11. Property, plant and equipment

Property, plant 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 expected to be derived from the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

3.12. Intangible assets

Separately acquired intangible assets are recognized initially at cost.

The useful lives of intangible assets are assessed to be either finite or indefinite: (i) intangible assets with finite lives are amortized over their economic useful lives 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.

3.13. Leases

(a) The Company as 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*

At the inception of the lease, finance lease is recognized as an asset and a liability in the balance sheets at an amount equal to the fair value of the leased asset, or if lower, 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 value.

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

3.15. Current and noncurrent liabilities

These are stated at known or estimated amounts plus, where applicable, related charges, inflation adjustment and/or exchange rate changes incurred through the balance sheet date.

3.16. Provisions

Provisions are recognized if a present obligation (legal or constructive) has arisen as a result of past events, 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 that surround 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.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, an asset is recognized when, and only when, it is virtually certain that reimbursement will be received and the amount can be measured reliably.

Provisions are measured at the present value of the expenditure required 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 to the estimated probable losses, based on their nature and on the opinion of the Company's and its subsidiaries' attorneys.

Provisions for lawsuits are recognized when the Company and its subsidiaries have a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be estimated reliably.

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

3.17. Pension plan and other employee benefits

The subsidiary CTEEP sponsors pension and health care plans for its employees, which are managed 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.

In the case of the defined benefit pension plans, the cost of granting benefits is determined using the projected unit credit method and actuarial valuation is conducted at the end of the annual reporting period. Remeasurements, which comprise actuarial gains and losses, the effect of changes in the asset ceiling (if applicable) and the return on plan assets (excluding interest), are reflected immediately in the balance sheet as a debit or credit to other comprehensive income in the period in which they occur. Remeasurements recognized in other comprehensive income are reflected immediately in retained earnings and are not reclassified to the income statement. Past service cost is recognized as an expense in the period in which a plan amendment occurs. Net interest on the net defined benefit liability or asset is determined using the discount rate at the beginning of the period.

Curtailment gains and losses are accounted for as past service costs. The pension benefit obligation recognized in the balance sheet represents the actual deficit or surplus in the defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any available economic benefits in the form of refunds or reductions in future contributions to the plans. A liability arising from a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefits or when the entity recognizes related restructuring costs.

At December 31, 2013 and 2012, the subsidiary CTEEP did not have any actuarial assets or liabilities recorded, as mentioned in note 24.

3.18. Dividends and interest on capital

The dividend recognition policy is compliant with CPC 24 (IAS 10) and ICPC 08, which determine that dividends proposed pursuant to bylaws must be recorded in current liabilities.

The Company’s bylaws establish mandatory dividends equivalent to 1% of the profit for the year adjusted according to article 202 of Law 6404/76, destined to redeemable preferred shares up to the amount equivalent to Cumulative Fixed Dividends to which these shares are entitled to.

CTEEP’s bylaws establish a mandatory minimum dividend equivalent to 10% of the paid-in capital, contingent on existing profits.

The portion of dividends above the mandatory minimum dividends declared by Management of the subsidiary CTEEP after the accounting period to which the financial statements relate but before the date of authorization for issue of said financial statements is recorded as a separate component of equity through “proposed additional dividends”.

The subsidiary CTEEP distributes interest on capital, 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. Business 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 the entity’s chief operating decision maker to make decisions.

The subsidiary CTEEP’s Management understands that, although it recognizes construction revenue and operation and maintenance revenue, these revenues have derived from concession arrangements that have only one business segment: electric power transmission.

3.20. Statement of cash flows

The statement of cash flows has been prepared under the indirect method and is presented in accordance with CVM Resolution 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. Adjustment to present value of assets and liabilities

Long-term monetary assets and liabilities are adjusted to their present value, as are short-term items, when the effect is considered relevant in relation to the financial statements taken as a whole.
The adjustment to present value is calculated taking into account contractual cash flows and the explicit interest rate, or implicit rate in some cases, for the assets and liabilities. Thus, the interest implicit in revenues, expenses and costs associated with these assets and liabilities is discounted with the intent of recognizing it on an accrual basis. Subsequently, this interest is reallocated to the finance income and costs in the income statement using the effective interest method in relation to contractual cash flows. The implicit interest rates were determined based on assumptions and are considered accounting estimates. At the date of the financial statements the subsidiary CTEEP and its subsidiaries did not have significant amounts of adjustments to present value.

3.22. Earnings per share

The Company calculates earnings per share using the weighted average number of common and preferred shares outstanding for the period, in conformity with technical pronouncement CPC 41 (IAS 33).

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of shares issued.

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

As from January 1, 2009, the 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 the accounting by concessionaires for public-to-private service concession arrangements:

- the grantor controls or regulates what services the operator must provide, to whom it must provide them, and at which price; and
- the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

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, plant 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 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.

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

Interpretation ICPC 01 (IFRIC 12) was considered applicable to all public-to-private service concession arrangements to which the subsidiary 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 subsidiaries IEMG, Pinheiros, Serra do Japi, IENNE, IESul and IEMadeira. Due to the impossibility of obtaining again the historical data in a reliable manner, the prospective application as from January 1, 2009 was adopted for the concession arrangements made by subsidiary CTEEP existing at that date.

As set forth 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 its incorporation to the electric power system. This compensation is part of the consideration for the construction services and is recognized at the time the work is completed.

The subsidiary CTEEP determined the fair value of the construction services considering that the projects provide for sufficient margin to cover construction costs. 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 finance income earned on the financial asset from construction services are subject to deferral of cumulative PIS and COFINS, recorded in noncurrent liabilities as “deferred taxes”.

In thousands of Brazilian reais, unless otherwise stated

4. New and revised standards and interpretations

The Company and its subsidiaries have adopted all the pronouncements (new or revised) and interpretations issued by the Brazilian Accounting Pronouncements Committee (CPC) that were in effect at December 31, 2013.

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

The application of the following pronouncements and interpretations that were mandatorily effective on January 1, 2013 did not have any impact on the individual and consolidated financial statements of the Company for the year ended December 31, 2013:

- CPC 44 – Combined Financial Statements – CVM Resolution 708 of May 2, 2013;
- OCPC 06 – Presentation of Pro Forma Financial Information – CVM Resolution 709 of May 2, 2013;
- CPC 01 (revision) – relating to Technical Interpretations ICPC 03, ICPC 07, ICPC 13, ICPC 14 and ICPC 16 issued by the Brazilian Accounting Pronouncements Committee (CPC) – CVM Resolution 717 of December 17, 2013; and
- CPC 03 (revision) – This revision sets forth changes in the following Technical Pronouncements: CPC 01 (R1), CPC 02 (R2), CPC 03 (R2), CPC 04 (R1), CPC 05 (R1), CPC 06 (R1), CPC 07 (R1), CPC 10 (R1), CPC 11, CPC 15 (R1), CPC 16 (R1), CPC 19 (R2), CPC 21 (R1), CPC 23, CPC 24, CPC 26 (R1), CPC 27, CPC 28, CPC 29, CPC 31, CPC 32, CPC 36 (R3), CPC 37 (R1), CPC 38, CPC 39 and CPC 41, in connection with the revision of the pronouncements by the Brazilian Accounting Pronouncements Committee in 2013 – CVM Resolution 718 of December 17, 2013.

The application of CPCs 19 (R2) and 36 (R3) had a significant impact on the 2013 consolidated financial statements of Company since certain investments in jointly-controlled entities that were previously proportionately consolidated are currently accounted for under the equity method.

As required by the transitional provisions of CPCs 19 (R2) and 36 (R3), the Company restated in its 2013 consolidated financial statements the comparative balances of 2012 (the earliest period presented) and the impacts on the reported balances of January 1 and December 31, 2012 are as follows:

	Balances reported	**Impact of application of CPCs 19 (R2) and 36 (R3)**	**Balances at 01/01/2012 (Restated)**
Balance sheet			
Current assets	2,246,246	(45,768)	2,200,478
Investments	-	534,821	534,281
Noncurrent assets (except investments)	6,892,648	(1,226,409)	5,666,239
Total assets	**9,138,894**	**(737,896)**	**8,400,998**
Current liabilities	1,892,788	(536,268)	1,356,520
Noncurrent liabilities	2,387,038	(201,628)	2,185,410
Equity	4,859,068	-	4,859,068
Liabilities and equity	**9,138,894**	**(737,896)**	**8,400,998**

In thousands of Brazilian reais, unless otherwise stated

	Consolidated		
	Balances reported at 12/31/2012	**Impact of application of CPCs 19 (R2) and 36 (R3)**	**Balances at 12/31/2012 (Restated)**
Balance sheet			
Assets			
Current assets	3,611,999	(209,471)	3,402,528
Investments	-	767,553	767,553
Noncurrent assets (except investments)	6,862,392	(2,023,704)	4,838,688
Total assets	**10,474,391**	**(1,465,622)**	**9,008,769**
Liabilities and equity			
Current liabilities	1,692,161	(231,823)	1,460,338
Noncurrent liabilities	3,552,149	(1,233,799)	2,318,350
Equity	5,230,081	-	5,230,081
Liabilities and equity	**10,474,391**	**(1,465,622)**	**9,008,769**

	Balances reported at 12/31/2012	**Impact of application of CPCs 19 (R2) and 36 (R3)**	**Balances at 12/31/2012 (Restated)**
Income statement			
Net operating revenue	2,818,988	(803,990)	2,014,998
Cost of construction, and operation and maintenance services	(1,250,564)	627,541	(623,023)
Operating income (expenses), net (except equity in subsidiaries)	(296,578)	10,834	(285,744)
Equity in subsidiaries	-	64,138	64,138
Finance income (costs)	(202,651)	67,524	(135,527)
Income tax and social contribution	(401,549)	33,953	(367,596)
Profit for the year	**667,646**	**-**	**667,646**
Statement of cash flows			
Operating activities (except equity in subsidiaries)	170,773	668,906	839,679
Equity in subsidiaries	-	(64,138)	(64,138)
Investing activities	(169,097)	(54,745)	(223,842)
Financing activities	171,360	(523,585)	(352,225)
Change in cash and cash equivalents	**173,036**	**26,438**	**199,474**

(b) New and revised IFRSs not yet effective

The following IFRSs issued by the IASB are mandatory for annual periods beginning on or after January 1, 2014:

IFRS 10, IFRS 12 and IAS 27 – Investment Entities – The amendments to IFRS 10 define an investment entity and require a parent that is an investment entity not to consolidate its subsidiaries but instead to measure its

- investments in particular subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

- IAS 32 – Offsetting Financial Assets and Financial Liabilities – The amendments to IAS 32 are intended to clarify the offsetting requirements for financial assets and liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The following IFRSs issued by the IASB are mandatory for annual periods beginning on or after January 1, 2015.

- IFRS 9 – Financial Instruments – IFRS 9 was updated in October 2010 to include requirements for classification and measurement of financial liabilities and derecognition of financial instruments.

The Company has not early adopted the above IFRSs in its individual and consolidated financial statements for the year ended December 31, 2013.

5. Obligations assumed on acquisition of the subsidiary CTEEP

Pursuant to the share purchase agreement 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 the subsidiary CTEEP is released from the charges related to the supplementary pension plan established by Law 4.819/58 that are currently under judicial discussion.

At December 31, 2013, the additional amount of the purchase price is composed of two distinct transactions, as follows:

a) The amount of R$252,726 (R$243,940 at December 31, 2012), determined on acquisition of the first equity interest by means of the privatization auction held on June 28, 2006, recorded as "Payables – Law 4.819/58 – Finance Department", of which R$7,194 (R$7,194 at December 31, 2012) was included in current liabilities and R$245,532 (R$236,746 at December 31, 2012) in noncurrent liabilities, against the amount of R$188,895 in the line item "Investments – goodwill on acquisition of equity interest in subsidiary", with the difference of R$63,831 being recognized in the income statement as inflation adjustment of the obligation based on IPCA, beginning December 31, 2005.

b) The amount of R$158,621 (R$152,953 at December 31, 2012), determined on acquisition of the third equity interest by means of the public tender offer held on January 9, 2007, recorded as "Payables – Law 4.819/59 – tender offer", of which R$4,153 (R$4,153 at December 31, 2012) was included in current liabilities and R$154,468 (R$148,800 at December 31, 2012) in noncurrent liabilities, against the amount of R$120,306 in the line item "Investments – goodwill on acquisition of equity interest in subsidiary", with the difference of R$38,315 being recognized in the income statement as inflation adjustment of the obligation based on IPCA, beginning December 31, 2005.

In thousands of Brazilian reais, unless otherwise stated

6. Cash and cash equivalents

	Company		Consolidated	
	2013	2012	2013	Restated 2012
Cash and banks	162	1,351	1,156	4,853
Cash equivalents	61,310	125,973	64,586	432,074
	61,472	**127,324**	**65,742**	**436,927**

(i) Cash equivalents are as follows:

		Company		Consolidated	
	% of CDI	2013	2012	2013	Restated 2012
Bank certificate of deposit (CDB)	95.0% to 106.0%	-	-	2,645	11,159
Repurchase transactions (*)	95.0% to 104.0%	61,310	125,973	61,941	420,915
		61,310	**125,973**	**64,586**	**432,074**

Cash equivalents are measured at fair value through profit or loss and have daily liquidity.

Management's analysis of the exposure of these assets to interest rate risks is disclosed in note 33 (c).

(*) Repurchase transactions refer to securities issued by banks for repurchase by the bank and resale by the customers, at fixed rates and fixed maturities, backed by private or government bonds depending of the bank's availability and are registered with CETIP.

7. Short-term investments

		Company		Consolidated	
	% of CDI	2013	2012	2013	Restated 2012
Bank certificate of deposit (CDB)	90.0% to 106.0%	83,404	294,483	83,404	294,483
Investment funds	105.5%	-	-	595,756	-
		83,404	**294,483**	**679,160**	**294,483**

The Company and its subsidiaries have concentrated their short-term investments in investment funds, which refer to highly liquid investment fund units, readily convertible into a cash amount, regardless of the maturity of the assets.

Investment funds are:

Fundo de Investimento Referenciado DI Bandeirantes: investment fund established for purposes of exclusive investments by the subsidiary CTEEP and its subsidiaries, managed by Banco Bradesco, with a portfolio comprised of units in Fundo de Investimento Referenciado DI Rubi, which, in turn, has a portfolio comprised of the following assets: investments in demand deposits, federal government bonds and repurchase transactions in federal government bonds. It is highly liquid, regardless of the assets comprising Fundo Rubi, as set out in the memorandum of incorporation of Fundo Bandeirantes.

In thousands of Brazilian reais, unless otherwise stated

Fundo de Investimento Xavantes Referenciado DI: investment fund established for purposes of exclusive investments by the subsidiary CTEEP and its subsidiaries, managed by Banco Itaú, with a portfolio comprised of units in Fundo de Investimento Corp Referenciado DI, which, in turn, has a portfolio comprised of the following assets: federal government bonds and repurchase transactions in federal government bonds. It is highly liquid, regardless of the assets comprising Fundo Corp, as set out in the memorandum of incorporation of Fundo Xavantes.

8. Accounts receivable (concession asset)

Accounts receivable are as follows:

	Consolidated	
	2013	**Restated 2012**
Receivables from construction services (a)	1,415,379	1,050,085
Receivables from O&M services (b)	86,541	267,409
Receivables – Provisional Acts 579 and 591 (SE/NI) (c)	3,928,043	5,975,426
Receivables from indemnification (d)	73,698	54,976
Allowance for impairment (c)	(1,535,319)	(1,535,319)
	3,968,342	**5,812,577**
Current	**749,388**	**2,425,203**
Noncurrent	**3,218,954**	**3,387,374**

(a) Amount receivable relating to construction, expansion and improvement services in power transmission facilities until the end of the term of the concession arrangements to which the subsidiary CTEEP and its subsidiaries are parties, adjusted to present value and yielding interest based on the effective interest rate.

(b) O&M – Operation and Maintenance refers to the portion of billings monthly informed by the Brazilian Electric Energy System Operator (ONS) for compensation of the O&M services, with an average collection period of less than 60 days.

(c) Receivables – Law 12783 – refers to the amount receivable from the compensation for investments made and not amortized under concession arrangement 059/2001, subdivided into New Investments (NI) and Existing Service (SE):

- The compensation for the New Investments (NI) facilities is R$2,949,121, of which R$2,891,291 is related to the New Replacement Value calculated and R$57,830 is related to compensation based on IPCA + WACC of 5.59% p.a., as set forth in Interministerial Rule 580. Fifty percent of such amount was received on January 18, 2013 and the remaining fifty percent will be received in 31 monthly installments through July 7, 2015 (note 1.2).

- The compensation for the Existing Service (SE) facilities, which has not yet been disclosed by the Concession Grantor, corresponds to the estimated investment amounts based on the New Replacement Value adjusted for accumulated depreciation through December 31, 2012, which, based on an independent appraisal report, totals R$3,026,305. As mentioned in note 3.7, a new report is being prepared. The subsidiary CTEEP understands that it is entitled to receive the amount determined by reference to the New Replacement Value, however, it has recognized an allowance for writing down such infrastructure to its construction cost, as set out in ANEEL Decision 155 of January 23, 2013, which determines that the cost amount should be maintained until the result of the new report that is expected for June 30, 2014.

In thousands of Brazilian reais, unless otherwise stated

(d) Receivables from indemnification - refers to the estimated portion of investments made and not amortized until the end of the effective concession arrangements and for which the subsidiary CTEEP and its subsidiaries will be entitled to receive cash or another financial asset at the end of the term of concession arrangements.

The aging list of accounts receivables is as follows:

	Consolidated	
	2013	Restated 2012
Current	3,938,946	5,783,007
Past-due		
Up to 30 days	127	280
31 to 60 days	30	151
61 to 360 days	1,616	3,931
Over 361 days (i)	27,623	25,208
	29,396	**29,570**
	3,968,342	**5,812,577**

(i) A few market players challenged in the courts the balances of invoices relating to the Basic Grid. In light of such challenge, escrow deposits are made with respect to the amounts deemed payable by these players. The subsidiary CTEEP believes that the amounts billed are in accordance with the authorizations granted by regulatory agencies and, therefore, no provision for contingencies has been recorded.

The subsidiary CTEEP does not have any history of losses for accounts receivable, which are guaranteed by collaterals and/access to bank accounts operated by the Brazilian Electric Energy System Operator (ONS) or directly by the subsidiary CTEEP and, therefore, it did not recognize an allowance for doubtful accounts.

Changes in accounts receivable are as follows:

	Consolidated
Balances in 2011 (restated)	**5,575,467**
Construction revenue (note 27.1)	208,081
Finance income (note 27.1)	1,467,278
O&M revenue (note 27.1)	592,276
Adjustment of receivables from compensation based on IPCA/WACC	57,830
Write-off of receivables from construction services	(2,724,622)
Adjustment of receivables from compensation based on the New Replacement Value	4,444,510
Provision for write-down to cost	(1,535,319)
Balance of accounts receivable upon acquisition of subsidiary Evrecy	24,517
Receipts	(2,297,441)
Balances in 2012 (restated)	**5,812,577**
Construction revenue (note 27.1)	267,908
Finance income (note 27.1)	242,654
O&M revenue (note 27.1)	586,599
Adjustment of receivables from compensation based on IPCA/WACC	143,216
Receipts of receivables for compensation for New Investments (NI)	(2,190,610)
Receipts	(894,002)
Balances in 2013	**3,968,342**

In thousands of Brazilian reais, unless otherwise stated

9. Receivables – Finance Department

	Consolidated	
	2013	**Restated 2012**
Payroll processing – Law 4.819/58 (a)	933,501	793,443
Labor lawsuits – Law 4.819/58 (b)	225,781	193,043
Provision for losses on unrealizable receivables (c)	(516,255)	-
Family allowance - Law 4.819/58 (c)	2,218	2,218
Provision for losses on unrealizable receivables – family allowance (d)	(2,218)	(2,218)
	643,027	**986,486**

(a) Refers to amounts receivable for settlement of the portion of payroll relating to the supplementary pension plan regulated by State Law 4.819/58, from January 2005 to March 2013 (note 36). No inflation adjustment is applied on such balance and no interest is accrued until a definitive decision on the proceedings is issued. The increase compared with the previous year is due to the compliance with the decision issued by 49th Labor Court, whereby the subsidiary CTEEP transfers monthly the funds to Fundação CESP for payment to retirees.

(b) Refers to certain labor lawsuits settled by the subsidiary CTEEP, relating to retired employees under State Law 4.819/58, which are the responsibility of the State Government of São Paulo. No inflation adjustment is applied on such balance and no interest is accrued until all the criteria are agreed upon with the São Paulo Department of Finance.

(c) In view of the new developments in the subsidiary CTEEP in 2013, mainly: (i) change in the expected realization of some assets, due to the termination of the claim for collection of the amounts payable by the São Paulo State Government, without judgment of the merits, as well as other proceedings, as described in note 36; (ii) recognition of the civil courts to resolve the matter under discussion based on the previous decision issued by the Supreme Federal Court on the cases of other parties, as described in note 36, and (iii) progress of other proceedings under Law 4.819/58, such as the recognition of onlendings to the subsidiary CTEEP, by the São Paulo Finance Department, with respect to the amounts disallowed through April 2013, as described in note 34; CTEEP's Management reviewed the amounts receivable under Law 4.819/58 and recorded a provision for losses on unrealizable receivables, relating to the amounts that are not recognized as being the exclusive responsibility of the São Paulo Finance Department, as described in item (iii).

CESP prepaid monthly expenses relating to family allowances arising from the benefits of State Law 4.819/58, which were transferred to the subsidiary CTEEP upon the partial spin-off of CESP. Based on the likelihood of loss, Management has recognized a provision for losses in the amount of R$2,218.

In thousands of Brazilian reais, unless otherwise stated

10. Recoverable taxes and contributions

	Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Income tax	19,477	29,586	60,036	-
Social contribution	4,350	-	20,948	-
Withholding income tax	1,428	6,242	15,260	47,033
Withholding social contribution	121	114	524	1,433
COFINS (tax on revenue)	-	-	1,013	1,174
PIS (tax on revenue)	-	-	174	210
Other	-	-	186	266
	25,376	**35,942**	**98,141**	**50,116**
Current	**14,984**	**6,678**	**87,749**	**20,852**
Noncurrent	**10,392**	**29,264**	**10,392**	**29,264**

11. Tax benefit – merged goodwill – consolidated

The goodwill paid by ISA Capital on the acquisition of shareholding control of subsidiary CTEEP is based on projected earnings during the term of concession arrangements 059/2001 and 143/2001 and derives from the acquisition of the concession right granted by the Concession Grantor, as set forth in item b, paragraph 2, article 14 of CVM Instruction 247, of March 27, 1996, including the changes introduced by CVM Instruction 285 of July 31, 1998.

So that in the subsidiary CTEEP the amortization of goodwill will not adversely affect the flow of dividends to shareholders, a Provision for Maintenance of Equity Integrity (PMIPL) of the merging company and a special goodwill reserve on merger were recognized, as set forth in CVM Instruction 349, of March 6, 2001.

Goodwill amortization, net of reversal of the provision and the related tax credit, does not affect profit or loss for the year and, consequently, dividend calculation basis.

Goodwill as of December 31, 2007 was R$689,435, and is being amortized through July 2015, in monthly installments, as authorized under ANEEL Resolution 1164, of December 18, 2007, as follows:

	Amortization - % p.a.		
	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

For purposes of better presentation of the Company’s financial position in the consolidated financial statements, the net amount of R$60,359 (R$90,247 as at December 31, 2012), which, in essence, corresponds to the merged tax credit, was classified in noncurrent assets, under long-term assets, in the balance sheet, as goodwill tax benefit, based on expected realization.

Changes for the years ended December 31, 2013 and 2012 are as follows:

In thousands of Brazilian reais, unless otherwise stated

	Goodwill	Provision	Tax benefit – subsidiary
Balances in 2011	**350,234**	**(231,155)**	**119,079**
Realization in the year	(84,800)	55,968	(28,832)
Balances in 2012	**265,434**	**(175,187)**	**90,247**
Realization in the year	(87,903)	58,015	(29,888)
Balances in 2013	**177,531**	**(117,172)**	**60,359**

12. Loans receivable

Refers to a loan given by ISA CAPITAL to its parent company Interconexión Eléctrica S.A. ESP (“ISA”). This is an on-lending of the total funds borrowed by the Company in December 2006 in U.S. dollars in the original amount of US$23,800 thousand, whose maturity and lump sum payment occurred on July 19, 2007, with accrued interest at LIBOR plus 3.00% per year. The Company maintained the same assumptions for interest charges, including semiannual interest receipt, but the principal of the loan was agreed to be repaid within 8 years in a single payment on December 28, 2014.

On December 15, 2011, ISA Capital entered into a loan agreement with Internexa Brasil Operadora de Telecomunicações S.A “Internexa” in the amount of R$9,364, whose original maturity of December 28, 2012 was extended for one year to December 19, 2013. Interest accrues monthly based on CDI plus 0.72% per year and is payable on a quarterly basis.

On October 3, 2012, ISA Capital gave another loan to Internexa in the amount of R$11,146, in which the maturity of the principal was extended from October 3, 2013 to December 19, 2013. Interest accrues monthly based on CDI plus 0.91% per year and is payable on a quarterly basis.

On December 19, 2013, both loans were paid off by Internexa, totaling a credit of R$20,873 in Banco Santander, which is segregated as follows: R$20,510 of principal and R$363 of interest with 20% withholding income tax. Loans are as follows:

			Company	
Foreign currency	**Charges**	**Final maturity**	**2013**	**2012**
Interconexión Elétrica S.A ESP ("ISA")	LIBOR + 3% p.a	12/28/2014	55,764	48,645
Internexa Brasil Operadora de Telecomunicaçãoes S.A ("Internexa")	CDI + 0.72% p.a	12/19/2013	-	9,364
	CDI + 0.91% p.a	12/19/2013	-	11,146
Total in foreign currency			**55,764**	**69,155**
Current			**55,764**	**20,510**
Noncurrent			**-**	**48,645**

In thousands of Brazilian reais, unless otherwise stated

Changes in loans are as follows:

	Company
Balances in 2011	**54,046**
Additions	11,146
Principal payment received	-
Interest received	(2,813)
Interest and inflation adjustment and exchange rate changes	6,776
Balances in 2012	**69,155**
Additions	-
Principal payment received	(20,510)
Interest received	(3,426)
Interest and inflation adjustment and exchange rate changes	10,545
Balances in 2013	**55,764**

13. Collaterals and restricted deposits

Company

Refers to a deposit account at the Bank of New York to guarantee the semiannual payment of interest on the bonds remaining after the debt restructuring. The amount to be kept in the deposit account is on the order of US$1.4 million. As set forth in the contract, the Company has used the deposited funds to make interest payments in the months of January and July and, subsequently, at every payment date money is deposited into the account. The balance of R$3,262 recorded in current assets as of December 31, 2013 was used to make interest payment in January 2014.

Consolidated

In noncurrent assets, in view of the uncertainties surrounding the outcome of the lawsuits subject to escrow deposits, the subsidiary CTEEP elects to keep them at their nominal values and does not record any inflation adjustment or interest thereon. The balance is broken down as follows:

	Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Assessments – ANEEL (a) (note 23 (a))	-	-	9,545	7,827
Escrow deposits				
Labor (note 23(a) (i))	-	-	65,511	65,497
Social security - INSS (note 23 (a) (iii))	-	-	1,226	1,226
Deposit in the Bank of New York (collateral)	3,262	2,846	3,262	2,846
Other	-	-	-	140
	3,262	**2,846**	**79,544**	**77,536**
Current	**3,262**	**2,846**	**3,262**	**2,846**
Noncurrent	**-**	**-**	**76,282**	**74,690**

(a) Refer to deposits made to annul assessments issued by ANEEL:

(i) Deposit made on January 17, 2000, in the amount of R$3,040, was claimed in an annulment action brought by the Company against ANEEL, arising from assessment notice 001/1999-SFE which imposed a fine to the subsidiary CTEEP based on the allegation of infringements for complicating the inspection work relating to problems arising from the interruption in power transmission in a major portion of the Southeast, South and Midwest regions; not complying with the provisions in the "inspection report"; and not complying with the legal duty of providing proper service.

(ii) Deposit made on August 29, 2008, in the amount of R$2,139, to annul assessment notice 062/2007 relating to the failure to comply with the scheduled date for installation of the 3rd set of transformers with 345/88 kV of SE Baixada Santista, authorized by ANEEL Resolution 197 of May 4, 2004.

(iii) Deposit made on September 17, 2008, in the amount of R$544, to annul assessment notice 001/2008 relating to the failure to comply with the scheduled date for startup of activities of the transmission line, in 345 kV, Guarulhos - Anhanguera, authorized by Authorizing Resolution 064/2005 of January 31, 2005.

(iv) Deposit made on April 18, 2011, in the amount of R$353, to annul assessment notice 022/10 which imposed a fine to the subsidiary CTEEP in light of the event occurred on April 1, 2009, in the 88kV sector of SE Baixada Santista, consisting of the automatic shutdown of the set of transformers due to the overheating arising from the cooling system in the substation caused by the subsidiary CTEEP.

(v) Deposit made on March 8, 2012, in the amount of R$268, to annul assessment notice 054/11, relating to the failure to satisfy system unavailability ratios (transmission function of CTEEP's assets, which were unavailable without any reason for more than one minute).

(vi) Deposit made on July 1, 2012, in the amount of R$1,483, to annul assessment notice 065/11, relating to the problem identified on February 8, 2011 in Bandeirantes substation.

(vii) Deposit made on June 28, 2013, amounting to R$468, to annul assessment notice 122/12 which imposed a penalty on the subsidiary CTEEP for the alleged noncompliance with the Frequency Standards of Other Power Shutdown limits in CTEEP's facilities during the 2010/2011 cycle, as provided for by Article 32 of ANEEL Resolution 270 of June 26, 2007.

(viii) Deposit made on June 28, 2013, amounting to R$1,250, to annul assessment notice 082/12 which imposed a penalty on the subsidiary CTEEP for the power shutdown on July 28, 2008, at SE Milton Fornasaro, 88 kV.

In thousands of Brazilian reais, unless otherwise stated

14. Investments

(a) Information on subsidiary CTEEP

	12/31/2013	12/31/2012
Number of shares outstanding at the balance sheet date		
Common shares – ON	64,484,433	64,484,433
Preferred shares – PN	88,177,132	88,177,132
Total	152,661,565	152,661,565
Equity		
Share capital	2,000,000	1,162,626
Capital reserves	1,217,661	2,055,035
Special goodwill reserve	147,912	147,912
Earnings reserves	1,516,874	1,712,657
Proposed additional dividends	30,000	-
Total	**4,912,447**	**5,078,230**
Profit for the year	**31,921**	**843,488**

(b) Information on Company's investment

	12/31/2013	12/31/2012
Shares held - Common shares outstanding at the balance sheet date	57,714,208	57,714,208
Equity of CTEEP	4,912,447	5,078,230
(-) Special goodwill reserve	(147,912)	(147,912)
Equity of CTEEP – basis for equity in subsidiary	4,764,535	4,930,318
Equity interest in CTEEP	37.8053%	37.8053%
Investment	**1,801,249**	**1,863,922**
Concession right to amortize	-	68,506
Special goodwill reserve	147,912	147,912
Adjustment to equity in interest – Law 4.819/58	111,582	-
Total investment	**2,060,743**	**2,080,340**

In 2013, the subsidiary CTEEP recorded a provision for losses on unrealizable receivables for amounts receivable from the São Paulo State Finance Department, relating to the supplementary pension plan regulated by State Law 4.819/58. In order to calculate the equity in subsidiary from the investment in CTEEP , the Company made an adjustment of R$111,582, to disregard the effect of the provision previously mentioned, with the objective of aligning the time of recognition of the obligations arising from Law 4.819/58, since the Company has already recorded a liability of the same nature.

In thousands of Brazilian reais, unless otherwise stated

(c) Changes in the investment in 2013

Balance at December 31, 2011	**2,039,320**
Sale of shares (920 shares)	(26)
Equity in subsidiary	319,618
Interim dividends recognized in the year	(67.571)
Interest on capital for the year	(48,352)
Amortization of concession right (notes 16 and 30)	(162,649)
Balance at December 31, 2012	**2,080,340**
Equity in subsidiary	124,518
Interest on capital for the year (i)	(75,611)
Amortization of concession right (notes 16 and 30)	(68,504)
Balance at December 31, 2013	**2,060,743**

(i) In 2013, the Board of Directors of the subsidiary CTEEP approved interest on capital and interim dividends in the amount of R$200,000, to be paid on January 30, 2014. Of that amount, R$75,611 was paid to ISA Capital and R$124,389 to the remaining shareholders.

In thousands of Brazilian reais, unless otherwise stated

14.2. Investments held by the subsidiary CTEEP

(a) Information on CTEEP's subsidiaries

INVESTMENTS HELD BY SUBSIDIARY CTEEP

	IEMG		Pinheiros		Serra do Japi		Evrecy		IENNE		IESul		IEMadeira		IEGaranhuns	
Reporting date	12/31/2013	12/31/2012	12/31/2013	12/31/2012	12/31/2013	12/31/2012	12/31/2013	12/31/2012	12/31/2013	12/31/2012	12/31/2013	12/31/2012	12/31/2013	12/31/2012	12/31/2013	12/31/2012
Number of common shares held	81,855,292	78,855,292	269,360,000	236,760,000	86,748,000	86,748,000	21,512,367	21,512,367	81,821,000	81,821,000	88,228,499	74,128,499	632,910,000	487,560,000	99,450,000	15,300,,510
Equity interest - %	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	81,855	78,855	269,360	236,760	86,748	86,748	21,512	21,512	327,284	327,284	176,457	148,257	1,241,000	956,000	195,000	30,001
Equity	106,871	100,419	311,607	260,114	140,160	109,550	36,915	32,520	343,773	385,294	187,456	156,445	1,552,752	1,132,215	202,813	30,543
Profit for the year	3,452	2,534	18,893	13,319	30,610	18,070	5,022	246	(41,521)	16,365	2,811	1,371	135,537	115,855	7,271	542

(b) Changes in investments held by the subsidiary CTEEP

	IENNE	IESul	IEMadeira	IEGaranhuns	Consolidated Total
Balances in 2011	**91,965**	**63,712**	**377,584**	**1,020**	**534,281**
Capital contribution	268	13,825	140,760	14,281	169,134
Equity in subsidiaries	4,091	685	59,086	276	64,138
Balances in 2012	**96,324**	**78,222**	**577,430**	**15,577**	**767,553**
Capital contribution	-	14,100	145,350	84,149	243,599
Equity in subsidiaries	(10,381)	1,406	69,123	3,709	63,857
Balances in 2013	**85,943**	**93,728**	**791,903**	**103,435**	**1,075,009**

In thousands of Brazilian reais, unless otherwise stated

15. Property, plant and equipment

Refers mainly to chattels used by the Company and the subsidiary CTEEP not related to the concession arrangement.

	Average annual depreciation rates				Company
				12/31/2013	12/31/2012
	%	Cost	Accumulated depreciation	Net	Net
In service					
Machinery and equipment	6%	33	(16)	17	23
Furniture and fixtures	6%	31	(18)	13	16
		64	**(34)**	**30**	**39**

					Consolidated
	Average annual depreciation rates			12/31/2013	Restated 12/31/2012
	%	Cost	Accumulated depreciation	Net	Net
In service					
Land	0%	2,060	-	2,060	-
Machinery and equipment	6.25%	2,740	(1,665)	1,075	911
Furniture and fixtures	6.0%	6,787	(4,676)	2,111	2,339
IT equipment	24.8%(*)	7,206	(3,081)	4,125	4,787
Vehicles	21.0%	798	(604)	194	321
Other	4.0%	1,766	(931)	835	56
		21,357	**(10,597)**	**10,400**	**8,414**

(*)Includes lease of IT equipment at the rate of 33.3%.

Changes in property, plant and equipment are as follows:

			Company
	Balances at 12/31/2012	Depreciation	Balances at 12/31/2013
Machinery and equipment	23	(6)	17
Furniture and fixtures	16	(3)	13
	39	**(9)**	**30**

In thousands of Brazilian reais, unless otherwise stated

					Consolidated
	Restated balances at 12/31/2012	Additions	Depreciation (note 28)	Write-offs/Transfers	Balances at 12/31/2013
Land	-	2,060	-	-	2,060
Machinery and equipment	911	288	(123)	(1)	1,075
Furniture and fixtures	2,339	82	(308)	(2)	2,111
IT equipment	4,787	1,202	(1,853)	(11)	4,125
Vehicles	321	-	(126)	(1)	194
Other	56	783	(4)	-	835
	8,414	**4,415**	**(2,414)**	**(15)**	**10,400**

16. Intangible assets

Intangible assets refer substantially to:

a) Expenditures incurred by the subsidiary CTEEP in the period from April 2008 to February 2009 for the implementation and structuring of ERP-SAP, amortized on a straight-line basis, over a period of 5 years; and

b) Goodwill paid by ISA Capital on acquisition of controlling interest in subsidiary CTEEP, based upon expected future earnings and amortization over the effective term of concession arrangement 059/2001 of the subsidiary CTEEP, which was originally to expire in June 2015. With the extension of the concession arrangement of the subsidiary CTEEP for a further 30 years starting from January 2013, and considering the method and criteria established by Provisional Acts 579 and 591 of 2012 for the payment of unamortized or undepreciated investments associated with the concession-related assets segregated into Existing Services (SE) and New Investments (NI), the management of the subsidiary CTEEP opted to accelerate the amortization of the remaining balance of goodwill, as follows: 61% in 2012 and 39% in 2013 according to the recognition by CTEEP of the amounts to which it is entitled to receive from the concession grantor for investments associated with assets subject to indemnification. Accordingly, of the balance of goodwill of R$175,185 at December 31, 2012, the amount of R$106,681, equivalent to 61%, was amortized in December 2012 and the remaining balance of R$68,504 was fully amortized in 2013.

c) Goodwill of R$28,846, arising on the acquisition of Evrecy by the subsidiary CTEEP.

d) Amount resulting from the adjustment made to the calculation of equity in subsidiary from the investment in CTEEP, as mentioned in note 14, item b).

In thousands of Brazilian reais, unless otherwise stated

Changes in intangible assets are as follows:

	Consolidated
Balance in 2011	**240,100**
Additions	37,036
Amortization	(166,341)
Balance in 2012	**110,795**
Additions	122,785
Amortization	(75,929)
Balance in 2013	**157,651**

17. Borrowings and financing

Borrowings and financing are as follows:

	Charges	Final maturity	12/31/2013	12/31/2012
				Company
Foreign currency				
Bonds (a)	8.80%	01/30/2017	76,865	67,051
Current			**2,719**	**2,372**
Noncurrent			**74,146**	**64,679**

	Charges	Final maturity	12/31/2013	Restated 12/31/2012
				Consolidated
Foreign currency				
Bonds (a)	8.80%	01/30/2017	76,865	67,051
Foreign currency with hedge accounting				
International credit not (CCB) - IBBA (d) (i)	US$ fluctuation + 4% p.a.	04/26/2013	-	132,309
Commercial Paper - JP Morgan (d) (ii)	US$ fluctuation + 2.1% p.a.	10/21/2013	-	177,318
Total in foreign currency			**76,865**	**376,678**
Local currency				
BNDES (a) (i)	TJLP + 2.3% p.a.	06/15/2015	84,488	140,798
BNDES (a) (ii)	TJLP + 1.8% p.a.	06/15/2015	141,217	234,681
BNDES (a) (iii)	TJLP + 2.1% p.a.	02/15/2028	7,303	-
BNDES (a) (iii)	3.5% p.a.	04/15/2023	16,502	-
BNDES (a) (iv)	TJLP + 2.6% p.a.	05/15/2026	44,210	47,758
BNDES (a) (iv)	5.5% p.a.	01/15/2021	71,128	80,152
BNDES (a) (v)	TJLP + 1.9% p.a.	05/15/2026	46,083	49,801
BNDES (a) (v)	TJLP + 1.5% p.a.	05/15/2026	39,829	43,038
BNDES (a) (vi)	TJLP + 2.4% p.a.	04/15/2023	47,432	52,513
Promissory notes				

6th issue (c)	104.9% CDI p.a.	01/05/2013	-	433,873
Eletrobras	8.0% p.a.	11/15/2021	290	340
Finance leases			3,355	5,048
Total in local currency			**501,837**	**1,088,002**
Total in local and foreign currency			**578,702**	**1,464,680**
Current			**195,530**	**938,917**
Noncurrent			**383,172**	**525,763**

(a) Issuance of bonds on January 29, 2007 in the amount of US$554 million

The Company issued bonds on January 29, 2007 in the total amount of US$554.0 million, split into two tranches, as follows:

The first tranche, in the amount of US$200.0 million, had a five-year maturity in 2012, an interest rate of 7.875% per year, and a call option in 2010 and 2011. The second tranche, in the amount of US$354.0 million, had a ten-year maturity in 2017 and an interest rate of 8.8% per year.

In March 2010, the Company made a debt restructuring and repurchased the total tranche of US$200.0 million (by exercising the call option) and 91.06% of the total tranche of US$354.0 million, leaving only 8.94%, equivalent to US$31.6 million, outstanding in the market.

These outstanding bonds are subject to the same conditions as were agreed at issue, with no type of covenants. The maturity date of the principal remains January 2017 and interest continues to be paid on a semiannual basis in January and July of each year at the rate of 8.8% per year. In 2013, ISA Capital paid to the bondholders interest of R$ 5,772.

(b) BNDES

(i) On November 18, 2008, the subsidiary CTEEP executed a loan agreement with the National Bank for Economic and Social Development (BNDES) in the amount of R$329.1 million, with repayment beginning January 2011 in 54 monthly installments; until the beginning of repayment, charges were paid on a quarterly basis. As a collateral, the subsidiary CTEEP offered bank guarantees effective through June 15, 2015, from Bradesco and Santander, at the rate of 1.2% p.a and 0.6% p.a., respectively, with quarterly maturities.

(ii) On September 17, 2007, the subsidiary CTEEP executed a loan agreement with BNDES in the amount of R$764.2 million, which was reduced to R$601.7 million in December 2008. The amount refers to 70.0% of total investments, which includes systemic improvement work, enhancements, modernization of the existing transmission system and new projects, and is an integral part of the 2006/2008 Multi-year Investment Plan, with repayment beginning January 2009 in 78 monthly installments. As collateral, the subsidiary CTEEP offered bank guarantees effective through December 15, 2015, from Bradesco, Santander and Banco do Brasil, at the rate of 0.7% p.a., with quarterly maturities.

On December 26, 2013, BNDES sent a letter to CTEEP, changing the maximum financial ratios to Net Debt/Adjusted EBITDA < 6.0 and Net Debt/(Net Debt + Equity) < 0.6, for immediate application, relating to the agreements mentioned in items (i) and (ii), determined on an annual basis. For the purposes of calculation and documentation of said ratio, the subsidiary CTEEP shall consolidate all subsidiaries and jointly-controlled entities (proportionately to the interest held), provided that the interest held is equal to or greater than 10%. The formalization will occur subsequently by means of an addendum to the agreement, and there is no event of accelerated maturity related to restrictive covenants.

(iii) On August 13, 2013, subsidiary Pinheiros entered into a loan agreement with BNDES in the amount of R$23.5 million. The amounts of R$21.6 million and R$1.9 million were released on September 12 and December 11, 2013, respectively. The funds will finance the transmission lines and substations set forth in concession arrangement 021/2011, repayable in up to 168 monthly installments beginning March 15, 2014. The subsidiary Pinheiros shall maintain, during the amortization period and after the release of the guarantees, a Debt Service Coverage Ratio (DSCR) of at least 1.3, determined on an annual basis.

(iv) On December 30, 2010, subsidiary Pinheiros executed a loan agreement with BNDES in the amount of R$119.9 million. The amounts of R$91.3 million and R$28.6 million were released on January 28 and April 27, 2011, respectively. The funds will be used to finance the construction of the transmission lines and substations set forth in the concession arrangements. Repayment will be made in 168 monthly installments beginning September 15, 2011. The subsidiary Pinheiros shall maintain, during the amortization period and after the release of the guarantees, a Debt Service Coverage Ratio (DSCR) of at least 1.3, determined on an annual basis.

(v) On October 28, 2011, Serra do Japi (a subsidiary of CTEEP) executed a loan agreement with BNDES in the amount of R$93.3 million. The amounts of R$75.0, R$15.0 and R$3.3 million were released on November 18 and December 12, 2011 and February 27, 2012, respectively. The funds will be used to finance the construction of the transmission lines and substations set forth in the concession arrangements. Repayment will be made in 168 monthly installments beginning June 15, 2012. Serra do Japi shall maintain, during the amortization period and after the release of the guarantees, a Debt Service Coverage Ratio (DSCR) of at least 1.2, determined on an annual basis.

(vi) On January 14, 2009, subsidiary IEMG executed a loan agreement with BNDES in the amount of R$70.6 million, which was released on March 27, 2009. The funds will be used to finance approximately 50.0% of the transmission line between Neves 1 and Mesquita substations, with repayment beginning May 15, 2009, in 168 monthly installments. The bank guarantee was relinquished by BNDES on March 15, 2011. IEMG shall maintain, during the amortization period, a Debt Service Coverage Ratio (DSCR) of at least 1.3, determined on an annual basis.

On December 23, 2013, the subsidiary CTEEP entered into a loan agreement with BNDES in the amount of R$391.3 million, as follows: R$284.2 million subject to TJLP + 1.80% p.a, R$1.9 million subject to TJLP, and R$105.2 million subject to interest of 3.50% p.a. The funds will be used to finance the 2012-2014 Multi-year Investment Plan, which encompasses modernization of the electric power transmission system, systemic improvements, upgrades and new projects, as well as social investments in the community.

Interest is payable quarterly (March, June, September and December) and monthly starting April 2015. The principal amount of the loan shall be repaid starting April 2015 in 168 monthly, equal, successive installments. As a collateral, the subsidiary CTEEP offered a bank guarantee effective for a minimum of 2 years, from Bradesco and Safra, at the rate of 0.94% p.a. and 0.80% p.a., respectively, with quarterly maturities. In 2013 there were no disbursements associated with this agreement. The first release under this agreement occurred in January 2014 (note 37 (a)).

(c) Promissory notes

(i) On January 11, 2012, the subsidiary CTEEP completed the 6th issue of promissory notes in the amount of R$400.0 million, with settlement on January 7, 2013. The issuance costs on these promissory notes totaled R$479 thousand, and in conformity with CPC 08 (IAS 39), were recorded in profit or loss within the transaction term, minus borrowing costs.

In thousands of Brazilian reais, unless otherwise stated

(d) Foreign currency with hedge accounting

(i) On April 20, 2011, the subsidiary CTEEP executed an international bank credit note with Banco Itaú BBA Nassau, in the amount of US$63,694,267.52, subject to exchange rate changes + 4% p.a. Additionally, a swap instrument was entered into with Banco Itaú BBA at the notional value of R$100.0 million and adjustment rate of 103.50% of the CDI rate. The effects of this instrument are described in note 33 (a). The transaction was settled on April 26, 2013 for US$63,694, equivalent to R$128,146. The swap with Itaú BBA in the notional amount of R$100,000 was settled concurrently. This transaction generated a net gain of R$23,535.

(ii) On October 17, 2011, the subsidiary CTEEP executed a long-term foreign loan agreement with JP Morgan Chase, in the amount of US$85,787,818.13, subject to exchange rate changes + 2.1% p.a. Additionally, a swap instrument was entered into with JP Morgan Chase at the notional value of R$150.0 million and adjustment rate of 98.3% of the CDI rate. The transaction was settled on October 21, 2013, in the amount of US$86,581, equivalent to R$187,153. The swap with JP Morgan in the notional amount of R$150,000 was settled concurrently. This transaction generated a net gain of R$26,794.

The long-term portion matures as follows:

	Company		**Consolidated**	
	12/31/2013	**12/31/2012**	**12/31/2013**	**Restated 12/31/2012**
2014	-	-	-	174,977
2015	-	-	102,527	100,037
2016	-	-	26,542	24,245
2017	74,146	64,679	100,688	88,924
2018	-	-	26,536	24,245
2019	-		26,517	24,245
After 2019	-	-	100,362	89,090
	74,146	**64,679**	**383,172**	**525,763**

Changes in borrowings and financing are as follows:

	Company	**Consolidated Restated**
Balances at December 31, 2012	**67,051**	**1,464,680**
Additions	-	223,498
Payments (principal and interest)	(5,961)	(1,172,717)
Interest, inflation adjustment and exchange rate changes	15,775	63,241
Balances at December 31, 2013	**76,865**	**578,702**

In thousands of Brazilian reais, unless otherwise stated

The subsidiary CTEEP is a party to the loan agreements of its subsidiaries as a guarantor, as shown below:

Subsidiary	**Equity interest in subsidiary**	**Bank**	**Type of debt**	**Outstanding balance at 12/31/2013**	**Guarantees**	**Balance guaranteed by CTEEP**	**Guarantees expire**
IEMG	100%	BNDES	FINEM	47,432	None	47,432	03/15/2023
Serra do Japi	100%	BNDES	FINEM	85,912	Bank guarantee	85,912	08/15/2026
Pinheiros	100%	BNDES	FINEM and PSI	87,852	Bank guarantee	87,852	01/17/2014
Pinheiros	100%	BNDES	FINEM and PSI	27,486	Bank guarantee	27,486	02/28/2014
Pinheiros	100%	BNDES	FINEM and PSI	23,805	Bank guarantee	23,805	08/23/2015
IESul	50%	BNDES	FINEM and PSI	16,384	Bank guarantee	8,192	10/05/2014
IESul	50%	BNDES	FINEM and PSI	21,510	Bank guarantee	10,755	08/10/2015
IENNE	25%	Banco do Nordeste	FNE	214,251	Bank guarantee	53,563	06/01/2014
IENNE	25%	Banco do Brasil	Overdraft facility	17,530	None	4,383	02/03/2014
IEMadeira	51%	Banco da Amazônia	Bank credit note	281,855	Bank guarantee	143,746	06/30/2016
IEMadeira	51%	BNDES	FINEM and PSI	1,782,852	Bank guarantee	909,255	06/30/2016
IEMadeira	51%	Itaú/BES	Infrastructure debentures	376,552	Guarantee	192,042	03/18/2025
IEGaranhuns	51%	HSBC	Debentures	198,467	Guarantee	101,218	04/15/2014

CTEEP has given guarantee for bank guarantee agreements and BNDES financing agreements, limited to its stake in the subsidiaries.

The BNDES agreements and debentures of the subsidiaries and jointly-controlled entities contain restrictive covenants that require them to meet financial ratios similar to those mentioned in item a (i) and (ii), and cross default clauses that stipulate that the accelerated maturity of CTEEP's debts triggers the accelerated maturity of these debts.

18. Debentures

				Consolidated	
	Maturity	**Quantity**	**Charges**	**2013**	**Restated 2012**
1st series	12/15/2014	49,100	CDI + 1.3% p.a.	162,518	325,959
2nd series	12/15/2017	5,760	IPCA + 8.1% p.a.	75,147	70,915
Single series CTEEP (i)	07/02/2014	70,000	105.5% of CDI p.a.	-	726,476
Single series CTEEP (i)	12/26/2018	50,000	116.0% of CDI p.a.	499,975	-
				737,640	**1,123,350**
Current				**184,884**	**166,667**
Noncurrent				**552,756**	**956,683**

In thousands of Brazilian reais, unless otherwise stated

In December 2009, the subsidiary CTEEP issued 54,860 debentures in two series in the total amount of R$548.6 million, whose funds began to be released in January 2010.

- 1st series: The debentures mature annually at the end of the term of 5 years from the issue date, on December 15, 2012, 2013 and 2014; and interest is paid semiannually, on June 15 and December 15 of each year.

- 2nd series: The debentures will mature as follows: June 15, 2014, December 15, 2015, 2016 and 2017; and interest is paid semiannually, on June 15 and December 15 of each year.

The financial ratios set out in the indenture are: Net Debt/Adjusted EBITDA ≤ = 3.5 and Adjusted EBITDA/Finance Income (Costs) > = 3.0, determined on a quarterly basis.

To date all requirements and restrictive covenants set out in the agreements have been properly met and satisfied by the subsidiary CTEEP and its subsidiaries.

(i) In July 2012, the subsidiary CTEEP issued 70,000 debentures in a single series, in the total amount of R$700.0 million, which was fully paid in advance on December 30, 2013.

(ii) In December 2013, the subsidiary CTEEP issued 50,000 debentures in a single series, in the amount of R$500.0 million. The debentures will mature annually on December 26, 2016, 2017 and 2018; and interest is paid semiannually beginning June 26, 2016. The financial ratios specified in the indenture are the same as established in the BNDES agreements (note 17 (a) (i) and (ii)).

The long-term portion matures as follows:

	Consolidated	
	2013	**Restated 2012**
2014	-	905,509
2015	17,580	17,058
2016	184,245	17,058
2017	184,269	17,058
2018	166,662	-
	552,756	**956,683**

Changes in debentures are as follows:

Balances in 2011	**557,853**
Additions	700,000
Repayment of principal	(163,667)
Payment of interest	(53,931)
Interest, inflation adjustment and exchange rate changes	83,095
Balances in 2012	**1,123,350**

In thousands of Brazilian reais, unless otherwise stated

Additions	500,000
Repayment of principal	(863,667)
Payment of interest	(142,779)
Interest, inflation adjustment and exchange rate changes	120,736
Balances in 2013	**737,640**

19. Taxes and social security obligations

	Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Income tax	418	368	665	82,188
Social contribution	-	-	160	30,419
COFINS (tax on revenue)	5,746	-	10,323	8,810
PIS (tax on revenue)	1,248	-	2,241	1,910
Scholarship program	-	-	36	166
INSS (social security tax)	17	21	5,402	5,764
ISS (service tax)	-	6	2,530	3,141
Other	3	4	6,205	7,053
	7,432	**399**	**27,562**	**139,451**

20. Taxes in installments – Law 11941

Due to matters related to the completion method, the subsidiary CTEEP has rectified the Statement of Federal Tax Debts and Credits (DCTF) from 2004 to 2007, calculating a debt relating to PIS and COFINS. In order to settle the debt, the subsidiary CTEEP joined the Tax Debt Installment Payment Program introduced by Law 11941, of May 27, 2009, and paid R$141,162 in cash on November 30, 2009, eligible to the benefit of reduction of fine and interest in the amount of R$42,257. The remaining balance is being paid in 180 monthly installments since November 2009.

On June 30, 2011, the subsidiary CTEEP consolidated the tax debts with the Federal Revenue Service and elected for the installment payment in 180 months to calculate the installments to be paid beginning June 30, 2011. The prepayments made from November 30, 2009 to May 31, 2011 were deducted from the total installments, corresponding to 19 installments already paid. After the deduction of prepayments, 161 installments were generated for payment beginning June 30, 2011, the first installment in the amount of R$975, subject to inflation adjustment based on the accumulated SELIC rate as from December 2009.

Changes in the years ended December 31, 2013 and 2012 are as follows:

	2013	**2012**
Opening balance	155,455	157,509
Inflation adjustment on debt	8,818	10,725
Payments made	(13,531)	(12,779)
	150,742	**155,455**
Current	**13,915**	**13,137**
Noncurrent	**136,827**	**142,318**

In thousands of Brazilian reais, unless otherwise stated

21. Deferred PIS and COFINS

	Consolidated	
	2013	**Restated 2012**
Deferred PIS	21,019	15,105
Deferred COFINS	96,841	69,600
	117,860	**84,705**

Deferred PIS and COFINS refer to construction revenues and finance income determined on the construction financial asset of the subsidiary CTEEP. Payment is made upon the effective billing of the Allowed Annual Revenue (RAP) and amortization of the financial asset.

22. Regulatory charges payable

	Consolidated	
	2013	**Restated 2012**
Research and Development (i)	65,742	61,408
Energy Development Account (CDE)	504	2,556
Fuel Consumption Account (CCC)	-	1,203
Global Reversal Reserve (RGR) (ii)	6,684	12,641
Alternative Electric Power Sources Incentive Program (PROINFA)	1,257	1,697
ANEEL inspection fee	499	307
	74,686	**79,812**
Current	**38,666**	**40,344**
Noncurrent	**36,020**	**39,468**

(i) CTEEP and its subsidiaries recognized liabilities relating to amounts already billed in tariffs (1% of the net operating revenues) but not invested yet in the Research & Development Program, adjusted on a monthly basis, as from the 2nd month following its recognition until effective realization, based on the SELIC rate, as set forth in ANEEL Resolutions 300/2008 and 316/2008. The balances of projects will be settled when each project is completed.

(ii) Pursuant to article 21 of Law 12783, beginning January 1, 2013, power transmission companies with concession arrangements extended as set forth in the aforementioned law are not required to pay the annual RGR amount. For the subsidiary CTEEP, this provision of said law applies to Arrangement 059/2001. As at December 31, 2013, the RGR balance payable refers to the difference payable for 2011 and 2012.

In thousands of Brazilian reais, unless otherwise stated

23. Provisions

	Company		Consolidated	
	2013	**2012**	**2013**	**Restated 2012**
Vacation and related taxes	20	19	19,616	19,594
Profit sharing	-	-	8,401	7,863
Contingencies (a)	-	-	127,898	120,882
	20	**19**	**155,915**	**148,339**
Current	**20**	**19**	**28,017**	**27,457**
Noncurrent	**-**	**-**	**127,898**	**120,882**

(a) Provision for contingencies

Contingencies are assessed on a quarterly basis and classified based on the likelihood of loss, as shown below:

	Consolidated	
	2013	**2012**
Labor (i)	103,234	108,331
Civil	15,855	3,474
Tax – IPTU (ii)	7,042	7,506
Social security – INSS (iii)	1,767	1,571
	127,898	**120,882**

(i) Labor

The subsidiary CTEEP assumed the responsibility for certain lawsuits in different courts, mainly arising from partial spin-off processes of CESP and EPTE. The subsidiary CTEEP has escrow deposits for labor lawsuits in the amount of R$65,511 (R$65,497 as at December 31, 2012), as described in note 13.

(ii) Tax - IPTU

The subsidiary CTEEP recognizes a provision to cover the debts to the government of various municipalities in the State of São Paulo, relating to area regularization lawsuits, in the amount of R$7,042.

(iii) Social security - INSS

On August 10, 2001, the subsidiary CTEEP was notified by the National Institute of Social Security (INSS) due to its failure to pay contributions on compensations paid to employees, as meal ticket, breakfast, food staples basket and transportation ticket, from April 1999 to July 2001. CTEEP's Management filed a defense and currently the escrow deposit for this lawsuit totals R$1,226 (note 13).

In thousands of Brazilian reais, unless otherwise stated

(iv) Changes in provisions for contingencies:

						Consolidated
	Labor	**Civil**	**Tax - IPTU**	**Social security- INSS**	**ANEEL**	**Total**
Balances in 2011	**87,807**	**3,347**	**7,608**	**1,439**	**1,643**	**101,844**
Recognition	36,697	2,349	2,341	-	-	41,387
Reversal / payment	(18,194)	(2,486)	(2,915)	-	(1,698)	(25,293)
Adjustment	2,021	264	472	132	55	2,944
					-	
Balances 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
					-	
Balances in 2013	**103,234**	**15,855**	**7,042**	**1,767**	**55**	**127,898**

(b) Lawsuits whose likelihood of loss is assessed as possible

CTEEP and its subsidiaries are parties to tax, labor and civil lawsuits whose likelihood of loss, based on the opinion of their legal counsel, is assessed as possible, for which no provision was recognized, in the estimated amount of R$171,001 as at December 31, 2013 (R$65,942 as at December 31, 2012), mainly labor and tax lawsuits totaling R$141,886.

Classification	**Quantity**	**Total**
Labor	260	29,712
Civil	18	29,115
Tax – CSLL tax loss carryforwards (i)	1	19,348
Tax – MANAD (ii)	1	16,296
Tax – Goodwill amortization (iii)	1	59,339
Tax – IRPJ and CSLL (iv)	1	15,448
Tax – Other	19	1,743
		171,001

(i) Tax – CSLL tax loss carryforwards

Lawsuit arising from a tax assessment notice issued in 2007, in connection with the failure to confirm the social contribution tax loss carryforwards, arising from the balance sheet of partial spin-off of CESP. Pending judgment by the Administrative Board of Tax Appeals (CARF).

(ii) Tax – MANAD

Lawsuit arising from a tax assessment notice issued by the Federal Revenue Service in 2011, in view of the compliance with the accessory obligation relating to the delivery of digital files, related to the Instruction Guide of Digital Files (MANAD). Pending judgment of appeal.

(iii) Tax – Goodwill amortization

Lawsuit arising from a tax assessment notice issued by the Federal Revenue Service in 2013, in view of the goodwill paid by ISA on the acquisition of CTEEP shareholding control. Pending judgment by the Regional Judgment Office.

(iv) Tax – IRPJ and CSLL

Refers to the offset request filed by the Company in May 2003, related to income tax and social contribution loss carryforwards (FY 2002) amounting to R$16.9 million offset against income tax and social contribution debts, determined in the months of January to March 2003, which was partially granted. Pending judgment by the Administrative Board of Tax Appeals (CARF).

(c) Lawsuits whose likelihood of loss is assessed as remote

(v) Collection lawsuit filed by Eletrobras against Eletropaulo and EPTE

In 1989 Centrais Elétricas Brasileiras S.A. - ELETROBRAS filed an ordinary collection lawsuit against Eletropaulo - Eletricidade de São Paulo S.A. (currently Eletropaulo Metropolitana Eletricidade de São Paulo S.A. - “Eletropaulo”), relating to the balance of a financing agreement. Eletropaulo did not agree with the inflation adjustment criterion of the aforementioned financing agreement and deposited in court the amounts that it believed to be due. In 1999 a decision was handed down in connection with the aforementioned lawsuit, which sentenced Eletropaulo to pay the balance determined by ELETROBRAS.

Under Eletropaulo’s partial spin-off protocol, whose spin-off occurred on December 31, 1997 and which resulted in the establishment of EPTE and other companies, the obligations of any nature relating to the actions performed up to the spin-off date should be solely borne by Eletropaulo, except for the contingencies whose provisions were allocated to the merging companies. In the case under discussion, at the date of the partial spin-off, there was no allocation to the EPTE of a provision for any such purpose, and it was evident to the Management of CTEEP and its legal counsel that the responsibility for the aforementioned contingency should be solely borne by Eletropaulo. At the spin-off date, there was only the transfer to EPTE’s assets of an escrow deposit in the historical amount of R$4.00 made in 1988 by Eletropaulo, relating to the amount that company believed to be payable to ELETROBRAS as a balance of the aforementioned financing agreement, and allocation to the EPTE’s liabilities of an amount equivalent to this balance.

Therefore, in view of Eletropaulo’s partial spin-off protocol, EPTE would be the owner of the transferred asset and Eletropaulo would be responsible for the contingent liability relating to the amount claimed in courts by ELETROBRAS. In October 2001, ELETROBRAS executed the decision relating to the aforementioned financing agreement and charged R$429 million from Eletropaulo and R$49 million from EPTE, and believed that EPTE would make the payment of that amount using the adjusted funds of the aforementioned escrow deposit. CTEEP has merged EPTE on November 10, 2001, and became the successor of its obligations and rights.

On September 26, 2003, a decision handed down by the Court of Justice of the State of Rio de Janeiro was published and excluded Eletropaulo from the execution of the aforementioned decision. In light of the above-mentioned facts, ELETROBRAS filed on December 16, 2003 a special appeal to the Superior Court of Justice and a special appeal to the Supreme Federal Court, to keep the aforementioned collection relating to Eletropaulo. Appeals similar to those of ELETROBRAS were filed by CTEEP.
On June 29, 2006, the Superior Court of Justice has approved the special appeal of CTEEP, in the sense of reversing the decision handed down by the Court of Justice of the State of Rio de Janeiro which excluded Eletropaulo as the defendant in the execution action filed by ELETROBRAS.

Due to the aforementioned approval by the Superior Court of Justice, on December 4, 2006, Eletropaulo offered motions to clarify, which were dismissed according to the court decision published on April 16, 2007, as well as special and extraordinary appeals that upheld the decision handed down by the Superior Court of Justice, which was made final and unappealable on October 30, 2008. In view of these decisions that considered as unreasonable the Exception of Pre-Execution offered by Eletropaulo, the execution action brought by ELETROBRAS is in normal progress as originally proposed.

In December 2012, a decision that denied the taking of evidence by the parties completing the phase of proof for calculation of the award and declaring that Eletropaulo is liable for the award payment, deducting the amount deposited in courts relating to the consignment action. In 2013 the decision was reversed for expert evidence preparation.

In connection with such debt and in light of formal documents relating to Eletropaulo's partial spin-off, CTEEP, based on Management's and its legal counsel's opinion, is the owner only of the escrow deposit transferred to it as asset established in 1988, and should proceed with the defense of such right. On the other hand, the subsidiary CTEEP did not recognize a provision for contingency, which it believes should be Eletropaulo's responsibility and which, therefore, is being charged by ELETROBRAS and accepted by the courts.

24. Payables – Fundação CESP

The subsidiary CTEEP sponsors supplementary pension and health care plans managed by Fundação CESP which, together with the administrative costs of the fund, amount to R$6,091 at December 31, 2013 (R$6,226 at December 31, 2012), relating to monthly installments payable as contribution to the fund.

(a) Plan "A" – supplementary pension

Governed by State Law 4.819/58, applicable to employees hired through May 13, 1974, it offers retirement and pension benefits, bonus leave and family allowance. The funds necessary to cover the charges under such plan are the responsibility of the competent bodies of the State Government of São Paulo, therefore, with no risk and additional cost to CTEEP (note 36).

(b) Plans "B" and "B1" – supplementary pension

Plans "B" and "B1", governed by Law 6435/77 and managed by Fundação CESP, are sponsored by the subsidiary CTEEP and offer supplementary retirement and pension benefits, whose reserves are determined on a funded basis.

The so-called Plan "B" refers to the Proportional Supplemental Settled Benefit (BSPS), calculated as at December 31, 1997 (CTEEP) and March 31, 1998 (EPTE), according to the effective bylaws, and its actual financial and economic balance was determined at that time. The actuarial annual technical result of such plan (deficit or surplus) is the responsibility of the subsidiary CTEEP.

On January 1, 1998 (CTEEP) and April 1, 1998 (EPTE), Plan "B1" was implemented, establishing equal contributions and responsibilities among CTEEP and the plan participants, so as to maintain the actual financial and economic balance of the plan. This plan offers retirement and pension benefits to its employees, former employees and related beneficiaries so as to supplement the benefits offered by the official government plan. The plan's main feature is the mixed model, consisting of 70% defined benefit and 30% defined contribution. On the retirement date, the Defined Contribution Benefit Plan becomes the Defined Benefit Plan. Plans "B" and "B1" were financially merged and transformed into PSAP Plan- Transmissão Paulista.

In thousands of Brazilian reais, unless otherwise stated

(c) PSAP Plan - Transmissão Paulista

On January 1, 2004, the plans sponsored by the subsidiary CTEEP, as well as those of the liquidated EPTE, were financially merged and the individual features of the respective plans were maintained and resulted in the PSAP Plan - Transmissão Paulista.

In 2013 there was no significant change in the number of participants in the plans and assumptions adopted by the subsidiary CTEEP.

(d) Actuarial valuation

The projected unit credit method was adopted for the independent actuarial valuation of the PSAP pension plans of the subsidiary CTEEP. The actuarial report at December 31, 2012 shows an actuarial asset in the amount of R$20,887 which was not recorded due to the uncertainty regarding the recovery of such asset through reimbursements deriving from the plan or reduction in future contributions. The actuarial report at December 31, 2013 does not show any actuarial asset or liability.

Based on the actuarial reports, the main economic and financial information in accordance with CPC 33 and CVM Resolution 600 (IAS 19) are as follows:

(i) Reconciliation of assets and liabilities

	2013	**2012**
Fair value of plan assets (ii)	2,845,070	3,290,144
Present value of the defined benefit obligation (iii)	(2,102,790)	(2,678,356)
Actuarial surplus	742,280	611,788
Asset recognition restriction	(742,280)	(590,901)
Net asset	**-**	**20,887**

(ii) Changes in plan assets

	2013	**2012**
Fair value of the assets at the beginning of the year	3,290,144	2,684,582
Employer’s contributions	2,452	2,288
Employees’ contributions	3,014	3,353
Return on investments	(319,082)	716,481
Benefits paid	(131,458)	(116,560)
Fair value of the assets at the end of the year (i)	**2,845,070**	**3,290,144**

(iii) Changes in actuarial liability

	2013	**2012**
Present value of the net actuarial obligation at the beginning of the year	2,678,356	2,008,168
Current service cost	2,092	1,697
Interest costs	248,562	205,254
Participants’ contributions	3,014	3,353
Actuarial gain/loss	(697,776)	576,444
Benefits paid	(131,458)	(116,560)
Present value of the net actuarial obligation at the end of the year (i)	**2,102,790**	**2,678,356**

In thousands of Brazilian reais, unless otherwise stated

(iv) Plan participants (number of persons)

	2013	2012
Active	1,426	1,504
Inactive		
Retirees	2,000	1,928
Retirees for disability	40	37
Pensioners	122	109
	2,162	2,074
	3,588	**3,578**

(v) Actuarial assumptions used

	2013	2012
Discount rate of the present value of the actuarial liability (nominal)	11.50%	9.50%
Future salary increase rate (nominal)	6.30%	6.80%
Adjustment rate for life annuity benefits	4.75%	5.20%
General mortality table	AT-83	AT-83
Disability entry table	Light-Fraca	Light-Fraca
Disabled mortality table	AT-49	AT-49

25. Special obligations – Reversal/Amortization

The balance of R$24,053 at December 31, 2013 refers to the funds deriving from the reversal reserve, amortization and portion retained in the subsidiary CTEEP of the monthly amounts of the Global Reversal Reserve (RGR) relating to investments in the expansion of the electric power services and repayment of borrowings taken for the same purpose, which occurred through December 31, 1971. According to ANEEL Decision, the subsidiary CTEEP pays 5% on the reserve amount as interest. The settlement method of these obligations is not determined by the Concession Grantor.

26. Equity

(a) Share capital

ISA Capital was incorporated on April 28, 2006 as a limited liability company and, on September 29, 2006, it was converted into a joint stock company.

On March 9 and 19, 2010, the Company made two capital increases with issuance of redeemable preferred shares at the price of R$2.020731 per share, with redemption from April 12, 2013 to April 9, 2016, which were fully subscribed and paid up by HSBC Finance (Brasil) S.A. Banco Múltiplo, as follows:

At the Extraordinary General Meeting held on March 9, 2010, according to the terms of the Board of Directors' proposal dated March 8, 2010, an increase in the Company's capital was approved in the amount of R$840,000, of which R$420 was destined to the share capital and R$839,580 to the capital reserve, with creation and issuance of 415,691,162 redeemable preferred shares distributed in 13 classes, with cumulative fixed dividend rights, which were subscribed and paid up at the same date,

In thousands of Brazilian reais, unless otherwise stated

(i) thereby increasing the share capital of the Company from R$839,778 to R$840,198, represented by 1,256,316,162 shares. The same meeting approved a reduction in mandatory dividend from 25% to 1% and an amendment to the Company's bylaws; and

(ii) At a meeting held on March 19, 2010, the Board of Directors approved a new capital increase for the Company within the limit of its authorized capital, with issuance of 178,153,342 redeemable preferred shares distributed in 13 classes, with cumulative fixed dividend rights, in the total amount of R$360,000, which were subscribed and paid up at the same date. Of that amount, R$180 was destined to the share capital and R$359,820 to the capital reserve. Thus, the share capital of the Company increased from R$840,198 to R$840,378, represented by 1,398,838,834 shares.

(iii) Subsequently, on May 14, 2010, shareholder HSBC Finance (Brasil) S.A. Banco Múltiplo, which owned the 593,844,504 preferred shares issued by the Company, sold 50% to Banco Votorantim S.A.

(iv) As set forth in the schedule of redemption of preferred shares, in 2013 a total of 106,892,010 preferred shares were redeemed.

Thus, the subscribed and paid-in capital of the Company at December 31, 2013 totals R$840,378 and is represented by 840,625,000 common shares and 486,952,494 preferred shares, as follows:

Shareholder	Number of common shares	Number of preferred shares	Total	%
Interconexión Eléctrica S.A ESP	840,624,999	-	840,624,999	63.32%
Board of Directors' members	1	-	1	-
HSBC Finance (Brasil) S.A. Banco Múltiplo	-	243,476,247	243,476,247	18.34%
Banco Votorantim S.A.	-	243,476,247	243,476,247	18.34%
Total	**840,625,000**	**486,952,494**	**1,327,577,494**	**100.00%**

(b) Allocation of profits

Article 35º of the Company's bylaws provides for mandatory dividends equivalent to 1% of the profit for the year adjusted according to article 202 of Law 6404/76, destined to redeemable preferred shares up to the amount equivalent to Cumulative Fixed Dividends to which these shares are entitled to.

The cumulative fixed dividends are calculated and paid on a quarterly basis as determined by article 6 of the bylaws. Based on the profit for 2013 of R$25,603 and on the balance of the earnings retention reserve, the Company paid cumulative fixed dividends of R$96,212 on redeemable preferred shares.

Also pursuant to article 35° of the bylaws, an amount equivalent to 100% of the profit remaining after the recognition of the legal reserve, within legal limits, and payments of mandatory dividends and cumulative fixed dividends on preferred shares, shall be transferred to the earnings reserve until this reserve equals 50% of the amount redeemable related to redeemable preferred shares plus 120% of cumulative fixed dividends and/or amounts related to due and unpaid redemptions of preferred shares. Allocation is made on an annual basis.

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

In thousands of Brazilian reais, unless otherwise stated

Allocation of profits

	2,013	2,012
Profit for the year	**25,603**	**143,775**
Recognition of legal reserve	-	-
Calculation basis for dividends	**25,603**	**143,775**
Mandatory dividends paid	(256)	(1,438)
Cumulative fixed dividends paid	(347)	(85,139)
Cumulative fixed dividends to be paid in January 2014	(25,000)	-
Cumulative fixed dividends paid in January 2013	-	(21,334)
Total dividends paid out of the profit for the year	**(25,603)**	**(107,911)**
Cumulative fixed dividends paid out of the earnings retention reserve	(70,609)	-
Total cumulative fixed dividends paid	**(96,212)**	**(107,911)**
Recognition of remaining earnings retention reserve		**(35,864)**

(c) Cumulative fixed dividends

Article 35° of the Company's bylaws provides for mandatory dividends equivalent to 1% of the profit for the year adjusted according to article 202 of Law 6404/76, destined to redeemable preferred shares up to the amount equivalent to Cumulative Fixed Dividends to which these shares are entitled to.

The cumulative fixed dividends are calculated and paid on a quarterly basis as determined by article 6 of the bylaws.

The Board of Directors passed a resolution to distribute cumulative fixed dividends to the preferred shareholders, HSBC Finance (Brasil) S.A. Banco Múltiplo and Banco Votorantim S.A., relating to fiscal year 2013, as shown below:

Payment	Amount	Amount per share R$	Shares	Resolution	FY
04/12/2013	24,916	0.041958	558,213,834	04/12/2013	2013
07/04/2013	20,993	0.037607	558,213,834	07/04/2013	2013
10/04/2013	25,303	0.042607	558,213,834	10/04/2013	2013
01/06/2014	25,000	0.051339	558,213,834	01/06/2014	2013
Total	**96,212**				

(d) Dividends and interest on capital of subsidiary CTEEP

The subsidiary's bylaws provides for the payment of mandatory dividends corresponding to 10% of the capital, equivalent to R$200,000, limited to the balance of profit after the recognition of the legal reserve.

On December 20, 2013 by means of a Notice to Shareholders, the subsidiary CTEEP distributed interest on capital in the amount of R$200,000. Thus, on December 31, 2013, ISA Capital recognized within its accounts receivable the amount of R$75,611, the receipt of which occured on January 30, 2014.

(e) Capital reserve

After the above-mentioned resolutions of March 9 and 19, 2010, the balance of the capital reserve account of the Company at December 31, 2012 is R$1,199,400. Thus amount, according to the schedule of redemption, will be used to redeem redeemable preferred shares distributed in 13 classes, and can also, pursuant to the shareholders' agreement and Brazilian Corporate Law 6404/76, as amended, be used to pay dividends on redeemable preferred shares.

In thousands of Brazilian reais, unless otherwise stated

In 2013, a total of 106,892,010 redeemable preferred shares of classes A, B and C issued by the Company were redeemed, amounting to R$216,000. Said preferred shares were cancelled and the respective amount paid for redemption was fully debited to the capital reserve account. Accordingly, the balance of the capital reserve account at December 31, 2013 was R$983,400.

(f) Goodwill on equity transaction

After the subscription of CTEEP shares in December 2011, relating to the capital increase of 2011, the Company determined a gain on the variance in equity interest 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. This amount can be realized through any sale of CTEEP shares.

(g) Earnings reserves

	12/31/2013	12/31/2012
Legal reserve (i)	5,881	5,881
Earnings retention reserve (ii) (note 26.b)	54,884	125,493
	60,765	**131,374**

(i) Legal reserve

An amount of 5% of the profit for the year, before any allocation, shall be transferred to this reserve, up to the limit of 20% of the share capital. In the year in which the balance of the legal reserve plus the capital reserve amounts set forth in paragraph 1 of article 182 of the Brazilian Corporate Law exceeds 30% of the share capital, the transfer of a portion of the profit for the year to the legal reserve is no longer required.

(ii) Earnings retention reserve

The portion of the profit for the year remaining after payments of cumulative fixed dividends on redeemable preferred shares shall be transferred to this reserve, within the limits established by the Company's bylaws.
While there are redeemable preferred shares outstanding, this reserve shall be used only to pay cumulative fixed dividends on redeemable preferred shares and, if applicable, also to redeem redeemable preferred shares. In 2013 the amount of R$70,609 was used to pay cumulative fixed dividends.

(h) Earnings per share

Basic earnings per share are calculated using profit attributable to the controlling shareholders and noncontrolling interests, based on the weighted average number of common and preferred shares outstanding in the relevant period.

In thousands of Brazilian reais, unless otherwise stated

The table below shows the profit or loss and share data used to calculate basic earnings per share:

	12/31/2013	12/31/2012
Basic earnings		
Profit for the year – R$ thousand	25,603	143,775
Weighted average number of shares		
Common	840,625,000	840,625,000
Preferred	486,952,494	593,844,504
	1,327,577,494	**1,434,469,504**
Total basic earnings per share - R$	**0.0193**	**0.1002**

27. Net operating revenue

27.1 Breakdown of net operating revenue

	Consolidated	
	2013	Restated 2012
Gross revenue		
Construction (a) (note 8)	267,908	208,081
Operation and maintenance (a) (note 8)	586,599	592,276
Finance income (b) (note 8)	242,654	1,467,278
Rents	14,851	14,423
Services	6,333	5,123
Total gross revenue	1,118,345	2,287,181
Taxes on revenue		
COFINS	(82,601)	(79,728)
PIS	(17,931)	(17,295)
ISS	(376)	(295)
	(100,908)	(97,318)
Regulatory charges		
Fuel Consumption Account (CCC)	(892)	(41,155)
Energy Development Account (CDE)	(9,116)	(34,803)
Global Reversal Reserve (RGR)	(2,677)	(59,396)
Research & Development	(6,456)	(20,325)
Alternative Electric Power Sources Incentive Program (PROINFA)	(17,128)	(19,186)
	(36,269)	(174,865)
	981,168	**2,014,998**

(a) Construction and O&M services

The revenue from construction services under the service concession arrangement is recognized based on costs incurred. O&M revenues are recognized in the period in which services are provided by the subsidiary CTEEP. When CTEEP provides more than one service under a service concession arrangement, the compensation received is allocated by reference to the fair values of the services delivered.

(b) Finance income

Interest income is recognized at the effective interest rate on the outstanding principal. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected useful life of the financial asset in relation to the initial carrying amount of this asset.

27.2 Periodic review of the Allowed Annual Revenue (RAP)

Under the concession arrangements, through ANEEL, every four and five years after the date of execution of the arrangements, ANEEL can perform the periodic review of RAP on power transmission, in order to achieve reasonably priced tariffs. Pursuant to the 5th Addendum to Concession Arrangement 059/2001 signed on December 4, 2012, the next tariff review will take place in July 2018. The revenue related to concession arrangement 143/2001 is not subject to a periodic review.

The periodic review comprises the adjustment of the revenue upon determination of the following:

a) regulatory compensation basis for RBNI;
b) efficient operating costs;
c) optimal capital structure and definition of the compensation of transmission companies;
d) identification of the amount to be considered as tariff reduction - Other revenues.

The first tariff review of IEMG was established by Resolution 1299 of June 19, 2012, reducing the Allowed Annual Revenue (RAP) by 5.0%, effective July 1, 2012.

The first tariff review of IENNE was established by Resolution 1540 of June 18, 2013, reducing the Allowed Annual Revenue (RAP) by 8.9%, effective July 1, 2013.

The last tariff review of EVRECY was established by Resolution 1538 of June 18, 2013, reducing the Allowed Annual Revenue (RAP) by 16.0%, effective July 1, 2013.

27.3 Variable Portion (PV) and Addition to RAP

Regulatory Resolution 270 of July 9, 2007 regulates the Variable Portion (PV) and Addition to RAP. The Variable Portion is the discount on the RAP of transmission companies due to the unavailability or operational restriction of the facilities comprising the Basic Grid. The Addition to RAP is the amount to be added to the revenue of transmission companies as an incentive for improving the availability of transmission facilities. They are recognized as revenue and/or O&M revenue reduction in the period in which they occur.

Regulatory Resolution 512 of October 30, 2012 amended Regulatory Resolution 270/07, by including paragraph 3 in article 3, which extinguishes the Addition to RAP for transmission functions covered by Law 12783/2013.

27.4 Annual revenue adjustment

On June 26, 2012, Resolution 1313 was published to establish allowed annual revenues of CTEEP and its subsidiaries for the availability of the transmission facilities comprising the Basic Grid and other transmission facilities, for a 12-month cycle, from July 1, 2012 to June 30, 2013. Thereafter, Resolution 1395 of December 11, 2012 was published to change the amounts set forth in Resolution 1313/12, and also to establish the allowed annual revenues after Law 12783/2013.

Upon enactment of Law 12783/2013 and, correspondingly, under the 5th Amendment to Concession Arrangement 059/2001, beginning January 1, 2013 the RAP of said agreement is R$568,178, which, net of PIS and COFINS, totals R$515,621, pursuant to Interministerial Administrative Rule 579.

Subsidiary CTEEP’s RAP to be determined in twelfths from July 1, 2012 to June 30, 2013 is as follows:

In thousands of Brazilian reais, unless otherwise stated

Concession arrangement	Basic Grid				Other Transmission Facilities			Total
	Existing assets	New investments	Bid	Adjustment	Existing assets	New investments	Adjustment	
059/2001 – in effect Dec/12(*)	647,245	176,038	-	(22,066)	187,342	64,202	4,829	1,057,590
059/2001 – in effect Jun/13 (*)	197,293	-	-	(22,066)	86,795	-	4,829	266,851
143/2001	-	-	16,604	(667)	-	-	-	15,937
	844,538	**176,038**	**16,604**	**(44,799)**	**274,137**	**64,202**	**9,658**	**1,340,378**

CTEEP's and its subsidiaries' RAP to be determined in twelfths from July 1, 2012 to June 30, 2013 is as follows:

Concession arrangement	Basic Grid				Other Transmission Facilities				Total
	Existing assets	New investments	Bid	Adjustment	Existing assets	New investments	Bid	Adjustment	
059/2001 – in effect Dec/12(*)	647,245	176,038	-	(22,066)	187,342	64,202	-	4,829	1,057,590
059/2001 – in effect Jun/13 (*)	197,293	-	-	(22,066)	86,795	-	-	4,829	266,851
143/2001	-	-	16,604	(667)	-	-	-	-	15,937
004/2007	-	-	14,161	(594)	-	-	-	-	13,567
012/2008	-	-	6,739	418	-	-	1,016	-	8,173
015/2008	-	3,671	12,800	1,259	-	1,032	314	20	19,096
018/2008	-	-	3,292	-	-	-	40	-	3,332
026/2009	-	-	21,554	(1,355)	-	-	4,903	-	25,102
020/2008	6,603	2,180	-	(784)	-	1,952	-	(107)	9,844
	851,141	**181,889**	**75,150**	**(45,855)**	**274,137**	**67,186**	**6,273**	**9,571**	**1,419,492**

(*)Due to the extension of concession arrangement 059/2001 (note 1.2), the amounts in the table consider the RAP proportion according to the amounts prevailing in the relevant period. For the period from July to December 2012, the annual RAP proportion of R$2,131,115 was taken into consideration, and from January to June 2013, the annual RAP proportion of R$568,178, which net of PIS and COFINS totals R$515,621.

On June 27, 2013, Resolution 1595 was published to establish the allowed annual revenues of CTEEP and its subsidiaries for the availability of the transmission facilities comprising the Basic Grid and other transmission facilities, for a 12-month cycle, from July 1, 2013 to June 30, 2014.

Pursuant to Resolution 1595, CTEEP's RAP (arrangements 143 and 059/2001), net of PIS and COFINS, which was R$531,558 at January 1, 2013, increased to R$542,056 at July 1, 2013, an increase of R$10,498 or 2.0%. CTEEP's and its subsidiaries' RAP, which was R$610,672 at January 1, 2013, increased to R$630,159 at July 1, 2013, an increase of R$19,487 or 3.2%.

CTEEP's RAP, net of PIS and COFINS, to be determined in twelfths from July 1, 2013 to June 30, 2014 is as follows:

In thousands of Brazilian reais, unless otherwise stated

Concession arrangement	**Basic Grid**				**Other Transmission Facilities**			**Total**
	Existing assets	New investments	Bid	Adjustment	Existing assets	New investments	Adjustment	
059/2001	375,750	17,289	-	(33,978)	161,360	9,849	(5,318)	524,952
143/2001	-	-	17,636	(532)	-	-	-	17,104
	375,750	**17,289**	**17,636**	**(34,510)**	**161,360**	**9,849**	**(5,318)**	**542,056**

CTEEP's and its subsidiaries' RAP, net of PIS and COFINS, to be determined in twelfths from July 1, 2013 to June 30, 2014 is as follows:

Concession arrangement	**Basic Grid**				**Other Transmission Facilities**				**Total**
	Existing assets	New investments	Bid	Adjustment	Existing assets	New investments	Bid	Adjustment	
059/2001	375,750	17,289	-	(33,978)	161,360	9,849	-	(5,318)	524,952
143/2001	-	-	17,636	(532)	-	-	-	-	17,104
004/2007	-	-	15,082	(446)	-	-	-	-	14,636
012/2008	-	-	7,178	111	-	635	1,082	(3)	9,003
015/2008	-	3,909	13,632	(1,100)	-	1,100	334	(1)	17,874
018/2008	-	-	3,507	(6)	-	-	42	-	3,543
021/2011	-	-	3,575	-	-	-	1,311	-	4,886
026/2009	-	-	22,957	1,162	-	-	5,221	-	29,340
020/2008	-	8,214	-	(1,045)	-	1,743	-	(91)	8,821
	375,750	**29,412**	**83,567**	**(35,834)**	**161,360**	**13,327**	**7,990**	**(5,413)**	**630,159**

28. Costs of construction and O&M services and general and administrative expenses

	Company		**Consolidated**			
	2013	**2012**			**2013**	**Restated 2012**
	Total	**Total**	**Costs**	**Expenses**	**Total**	**Total**
Personnel	(2,015)	(1,864)	(211,692)	(50,559)	(262,251)	(250,970)
Services	(1,326)	(1,402)	(173,574)	(41,530)	(215,104)	(234,148)
Depreciation and amortization of intangible assets (notes 14 and 15)	(9)	(11)	-	(7,348)	(7,348)	(4,984)
Materials	-	-	(147,496)	(1,136)	(148,632)	(207,197)
Leases and rents	(284)	(288)	(8,664)	(5,984)	(14,648)	(15,231)
Contingencies	-	-	-	(51,056)	(51,056)	(44,317)
Other	(86)	(83)	(22,508)	(5,006)	(27,514)	(47,154)
	(3,720)	**(3,648)**	**(563,934)**	**(162,619)**	**(726,553)**	**(804,001)**

Of the costs shown above, the subsidiary CTEEP's construction costs totaled R$198,821 in 2013 and R$135,509 in 2012. Consolidated construction costs totaled R$243,766 in 2013 and R$182,846 in 2012. The respective construction revenue, as shown in note 27.1, is calculated by applying PIS and COFINS rates on the investment cost. For subsidiaries in the preoperating stage, general and administrative expenses are added to the investment cost. The projects provide for sufficient margin to cover construction costs.

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29. Finance income (costs)

	Company		Consolidated	
	2013	**2012**	**2013**	**Restated 2012**
Income				
Income from short-term investments	21,497	35,383	118,665	60,840
Interest income	3,497	2785	79,076	10,194
Mark-to-market (international CCB and *Commercial Paper*)	-	-	2,471	-
Interest (Selic rate) on recoverable income tax	2,225	2,178	2,225	2,178
Inflation adjustments	-	329	66,105	46,021
Exchange rate changes	22,533	18,537	22,533	18,537
Exchange rate changes (International CCB and *Commercial Paper*)	-	-	30,183	37,579
Swap (International CCB and *Commercial Paper*)	-	-	29,606	47,764
Other	-	-	3,167	1,704
	49,752	59,212	354,031	224,817
Costs				
Interest on borrowings	(6,056)	(5,456)	(50,080)	(65,904)
Interest expenses	-	-	(10,087)	(12,105)
Charges on promissory notes	-	-	(1,115)	(51,141)
Charges on debentures	-	-	(98,118)	(79,294)
Charges (International CCB and *Commercial Paper*)	-	-	(4,787)	(8,762)
Mark-to-market (International CCB and *Commercial Paper*)	-	-	-	(3,212)
IRRF on interest remittance	(902)	(785)	(902)	(785)
PIS on interest on capital	(1,248)	(798)	(1,248)	(798)
COFINS on interest on capital	(5,746)	(3,675)	(5,746)	(3,675)
Inflation adjustments	(14,455)	(19,967)	(14,455)	(19,967)
Exchange rate changes	(24,525)	(19,734)	(24,525)	(19,734)
Exchange rate changes (International CCB and *Commercial Paper*)	-	-	(38,326)	(62,707)
Swap (International CCB CCB and *Commercial Paper*)	-	-	(33,541)	(28,452)
Other	(46)	(32)	(2,109)	(3,408)
	(52,978)	(50,447)	(285,039)	(359,944)
	(3,226)	**8,765**	**68,992**	**(135,127)**

Foreign borrowings at the year-end resulted in a net expense from exchange rate changes of R$8,143 (R$25,128 in 2012) and charges of R$4,787 (R$8,762 in 2012). The swap adjustment generated a net expense of R$3,935 (income of R$19,312 in 2012).

The subsidiary CTEEP has two transactions to raise foreign funds as follows:

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The international CCB transaction with Banco Itaú BBA resulted at the year-end in a net income from exchange rate changes of R$2,011 (expense of R$10,718 in 2012), charges of R$1,648 (R$5,048 in 2012) and the mark-to-market generated income of R$1,196 (R$542 in 2012). The swap adjustment resulted in a net expense of R$4,934 (income of R$8,390 in 2012), at 103.5% of the CDI. The transaction was settled on April 26, 2013.

The borrowing under Law 4131 from Banco JP Morgan resulted at the year-end in a net expense from exchange rate changes of R$10,154 (R$14,410 in 2012) and charges of R$3,139 (R$3,714 in 2012) and the mark-to-market generated income of R$1,275 (expense of R$3,754 in 2012).The swap adjustment resulted in a net income of R$999 (R$10,922 in 2012), at 98.3% of the CDI. This transaction was settled on October 21, 2013.

30. Other operating income (expenses)

	Company		Consolidated	
	2013	**2012**	**2013**	**Restated 2012**
Income				
Amortization of loss - IEMG	-	-	-	2,437
Adjustment of accounts receivable based on the New Replacement Value – Existing Services (SE) (note 8) (ii)	-	-	-	4,444,510
Other	-	15	-	10,579
	-	**15**	**-**	**4,457,526**
Expenses				
Amortization of concession right (note 14.c)	(68,504)	(162,649)	(68,504)	(191,481)
Provision for write-down to cost – Existing Services (SE) (note 8) (iii)	-	-	-	(1,535,319)
Write-off of accounts receivable from construction services – SE (note 8) (i)	-	-	-	(2,724,622)
Write-off of inventory – investment (iv)	-	-	-	(87,072)
Losses from unrecoverable assets	-	-	(531,679)	-
Other	-	-	1	(23,798)
	(68,504)	(162,649)	(600,182)	(4,562,292)
	(68,504)	**(162,634)**	**(600,182)**	**(104,766)**

(i) This refers to the write-off of accounts receivable from construction services related to the estimated revenue until July 2015, the end of the concession arrangement in effect prior to Provisional Acts 579 and 591, in the amount of R$2,724,622.

(ii) Adjustment by reference to the New Replacement Value of accounts receivable related to the compensation for investments made and not amortized (New Investments – NI and Existing Services – SE), in the amount of R$4,444,510.

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(iii) Recognition of a provision for writing down the investment in Existing Services (SE) to their cost (note 8), in the amount of R$1,535,319.

(iv) Write-off of amounts kept in the stock of materials for investment projects, in the amount of R$87,072.

31. Income tax and social contribution

(a) Current taxes

ISA Capital monthly calculates income tax and social contribution on net income on the accrual basis.

At the end of 2013, the Company determined R$16,418 of current income tax and social contribution.

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

		Company
	2013	Restated 2012
Profit before income tax and social contribution	49,068	162,101
Statutory rates	34%	34%
Expected income tax and social contribution expense	(16,683)	(55,114)
Income tax and social contribution on permanent differences		
Interest on capital (note 26.d)	(25,708)	(16,440)
Amortization of concession right	(23,291)	(55,301)
Equity in subsidiaries	42,336	108,670
Deferred taxes from tax losses	-	-
Other	(119)	(141)
Income tax and social contribution effective	**(23,465)**	**(18,326)**
Income tax and social contribution		
Current	(16,418)	(12,821)
Deferred	(7,047)	(5,505)
	(23,465)	**(18,326)**
Effective rate	**47.8%**	**11.3%**

In thousands of Brazilian reais, unless otherwise stated

	Consolidated	
	2013	**Restated 2012**
Profit before income tax and social contribution	(101,136)	1,035,242
Statutory rates	34%	34%
Expected income tax and social contribution expense	34,386	(351,982)
Income tax and social contribution on permanent differences	-	-
Interest on capital (note 26.d)	42,100	26,981
Loss on disposal of property, plant and equipment	-	(25,230)
Nondeductible loss	-	(12,233)
Realization of losses	(1,634)	-
Amortization of concession right	(23,291)	(55,301)
Reversal of the provision for maintenance of equity integrity (note 11)	19,725	19,029
Equity in subsidiaries	59,649	21,807
Effect of the adoption of the presumed profit regime by subsidiaries (i)	11,290	4,648
Other	3,499	4,685
Income tax and social contribution effective	**145,724**	**(367,596)**
Income tax and social contribution		
Current	(71,974)	(341,271)
Deferred	217,698	(26,325)
	145,724	**(367,596)**
Effective rate	**144.1%**	**35.5%**

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

The tax rate used in 2013 and 2012 tax computations is 34%, payable by legal entities in Brazil on taxable income, as provided for by the relevant tax law.

(b) Deferred taxes

In 2011 the Company recorded within assets the amount of R$53,000 related to Income Tax and Social Contribution asset from tax loss carryforwards, based on forecasts of future profits that were not previously expected. Due to the utilization of tax loss carryforwards to reduce the calculation basis of taxable income, the Company recognized in 2013 the amount of R$7,047 of deferred income tax and social contribution. The Company’s Management reviewed the amounts and estimates to utilize until 2015 the balance of R$32,507 as of December 31, 2013, as shown below:

In thousands of Brazilian reais, unless otherwise stated

Tax asset utilized annually	**2014**	**2015**	**Total**
Income tax	-	23,932	23,932
Social contribution	-	8,575	8,575
	-	**32,507**	**32,507**

Additionally, the Company has R$192,284 as of December 31, 2013 (R$191,775 as of December 31, 2012) of tax assets from tax loss carryforwards, which were not accounted for since it is not yet probable that these tax assets will be realized in the foreseeable future.

Deferred tax assets and liabilities are as follows:

	Company		**Consolidated**	
	2013	**2012**	**2013**	**Restated 2012**
Provision – São Paulo State Finance Department	-	-	175,527	
Provision for contingencies	-	-	43,485	41,100
Concession arrangement (ICPC 01)	-	-	(38,797)	(37,048)
Return of assets (ICPC 01)	-	-	16,063	51,930
Return of assets (i)	-	-	(26,199)	(85,079)
Deferred income tax from tax losses	23,932	29,113	23,932	29,113
Deferred social contribution from tax loss carryforwards	8,575	10,440	8,575	10,440
Derivative financial instruments	-	-	-	(18,383)
Other temporary differences	-	-	14,642	8,548
Net	**32,507**	**39,553**	**217,228**	**621**
Noncurrent assets	**32,507**	**39,553**	**251,775**	**39,553**
Noncurrent liabilities	**-**	**-**	**34,547**	**38,932**

(i) The subsidiary CTEEP recognized capital gain for tax purposes due to the return and sale of property, plant and equipment items, as set forth in Law 12783 and fifth addendum to concession arrangement 059/2001, executed on December 4, 2012, in the amount of R$250,231 (corresponding to R$97,497 for corporate purposes). Based on Decree Law 1598/77, capital gain can be recognized for purposes of determination of taxable income proportionately to the portion of price received, if the receipt of part or all of the amount is higher than the current fiscal year. Portions received until December 31, 2013 totaled approximately 69.4% of the total amount receivable for New Investments (NI) facilities.

CTEEP's Management believes that the deferred income tax and social contribution assets arising from temporary differences will be realized proportionately to the contingencies and occurrence of the events that gave rise to the provisions for contingencies.

(c) Assessing the impacts of Provisional Act 627

Provisional Act 627 of November 11, 2013 and Federal Revenue Service Instruction 1397 of September 16, 2013 introduced significant changes in federal tax rules. The provisions of said Provisional Act are mandatorily applicable as from calendar year 2015, with early application permitted as from calendar year 2014.

The subsidiary CTEEP will not early adopt said Provisional Act, since the distributions of dividends and interest on capital for the period in which the Transitional Tax Regime (RTT) was in effect do not significantly differ from those which would have been distributed if determined in accordance with the accounting practices prevailing at December 31, 2007. In view of the large number of proposed amendments, it is possible that, before being signed into law, the Provisional Act is changed. It was not possible to estimate any prospective impacts of the changes.

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32. Related-party transactions

The main balance and transactions with related parties are as follows:

			2013		2012	2012	Restated 2012
a) ISA CAPITAL							
Nature of transaction	**Related party**	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Income/ (expense)**	**Income/ (expense)**
Consolidated							
Short-term benefits *	Key management personnel	-	-	-	-	(2,015)	(1,864)
Cash and cash equivalents (note 6)	HSBC Finance (Brasil) S.A. Banco Múltiplo	1	-	1	-	4,864-	(8,399)
Short-term investments (note 7)	Banco Votorantim S.A.	15,992	-	101,062	-	-	-
Loans (notes 12 and 29)	Interconexion Electrica	55,764	-	48,645	-	(1,784)	(1,755)
	Internexa Brasil	-	-	20,510	-	(1,712)	(1,029)
Interest on capital (note 26.d)	Subsidiary CTEEP	75,611	-	-	-	-	-
		147,368	-	170,218	-	(647)	3,751
b) Subsidiary CTEEP							
Sublease	Subsidiary CTEEP		(24)	-	(23)	(327)	(307)
	IEMG	6	-	5	-	84	75
	IENNE	8	-	8	-	105	102
	Pinheiros	13	-	121	-	146	217
	IESUL	5	-	6	-	61	61
	Serra do Japi	12	-	71	-	150	255
	Evrecy	5	-	-	-	41	-
		49	(24)	211	(23)	260	403
Provision of services	Subsidiary CTEEP	-	(12)	-	(10)	(140)	(120)
	Pinheiros	88	-	46	-	917	553
	IEMadeira	38	-	154	-	1,152	1,844
	Serra do Japi	23	-	21	-	271	221
		149	(12)	221	(10)	2,200	2,498

*Refers to management fees.

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Short-term benefits

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

Sublease

The sublease agreement comprises the area occupied by ISA Capital and CTEEP's subsidiaries in the Company's head office, as well as the apportionment of common area management and maintenance fees, among others.

Provision of services

In 2008 a service agreement was entered into with subsidiary CTEEP comprising accounting and tax bookkeeping services, tax computation and payroll processing.

Loans

The agreement whereby the subsidiary CTEEP provides O&M services in Pinheiros facilities came into effect in 2011.

The agreement whereby the subsidiary CTEEP provides technical support consulting services for the owner's engineering service management, to be performed by IEMadeira and/or the companies engaged by it, came into effect in 2011.

The agreement whereby the subsidiary CTEEP provides O&M services in Serra do Japi facilities came into effect in 2012.

These transactions are conducted under specific conditions, negotiated among the parties under an agreement.

33. Financial instruments

(a) Identification of the main financial instruments

	Company		Consolidated	
	2013	**2012**	**2013**	**Restated 2012**
Financial assets				
Fair value through profit or loss				
Cash and cash equivalents	61,472	127,324	65,742	436,927
Short-term investments	83,404	294,483	679,160	294,483
Derivative financial instruments				
Current	-	-	-	63,455
Loans and receivables				
Accounts receivable				
Current	-		749,388	2,425,203

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Noncurrent	-	-	3,218,954	3,387,374
Receivables – São Paulo State Finance Department				
Noncurrent	-	-	643,027	986,486
Due from subsidiaries	-	-	-	
Loans receivable				
Current	55,764	20,510	55,764	20,510
Noncurrent	-	48,645	-	48,645
Interest on capital and dividends receivable	75,611	-	75,611	-
Collaterals and restricted deposits				
Current	3,262	2,846	3,262	2,846
Noncurrent	-	-	76,282	74,690
Financial liabilities				
Amortized cost				
Borrowings and financing				
Current	2,719	2,372	195,530	938,917
Noncurrent	74,146	64,679	383,172	525,763
Debentures				
Current	-	-	184,884	166,667
Noncurrent	-	-	552,756	956,683
Trade payables	434	301	50,790	63,569
Interest on capital and dividends payable	-	-	204,092	6,340
Derivative financial instruments				
Current	-	-	-	3,770
Payables – Law 4.819/58				
Current	11,347	11,347	11,347	11,347
Noncurrent	400,000	385,546	400,000	385,546

The carrying amounts of financial assets and financial liabilities, when compared to the amounts that could be obtained if they are traded in an active market or, in the absence of such market, the net present value adjusted based on the prevailing market interest rate, approximate substantially their fair values. The financial instruments traded on an active market are valued according to Level I, and the financial instruments that are not traded on an active market are valued according to Level II, as prescribed by the prevailing CPC.

The subsidiary CTEEP entered into a swap agreement with Itaú BBA and JP Morgan Chase on April 26 and October 17, 2011, respectively, to hedge against the currency risk of the foreign currency-denominated borrowing, as set forth in Law 4131 of September 3, 1962. The agreements entered into with Itaú BBA and JP Morgan Chase were settled on April 26 and October 21, 2013, respectively, and generated a gain of R$23.5 million and R$26.8 million, respectively (note 17 (c) (i) and (ii)).

The subsidiary CTEEP classified derivatives contracted as fair value hedge based on the parameters described in CPC 38 and IAS 39. The Company adopted hedge accounting for its transactions.

(b) Financing

The carrying amount of borrowings and financing and debentures is pegged to the TJLP, CDI and IPCA fluctuation and approximates their fair values.

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- **Debt ratio**

The debt ratio at the end of the year is as follows:

	Company		Consolidated	
	2013	**2012**	**2013**	**Restated 2012**
Borrowings and financing				
Current	2,719	2,372	195,530	938,917
Noncurrent	74,146	64,679	383,172	525,763
Debentures				
Current	-	-	184,884	166,667
Noncurrent	-	-	552,756	956,683
Total debt (i)	**76,865**	**67,051**	**1,316,342**	**2,588,030**
Cash and cash equivalents and short-term investments	144,876	421,807	744,902	731,410
Net debt	**(68,011)**	**(354,756)**	**571,440**	**1,856,620**
Equity (ii)	**1,877,075**	**2,163,684**	**4,840,364**	**5,230,081**
Debt ratio	(3.6%)	(16.4%)	11.8%	35.5%

CTEEP and its subsidiaries are parties to borrowings and financing agreements that contain covenants determined based on debt ratios (notes 17 and 18).

(c) Risk management

The main risk factors inherent in CTEEP's and its subsidiaries' transactions are as follows:

(i) **Credit risk** – CTEEP and its subsidiaries enter into agreements with the Brazilian Electric Energy System Operator (ONS), concessionaires and other agents, regulating the provision of services relating to the basic grid to 216 users, including bank guarantee clause. Likewise, CTEEP and its subsidiaries enter into agreements regulating the provision of services in other transmission facilities (DIT) with 30 concessionaires and other agents, also including a bank guarantee clause. As the electricity industry is highly regulated with assured revenue and guarantees, the risk of default is minimized.

(ii) **Price risk –** CTEEP's and its subsidiaries' revenues are, as set forth in the concession arrangement, annually adjusted by ANEEL based on the IPCA and IGP-M fluctuation, and a portion of the revenues is subject to periodic review (note 27.2).

(iii) **Interest rate risk –** The adjustment of financing agreements is pegged to the TJLP, IPCA and CDI fluctuation (notes 17 and 18).

Currency risk – The subsidiary CTEEP has eliminated the currency risk of its liabilities using a swap instrument, designated as fair value hedge of the foreign currency-denominated loan agreement (note 17(d)), which were settled in 2013. CTEEP and its subsidiaries do not have trade receivables and other assets denominated in foreign currency. Other exposures to the effects of currency fluctuations are

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(iv) considered immaterial and are related to import of equipment.

ISA Capital has loans receivable and payable in foreign currency and for these exposures it does not use financial instruments to hedge against possible currency risks. The exposure to the effects of changes in exchange rates is not considered material by the Company's Management.

(v) **Borrowing risk –** CTEEP and its subsidiaries may face problems in the future to raise funds at costs and repayment terms aligned with their cash generation profile and/or debt repayment obligations.

(vi) **Liquidity risk –** The main sources of cash for CTEEP and its subsidiaries are as follows:

- Their operations, mainly from the use of the power transmission system by other concessionaires and market players. The annual amount, represented by the RAP linked to the basic grid's facilities and other transmission facilities (DIT), is determined by ANEEL as set forth in prevailing laws; and
- Receivables for extension of concession arrangement 059/2001 regulated by Law 12783/2013, the amount of which and payment method have not yet been determined by the Concession Grantor (note 1.2).

The subsidiary CTEEP manages the liquidity risk by maintaining bank and other credit facilities to raise new borrowings that it considers appropriate, based on the continuous monitoring of budgeted and actual cash flows, and the combination of the maturity profiles of financial assets and financial liabilities.

(d) Sensitivity analysis

Under CVM Instruction 475, of December 17, 2008, the subsidiary CTEEP conducts the sensitivity analysis of interest rate and currency risks. CTEEP's Management does not consider as material its exposure to other risks described above.

For purposes of definition of a probable scenario of the sensitivity analysis of interest rate and price risk, we used the same assumptions defined for CTEEP's long-term financial and economic plan. These assumptions are based on the macroeconomic environment in Brazil and the opinions of market experts.

Therefore, in order to analyze the effects of fluctuations in CTEEP's cash flow, the sensitivity analysis, as shown below, considered as probable scenario the interest rate quotation at March 31, 2014, which is informed in the interest rate risk tables. Positive and negative fluctuations of 25% and 50% were applied on these rates.

Interest rate risk – Effects on cash flow – Consolidated

			Rate appreciation		Rate depreciation	
Transaction	**Risk**	**Probable scenario**	**Scenario II**	**Scenario III**	**Scenario II**	**Scenario III**
Financial assets						
Short-term investments	75.0% to 103.0% CDI	15,306	18,962	22,556	11,584	7,795
Financial liabilities						
1st series debentures	CDI+1.30%	4,507	5,459	6,395	3,538	2,552
2nd series debentures	IPCA+8.10%	2,560	2,823	3,084	2,293	2,024
Single series debentures	116.0% CDI p.a.	24,189	27,601	30,947	20,710	17,159
FINEM BNDES (i) and (ii)	TJLP+1.80% to	3,978	4,660	5,336	3,289	2,595

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	2.30%					
BNDES (Subsidiaries)	TJLP + 1.55% to 2.62% p.a.	3,733	4,292	4,846	3,169	2,600
Net effect of variation		**(23,661)**	**(25,873)**	**(28,052)**	**(21,415)**	**(19,135)**
Reference for financial assets and liabilities						
100% CDI (March 2014)		10.13%p.a.	12.66%p.a.	15.20%p.a.	7.60%p.a.	5.07%p.a.

34. Commitments assumed – Operating leases

In addition to the commitment assumed in note 5, the main commitments assumed by CTEEP and its subsidiaries are related to operating leases of vehicles and IT equipment, whose minimum future payments in total and for each one of the periods are as follows:

	2013	Restated 2012
Up to 1 year	7,346	5,842
1 to 5 years	12,871	2,160
	20,217	**8,002**

35. Insurance

The insurance coverage by insurance line is as follows:

			Restated Consolidated
Type	**Effective term**	**Insured amount - R$ thousand**	**Premium - R$ thousand**
Property (a)	09/01/12 to 03/01/14	2,869,978	4,457
General civil liability (b)	09/01/13 to 09/01/14	20,000	162
Domestic transportation (c)	09/30/13 to 09/30/14	37,648	7
Group personal accident (d)	05/01/13 to 05/01/14	13,408	1
Vehicles (e)	03/02/13 to 03/02/14	Market value	22
			4,649

(a) **Property-** coverage against fire and electrical damages for the main equipment installed in transmission substations, buildings and related components, storeroom supplies and facilities, as set forth in concession arrangement 059/2001, clause four, subitem eight, II, Item D, where the transmission company should keep insurance policies to ensure the proper coverage of the most import equipment of the transmission system facilities, and the transmission company should define the assets and facilities to be insured.

(b) **General civil liability -** coverage against repairs for involuntary, personal and/or property damages caused to third parties, as a result of the activities of the subsidiary CTEEP.

(c) **Domestic transportation -** coverage against damages caused to CTEEP’s assets and equipment transported in the Brazilian territory.

(d) **Group personal accident -** coverage against personal accidents of executives and apprentices.

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

There is no coverage for eventual damages to the transmission lines against fire, lightning, explosion, short circuit and power interruption.
The assumptions adopted for the taking of insurance, given their nature, are not included in the scope of an audit work. Accordingly, they were not audited by our independent auditors.

36. Supplementary pension plan under Law 4.819/58

The supplementary pension plan under State Law 4.819/58, which established the creation of the State Social Security Fund, is applicable to employees of independent government agencies, companies controlled by the Federal Government and state-owned and managed industrial services, hired through May 13, 1974, and also provided for supplementary pension plans, bonus leave and family allowance. These plan charges are under the responsibility of the São Paulo State Government, whose implementation took place under the agreement entered into between the São Paulo State Finance Department and the subsidiary CTEEP, on December 10, 1999, effective through December 31, 2003.

Such procedure was properly carried out through December 2003 by Fundação CESP, with the funds provided by the São Paulo State Finance Department, transferred through CESP and subsequently through CTEEP. Beginning January 2004, the São Paulo State Finance Department began to process such payments directly, without the intermediation of CTEEP and Fundação CESP, at amounts lower than those historically paid through December 2003.

(a) Lawsuit with the 2nd Public Finance Court

This event resulted in lawsuits filed by the retired employees, such as the Civil Class Action with the 2nd Public Finance Court, whose decision was issued in June 2005 and judged groundless the request for supplementary retirement, attributing to the São Paulo State Finance Department such obligation. In October 2013, the Supreme Federal Court judged the small claim courts competent to resolve private pension matters and then this lawsuit continues its way through the court system.

(b) Lawsuit with the 49th Labor Court

Contrary to the previous decision, the 49th São Paulo Labor Court, on July 11, 2005, approved the advanced relief through which Fundação CESP would resume the payment of the benefits under State Law 4.819/58, according to the respective regulation, as carried out through December 2003, with funds transferred by CTEEP.

In order to comply with such decision, the subsidiary CTEEP monthly requests the funds to the São Paulo State Finance Department, to be transferred to Fundação CESP, which processes the respective payments to the beneficiaries. Such lawsuit sentenced the São Paulo State Finance Department, CESP, Fundação CESP and CTEEP.

Because the lawsuits were filed with different courts, the prevailing decision is pending definition; therefore, the decision issued by the Labor Court may be annulled.

(c) Conflict of jurisdiction

On February 20, 2013, the Supreme Federal Court (“STF”), with respect to the appeal filed by parties other than those involved in this lawsuit, confirmed the jurisdiction of the small claim court to address supplementary pension issues. The STF decision was in the sense that "the small claim court should have jurisdiction to judge the lawsuits filed against the private supplementary pension entities, due to the independence between the Social Security Law and Labor Law".

In this regard, the STF decision confirmed the jurisprudence of the small claim court to judge the lawsuits filed against the private supplementary pension entities. This decision will be used as the basis to judge the conflict of jurisdiction relating to the CTEEP lawsuit under Law 4.819/58, pending judgment by the STF Minister since April 9, 2013. In November 2013, the STF judged and denied the conflict of jurisdiction; an appeal can be filed against this decision.

(d) Collection claim

Since September 2005 the São Paulo State Finance Department is transferring to the subsidiary CTEEP amounts lower than those established by the decision issued by the 49th Labor Court.

By virtue of this decision, the subsidiary CTEEP transferred to Fundação CESP, from January 2005 to September 2013, the amount of R$2,676,038 for the payment of the benefits under State Law 4.819/58, and received from the São Paulo State Finance Department the amount of R$1,742,537 for such purpose. The difference between the amounts transferred to Fundação CESP and reimbursed by the São Paulo State Finance Department, in the amount of R$933,501 (note 9 (a)), has been requested by CTEEP to be reimbursed by the São Paulo State Finance Department. In addition, there are amounts relating to labor claims settled by the subsidiary and under the responsibility of the State Government, in the amount of R$225,781 (note 9 (b)), totaling R$1,159,282.

In December 2010, the subsidiary CTEEP filed a collection claim against the São Paulo State Finance Department to receive the unpaid amounts. On May 13, 2013, the decision issued terminated the collection claim, without judgment of the merits, against which CTEEP filed motions to clarify, which, on August 27, 2013, were accepted to repair the omission in such decision. The appeal for judgment of the merits was filed in September 2013 and is pending decision. This internal procedure postpones the realization of the asset challenged in such claim.

(e) Retiree Association claim

In the second half of 2012, the Retiree Association of Fundação CESP filed claim 0022576-08.2012.8.26.0053, against the São Paulo State Finance Department, requesting the reimbursement of the supplementary pension plan regulated by State Law 4.819/58 for the payment of the retirement and pension benefits.

(f) Writ of mandamus – Campinas Union

On April 19, 2013, the São Paulo State Finance Department recognized the transfers to subsidiary CTEEP of amounts that were previously disallowed, relating to certain line items that partially comprise the total amount not transferred by the São Paulo State Finance Department to CTEEP, which were necessary to fulfil the decision issued by the 49th Labor Court. Such recognition resulted from the final decision, in this same regard, issued in the court records of the Collective Writ of Mandamus, filed by the Electric Energy Industry Workers Union in Campinas, which requested the São Paulo State Finance Department to maintain the payments of the retirement and pension benefits, without reduction.

Based on this decision, the payments to the above-mentioned union workers, beginning April 19, 2013, are being performed by the São Paulo State Finance Department. CTEEP's management, based on the favorable opinion of its legal advisors, understands that this is an important decision, both to such union workers and other retirees, for the recognition of the São Paulo State Finance Department's responsibility for such amounts. Measures will be considered by the subsidiary CTEEP, through its legal advisors, to make the São Paulo State Finance Department responsible for such amounts before all retirees.

Subsidiary CTEEP understanding

The subsidiary CTEEP maintains its intention to annul the decision issued by the 49th Labor Court in order to resume the direct payment of the benefits by the São Paulo State Finance Department under State Law 4.819/58. CTEEP also reinforces the opinion of its legal department and legal advisors that the expenses in connection with State Law 4.819/58 and respective regulation should be fully assumed by the São Paulo State Finance Department and continues to adopt additional measures to protect CTEEP's interests.

Due to the new developments in 2013, mainly those related to the claim in progress for collection of the amounts owed by the São Paulo State Finance Department, as described above, and also considering the progress of the other proceedings, CTEEP's Management recognized a provision for losses on unrealizable receivables relating to a portion of the amounts receivable which may be collected through a longer period and were not established as an exclusive responsibility of the São Paulo State Finance Department so far.

Management is monitoring the new legal and business developments, as well as the impacts on the financial statements of the subsidiary CTEEP.

37. Subsequent events

Company

(a) Dividend distribution

On January 6, 2014, ISA Capital paid cumulative fixed dividends to the preferred shareholders HSBC Finance (Brasil) S.A. Banco Múltiplo and Banco Votorantim S.A.. Based on the criterion set forth in article 6 of the Company's bylaws, each preferred share was entitled to receive R$0.051339, totaling R$25,000 paid to all redeemable preferred shares.

(b) Redemption of preferred shares

On January 6, 2014, ISA Capital redeemed a total of 45,680,346 Class D redeemable preferred shares. Based on the criterion set forth in article 6 of the Company's bylaws, the value of each preferred share redeemed was R$2.020731, totaling R$92,308 paid for all Class D redeemable preferred shares.

(c) Shareholders' agreement

Since the preferred and common shareholders of ISA Capital signed on February 25, 2014 the First Addendum to the current Shareholders' Agreement, ISA Capital held at that same date an Extraordinary General Meeting of Shareholders to discuss the following items:

a) conversion of the Company's current classes of redeemable preferred shares into new classes;
b) amendment to articles 5 and 6 of the bylaws, as well as their consolidation; and
c) authorize ISA Capital to sign the First Addendum to the current Shareholders' Agreement as consenting third party.

The changes in the Shareholders' Agreement include:

a) a new schedule of redemption of preferred shares and of payment of cumulative fixed dividends, with a new deadline for redemption of preferred shares in December 2020 (previously scheduled for April 2016);

b) redemption of preferred shares and payment of cumulative fixed dividends change from a quarterly to a semiannual basis;

c) cumulative fixed dividends are calculated as from February 25, 2014 based on 100% of the variation of CDI plus 1.5% per year (previously calculated based on 100% of the variation of CDI plus 1.0% per year).

Also as a result of the First Addendum to the Shareholders' Agreement, ISA Capital paid on February 28, 2014 cumulative fixed dividends to the preferred shareholders HSBC Finance (Brasil) S.A. Banco Múltiplo and Banco Votorantim S.A., which were calculated using the previous criterion, i.e. at the rate of 100% of the variation of CDI plus 1.0% per year. Thus, each preferred share received R$0.031078, amounting to R$13,714 paid to a total of 441,272,148 redeemable preferred shares.

Consolidated

(a) Borrowings and financing

On January 29, 2014, the amount of R$124.6 million was released to the subsidiary CTEEP under a loan agreement with BNDES (note 17 (a)).

(b) Interest on capital

On January 30, 2014, the subsidiary CTEEP paid and/or made available the interest on capital approved at the Board of Directors' meeting on December 20, 2013 (note 26 (b)).

* * *

EXECUTIVE BOARD

FERNANDO AUGUSTO ROJAS PINTO
CEO

ALEX ENRIQUE OLANO NIETO
CFO

BOARD OF DIRECTORS

LUIZ FERNANDO ALARCÓN MANTILLA
Chairman

LUISA FERNANDA LAFAURIE RIVERA
Vice-chairman

CARLOS ALBERTO RODRÍGUEZ LÓPEZ
CÉSAR AUGUSTO RAMÍREZ ROJAS
JUAN RICARDO ORTEGA LÓPEZ

ACCOUNTANT

ANA LUISA ANTUNES IOGUI
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